

How does conflict affect the trade prospects of Somalia joining the EAC?

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Executive Summary

In 2022, the Federal Republic of Somalia re-applied to join the East African Community (EAC). In June 2023, the report to verify Somalia's application to join the EAC was adopted at the EAC Heads of State summit in Bujumbura and negotiations are underway to decide whether Somalia joins the EAC. This policy note analyses the implications of Somalia joining the EAC. It focuses on; highlighting the effects of the violent conflict on Somalia's readiness to integrate regionally; and identifying the products with export potential and opportunities for export diversification, given the past trends in trade between the two parties. We approach the study using desk reviews of relevant literature, and secondary data from the International Trade Centre database (Trade Map/COMTRADE), the UNCTADstat database, and the Observatory of Economic Complexity (OEC). We further adopt the export potential assessment methodologies established by the International Trade Centre (ITC) to analyse

the Export Potential Indicator (EPI), the Product Diversification indicator (PDI); and the Revealed Comparative Advantage (RCA) to assess trade opportunities between Somalia and the EAC. We find that Somalia's longstanding conflict has greatly affected the economy, governance, and regional relations which could affect its readiness for integration. We recommend that Somalia; focuses on the production and export of products where it has comparative advantage, and the highest potential to diversify its exports to the EAC; strengthen its security budget to curb terrorism and internal conflicts; Enforce adherence to international and regional standards (EAC standards) and sanitary and phytosanitary measures. We further recommend that the EAC; fast-tracks the admission process of Somalia to the EAC bloc; join efforts with Somalia to strengthen security; and jointly invest in regional transport infrastructure to increase regional trade.

Introduction

In 2012, the Federal Republic of Somalia applied to join the East African Community (EAC). The request was re-made by the Somalia President in 2022, prompting the bloc to hasten the verification process to determine the country's degree of conformity, considering the EAC guidelines of granting admission to new members (EAC, 2022). This verification process was conducted from January to February 2023. The process assessed critical aspects related to legal and institutional frameworks, regulations, and policies; the existence of a market-driven economy, and main areas for cooperation such as security, energy, infrastructure, and education, among others (EAC, 2023). In June 2023, the verification report was adopted to commence negotiations for Somalia's admission to the EAC.

Somalia's desire to join the EAC bloc is based on; strengthening the existing proximity, business, language and culture ties with EAC partner states; the likelihood of enhanced mobility of people, and goods and services within the EAC region owing to Somalia's strategic position with access to the Indian Ocean and Red Sea; the possibility of supporting Somalia's initiative to improve its multilateral and fiscal position (The African Report, 2023); the need for Somalia to recover its fisheries sector via supplying the EAC market and to increasing employment opportunities in return (Shiek Nor, 2023); and the possibility of diplomatic resolution of disputes with Kenya over marine space, among others.

Since 2017, the current Somalia regime has sought policy reforms that allowed it to 're-engage' with international organisations such as the IMF and World Bank, increase its tax base, increase consumption, explore new export markets and importantly grow its GDP by two (2) percent in 2021 (US Department of State, 2023). Furthermore, while Somalia's business atmosphere is characterized by insecurity/terrorism, the Government has invited foreign investments in the agricultural and natural resources sector. With its recent admission to COMESA in 2018, it is expected that Somalia will embrace more reforms and regulations in line with the bloc's trade protocols (Ibid). By nurturing regional relationships under COMESA, Somalia has set the stage to join the EAC, whose members like Uganda, Rwanda, Burundi and Kenya are already part of COMESA, pointing towards a compatible integration (COMESA, n.d).

The EAC integration is premised on a Customs Union, the establishment of a Common Market, and subsequent monetary union and political federation (Hassan, 2022). The regional bloc boasts an estimated GDP of USD 305.3 billion and an estimated population of 283.7 million people (EAC, 2022a). The World Bank estimated Somalia's GDP to be USD 8.13 billion in 2022 (World Bank, 2023). The AfDB predicts a GDP growth of 2.8 percent in

2023, which is an increase from 1.7 percent in 2022 (AfDB, 2023). This GDP growth is steered by consumer/household expenditure and external demand. Somalia suffers from a trade deficit characterized by large volumes of imports (consumptions and capital) from India, the UAE, China, Oman, Ethiopia and Turkey; and also exports live animals (sheep and bovine) to the Gulf States (World Bank, 2020; Atlas, 2023). Regionally, Somalia largely trades with Kenya, with whom they also share a border; with the latter grossing USD 107 million in imports to Somalia (Atlas, 2023). Therefore, integration into the EAC will increase market opportunities for Somalia beyond Kenya, both in terms of imports and exports.

The objective of this policy note is to: i) highlight the effect of the violent conflict on Somalia's readiness to integrate in the EAC; ii) analyze past trends in trade between EAC and Somalia, and identify products with export potential and opportunities to diversify exports between the two trading partners.

This note contributes to trade analysis and policy on Somalia despite the significant data gaps, by highlighting the key regional markets and products that the EAC partner states and Somalia can mutually exploit and benefit from, should the integration of Somalia come to fruition. The policy note also considers the challenges posed by the unrest in Somalia regarding regional and trade relations with the EAC.

Methodology and data

The note relied on two approaches: Objective 1 benefits from an extensive desk review of past research, articles and development partner reports (UNHCR, UNDP, EAC, etc.) on Somalia's violent conflict and regional trade relations. The desk review also informed the analytical approaches applied in objective (2). In regards, to objective 2, the policy note relies on secondary trade data (exports and imports) for Somalia and her potential EAC partners. The analysis used secondary data from the International Trade Centre database (Trade Map/COMTRADE), the UNCTAD stat database, and the Observatory of Economic Complexity (OEC).

First, we analyse the trade flows between Somalia, EAC partner states, and the rest of the world (ROW) between 2012 – 2021, where data permitted being that Somalia's bilateral trade data suffer from gaps. To note, South Sudan was entirely excluded because of a lack of trade data between the two countries. This trend analysis seeks to determine the main imports and exports, and the direction of trade flows based on historical commodity movement patterns, as well as Somalia's major export and import markets in the EAC between 2012-2021. This analysis aims to evaluate EAC's exports as potential replacements for Somalia's imports from the ROW.

Second, the study adopts the export potential assessment methodologies established by the International Trade Centre (ITC) to analyse the Export Potential Indicator (EPI), the Product Diversification indicator (PDI) and the Revealed Comparative Advantage (RCA). The International Trade Centre (ITC) established the Export Potential Indicator (EPI) to help countries increase their exports by identifying and analyzing market access opportunities in new or existing target markets. The EPI helps countries identify their exports that are more likely to be successfully sold in specific target markets than other internationally competitive items. Although it is similar to the gravity model, the EPI is more concerned with the product level than the country level. The PDI (known as the product margin) supports countries looking to expand their export markets and diversify their economies in order to take advantage of rising demand in both new and existing target markets. Based on the country's existing exports and those of comparable nations, it finds goods that the exporting country does not export at a price that is competitive. Adopting the product space idea proposed by (Hausmann and Klinger, 2007, Hausmann et al., 2007, and Hidalgo et al., 2007), market access opportunities are discovered by linking an economy's existing comparative advantages to potential future ones. Furthermore, the study analyzes the Revealed Comparative Advantage (RCA) to identify the products where Somalia is an efficient producer and exporter relative to other countries producing and exporting the same products. More succinctly, a country with a high RCA in a given product is considered to have an export strength in that product.

Findings

Implication of Conflict and Insecurity on Somalia's Readiness to Join the EAC

In 2012, Somalia applied to join the EAC. However, the request was unsuccessful owing to challenges with the Al Shabab terrorist group and weak legal framework (East African, 2023). It is important to recognise that Somalia's longstanding conflict since 1991 and

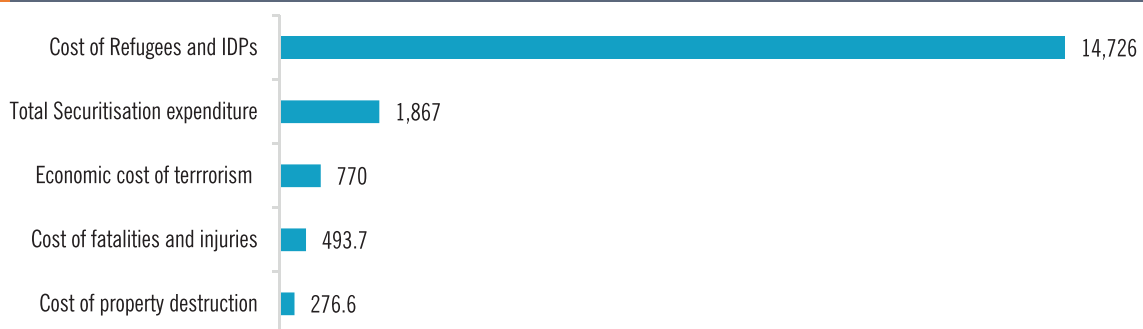
terrorist elements have affected their economy, governance, and regional relations and likely to affect their readiness for integration.

Overall terrorism in Somalia has negatively affected economic growth by redirecting the flow FDI, damaging infrastructure, reducing tourism, inhibiting foreign trade and distorting financial markets (Omar, 2018). In 2023, the US Department of State reported that endless conflict has challenged Somalia's banking system, making bank transfers difficult and heavily reliant on the US dollar. Indeed, terrorist actions in vulnerable states consequently result in weak governance and a decline of institutions that regulate markets and transactions, hence affecting the conduct of international business (Tingbani et al, 2019). In addition, the speculations about and actual occurrence of terrorist acts decrease consumption, while increasing the costs of both trade and production.

International trade networks in Somalia are dominated by strong 'business cartels' in collusion with the 'politico-military elite' (BTI, 2022). This deters foreign traders who worry that the insecurity in Somalia could target their exports, fear extortion from Al Shabab, and difficulty transferring funds into and out of Somalia; hence negatively bearing on bilateral trade and disrupting supply chains (Omar, 2018; US Department of State, 2023). Furthermore, the destruction of Somalia's infrastructure over a 30-year period of conflict (ibid), leaves a deficit that would hinder the logistics of intra-regional trade. The country's road network is poor and ports are not equipped to handle high volumes of trade (World Bank, 2020). Rampant terrorism also favours both the informal economy and illicit trade. For example, illegal arms trade with conflict prone neighbours like South Sudan facilitates Al Shabab (Ramadane, 2014).

In monetary and numerical terms, according to the UNDP (2019), trends in total economic costs and frequency of terrorism in Africa between 2007 to 2016 show that Somalia had total fatalities amount to 4,472 people after 2,152 terrorist acts. Attacks on businesses were 144. The impact resulted in an economic cost of USD 770 million

Figure 1 Aggregated Cost indicators of the effect of terrorism in Somalia, 2007-2016 (constant 2017, USD Million).



Source: Authors own construct. Data source: UNDP (2019)

(Figure 1), and the property destruction cost amounting to USD 276.6 million.¹ Greenbaum et al (2007), suggest that this economic cost is associated with rescue efforts, restoration of infrastructure, and allocation of supplemental resources to curb possible insurgencies. Moreover, UNDP (2019) reports that Somalia's spending on 'securitization', internally, on security agencies and militarily, was USD 1.867 billion (Figure 1) and decreased over the 10 years.

Somalia's arguably low expenditure on security has compelled neighbouring countries to increase their security expenditure, to mitigate risks of spillover terrorism. Because of this, counter-terrorism measures often adopted limit free mobility and proliferate policies that mainly focus on cross-border activities, and consequently reduce cross-border commerce (Zeneli et al., 2018). For example, Uganda and Kenya have been victims of Al Shabab's external terrorist activities. Additionally, in 2011 Kenya embarked on a 12-year border closure with Somalia, in an operation meant to curb the rising inflow of Al Shabaab (The East African, 2023). The African Union Mission to Somalia (AMISOM), has been deployed in Somalia since 2007, on a peacekeeping mission and support to the Somali national army (Dessu, 2022).² However, despite the presence of peacekeeping forces, 'political tensions' are still rife in the nation, specifically over the division of resources and authority among the elites (ibid). Furthermore, Dessu reports that despite the gains made by the mission, Al Shabab still dominates substantial territories in Central and Southern Somalia, with continued domestic assaults. Moreover, the involvement of some EAC states in this mission has spurred retaliatory attacks from Al Shabab. For example, the most recent being the attack and fatalities of 54 Ugandan soldiers in a peacekeeping base in Somalia, in May 2023 (Al Jazeera, 2023). These challenges are still likely to affect the bilateral and diplomatic relationships between the EAC states and Somalia, despite integration.

In terms of the numbers of internally displaced persons and refugees, Somalia ranked third globally, which has cost an estimated average of 23% of the country's annual GDP (UNDP, 2019). The UNHCR recorded over 4.97 million refugees and asylum-seekers in the East, Horn of Africa and the Great Lakes regions as of March 2022 (UNHCR, 2022). Most of the refugees are from South Sudan, Democratic Republic Congo, and Somalia, among others. Kenya was recorded to host 547,884 refugees and asylum-seekers as of March 2022, majority fleeing from Somalia and South Sudan. The refugee and asylum-seeker population in Uganda amounted to 1,582,076 persons. The majority of them arrived from South Sudan (61 percent), DR Congo (29 percent), Somalia (3 percent), and Burundi (3 percent).

This shows that there is a relationship between Somalia and the EAC countries as far as hosting the refugees is concerned.

Altındağ & Roza (2020) further explain that refugees, come in large numbers, are helpless and traumatized by conflict, and most lose their property back home. Additionally, the lack of well-defined regulations regarding their status and stay makes it difficult for refugees to integrate into local markets. As refugees arrive in large numbers, therefore, they exert economic shocks on host countries, via alterations in production and prices and creating change in the informal economic activities since many find employment prospects in the informal sector.

Indeed, Tingbani et al (2019) confirm that there is a strong and significant relationship between terrorism and global business failure of vulnerable states. The economic and political instability of Somalia raises doubts about its capacity to effectively integrate into the EAC and comply with Article 3 of the Treaty for the Establishment of the East African Community 2000³. Moreover, Somalia is economically weak as it is projected to contribute only 2 percent to the EAC bloc's output. (Hassan, 2022). Despite significant progress made by all EAC nations in adapting to the Customs Union and Common Market challenges remain. Somalia is expected to experience more difficulties in complying with EAC protocols as plans are made to gradually implement the Monetary Union and Political Federation. Nonetheless, the outcomes from verification and subsequent negotiation process for EAC aspirant members will determine the readiness of Somalia to join the bloc.

Overview of Trade flows between Somalia and EAC

The overall analysis of past trends of Somalia's trade with the EAC from 2012 to 2021, reveals that Somalia imported more than it exported to the region. The trend of exports to EAC is characterized by fluctuations during the 10 years, with a total estimated annualized growth of 109.8 percent. The majority of the exports went to Kenya, and the trend of total exports to the region somewhat mimics that of Kenya (Table 1, panel A). This is not surprising, given that Kenya and Somalia share a border, and Kenya hosts a large Somali community. The fluctuations observed can be attributed to border closures by Kenya because of security threats from Somalia and strained diplomatic ties, that constrain trade relationships. For Uganda, the second largest EAC export market, exports from Somalia declined to USD 76 million in 2020 which was a 90% reduction from USD 785 million in 2019 (Table 1) attributed to effects of COVID-19. The pandemic, containment measures and border closures had negative impacts on trade and supply chains globally, resulting in a sharp decline in exports to EAC in 2020.

Past import flows show that the total annualized growth during the 10 years was -5.1 percent, with Kenya being the largest source of Somalia's imports. Kenya also ranked as Somalia's seventh source of imports in the world in 2021. The approximated value of imports from Kenya was USD 122.5 million in 2021 (Table 1, panel B). As

Table 1 Somalia's trade flows with EAC states between 2012-2021 (USD '000')

Country	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Panel A: Exports										
Uganda	298	16	4	497	671	229	265	785	76	36
Kenya	205	3,411	1,709	293	521	911	8,645	4,329	507	895
Tanzania	7	-	52	426	-	-	-	-	2	3
Burundi	1	-	-	-	-	-	-	-	-	-
Rwanda	-	-	-	-	-	1	39	-	-	2
DRC	-	-	-	-	-	39	9	17	9	90
Total	511	3,427	1,765	1,216	1,192	1,141	8,949	5,114	585	936
Panel B: Imports										
Uganda	3,710	7,780	4,475	2,255	2,793	1,484	1,241	556	676	1,457
Kenya	227,883	196,689	150,117	155,285	176,746	190,177	148,777	116,023	106,941	122,526
Tanzania	1,049	586	6,681	2,794	387	1,490	1,041	2,344	1,552	558
Burundi	-	-	-	-	-	-	-	2,891	-	113
Rwanda	-	-	23	-	-	201	38	1,616	157	749
DRC	-	-	-	-	-	-	-	-	-	-
Total	232,642	205,055	161,296	160,334	179,926	193,352	151,097	123,430	109,326	125,403

Authors own construction. Data Source: Trademap (2023)

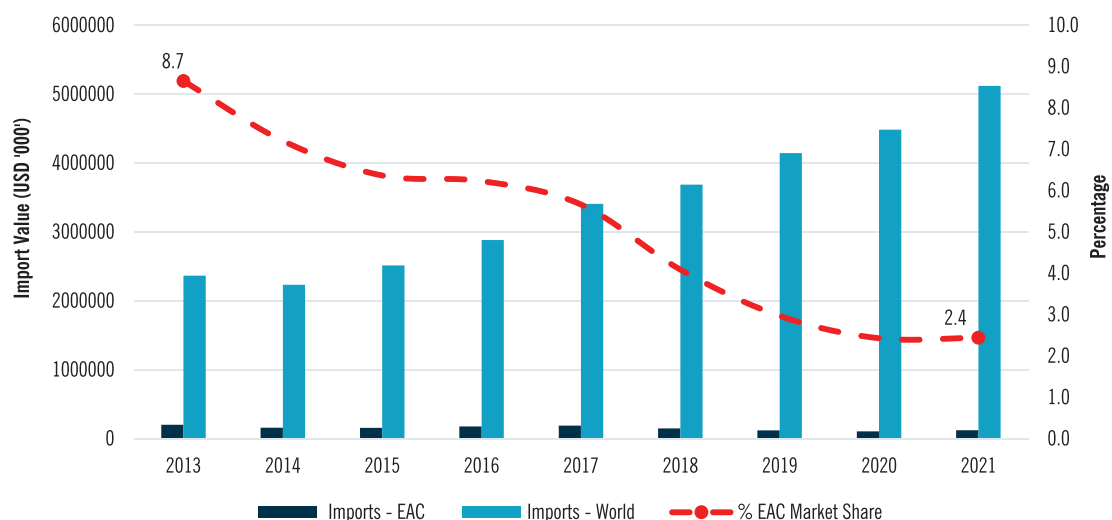
earlier mentioned, the volume of exports and imports between Kenya and Somalia are most likely because of proximity. COVID-19 did not severely affect Somalia's imports from Kenya between 2019 and 2020, and there was even growth in 2021. On the other hand, imports originating from Uganda and Tanzania over the 10-year period amounted to USD 26.4 million and USD 18.4 million respectively. When combined, these values did not surpass Kenya's exports to Somalia in any year.

period, the EAC's market share of Somalia imports declined from 8.7 percent in 2013 to 2.4 percent in 2021; while the share of imports from the rest of the world increased (Figure 2). The decline in EAC exports is due to low international prices of agricultural commodities (owing to increased production) and a reduction in exports of primary minerals attributed to a fall in international demand. In addition, the COVID-19 pandemic slowed down production and slackened economic activities (EAC, 2020).

Figure 2 shows Somalia's imports from the EAC and the Rest of the World, as well as EAC's market share from 2012-2021. During this

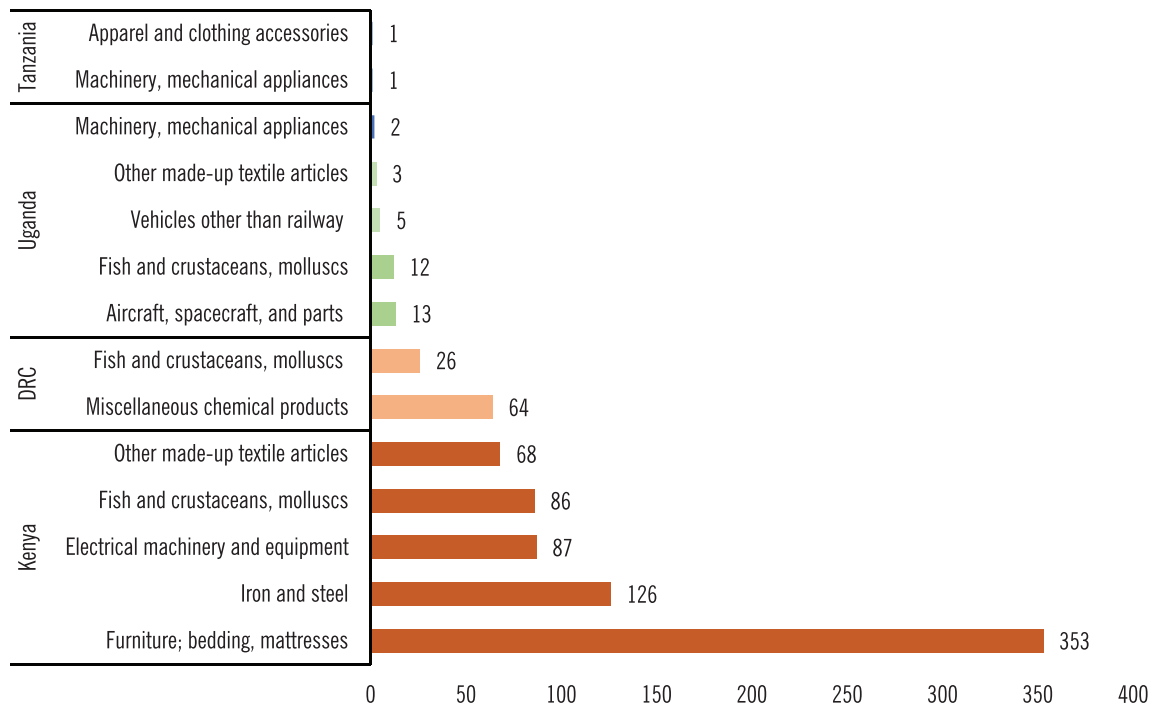
Somalia's import market is dominated by the United Arab Emirates, with exports worth USD 1.4 in 2021, followed by China, USD 999.7

Figure 2 Trends in Somalia's imports from EAC and rest of the world (2012-2021)



Authors own construction. Data Source: Trademap (2023)

Figure 3 Top Somalia Exports to the EAC Partner States in 2021 (USD '000')



Authors own construction. Data Source: Trademap (2021)

million; India, USD 698.7 million; Ethiopia with whom it shares a border, USD 360.8 million and Turkey, USD 354.9 million (Trademap, 2023). The UAE's advantage as a leading trade partner is attributed to its strong influence in Somalia in the form of infrastructure investments, humanitarian aid and reinforcement of Somalia's military capacity through training and provision of equipment (Gridneff, 2018).

Most of the imports from the rest of the world comprise live animals, meats, fish and crustaceans, dairy products, natural honey and vegetables, among others. Therefore, integrating Somalia into the EAC presents an opportunity for the partner states to tap into its markets and increase their share, as a degree of trade diversion from the ROW is likely to occur. Trade diversion occurs when a country moves trade from one country to another, with whom trade has been mutually liberalized, to benefit from the lower trade costs associated with tariff reductions.

Composition of Somalia's Exports to the EAC Partner States (2021)

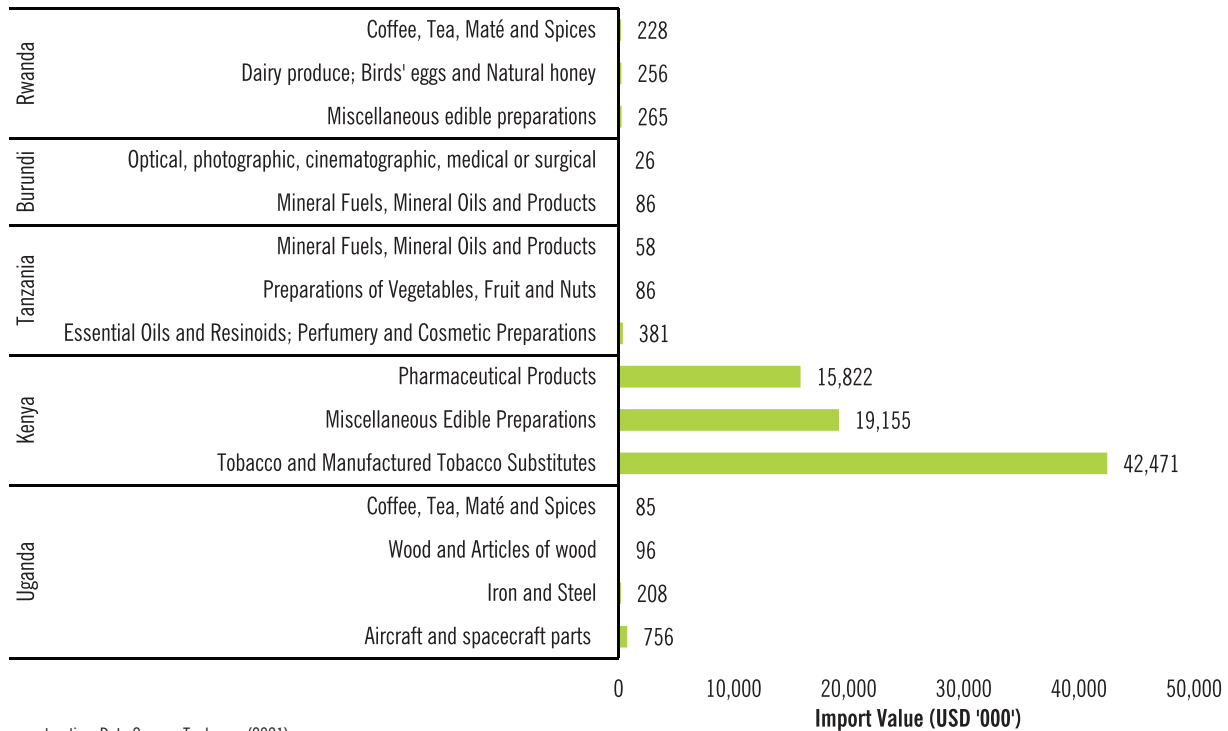
Kenya remained the dominant export market for Somalia in 2021. The principal exports to Kenya included *furniture; bedding, and mattresses* valued at USD 353 thousand; *iron and steel*, USD 126 thousand among others (Figure 3). The second export destination in the EAC was DRC, importing *miscellaneous chemical products* (USD 64 thousand) and, *fish and crustaceans* accounting for USD 26 thousand. In the same year, Uganda mainly imported USD 13

thousand worth of *aircraft, spacecraft and parts* and *fish and crustaceans, molluscs* worth USD 12 thousand. Tanzania imported *apparel and clothing accessories*, and *nuclear reactors, boilers, machinery and mechanical appliances, parts thereof*. With improved trade capacity, regional relationships and liberalization of trade after integration, Somalia can potentially increase the above export values to the EAC partner states. Data for Rwanda and Burundi was not available.

Composition of Somalia's Imports from the EAC Partner States (2021)

Expectedly, from Figure 4 Kenya was the primary source of imports in 2021; exporting *tobacco and Manufactured Tobacco substitutes* worth USD 42.5 million; *miscellaneous edible preparations*, USD 19.1 million; and *pharmaceutical products* worth USD 15.8 million. Uganda and Somalia mutually trade in *aircraft and spacecraft parts*, with Uganda exporting more than what it imports from Somalia; valued at USD 756 thousand in 2021. Somalia also imported *iron and steel* from Uganda worth USD 208 thousand; other commodities included *wood and articles of wood*, and *coffee, tea, mate and spices*. Tanzania mainly exported *essential oils and resinoids: perfumery and cosmetic or toilet preparations* worth USD 381 thousand. Rwanda exports mainly food and beverage products, including *coffee, tea, mate and spices, dairy products, birds' eggs and natural honey*, and *miscellaneous edible preparations*.

Figure 4 Top Somalia Imports from the EAC Partner States, 2021 (USD '000')



Authors own construction. Data Source: Trademap (2021)

Export Potential and Product Diversification Opportunities between Somalia and the EAC Partner States

Somalia's Export Potential Opportunities in the EAC Region⁴

A country's Export potential is determined by products that a country already exports and have a likelihood of added export in a particular target market, considering supply, demand and market access opportunities. The unexploited potential is thus the gap between the potential and actual exports. The unrealized potential can be explained by factors such as tariffs, cost of transport, non-tariff barriers and information asymmetry, and insecurity. Hence, countries endeavor to reduce the gap between their actual and potential exports (Shinyekwa *et al*, 2021).

Table 2 below presents the export potential, actual exports, and unrealized potential of Somalia to Uganda and Kenya. The tariffs are generally between 10-25 percent. Generally, the table shows that actual exports for the majority of identified commodities are non-existent to EAC countries. Somalia's highest export potential to Uganda is in Gold, unwrought, for non-monetary purposes, Live bovine animals, and raw hides & skins, fresh, or cured, n.e.s. Uganda being a landlocked country, majorly reliant on the Kenyan port of Mombasa and less on the Central Corridor via Tanzania, there is an opportunity to benefit from Somalia's long coastline through access to maritime resources once the latter joins the EAC which would

in turn increase trade flows between the two countries. This is on the assumption that in the long term, inland transport infrastructure will improve, as well as internal and border security of Somalia; to allow the movement of goods from Uganda to Somalia's coastline. For Kenya, the biggest potential for exports from Somalia lies in Live goats, Live bovine animals, and Raw hides & skins, fresh, or cured, n.e.s.

Restrictions imposed on it by EAC partners states may explain Somalia's minimal exports to the region owing to security reasons and tariffs for non-membership. Presently, Somalia mainly exports over half its total exports to the United Arab Emirates (UAE), Oman and Saudi Arabia taking over 82 percent of all exports, particularly live animals in 2018 (World Bank, 2020). It is suggested that some Gulf markets are likely 'saturated' and therefore, venturing into new markets is necessary (Ibid). Furthermore, this would require Somalia to invest in collecting foreign market information on preferences, standards of unexplored markets and build links with the potential importers and freight service providers.

Table 2 Somalia's Export Potential in the EAC Region (USD '000').

Country	Hs Code	Product	Export Potential	Actual Exports	Unrealized Potential	Applied tariff to Somalia (%)
Uganda	710812	Gold, unwrought	3	-	3	25
	0102	Live bovine animals	982	-	982	10
	410390	Raw hides & skins, fresh	562	-	562	10
	0305Xb	Fish n.e.s., cured	282	6	-	-
	130190	Lac; natural gums	246	-	246	-
	120740	Sesamum seeds	62	-	62	10
	0106Xa	Live mammals	20	-	20	-
	330129	Essential oils	15	-	15	15
Kenya	10420	Live goats	61	-	61	13
	102	Live bovine animals	11	-	11	10
	410390	Raw hides & skins, fresh	937	-	937	10
	130190	Lac; natural gums	493	1	-	-
	330129	Essential oils	138	800	-	-
	120740	Sesamum seeds	119	-	119	10
	150410	Fish-liver oils & fractions	117	-	117	10
	010410	Live sheep	115	-	115	13
	0303Xa	Fish n.e.s., whole, frozen	101	10	-	-

Data Source: International Trade Centre's Export Potential Map (2023)

EAC's Unrealized/Unexploited Export Potential in Somalia.⁵

Table 3 shows the EAC's export potential in Somalia, actual export values to the country and unrealized potential, with corresponding tariffs. From the table, excluding Kenya, not much trade takes place between Somalia and other EAC Partner States, given the low values of export potential. Kenya has unexploited potential with Somalia in; Vegetables fresh or chilled (97 percent), Carrots and turnips, fresh (95 percent), and Potatoes, fresh (76 percent) among others. Notably, Kenya has thoroughly exploited the market for *vegetable products n.e.s* and *food preparations*. This can be explained by the

common border shared by Kenya and Somalia which is indicative of shorter distance and lower transport costs when compared to the other partner states. However, the high tariffs could also be a limiting factor to EAC partners trading with Somalia given that trade would be diverted outside the region yet trading with EAC partner states would be a cheaper option. Furthermore, Appendix Figure 1 shows that the greatest export potential the EAC partner states hold with Somalia lies in; vegetables fresh or chilled (USD 51 million) for Kenya; Cane or beet sugar & pure sucrose (USD 252 million) for Uganda; Semi-milled or wholly milled rice (USD 269 million) for Tanzania; Wheat

Table 3 EAC Partner States' Export Potential in Somalia (USD '000').

Country	Hs Code	Product	Export Potential	Actual Exports	Unrealized Potential	Tariff (%)
Uganda	170199	Cane or beet sugar & pure sucrose	252	-	252	35
	721041	Flat-rolled products of iron	273	-	273	25
	0709XX	Vegetables, fresh or chilled	137	-	137	-
	040120	Milk	120	-	120	35
	40229	Sweetened milk powder	78	-	78	35
	803	Bananas, fresh or dried	63	-	63	25
	1701XX	Raw cane sugar	44	-	44	-
	340119	Soap & organic surface-active products	42	-	42	25
	40210	Low-fat milk powder	41	-	41	35
Kenya	0709XX	Vegetables, fresh or chilled	51,000	1,400	49,000	-
	340119	Soap & organic surface-active products	5,100	4,400	719	25
	140490	Vegetable products n.e.s.	4,800	8,100	-	15
	70610	Carrots & turnips, fresh	1,900	91	1,800	25
	210690	Food preparations	1,900	13,000	-	13
	70190	Potatoes, fresh	1,300	334	996	25
	170410	Chewing gum	1,100	77	1,100	25
	80440	Avocados, fresh or dried	1,100	37	-	25

Country	Hs Code	Product	Export Potential	Actual Exports	Unrealized Potential	Tariff (%)
Tanzania	100630	Semi-milled or wholly milled rice	269	-	269	35
	340119	Soap & organic surface-active products	149	1	149	25
	110100	Wheat or meslin flour	126	-	126	35
	252329	Portland cement	89	-	89	25
	4407Xc	Wood, sawn/chipped lengthwise	55	3	52	-
	4407Xa	Coniferous wood sawn/chipped	47	-	47	-
	102	Live bovine animals	44	-	44	25
	907	Cloves	40	-	40	25
	721041	Flat-rolled products of iron or non-alloy steel	20	-	20	25
Rwanda	110100	Wheat or meslin flour	273	-	273	35
	151190	Palm oil (excl. crude) & fractions	88	-	88	19
	252329	Portland cement	38	-	38	25
	190110	Food preparations for infant use	38	-	38	25
	190490	Cereals in worked grains, prepared, n.e.s.	30	-	30	25
	190219	Uncooked pasta	28	-	28	25
	340119	Soap & organic surface-active products	25	-	25	25
	102	Live bovine animals	22	-	22	25
	90240	Black tea, packings > 3kg	21	135	-	25

Data Source: International Trade Centre's Export Potential Map (2023)

or meslin flour (USD 273 million) for Rwanda. Nonetheless, given the trade conflicts related to sugar and milk among EAC nations, particularly between Uganda and Kenya, and subsequent bans by Kenya; Uganda can explore its unexploited market in Somalia for its milk and raw cane sugar exports despite the small size of the market. This would require the development of a trade-enabling environment between Uganda and Somalia.

Product Diversification Opportunities.

Somalia's Product Diversification Opportunities among the EAC Partner States.

Table 4 shows the top 10 products with the potential for diversification opportunities in Uganda and Kenya by Somalia. Most of the commodities identified are agricultural. Table 4 also shows each country's product import value and corresponding applied tariff. When a country diversifies, it means that it shifts to a more

diverse production and trade structure as opposed to specializing in the production of a particular good. In other words, the production of goods that are related or in the same production space, with similar production techniques and managerial processes to those that it has a comparative advantage in (World Bank, 2020). Somalia has the potential to diversify her exports of crude *palm oil and palm oil (excluding crude) & fractions* in both Kenya and Uganda. Individually, Somalia can exploit the import market of *Semi-milled or wholly milled rice among others* in Uganda; and *Maize (excluding seed for sowing), black tea packings*, etc. in Kenya. The assumption is that the applied tariff would reduce with Somalia joining the EAC bloc which would increase her trade with EAC partner states. In the long term, to ensure a stable supply of agricultural commodities; Somalia should embark on irrigation, disease and pest control and planting of improved seeds (World Bank, 2020).

Table 4 Top 10 Somalia Products with Higher Potential for Diversification in the EAC Region

Country	Hs Code	Product	EAC Partner imports (USD '000')	Applied tariff to Somalia (%)
Uganda	20442	Sheep cuts bone in, frozen	39	60
	71310	Peas, dried & shelled	7,700	35
	151190	Palm oil (excl crude) & fractions	40,000	20
	151110	Crude palm oil	118,000	10
	1202	Groundnuts, excl roasted or cooked	4,900	10
	1201	Soya beans	450	10
	100630	Semi-milled or wholly milled rice	90,000	75
	70310	Onions & shallots, fresh	2,800	60
	180100	Cocoa beans	496	10
	720430	Waste & scrap of tinned iron/steel	13,000	-

Country	Hs Code	Product	EAC Partner imports (USD '000')	Applied tariff to Somalia (%)
Kenya	100590	Maize (excl seed for sowing)	68,000	50
	90240	Black tea, packings > 3kg	23,000	35
	71333	Kidney beans "Phaseolus vulgaris"	9,800	35
	0713Xb	Legumes n.e.s., dried & shelled	2,700	-
	1202	Groundnuts, excl roasted or cooked	13,000	10
	90111	Coffee, not roasted, not decaffeinated	11,000	35
	151110	Crude palm oil	604,000	-
	1201	Soya beans	5,400	10
	0713Xa	Beans "Vigna & Phaseolus" n.e.s.	13,000	-
	151190	Palm oil (excl crude) & fractions	142,000	34

Data Source: International Trade Centre's Export Potential Map (2023)

*Data for Tanzania, Rwanda, Burundi, South Sudan and DRC are not available.

EAC's Products with Higher Potential for Diversification in Somalia.

Table 5 below shows the top 9 products with potential for each EAC partner state (Uganda, Kenya, Tanzania and Rwanda) to diversify for export to Somalia. The table also shows the total import value of these products in Somalia and the tariffs levied on EAC partner states. From the table, it emerges that Uganda should invest in diversifying exports in *tomatoes, fresh; peas, dried and shelled; bovine cuts boneless, frozen; and black tea, packing <= 3kg*. The top products identified for Kenya include *semi-milled or wholly milled rice, milk powder and prepared or preserved tunas*. Tanzania's top exports would include *vegetables, fresh or chilled and raw sugar*; Rwanda's diversification efforts would pay off if it targeted *vegetables, fresh or chilled, semi-milled or wholly milled rice, and milk powder* as exports, among others. Important to note is that the majority of all the products identified for export diversification by the select EAC partner states to Somalia are agricultural or Agro-processed commodities.

This is likely because of the frequent droughts and unreliable rainfall patterns experienced in Somalia that disrupt domestic agricultural production, and consequently require agricultural imports to close shortages.

Somalia's Revealed Comparative Advantage

The Revealed Comparative Advantage (RCA) is based on a Country's trade pattern to distinguish the sectors with comparative advantage. This is done by making comparisons between what the country trades in vis-à-vis the trade patterns of the rest of the world. A country is a competent exporter of a particular product if its exports of the said product are equivalent to the share of total world exports, which is representative of RCA greater than 1. The normalized RCA is measured on a scale of zero to 1, with zero representing a weak comparative advantage, and 1 being indicative of a high RCA (Shinyekwa et al., 2022).

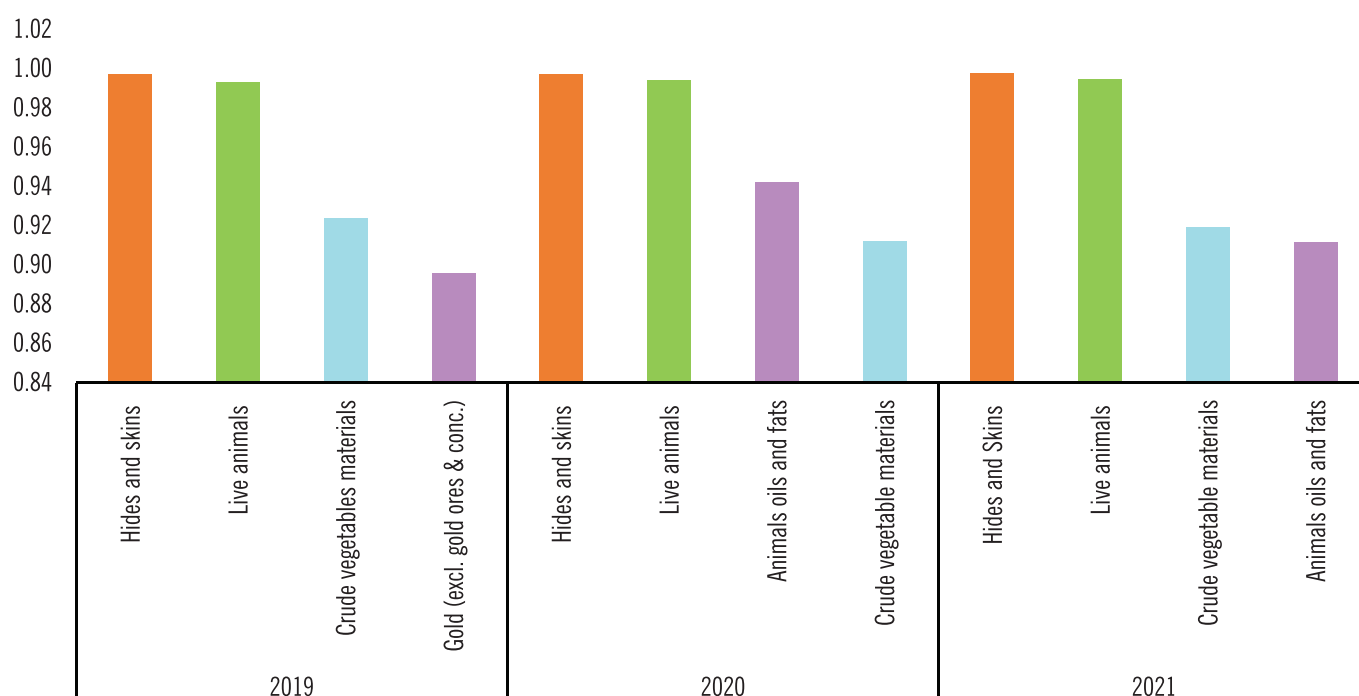
Table 5 EAC's Top Products with Higher Potential for Diversification in Somalia

Country	Hs Code	Product	Somalia's imports (USD '000')	Applied Tariff to EAC Partner States (%)
Uganda	140490	Vegetable products n.e.s.	8,800	15
	190219	Uncooked pasta	103,000	25
	70200	Tomatoes, fresh	4,100,000	25
	71310	Peas, dried & shelled	6,600,000	25
	907	Cloves	816	25
	85XXXb	Telephone sets & other voice	158,000	-
	20230	Bovine cuts boneless, frozen	3,800,000	25
	90230	Black tea, packings <= 3kg	3,300,000	25
	210410	Soups & broths & preparations	14,000	25
Kenya	0714XX	Roots & tubers n.e.s.,	22,000	-
	1701XX	Raw cane sugar	55,000	-
	803	Bananas, fresh or dried	2,900	25
	40221	Milk powder	134,000	35
	100630	Semi-milled or wholly milled rice	190,000	35
	160414	Prepared or preserved tunas	22,000	25

Country	Hs Code	Product	Somalia's imports (USD '000')	Applied Tariff to EAC Partner States (%)
	70200	Tomatoes, fresh	4,100	25
	0908Xc	Cardamoms	5,000	
	070511	Cabbage lettuce, fresh	5,400	25
Tanzania	0709XX	Vegetables, fresh or chilled	238,000	-
	1701XX	Raw cane sugar	55,000	-
	0714XX	Roots & tubers n.e.s.	22,000	-
	140490	Vegetable products n.e.s.	8,800	15
	40221	Milk powder	13,400	35
	160414	Prepared or preserved tunas	22,000	25
	70190	Potatoes, fresh	11,000	25
	70610	Carrots & turnips, fresh	5,300	25
	70200	Tomatoes, fresh	4,100	25
	0709XX	Vegetables, fresh or chilled	238,000	-
Rwanda	0714XX	Roots & tubers n.e.s.	22,000	-
	100630	Semi-milled or wholly milled rice	190,000	25
	40221	Milk powder	134,000	35
	140490	Vegetable products n.e.s.	8,800	15
	907	Cloves	816	25
	90411	Pepper (Piper), not crushed,	1,100	25
	70200	Tomatoes, fresh	4,100	25
	4407Xc	Wood, sawn/chipped lengthwise	3,800	-
	0709XX	Vegetables, fresh or chilled	238,000	-

Data Source: International Trade Centre's Export Potential Map (2023)

Figure 5 Somalia's Revealed Comparative Advantage (2019 - 2021)



Authors own construction. Data Source: UNCTAD (2021)

Figure 5 identifies the top four products annually (from 2019 to 2021) with the highest RCA and therefore export potential opportunities in the EAC for Somalia. The figure suggests that the RCA for live animals and hides and skins remained unchanged during the period and was close to 1 (higher than 0.98). This suggests Somalia has a high RCA in these products and can easily increase its export volumes since it has a substantial comparative advantage in their production. Overall, the findings show Somalia has a relatively high RCA in agricultural products including *Hides & skins*, *Live animals*, *crude vegetable materials*, *animal oils & fats* among others, and can compete favorably on the global market, and subsequently regionally among the EAC partner states in these products. Indeed, data has shown that *Live animals*, *hides and skins* have a high export potential in Uganda (Table 2), as do *hides and skins* in Kenya. To note, while Somalia's live animal exports are reported to withstand shocks of political and civil unrest, they are subject to import embargoes because of animal disease, and their production depends on weather patterns (World Bank, 2020).

Conclusion and Policy Recommendations

The conflict in Somalia casts doubt over its ability to integrate economically and politically within the EAC. Moreover, terrorism in Somalia has negatively affected economic growth by repelling the flow of FDI, damaging infrastructure, reducing tourism, inhibiting foreign trade, and distorting financial markets, which negatively affects trade. The spillover insurgencies have also strained regional relations and resulted in a refugee crisis across regional borders. Nonetheless, the concluded verification process and negotiations, once concluded, will determine whether Somalia can join the EAC.

Past trade flows between Somalia and EAC, show that Somalia is a net importer, and trading mainly with Kenya. The different methodologies reveal Somalia will benefit from the integration if it focuses on the production and export of *live bovine animals*, *raw hides*, and *skins*, *fresh* to the EAC partner states. Somalia's comparative advantage also lies in the aforesaid products. Somalia has the highest potential to diversify its exports to Uganda and Kenya, particularly in *crude palm oil*, *palm oil (excl. crude) & fractions*, and *maize (excl. seed for sowing)*. Regarding the EAC, Uganda has the highest unrealized potential in supplying Somalia with *cane or beet sugar & pure sucrose*; Kenya in *vegetables, fresh or chilled*; Tanzania in *semi-milled or wholly milled rice* and Rwanda in *Wheat and Meslin*. In addition, Uganda has the highest potential to diversify exports to Somalia in *peas, dried & shelled*; Kenya in *semi-milled or wholly milled rice*; and both Tanzania and Rwanda in *vegetables, fresh or chilled*.

The integration presents opportunities for both the EAC and Somalia

to benefit from the union. However, to maximize the benefits of the envisaged trade liberalization, we recommend that Somalia:

- 1) Improve security to curb terrorism and internal conflicts, to enable proper functioning of governance structures/institutions and promote economic growth and nation-building, that will minimize spillover activity and border closures, facilitate fluid cross-border trade, harmonize supply chains, and increase the confidence of foreign investors
- 2) Adapt an export promotion strategy that focuses on the production and export of products to the EAC where it has a comparative advantage, the highest export potential, and potential to diversify, to the region to meaningfully gain from the regional trade.
- 3) Enforce adherence to international and regional standards (EAC standards), sanitary and phytosanitary measures, and pest and disease controls. This is critical because Somalia has a comparative advantage in the supply of live animals and hides and skins, yet these are products that are susceptible to NTBs and other restrictions such as import bans because of animal disease.

The EAC partner states should:

- 1) Fast-track the admission process, if the outcomes of the concluded verification exercise and ongoing negotiations are promising, to allow Somalia to take advantage of the potential trade benefits.
- 2) Join efforts with Somalia to strengthen security and curb terrorists' activities as a way of strengthening cross-border and trade along corridors such as the Arab Peninsula that the bloc would benefit from.
- 3) Through concerted efforts, invest in regional transport infrastructure that effectively connects all EAC partners to Somalia and increases regional trade

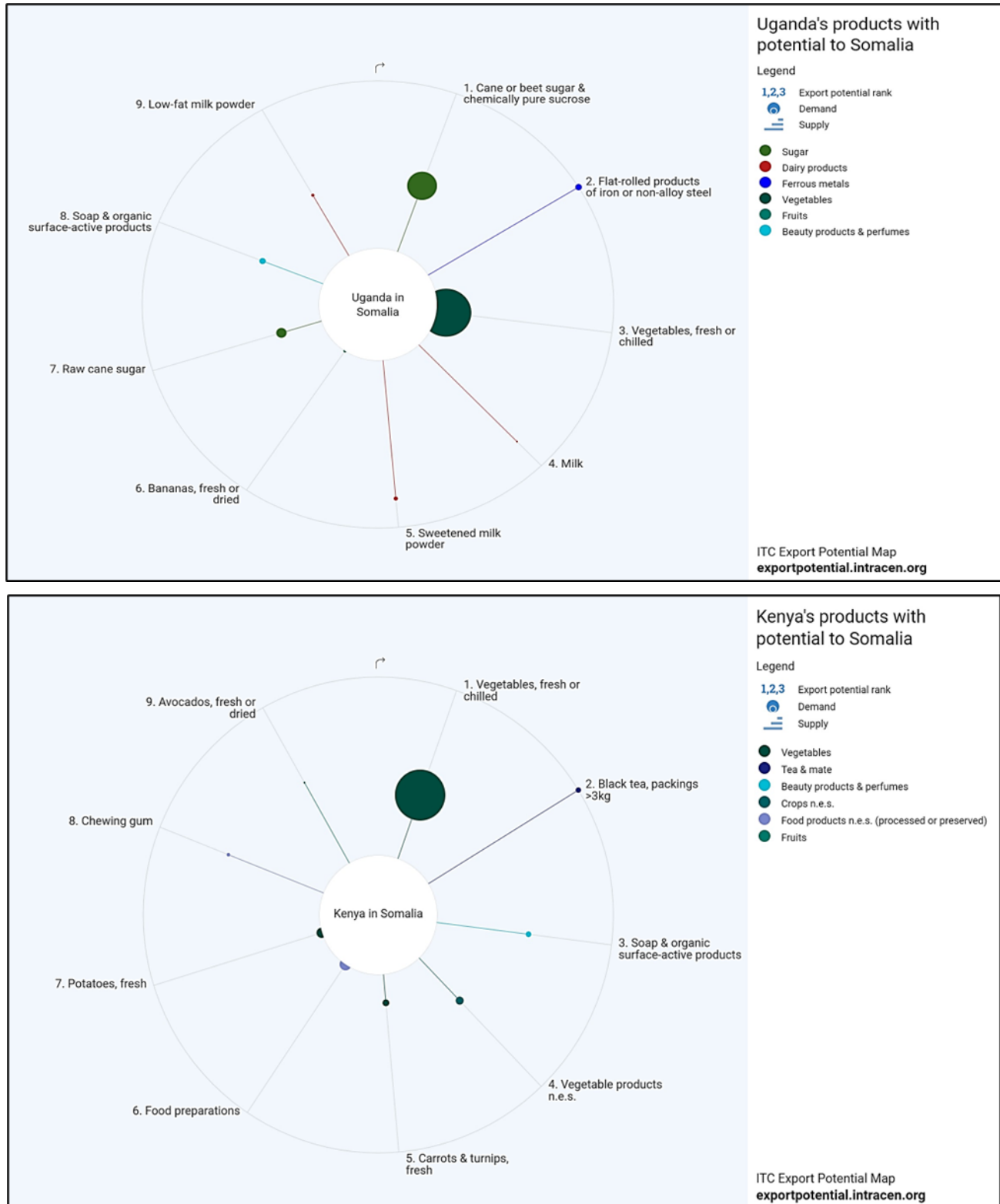
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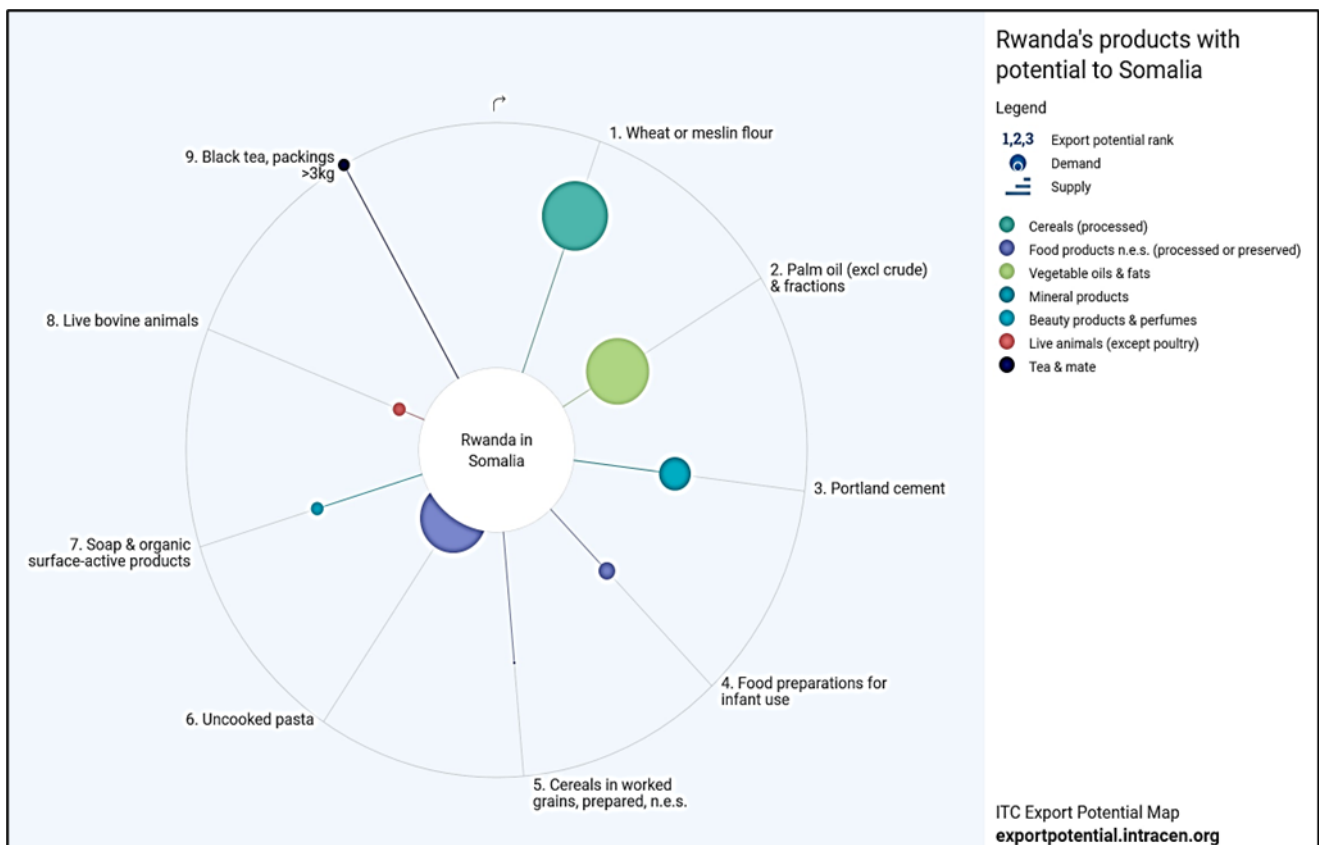
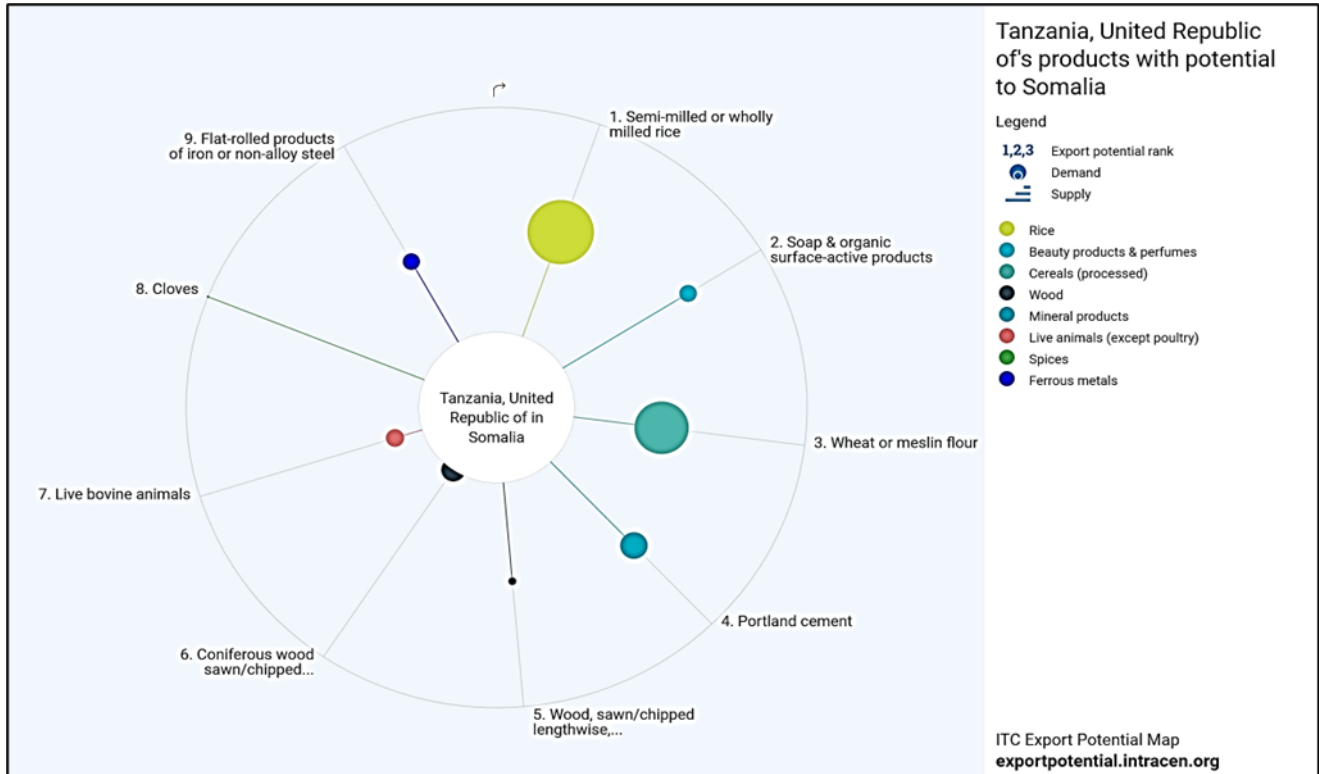
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Appendix

Figure 1: Top 9 Products from the EAC Partner States with the Highest Export Potential in Somalia.





Recent Policy Notes

“Potential effects of the COVID-19 lockdowns on long-term educational attainment in Uganda”

Policy Note: 12, June 2022

Stellah Kwasi, Mohammad T. Irfan, Taylor Hanna, Linda Nakato and Paul Lakuma

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Policy Note: 9, March 2022

Taylor Hanna, Deva Sahadevan, Francis Mwesigye, Paul Lakuma, Linda Nakato

“A Rapid Assessment of the Effect of the COVID-19 Lockdown on Livelihoods and Micro, Small, and Medium Enterprises in Uganda”

Policy Note: 8, August 2021

Francis Mwesigye, Tony Odokonyero, Mildred Barungi and Nathan Sunday

Endnotes

- 1 UNDP (2019) model for economic cost of terrorism comprises of both direct and indirect costs of terrorism; costs incurred by victims such as treatment expenditure, ‘lost productivity’ and destroyed property. The economic cost excludes GDP reduction, erased economic activity and IDP/refugee expenditures.
- 2 AMISOM consists of contingents from Uganda, Burundi, Ethiopia, Kenya, Djibouti and Sierra Leone. The UN Security Council approved the transition from AMISOM to African Union Transition Mission (ATMIS) in March 2022, whose main mandate is nation-building and stability.
- 3 Article 3 details the requirements for EAC membership and considerations for new membership such as embrace of values of good governance, rule of law, democracy, and human rights; possible role in strengthening the integration; geographical proximity; market-driven economy and compatible social and economic policies.
- 4 Somalia’s Export Potential and Product Diversification data for Tanzania, Rwanda, Burundi, South Sudan and DRC is not available.
- 5 Burundi’s Export Potential and Product Diversification data is not available.

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