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ABSTRACT NO. 30

Impacts of Regional Integration and Market Liberalization on Bilateral Trade Balances of Selected East African Countries: Potential Implications of the African Continental Free Trade Area

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ABSTRACT

This study examined the effect of free trade on intra-African bilateral trade balances for Kenya, Rwanda, Uganda, and Tanzania to assess the potential implications of the African Continental Free Trade area. The four countries have experienced persistent trade deficits. Whether free trade within Africa can improve the national trade balances, and the drivers of bilateral trade balances are important questions for policy and strategic programmes for the countries to make the most gains from free trade area. The econometric model estimated for each country is an extension of the standard Keynesian model of trade balance to include determinants of bilateral trade flows from the gravity model. Quantitative analysis using panel regression was augmented with qualitative data from interviews with trade policy experts and trade officials from various African countries and focus group discussions with small-scale cross-border traders at the Busia and Namanga border posts in East Africa. Findings show that complete tariff elimination on intra-African trade may not impact the bilateral trade balances of Kenya, Rwanda, and Tanzania but could improve bilateral trade balances for Uganda by 6 percent. Within the free trade areas, Uganda's bilateral trade balances were higher within the Common Market for Eastern and Southern Africa but lower within the East African Community, than outside these areas. Kenya's trade balances were lower in the Common Market for Eastern and Southern Africa, than otherwise. On the contrary, no significant difference in trade balances is established for the membership of Kenya, Rwanda, and Tanzania in the East African Community; Rwanda in the Common Market for Eastern and Southern Africa; and Tanzania in the Southern African Development Community, when compared to trade balances with nonmembers. The importance of macroeconomic factors is demonstrated by the increase in bilateral trade balances with higher relative price levels of trade partners; the reduction with increase in relative production and expenditure capacities of trade partners; and improvements following a depreciation of home currency for Tanzania and Uganda, yet a worsening of trade balances in Kenya. A lack of harmony in documents required for cross-border movements within the free trade areas is reported as counterproductive. All African countries should therefore fully implement protocols and cooperate in the harmonization of trade procedures for the free movement of people and goods across borders. Country policies and trade programmes should pursue increased productivity in the leading intra-African export sectors and diversify exports via foreign direct investment in strategic sectors to substitute imports from outside Africa; reduce costs of production; increase the quality of products; and improve transport infrastructure.

Key Words:

regional integration; free trade areas; tariff liberalization; bilateral trade balance; African continental free trade area

