Ethiopia's Path to Regional Integration within COMESA: Synergies and Trade-offs

Yalemsew Genetu
Researcher, Institute of Foreign Affairs (IFA), Ethiopia

Abstract

Ethiopia has undertaken a range of policy shifts and liberalization measures since the post-2018 political reform period, with the aim of transforming its economic landscape. This study thus examines how Ethiopia's ongoing policy shifts and liberalization measures shape the country's engagement in regional and continental integration frameworks, with a particular emphasis on COMESA. It further explores the tradeoffs that engagement in regional integration frameworks can bring to Ethiopia's economy. Methodologically, the research followed a qualitative approach, using primary and secondary data collected from key informant interviews and various institutional and academic sources. The findings of the study indicate strong policy convergence between recent Ethiopian economic reforms and the COMESA FTA regime across trade policies, industrial development initiatives, financial reform activities, and the energy and infrastructure sectors. Accession to FTAs is found to support economic growth, improve welfare gains, expand market access opportunities, promote domestic and foreign direct investment, foster economic specialization based on comparative and competitive advantage, and enhance economies of scale in some product items. However, Ethiopia's immediate full accession to regional trade through the COMESA FTA could face vulnerabilities, including unfavorable terms of trade, limited export diversification, tariff revenue loss, and limited private sector competitiveness. The study thus concludes that Ethiopia must begin with a clear and phased strategy to accede to the COMESA FTA, deepen financial reforms to strengthen the interbank foreign exchange convertibility, enhance a regional payment system, and introduce currency swap arrangements with key trade partners of COMESA to reduce dependence on foreign exchange reserves is critical. Additionally developing a private sector strategy oriented toward the regional market, strengthening institutional and regulatory capacity for trade governance, and diversifying export commodities can enhance its effectiveness in free trade arrangements like the COMESA FTA

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Introduction

Regional integration has long been recognized as a critical path for African states to overcome the fragmentation of their economies, expand their market size, and harness economies of scale for trade and production (UNECA, 2010). The African Union currently recognizes eight regional economic Communities (UNECA, 2007), with the Common Market for Eastern and Southern Africa (COMESA) being the largest regional grouping in terms of membership and geographical coverage. COMESA was initially established as a preferential trade area (PTA) in 1981 and rebranded itself in 1994. The bloc today comprises 21 member states with a population exceeding 640 million, and a GDP of USD1 trillion (COMESA, 2021).

COMESA, after 16 years of progressive trade liberalization, became a Free Trade Area (FTA) on 31 October 2000 and a core integration instrument, covering tariff liberalization, rules of origin, customs procedures, and simplification of customs documentation, and transit procedures, among other issues (Fasika, 2014). With 16 countries currently participating (COMESA in brief, 2017), intra-COMESA trade has grown at an average of 7% every year since its establishment (COMESA, 2017), and it has significantly boosted intra-regional trade by nearly six-fold from USD 3.1 billion in 2000 to USD 14 billion in 2024(COMESA Business Council, 2024).

Despite these achievements, challenges remain, including some COMESA member states, such as the Democratic Republic of Congo, Ethiopia, Eritrea, and Eswatini (COMESA, 2018), that have not acceded to the COMESA free trade area, providing a range of justifications for their reluctance to join the arrangement. This includes concerns among some states about their actual potential to boost regional trade; fears of possible revenue losses resulting from the FTA; the protection of their sensitive products; and the protection of key industries (Tewodros & Hallelujah, 2014; Mude, 2018). Ethiopia, one of the founding members of COMESA, has excluded itself from the COMESA FTA except for its 10% tariff reduction on goods imported from COMESA member states. The caution emanated from concerns about potential dominance by more economically advanced member states, when it was still recovering from the protracted civil war and had very limited industrial capacity (Markos, 2024; Degefa, 2001). Fasika (2014) also highlighted the low competitiveness of Ethiopia's industrial products, both in quality and quantity, prompting the government to adopt a protectionist path for a while.

However, since the mid-2000s, Ethiopia has registered one of the fastest growth trajectories in Africa, driven by state-led development strategies with high public investments in infrastructure and human capital development (Planning and

Development Commission, 2022). The Ethiopian government's two successive Growth and Transformation Plans (GTP I & II) prioritized massive investment in the infrastructural sector (Chipanda, 2015), such as roads, railways, hydro dams, and the establishment of industrial parks, which helped to sustain a double-digit GDP growth for over a decade. Within this context, poverty has declined (Chipanda, 2015), access to education and health expanded, and the country has become one of the primary destinations of foreign direct investment (Surafel, 2024). But since these progresses were heavily dependent on public investment and external borrowing, it leaves the economy vulnerable to debt stress and foreign exchange shortage.

Over the past two decades, since the COMESA FTA was established in 2000, Ethiopia's economic landscape has shifted in various ways. On the one hand, the Ethiopian economy experienced a sustained period of strong macroeconomic growth (2004–2017), the success of which is often attributed to the developmental state approach (Melisew & Cochrane, 2018). On the other hand, it has implemented various macroeconomic reforms that could support domestic economic activities and has evolved from a more protectionist, inward-looking approach to an outward-looking one, linking our economy with that of the continent and the region (Planning and Development Commission, 2020). Particularly following the 2018 political reform, Ethiopia began to shift its development model from a predominantly state-led approach to a more liberal economic system by strengthening corporate governance of public enterprises and privatizing some of them, liberalizing the economy, and integrating with regional and continental markets. More importantly, the macroeconomic reform packages launched in 2024, which include a floating exchange rate, the opening up of the financial sector to foreign banks, and an overhaul of monetary and fiscal policies (National Bank of Ethiopia, 2024), mark a turning point in the country's economic transformation.

Despite these evolving landscapes, there is a notable gap in the literature regarding how Ethiopia's ongoing reforms can effectively facilitate its integration into regional and continental free trade arrangements. The study focuses on COMESA free trade regime, which is pertinent given Ethiopia's foundational role and the only regional economic community that has established a free trade area to which Ethiopia belongs. IGAD, even though it is one of the RECs recognized by the African Union, has lagged in terms of economic integration (UNECA, 2019), and it has not yet established a free trade area within its horizon. Although AfCFTA has been introduced and implemented since 2019, it is still in its early stages, and RECS like COMESA strongly serve as building blocks for continental integration with a better integration level, institutional development, and infrastructural connectivity.

Thus, Ethiopia's deeper integration with regional frameworks can be used as a litmus paper to enhance its regional performance, build competitiveness, and gradually align with the broader continental and global ambitions; hence, the issue is well-suited for analysis. This study is thus intended to address the following questions: Does the recent economic reforms adequately support regional and continental economic integration? What opportunities could participation in Free trade arrangements unlock for the national economy, and what vulnerabilities could be faced in integrating with regional and continental markets?

Review of the Related Literature

Regional integration draws its rationale from the standard trade theory, which states that free trade is superior to all other trade policies (Alemayehu & Haile, 2002). As an extension of this basic principle, free trade among two or more countries improves the welfare of the member countries as long as the arrangement leads to a net trade creation (Ibid). Regional integration is simply the process of integrating various elements to create a whole (Dosenrode, 2010). It might also symbolize a scenario where states become economically reliant on one another (Adetulu, 2004). Alternatively, it can also be described as a relationship among units in which they are mutually interdependent and jointly produce system properties that they would separately lack (Deutsch, 1968). According to Balassa's (1961) economic integration theory, regional integration happens in five progressive stages, namely: free trade area, customs union, common market, monetary union, and finally political integration.

A free trade area, such as COMESA, is a primary stage in the regional economic integration process where tariffs and quantitative restrictions between the participating countries are abolished, but each country retains its own tariffs against non-members (Masiko, 2020). At this stage, states trade goods and services across international boundaries without the limitations imposed by tariffs and quotas, which are direct limits established on imports (Estupiñán & Miguel, 2017). FTA has benefits for states, including greater access to low-priced, high-quality goods; greater efficiency and innovation in production; increased economic development and living standards; and overall economic growth (Lai et al. 2019). Nations usually keep their own health, safety, and technical standards and may deny entry of imports if they do not meet national standards (Estupiñán & Miguel, 2017). However, with less than 10% of trade among African states and countries in the COMESA bloc not performing better, Africa is blamed for not integrating regionally when it comes to trade. Despite the African Union's (AU) recognition of eight blocs to work on the economic integration of the countries, their

decades-long efforts failed to free the countries from dependence on other developed nations.

This research study draws on both classical trade theories and customs union theory as its theoretical underpinnings to assess Ethiopia's economic reforms and its prospects to engage in regional and continental free trade arrangements such as the COMESA FTA. Classical theories developed by Adam Smith's absolute advantage (1776) and David Ricardo's comparative advantage (1817) emphasize the welfare gains from specialization and exchange, rooted in efficiency and factor endowments. In Ethiopia's context, these theories highlight the potential benefit of leveraging its abundant labor and agricultural resources to expand exports in regional markets. While classical theories have provided a rationale for free trade, customs union theory, originally formulated by Jacob Viner (1950), offers a more precise lens for evaluating regional trade arrangements.

Viner evaluates the welfare effects of regional integration by distinguishing two dimensions: trade creation and trade diversion. Trade creation within regional blocs occurs when tariffs are low, allowing the countries trading to replace their high-cost products that were produced domestically (Otieno, 2011) or trade shifts from a high-cost supplier member country to a low-cost supplier member country in the union (Yang & Martínez Zarzoso, 2014), leading to an improvement in their welfare. On the other hand, trade diversion occurs due to the removal of a tariff, causing trade to be channeled from the third-party country to the partner country, on the assumption that if the countries were treated equally, then the third country would have provided the low-cost source of the imported goods within the region (Otieno, 2011).

The question of regional integration has continued to be one of the most celebrated aspects in the modern international system (Schumitter, 2007) due to its role in promoting international peace and security, ensuring regional and global development, and a tool for cooperation and peaceful coexistence of diverse societies (Janyo & Mararo, 2018). Ethiopia has aimed to follow the path of regional integration since the imperial era, but with different levels of dedication and priorities among successive regimes. The imperial government's regional integration effort was more about demonstrating to the former colonial powers that Africa can unite, while Derg's accession to power marked a shift in alliances based on ideological orientation during the Cold War, rather than an attempt to integrate the country into a regional free trade arrangement (Luwam, 2019). However, Ethiopia was a founding member of the Intergovernmental Authority for Development (IGAD) during this period (Ibid), an organization initially established to prevent famine and drought.

Ethiopia prioritized economic growth and poverty reduction during the EPRDF era and also pursued economic diplomacy. However, it didn't make any meaningful trade liberalization measures or had a regional ambition, favorable for regional economic integration (Luwam, 2019). It was within this context that Ethiopia's accession to the COMESA FTA was postponed. The incumbent government summed up its economic transformation policy as Medemer (Abiy, 2019). Medemer is an Amharic word that means "synergy" or "coming together" (Abdi, 2025), and it primarily consists of three pillars: vibrant democracy, economic vitality, and regional integration and openness to the world (Luwam, 2019). The government views regional integration as a key component of peaceful coexistence and the creation of economies of scale in the Horn of Africa and surrounding area (Ibid). However, there is a gap in the analysis of whether the post 2018 economic reforms made in Ethiopia converge with Regional free trade arrangements, such as the COMESA FTA, and the contexts in which regional ambition can be realized.

Research methods

The research employed a qualitative research approach to capture policy-relevant insights. A purposive sampling technique was used to select interview participants and institutional sources. This technique was found appropriate as it allows for deliberate selection of participants based on their knowledge, expertise, and involvement within organizations pertinent to the issue. Key informant Interview participants were selected from institutions that have direct engagement in regional diplomacy, trade, and economic policy formulation and implementation, including Ministry of Foreign Affairs of Ethiopia, Ministry of Trade and Regional Integration, National Bank of Ethiopia, Institute of Foreign Affairs, and Ethiopia's Chamber of Commerce. This ensured data collected reflects informed and policy-relevant perspectives.

Both primary and secondary data sources were used. Primary data was collected through semi-structured interviews with seven key informants drawn from pertinent institutions related to the issue and policy documents, such as COMESA treaty and reports, Ethiopia's Homegrown Economic Reform Agenda (I& II), the Ten-year development plan, and the macroeconomic policy reform. Secondary data was extracted from published articles, newspapers, magazines, etc. Data collected from interviews, policy documents, and literature were analyzed using thematic analysis, which involved systematic coding and categorization of the data to identify recurring themes, patterns, and relationships.

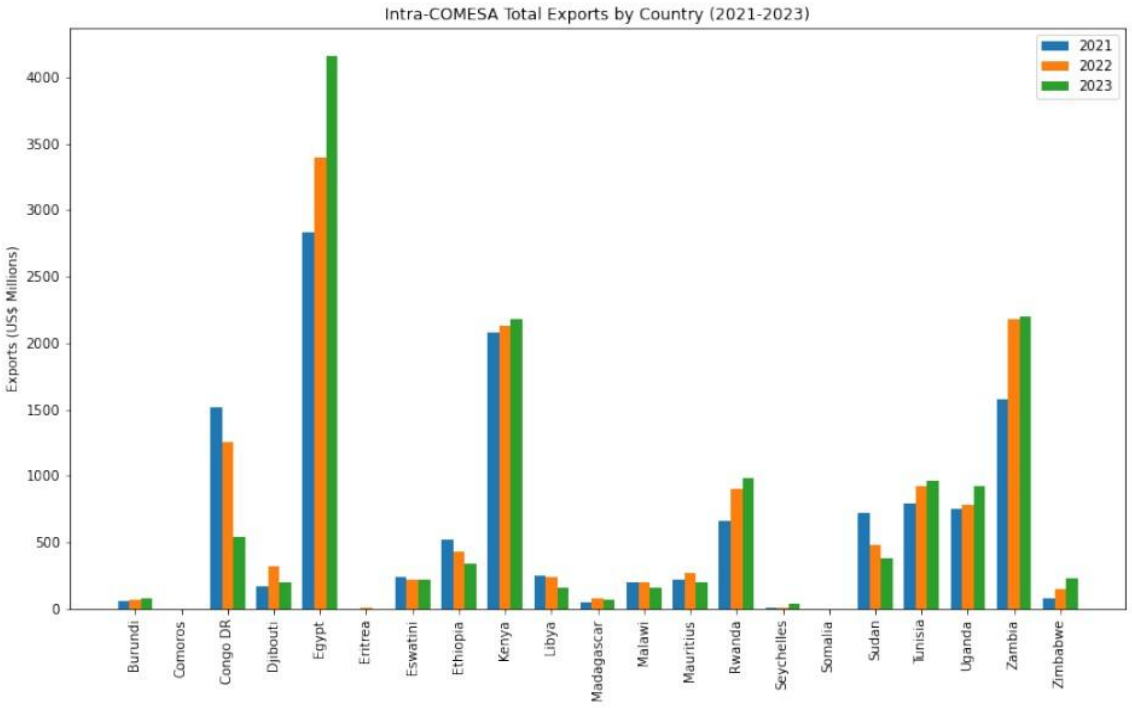
Result and Discussions

This section presents the findings from the analysis of primary and secondary data collected from various sources. It examines how Ethiopia's economic reform initiatives converge with the governing principles of the COMESA free trade framework. The analysis explores whether national policy reforms could facilitate or restrain regional trade integration, as well as the opportunities and vulnerabilities the country could encounter in regional free trade arrangements, with special emphasis on COMESA.

Ethiopia's Experience within COMESA

Regional trade in COMESA has shown significant improvement over the years, reflecting a growing commitment of member states to trade liberalization and economic integration. This progress has been driven by gradual tariff reductions, harmonization of customs procedures, and efforts to eliminate non-tariff barriers among member countries. The implementation of trade facilitation measures and improvements in transport and logistics infrastructure contributed to the expansion of intra-COMESA trade. Data show that the trend of total COMESA trade between 2013 and 2023 indicates a fluctuating but upward long-term trend. Even though from 2013 to 2016, COMESA trade declined from around US$12 billion to below US$9 billion; between 2017 and 2020, trade levels showed a moderate recovery (COMESA, 2024).

However, from 2021 onward, COMESA trade experienced a strong rebound, rising sharply and peaking at approximately US$14 billion in 2022 and 2023, the highest level in the decade. This indicates renewed regional trade activity, improved post-pandemic recovery, and possibly the effects of policy coordination and regional integration efforts. Ethiopia, although a member of the IGAD and COMESA regional blocs, has not fully opened and integrated its trade, and it has yet to join the COMESA free trade area. Its intraregional trade engagement is also very low.



Source: COMESA, 2023, Annual Report

The above bar chart illustrates intra-COMESA total exports from 2021 to 2023, measured in millions of US dollars. The data shows that Ethiopia has relatively modest export values compared to other members' exporters, such as Egypt, Kenya, Zambia, and the DRC. Ethiopia's intra-COMESA exports remained below the regional average. Ethiopia's lower trade volume within COMESA stems from its non-FTA membership status, which subjects its exports to higher tariffs compared to other FTA members and non-tariff barriers, the cautious approach the country followed for liberalization (Markos, 2024), as well as its reliance on primary agricultural exports that often overlap with, rather than complement, the production of its neighbors, restricting competitiveness within the COMESA market.



Source: AfreXimbank, 2024, Ethiopia's top Export and Import partners.

Despite Ethiopia being a COMESA member from the onset, its top trade partners in 2023 were predominantly non-COMESA countries, indicating limited regional trade integration commitment. As shown in the above chart, the United Arab Emirates (17.5%), Somalia (9.3%), China (8.4%), the United States (7.4%), and Saudi Arabia (5.6%) were Ethiopia's major export destinations, even though some sources show different kinds of ranks where Saudi Arabia is Ethiopia's number one export destination (Comtrade, 2023). China (32.5%), the United States (13.7%), India (5.3%), Kuwait (5.0%), and the United Arab Emirates (4.5%) dominated its imports. This pattern indicates Ethiopia's stronger trade linkages with far global partners rather than with neighboring COMESA states.

Ethiopia's economic reforms and COMESA: Exploring the Policy Synergy

Ethiopia's recent economic reform marks a decisive shift from the decades of protectionist policies toward a more liberal and outward-looking development strategy. This transformation positions the country to integrate into regional trade frameworks such as the COMESA free trade area. The COMESA agenda has long centered on deepening regional cooperation in the areas of trade, investment, macroeconomic policies, and peace and security (COMESA, 1993). Over the past two decades, the bloc has made notable strides toward liberalizing trade, reducing tariff and non-tariff barriers, and expanding regional infrastructure (COMESA, 2022; UNECA, 2020). The FTA provides a full duty and quota-free trade for all goods originating within COMESA, underpinned by rules of origin, customs procedures, and simplification of customs procedures and transit facilitation. Ethiopia's evolving economic landscape and ongoing policy reforms are increasingly positioning the country to strengthen its regional and other broader economic frameworks. This section is thus going to explore areas of convergence and the policy gaps that remained between Ethiopia's economic reforms and the principles governing the COMESA FTA.

Trade liberalization and tariff reduction

Trade liberalization is a central objective of regional economic communities aimed at reducing barriers to trade and promoting the free movement of goods, services, and investment among member states. COMESA launched its FTA in 2000 to facilitate trade liberalization and tariff reduction among its members. The COMESA treaty outlined that member states shall reduce and ultimately eliminate customs duties and other charges of equivalent effect imposed on or in connection with the importation of goods which are eligible for Common Market tariff treatment (COMESA, 1993, Article 49). When the COMESA FTA started in 2000, intra-COMESA trade stood at USD 2.3 billion, and by 2024, this figure had risen to USD 14 billion (Kimana, 2024). While Ethiopia has been a COMESA member since 1994, it has refrained from joining the FTA arrangement due to concerns about structural constraints, potential loss of revenue, and limited industrial competitiveness; its export and import trade within the bloc is subject to customs duties and tariffs.

However, the post-2018 political reforms have introduced new economic policies, including market-oriented reforms, private sector participation, liberalization of key sectors, and regional economic integration aimed at correcting structural barriers and improving the business environment to facilitate intra-regional and continental trade. Ethiopia is making structural reform measures aimed at improving business regulations and policy, addressing market failures, and enhancing the efficiency of key enabling sectors to fully unleash the potential of the private sector. The first Homegrown economic reform agenda outlined measures such as streamlining licensing requirements, simplifying procedures, improving inter-agency coordination, and reducing tariff-related disincentives as key reform measures (Planning and Development Commission, 2022).

Ethiopia has historically maintained one of the region's most restrictive tariff regimes, ranking 109th out of 125 economies, increasing the cost of intermediate inputs as well as consumer goods (World Bank, 2014). Ethiopia a non-member of the World Trade Organization (WTO) has no bound tariff rates and both VAT and excise taxes are imposed on imports (international trade administration, 2024). Ethiopia also faces tariffs of over 30% when exporting to COMESA countries, putting its exporters at a significant disadvantage compared to FTA member countries enjoying duty-free access (COMESA, 2019). But Ethiopia's recent commitments to revise tariffs, modernize customs administration, improve the implementation of regulations, and the application of standards and conformity assessments as set by Homegrown Economic Reform agenda

1.0 (Planning and Development Commission, 2019) highlight that the country has embarked on working exhaustively to participate in regional and international trade, which suggests a closer alignment with the COMESA liberalization agenda.

Financial Sector Liberalization

Article 76 of the COMESA Treaty encourages member states to move toward market-determined exchange rate regimes and to strengthen their balance-of-payments positions and international reserves (COMESA, 1993). Ethiopia's 2024 decision to adopt a floating exchange rate represents a major policy shift that aligns with COMESA directives. The reform is designed to ease foreign exchange shortages, restore macroeconomic stability, and improve the competitiveness of Ethiopian exports in regional markets (National Bank of Ethiopia, 2024). Additionally, the liberalization of Ethiopia's financial sector, including opening banking services to foreign investors, the inauguration of the domestic stock exchange market, the elimination of central bank credit provision to the government in the form of direct advances, containing inflation to single digits, the introduction of market-based monetary policy instruments, transitioning to an interest rate-based monetary policy and the capacity building of the National Bank of Ethiopia (Berihu, 2022). This brings the country closer to COMESA's broader objective of financial harmonization and to creating a conducive environment for cross-border investment. These steps signal Ethiopia's intention to integrate into regional financial markets, even as the transition brings short-term challenges.

Industrial development and regional value chains

Regional integration drives industrialization by encouraging cross-border value chains and joint ventures (Alazar, 2025). Industrial development is the cornerstone of COMESA's integration agenda. Article 100 of the treaty commits member states to policies that promote small and medium-scale enterprises, agro industries, capital good industries, and private sector participation alongside improving infrastructure, technology transfer, and human resource development (COMESA, 1993). Ethiopia's reform priorities strongly aligned with this vision. The Homegrown Economic Reform 2.0 emphasizes industrialization and export diversification, supported by industrial parks, agro-industrial clusters, and incentives for small and medium enterprises to enhance the productive capability and productivity growth of manufacturing industries (Planning and Development Commission, 2022).

The focus on industrial parks (IPs) and integrated agro-industrial parks (IAIPs) directly supports COMESA's call for promoting SMEs, agro-industries, and inter-industry

linkages, while efforts to strengthen backward linkages and substitute imports reflect the regional priority of developing basic and intermediate goods industries. The establishment of the Dire Dawa Free Trade Zone in 2022 is a notable example, aiming to improve trade efficiency, reduce logistics costs, and attract foreign investments. However, the government invested heavily in industrial parks to be transferred to private sector investors to address various constraints and challenges that would limit both competitiveness and resilience to various shocks in private sector investment.

Additionally, to increase production capacity utilization and output growth, the reforms taken have emphasized nurturing a skilled workforce through TVET and improved working conditions, which resonate with COMESA's emphasis on human resource development, training of entrepreneurs, and technology transfer. Similarly, reforms to ease doing business, enhance logistics, and expand private sector participation mirror COMESA's strategy of encouraging private sector engagement, investment incentives, and cross-border industrial cooperation. By building institutional capacity, improving labor relations, and linking manufacturing more closely to agriculture and regional markets, Ethiopia's agenda fits squarely within COMESA's broader vision of a regionally integrated, diversified, and competitive industrial base.

Ethiopia's economic reform not only aligns with promoting industrial development but also with fostering the regional value chain among member states. COMESA highlights cross-border linkage among industries, agro-industrial integration, and multinational projects for the promotion of integrated interstate resource-based core and basic industries, increasing added value to raw materials in the Member States for export, and the joint exploitation and utilization of shared resources (COMESA, 1993, Article 100).

Infrastructure and Trade Facilitation

Ethiopia has made great strides in infrastructure through public investments since the mid-2000s. Under the Ethiopian People's Revolutionary Democratic Front (EPRDF) government, the country adopted a Developmental State Model that prioritized massive state-led infrastructure investments to drive growth and structural transformation. Ethiopia's commitment to large-scale investments in road networks, railways, and renewable energy has significantly bolstered connectivity and regional cooperation (Lidia, 2024). Ethiopia's infrastructural development is not limited to domestic connectivity but also extends to cross-border and regional projects.

The Addis Ababa-Djibouti railway, Africa's first cross-border electrified railway, has improved regional connectivity, reduced transportation time and costs, promoted the

country's export capacity, and more effectively integrated the landlocked economy with global markets via Djibouti ports. Similarly, the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) Corridor, the USD 25 billion public-private partnership project involving Kenya, South Sudan, and Ethiopia, represents one of the most ambitious regional infrastructural projects (Aleminew, 2025). By connecting Ethiopia to Kenya's Lamu port and expanding transport links with South Sudan, LAPSSET is expected to unlock new trade routes and diversify access to seaports.

This effort has continued in the post 2018 period, with renewed emphasis reflected in Ethiopia's Ten-Year Development Plan (2020/21–2029/30), which sets ambitious goals for transforming its transport sector to ensure security, equity, accessibility, climate resilience, and efficiency (Planning and Development Commission, 2020). The plan aims to expand the road network from 144,000 km to 246,000 km by constructing 102,000 km of new roads and extending railway lines from 902 km to 4,199 km. It also targets stronger regional integration by increasing cross-border road transport links with neighboring countries. In terms of mobility, the plan envisions boosting cross-country rail passengers from 79,000 to nearly 449,000 and international air passengers from 10.2 million to 48.4 million, while also enhancing logistics and institutional capacity to support reliable and climate-resilient infrastructure and services (Planning and Development Commission, 2020).

In this sense, Ethiopia's investment in domestic and regional infrastructures reflects COMESA's agenda on physical connectivity and transit facilitation through enhanced transport corridors. In addition to land transport, Ethiopia is playing a critical role in connecting African countries through air transport, with Ethiopian Airlines serving as the continent's largest and most expansive carrier. 35% of world trade by value are transported by air accounting for over USD six trillion worth of goods (Costantinos, 2024). The Ethiopian airline linking major cities and landlocked states to the global markets stepped in to curb logistic bottlenecks, which some investors raise as a concern (Ibid). These air and land transportation initiatives and plans indicate that Ethiopia has the potential to facilitate regional trade with COMESA, and these developments could also support Ethiopia's full accession to the COMESA FTA.

Energy sector development

Ethiopia's energy sector is undergoing a significant transformation driven by ambitious national targets. The country possesses vast energy potential with an estimated 45 GW of hydropower, 1350 wind energy, and significant solar and geothermal power (Ethiopian Investment Commission, 2023). As of 2021, Ethiopia's installed electric power generation

capacity stood at approximately 4,478 megawatts. Ethiopia also completed Africa's largest hydroelectric dam, which is expected to contribute 5250 MW in its full generation of power, significantly boosting the country's energy capacity and enhancing the region's power supply. The government's strategic vision aims to expand installed capacity to nearly 20,000 MW by 2030 (Ethiopian Investment Commission, 2022).

Ethiopia has emerged as a key power exporter in the region by extending transmission lines to neighboring countries, including Kenya, Sudan, and Djibouti. Its investments in cross-border electricity infrastructure have positioned it as a central actor in the East African Power Pool, contributing significantly to regional energy security (Lidya, 2024). This shows that the country is not merely investing in physical assets but is actively shaping the architecture of regional economic integration. Article 106 of the COMESA treaty offers a strong framework for regional cooperation in the energy sector development (COMESA, 1993). It emphasizes the importance of secure and competitively priced energy as a foundation for economic growth. This resonates with Ethiopia's efforts to expand access to electricity and reduce energy poverty, particularly through large-scale hydropower projects like the Grand Ethiopian Renaissance Dam.

Overall, Ethiopia's economic reforms and COMESA FTA pillars have shown higher policy convergence, which will make full accession to the COMESA FTA increasingly likely. By aligning its economy more closely with the COMESA pillars, the country can position itself to access the regional market of over 600 million people, greater investment flows, and stronger participation in the regional value chain (COMESA, 2022).

Policy Gaps

Although Ethiopia's recent reform programs, such as the Homegrown Economic Reform Agenda 1.0 and 2.0, the Ten- Year Development Plan (2020/21–2029/30), and the 2024 macroeconomic liberalization package, reflect a shift toward openness, several gaps remain compared with the COMESA FTA pillars. The first gap stems from Ethiopia's non- accession to the COMESA FTA, which remains the most binding constraint on its regional integration. It directly limits preferential market access and reduces the country's ability to fully benefit from tariff- free and reduced- tariff trade within the bloc. This weakens Ethiopia's export competitiveness in COMESA markets, reduces participation in regional value chains, and keeps trade volumes low.

The COMESA FTA also requires the elimination of customs duties, non- tariff barriers, and quantitative restrictions on goods originating within COMESA (Articles 46-49). Yet Ethiopia still applies one of the region's highest tariffs, allowing only a 10% reduction,

which contradicts COMESA' s goal of duty- free regional trade. According to the World Bank (2021), compliance costs for imports in Ethiopia are more than double compared to sub-Saharan Africa (SSA). Ethiopia's continued reliance on tariff revenues as a key fiscal source conflicts with COMESA' s calls for tax harmonization to offset tariff losses in a free trade area (COMESA, 1993, Article 56).

Furthermore, COMESA calls for harmonization of customs documentation and procedures (Articles 77 and 85), but Ethiopia's trade regime remains bureaucratic and poorly integrated with regional systems. Institutional bottlenecks in customs, standards, and certification agencies continue to slow cross-border trade, highlighting limited capacity to modernize business regulations and streamline the trade process. These inconsistencies reveal that while Ethiopia's reforms are broadly aligned with COMESA' s FTA integration principles, significant gaps remain between policy intent and implementation. Despite gradual efforts toward liberalization and improved trade facilitation, there are still gaps in effective compliance with regional commitments that should be addressed.

Ethiopia’s full integration in COMESA FTA: Tradeoffs

Ethiopia’s recent policy shift towards liberalization, deeper regional integration ambition and its AfCFTA ratification and implementation, and expected accession to free trade arrangements such as the WTO and COMESA FTA, mark a significant shift from its long history of protectionist economic practice. However, even though these policy shifts are expected to bring positive economic outcomes, they will not be risk-free. This section is, therefore, dedicated to exploring the opportunities and risks Ethiopia could encounter as it moves toward liberalization and accession to regional and continental free trade arrangements.

Opportunities

COMESA is the largest regional economic bloc with 640 million people living in 21 member states and a varied range of economic backgrounds (COMESA, 2021). Since it encompasses two-thirds of Africa's population, it offers Ethiopia a promising potential to further integrate and advance its economic development. According to the Customs union theory, free trade areas have their own advantages that could provide to member states. Regional integration has long been seen as a way to promote industrialization and economic development in Africa (Woolfrey, 2016). Countries that opened their markets to free international and regional trade realized rapid economic growth (Vamvakidis, 1998). Openness to trade and investment has been treated as a major catalyst of economic

growth. Studies indicate that trade alone explains a quarter of the productivity gains witnessed across Europe (UNECA, 2006).

Open economies grow three times faster than closed economies (OECD, 2010). Free trade and export-oriented policies based on a regional economic integration scheme create an opportunity to bring rapid and sustainable growth, especially by enhancing the export efficiency of member states. Masunda and Mhonyera (2024), using a stochastic frontier specification of the gravity model and panel data of 16 exporting COMESA member-states, revealed a positive effect of the COMESA free trade area on export efficiency. Especially considering Ethiopia's recent liberalization policies and withdrawal from AGOA, it could take the opportunity of RECs like COMESA FTA to increase its export gains and foreign currency reserves as an opportunity.

There is a consensus among economists that free trade generates trade efficiency gains (Doan & Xing, 2018; Rodrik, 2018; Sheng et al., 2015). In this regard, FTA-related benefits include: greater access to low-priced, high-quality goods; greater efficiency and innovation in production; increased economic development and living standards; and overall economic growth (Lai et al. 2019). From Viner's (1950) custom union theory, FTA arrangements generate welfare benefits from trade creation, where cheaper imports from member states replace more expensive domestic or external goods.

Member states that are actively engaging in the COMESA free trade area arrangement have already experienced welfare gains (Sawkut & Boopen, 2010). Over the past several years, Ethiopia has been impacted by inflation because of global shocks and domestic supply constraints. Joining the COMESA FTA offers the privilege of broad duty-free market access, which can strengthen the supply side of Ethiopia's economy and help ease the inflationary pressure the country is encountering. Interview respondents highlight that with no or little tariff on goods and services imported from COMESA member states, Ethiopian consumers would gain relatively cheap products. This would improve affordability, relieve households from the burden of high prices, and enhance overall welfare (Habtamu & Taiji, 2021), which in turn contributes to price stabilization.

Open market access is one of the obvious advantages of free trade, as member countries gain better access to each other's markets (APEC, 2001). Empirical studies on African economic integration further reveal that participation in FTA arrangements improves export survival, meaning goods entering a foreign market are more likely to remain competitive over time (Majune, 2021). Interview respondents state that Ethiopia's export destinations are often countries located far from its borders, which raises the transport and transaction costs, making its goods less competitive in global markets, especially given its

landlocked status. Active participation in regional FTAs such as COMESA would create new export opportunities for Ethiopia's diverse agricultural and industrial goods. Interview respondents also suggest that Ethiopia's new market opportunities for emerging industries support a new customer base, export diversification, and provide a strong foundation for sustained economic growth.

In the past two decades, Ethiopia's growth has been largely supported by public investment, especially in the infrastructure and human capital development sectors. However, the growing rate of public investment did not continue as there is a recurring challenge in the macroeconomic environment (UNDP, 2021). Intra-Africa trades, growth in capital stock, and financial development have been identified as the most important drivers of economic growth in Africa (Laston & Exley, 2021). Ethiopia has considerable untapped investment potential across various sectors. According to interview respondents, accession to Free Trade Areas will significantly enhance the countries' appeal to both domestic and foreign investors by providing a wider and more predictable market framework. As one of the largest economic blocs in Africa, COMESA could offer Ethiopia an opportunity to attract investment. Membership would grant investors access to all COMESA FTA member nations, effectively positioning the country as a strategic entry point to Eastern and Southern Africa and as an ideal regional hub. The region's expanding economies result in the development of new manufacturing facilities, infrastructure projects, and employment opportunities, attracting investors.

The increased specialization of modern production enables countries to focus on goods with lower opportunity costs, enhancing global welfare (APEC, 2001; Edge, 2010). Free trade further strengthens this **s**pecialization, as countries benefit from economies of scale, reduced average costs, and improved productivity when firms access larger markets (Akerman & Forslid, 2009; Pukeliene & Maksvytiene, 2008). For Ethiopia, integration into regional and continental free trade arrangements through the COMESA FTA and AfCFTA can expand its market reach and stimulate investment in some manufacturing and agro-processing sectors. Interview respondents highlight that Ethiopia's comparative advantage lies particularly in agricultural products like coffee, oilseeds, pulses, and livestock, as well as emerging sectors such as textiles, leather goods, and light manufacturing. By specializing in these areas and linking them into regional value and supply chains, Ethiopia can boost exports and attract foreign investment.

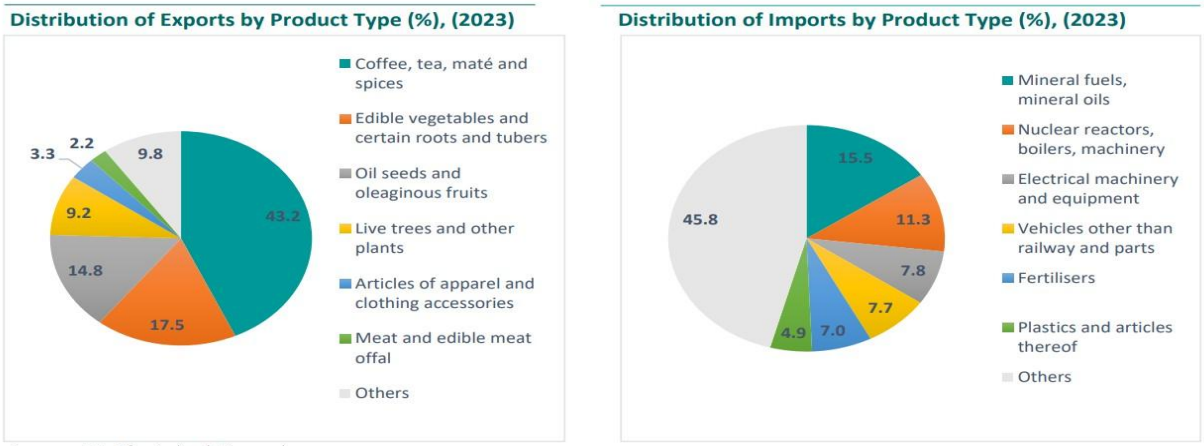
Interview participants also mentioned that Ethiopia can greatly improve its infrastructure connectivity with other members by actively participating in COMESA. Together with other COMESA members, Ethiopia can actively engage in and advance joint

infrastructures. This could involve expanding transport corridors to connect Ethiopia with other member states and enable the movement of people and products, such as roads, trains, and airplanes. Additionally, since it enables mobility with improved infrastructure, this would boost Ethiopia's tourism industry and connect the country's outlying regions to the capital. Additionally, interview participants also highlight that focusing on building energy grids will also assist Ethiopia in engaging in sustainable energy trade and supplying energy to other COMESA member states.

Vulnerabilities

Sorscher (2010) observed that free trade came with a promise of prosperity, but nations still experience structural trade deficits and face an economy that cannot create jobs in spite of the existence of integration platforms. Although free trade has benefits, there are several arguments against free trade and trade liberalization. In this context, although Ethiopia stands to benefit from participating in regional and continental FTAs such as COMESA, it could also encounter significant challenges that could offset some of the expected advantages.

Each country needs to have an adequate and roughly balanced demand for the goods and services produced by member states; otherwise, free trade can cause imbalances where one side benefits more than the other. When such disparities emerge, they can harm some sectors and undermine long-term development (OECD, 2010). Poorer and less diversified economies could struggle to capture the benefits of liberalized trade (Confronti & Salvatici, 2004). In this regard, despite the potential advantages Ethiopia could gain from the COMESA free trade arrangement, it will also face challenges. One key vulnerability is the likelihood of negative terms of trade (Habtamu & Taiji, 2021). Since Ethiopia's exports are still dominated by primary commodities with volatile prices and limited product diversification, this can erode export revenues and hinder sustainable gains from trade.



Sources: ITC, Afreximbank Research.

Additionally, even though Ethiopia's industrial sector has shown progress, its industrial base remains in its infant stage, limiting its capacity to produce a wide range of goods that could hinder it from competing effectively within the COMESA FTA, reducing its export potential. Interview participants stress that the country's manufacturing sector is still at a nascent level and cannot yet supply the region with high-quality goods at competitive prices, compared to those countries that have had good experience in regional trade. The long-standing structural problem of Ethiopia's limited export diversification in global markets are not only small but also heavily concentrated in a limited range of products. Interview participants note that nearly 90% of Ethiopia's exports to Africa's market are covered by just 20 products, indicating a lack of product diversification. This persistent imbalance between imports and exports makes it harder for the country to fully benefit from regional trade agreements. In addition, trade liberalization could expose domestic industries to intense competition from more advanced producers in member states, leading to job losses in some economic sectors that may not be fully offset by new employment opportunities elsewhere. This suggests that, at least in the short term, joining the FTA could result in a net increase in unemployment (Tewodros & Halellujah, 2014) and strain domestic industrial development.

Furthermore, most developing countries heavily rely on tariff revenues to finance government expenditures, but accession to free trade areas needs commitments of duty-free trade, which may contribute to the loss of state revenue. To offset the loss, governments may resort to raising domestic taxes on the private sector, which can discourage investment, increase production costs, and weaken competitiveness. This, in turn, could undermine the very goals of free trade, i.e., stimulating private sector growth and expanding opportunities. Interview participants highlight that Ethiopia, as it collects a large sum of customs tax from import and export, accession to free trade areas could jeopardize these parts of its revenue.

The effectiveness of joining free trade agreements depends on the ability of national institutions to implement and manage trade-related policies efficiently. Poor tax administration, inadequate support from the government, poor implementation and enforcement of the policies and procedures could be challenge in joining regional and continental commitments (Sisay& Semeneh, 2022). Interview participants highlight that, at present, Ethiopian public institutions face limitations in key areas such as trade facilitation, regulatory compliance, and quality control, largely due to limited experience with such complex trade regimes. Inefficiencies may arise from complicated customs procedures, inconsistent regulatory practices, and bureaucratic delays, which hinder the smooth flow of goods and services. These obstacles could increase transaction costs, reduce competitiveness, and weaken the potential benefits of regional economic integration.

The private sector plays a pivotal role in driving sustainable development and fostering economic transformation (Sisay& Semeneh, 2022). However, Ethiopia's private sector is still in its infancy. From 1974 to 1991, until the fall of the Derg regime, Ethiopia adopted a socialist economic system in which the role of the private sector was almost nonexistent and during the EPRDF, the country's economy has long been driven by public investment but various policy support was given to strengthen the private sector parallelly. However, despite policy support over the last two decades, the contribution of the private sector to the national economy, as compared to the public sector, is less satisfactory (Sisay& Semeneh, 2022. In the context of joining free trade areas like COMESA, these weaknesses could pose serious competitiveness challenges. Interview participants indicate that Ethiopian firms, including small and medium enterprises, may struggle to compete with more established and relatively technologically advanced producers from other member states. Therefore, while Ethiopia's gradual integration into the regional, continental, and global economies offers long-term opportunities, the country could be vulnerable during the transition period.

Concluding remarks

Ethiopia has registered sustained economic growth since the mid-2000s, with growth exceeding 10% annually, and has also maintained momentum in policy reform. This economic growth and the policy shift to liberalize the economy since 2018, in particular, could serve as a springboard for deeper regional integration and free trade, as many of the policy reforms align with the principles advocated by RECs. Over the past two decades, the country's impressive infrastructure development, industrial expansion, and macroeconomic liberalization have laid a foundation for broader market participation.

Ethiopia could benefit from regional and continental free trade arrangements such as the COMESA FTA, with gains in rapid economic growth, welfare, improved market access, investment inflows, and an enhanced regional value chain. However, Ethiopia's economy still faces structural weaknesses, including limited export diversification and industrial capacity, an underdeveloped private sector with limited competitiveness in regional and continental markets, and institutional inefficiencies that could further constrain the ability to fully capture the benefits of regional and continental free trade.

Policy recommendations

Ethiopia's pathway to regional integration within COMESA must begin with a clear and phased strategy to accede to the COMESA FTA. As one of the few remaining COMESA member states outside of FTA, Ethiopia faces some structural, institutional, and regulatory hurdles that need to be addressed prior to full market integration. This includes gradual tariff liberalization, customs modernization, and alignment of trade-related regulations with COMESA protocols. Furthermore, deepen financial reforms to strengthen the interbank foreign exchange convertibility, enhance a regional payment system, and introduce currency swap arrangements with key trade partners of COMESA to reduce dependence on foreign exchange reserves, which is a challenge for most African countries.

Thirdly, developing a private sector strategy oriented toward the regional market by supporting firms to scale up, compete, and integrate into regional value chains is critical. Fourth, strengthening institutional and regulatory capacity for trade governance by improving policy coordination, customs efficiency, and compliance with regional trade frameworks and institutions should be taken into consideration in accession to regional and continental integrations. Most importantly, to alleviate one of the structural bottlenecks, the country should work on diversifying export commodities by expanding beyond primary commodities into higher-value and manufactured products, which will enhance the competitiveness of the economy.

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