

Reflections on the African Futures of regional integration and challenges to the marginalized small-scale traders across the borders of the partner states of the East African Community (EAC)



DOI reference: 10.1080/13673882.2023.00001013

By Paul Abiero Opondo, Department of History and Political Science. Moi University, Kenya. Email: opondopaul1@gmail.com

Introduction

Despite the existence of formal trade, the phenomenon of informal trade, between the border people, continues to be dominant. Based on the theory of economic integration, we examined the drivers for this informal trade. Using interdisciplinary approach, we look at the resilience of border traders, the history and *economies of scale* behind such trade and how traders *straddle* formal and informal trade. Economic integration is the unification of economic policies between different states, through the partial or full abolition of tariff and non-tariff restrictions on trade. In the Malabo Declaration of June 2014, African countries committed themselves tripling the level of intra-African agricultural trade and service by 2025, fast-tracking the African Continental Free Trade Area and adopting Common External Tariff (CET) on external goods (Bouet, Pace and Glauber, 2018). Bashir Saad Ibrahim (2018) has examined the challenges and prospects of cross-border trade in West Africa. between Nigeria and Niger and he proposes viable solutions on how to improve cross border trade between the two nations and Africa in general, a study which is germane to our own analysis of the drivers to trade between Kenya and Ugandan borders.

Drivers to Informal Trade in East Africa Community (EAC) Region

Fleming, Roman and Farrell (2000: 406) asserts that Markets in [developing countries] do not fit the smoothly operating institutions assumed by standard neoclassical economics... Even in the poorest of developing countries, there are some markets, in what can be described as the organized sector, which function within the framework of civil laws and administrative regulations...Outside the pale of the organized sector is the unorganized sector, or informal sector, covering economic transactions of anywhere between 30 percent and 70 percent of the country's GNP...It covers most rural markets and the peripheral but growing urban informal (Fleming, Roman and Farrell, 2000, 406)

During our field research across the borders of Kenya, Uganda and Tanzania, the guiding objectives of this study were; to survey the type of goods that were traded informally between the border of Kenya and her neighbours, to investigate the factors and drivers to cross border trade and to examine the reasons why cross border trade persists despite the strict custom enforcement regulations and finally, to propose solutions to policy makers on how to achieve formality in trade. Reno draws attention to a shift in clandestine economies as a coping mechanism to radical changes in the global economy and the African marginal diplomatic and economic position in the world. Yet in what can be considered as demand driven

trade, most of Kenyan goods and services are traded with her western neighbor, Uganda who is the greatest Kenyan market. Reno also attributes the upscale of informal trade on to the role of state officials and warlords who control borders in conflict-prone nation-states. "Formally recognized governments got involved in what is seen" he continues, "as illicit, unofficial trade." (Reno, 2000: 433) In his view, the informal sector is a product of a "dysfunctional governments [that] use violent commerce and state offices for personal profit." This position has attracted the support of Meagher who asserts that notions of a criminalized "shadow state" or "rhizome state" seen political power, which was hitherto largely concentrated in state officials, but is now exercised through networks of "frontmen" including corrupt officials, strong men, and armed youth, sometimes engaging with global corporate linkages operating outside the purview of the state (Meagher, 2014). While this precarious state of affairs may prevail in conflict nations such as South Sudan, D.R. Congo and Somalia in East Africa, the trade along the Kenya/Tanzania border are strictly managed by custom officers and state security apparatuses. Janet Roitman has poignantly contributed to the analysis of clandestine regulatory structures through ethnographies of the diverse and complex networks of actors involved in the conduct of cross-border trade by attempting to map out the attendant reorganization of power. Roitman's notion of the 'military commercial nexus' represents clandestine trade as operating through networks of 'the state bureaucracy, the merchant elite, the military, and non-state militia groups' generating new sites of power operating 'at the borders rather than in the capital[1]. However, this state of affairs happened mostly in the fragile states of which Kenya and Tanzania are not. In a nutshell, and in support of the significant place of informal trade, Meagher has pointed out that there is an emerging political economy discourse of clandestine trade, which contends that engagement with informal economic networks offers new possibilities for working 'below the law' to retool regulatory authority in ways that are less resistant to the market imperatives of liberalization and globalization, a powerful justification for informality in the long run. African clandestine trading systems have played havoc with the conventional models of development and state formation, often evading the law of using violence. Why has the informal trade expanded in the middle of tough global conditions? Indeed, they expanded rather than contracted in the face of liberal market reforms, and became entwined with rather than displaced by the formal institutions of the state.

Whether it is called clandestine or shadow economy, Meagher (2014) is of the

opinion that, “of these concepts - embeddedness, social networks and the informal sector have become central to illuminating the role of informal institutions in the contemporary economic and political space in every region of the world.” (Meagher: 2014; 498). Writing on shadow economy, Fleming, Roman and Farrell (2000) have asserted that oppressive tax and regulatory regimes appear to drive economic agents from the official sector into the unregulated shadow economy. They argue that for transition economies (and perhaps others), the size of the shadow economy may be an indicator of the level of economic and political liberalization. That said, the informal sector component of the shadow economy appears to be of considerable importance to the economic activity of most, if not all, developing countries, including the EAC.

Technology and achievements

One of the most important achievements in East Africa has been the use of one stop border point (osbp) between Kenya and Tanzania border at Isebania to support informal cross border traders especially during the covid-19 pandemic. The aim of the technology was to reduce transit costs incurred in cross border movement by combining all the activities of the custom officials across the East African regional. The OSBP is a legal institutional framework, facilities and associated procedures that enable goods, people and vehicles to in a single facility in which they undergo necessary controls following applicable regional and national laws to exit one state and enter the adjoining state. This has improved security for transit goods moving from Mombasa to Uganda and DR Congo. This facility through the help such as German government, (GIZ), Trademark East Africa and World Trade Organisation (WTO) has helped the flow of goods across the EAC border points at Isebania, Malaba, Namanga and Busia.

The ILO Report by Jim Thomas (2002) asserts that 80 percent of new jobs created between 1990-and 1994 in Latin America, were in the informal sector. Urban informal employment absorbs 61 percent of the urban labor force in Africa, and is expected to generate more than 93 percent of all additional jobs in the region in the 1990s. The informal sector also absorbed between 40 and 50 percent of the urban labor force in pre-crisis Asia. In other words, rational actors move to the shadow economy to escape the high entry costs to legality, such as license fees and registration requirements, and the high costs of remaining legal, such as taxes, red tape, labor and/or environmental regulations. But shadow economic activity escapes taxation, and, as a result, state tax revenues are lower than they

could be. This in turn limits the ability of the state to provide such public goods and/or the quality of such goods suffers. It is argued further, by Fleming, Roman and Farrell (2000) submits that markets in [developing countries] do not fit the smoothly operating institutions assumed by standard neoclassical economics. Even in the poorest of developing countries, there are some markets, in what can be described as the organized sector, which function within the framework of civil laws and administrative regulations. It is argued that outside the pale of the organized sector is the unorganized sector, or informal sector, covering economic transactions of anywhere between 30 percent and 70 percent of the country's Gross National Product (GNP). It covers most rural markets and the peripheral but growing urban informal sector. We cannot conclude, however, that the informal sector alone accounts for the lion's share of the overall shadow economy in all developing countries. That aside, there is every reason to believe that the criminal sector, such as cultivation, processing, and distribution of illicit narcotics; trafficking in goods/people; or, prostitution, is nontrivial in size in many developing countries. Colombia, for example, announced in the early 2000s that it would include income from growing illegal drug crops in calculations of the nation's economy, given the size of such activity. However, in East Africa, small scale traders that engage in selling import-export goods from China and India are not criminal but people looking for livelihoods. They need the support of the EAC leaders such as the president of Tanzania, Madam Samia Hassan, Yoweri Museveni of Uganda, William Ruto of Kenya and Paul Kagame of Rwanda.

In conclusion, our research supported by African Clusters Centre (ACC Moi University) at Moi University, Kenya in collaboration with University of Bayreuth established that the informal regional trade is the fundamental driver for economic integration within the EAC Region. But, across Africa, same barriers to small-scale traders seem to coincide. For example, in South Africa, similar to the EAC case, the Gauteng Informal Business Sector Strategy of 2014 suggests that some factors hindering and sabotaging the trade include: lack of finance, inconsistent enforcement, insufficient business infrastructure, and a dearth of relevant policy. The Strategy suggests a planned, funded and sufficient incorporation of the Informal Sector into the planned border points across the EAC.

NB: This article is the outcome of research conducted within the African multiple cluster of excellence at the University of Bayreuth funded by German Research

Bibliography

Ahmed, R., (2010). "Tanzania and East African Federation Agenda: A Committed or Reluctant Party in Full Integration.?" *The African Review: A Journal of Africa Politics, Development and International Affairs*, 37, no. 1.

Azim, S. (2007). "Border and Behind the Border Trade Barriers and Country Exports. (NY, IMF Working paper, 2007).

Balassa, B. (1967). *Trade Creation and Trade Diversion in the European Common Market*, in *The Economic Journal*, Vol. 77, No. 305 (Mar., 1967), pp. 1-21, Wiley, NJ, USA.

Benssasi, Sami et al. (2018). "Regional Integration and Informal Trade in Africa: Evidence from Benin's Borders," *Journal of African Economies*, 28, no. 1 <https://ideas.repec.org/p/cii/cepiddt/2017-21.html>

Bout, A., Pace, K. and Glauber, J. W. (2018). Informal Cross-border trade in West Africa: How much? Why? And What Impact? IFPRI Working Papers.

De Soto, Hernando. (1989). *The Other Path: The Invisible Revolution in the Third World*. London: I.B. Tauris & Co.

De Soto, H. (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere*. New York: Basic Books.

ECA (2006). *Assessing regional integration in Africa II. Rationalizing regional economic communities*, Addis Ababa.

Feige, E. (2016). "Reflections on the meaning and measurement of unobserved economies: What do we really know about the "Shadow Economy"?" *Journal of Tax Administration*, (2016) 2 no. 1, 5-41

Fleming, M H, Roman, J. and Farrell, G. (2000). "Shadow Economies: Promoting Prosperity or Undermining stability?" In *Journal of International Affairs*, Vol. 53, no. 2, 387-409

Ibrahim, Bashir S. (2018). "Cross-border trade in West Africa: An Assessment of Nigeria and Niger Republic." *Africa Review*, Vol. 2 no.1 126-150

Luwam G. D.,
http://law.emory.edu/eilr/_documents/volumes/28/1/articles/dirar.pdf

Meagher, K. (2014) "Smuggling Ideologies: From Criminalization to Hybrid Governance in African Clandestine Economies" *African Affairs*, 113, no. 453 (October 2014), 497-517.

Reno, W. (2000). "Clandestine economies, Violence and states in Africa," *Journal of International Affairs* 52, no. 2: 433-459
<https://www.jstor.org/stable/24357760>

Roitman, Janet L. (1990). "The Politics of Informal Markets in Sub-Saharan Africa," *The Journal of Modern African Studies*, 28, no. 4 (Dec., 1990), 671-696

Thomas, J. (2002). *Employment sector 2002-2012: Working Paper on the Informal Economy: Decent Work in the Informal Sector: Latin America*. (Geneva: ILO)

Tony W. (2019). "The Second Economy in Tanzania", review of *The Second Economy in Tanzania*, by T. L. Maliyamkono and M. S. D. Bagwacha, *Journal of Modern African Studies* 28, no. 4

See For informal trade in South Africa,
<https://hsf.org.za/publications/hsf-briefs/informal-trading-in-johannesburg>

[1] Janet L. Roitman, "The Politics of Informal Markets in Sub-Saharan Africa," *The Journal of Modern African Studies*, 28, no. 4 671 (Dec., 1990)