



Economic Commission for Africa



African Union



African Development Bank

# Assessing **Regional Integration** in Africa **IV**

*Enhancing Intra-African Trade*







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African Union



African Development Bank

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## *Enhancing Intra-African Trade*



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# Acronyms

AAU	Association of African Universities
ACP	African, Caribbean and Pacific (group of countries)
AfDB	African Development Bank
ADF	African Development Forum
AEC	African Economic Community
ASARECA	Association for Strengthening Agricultural Research in Eastern and Central Africa
ASEAN	Association of South-East Asian Nations
ASECNA	Agency for the Safety of Air Navigation in Africa and Madagascar
ASYCUDA	Automated System of Customs Data
AU	African Union
AUC	African Union Commission
BLNS	Botswana, Lesotho, Namibia and Swaziland
BOT	Build, Operate, Transfer
CAMES	Conseil Africain et Malgache de l'Enseignement Supérieur
CBI	Cross-Border Initiative
CCPL	Common Competition Policy and Law
CEMAC	Central African Economic and Monetary Community
CEN-SAD	Community of Sahel-Saharan States
CEPGL	Economic Community of the Great Lakes Countries
CFA	Communauté Financière Africaine
CILSS	Comité permanent Inter-États de la Lutte Contre la Sécheresse au Sahel
CIMMYT	International Maize and Wheat Improvement Centre
COMESA	Common Market for Eastern and Southern Africa
DAMA	Demand-Activated Manufacturing Architecture
EAC	East African Community
EABC	East African Business Council
EADB	East African Development Bank
ECA	Economic Commission for Africa
ECCAS	Economic Community of Central African States

ECOMOG	Economic Community of West African States Monitoring Group
ECOWAS	Economic Community of West African States
ECOWATCH	ECOWAS Early Warning Observatory
EIA	Energy Information Administration
ERA	Economic Report on Africa
ERM	Exchange Rate Mechanism
ETI	Ecobank Transnational Incorporated
EU	European Union
FDI	Foreign Direct Investment
FROM	Finance, Rehabilitate, Operate and Maintain
FTA	Free Trade Area
G-8	Group of Eight (most industrialized countries)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCE	General Certificate of Education
GDP	Gross Domestic Product
GNP	Gross National Product
ICRISAT	International Crops Research Institute for Semi-Arid Tropics
ICT	Information and Communications Technology
IDEP	Institut Africain de Développement Économique et de Planification
IDS	East African Industrial Development Strategy
IGAD	Inter-Governmental Authority on Development
IGOs	Inter-governmental Organizations
IICBA	International Institute for Capacity-Building in Africa
ILO	International Labour Organization
IOC	Indian Ocean Commission
KBO	Kagera Basin Organization
LCBC	Lake Chad Basin Commission
MERCOSUR	Common Market of the South
MFN	Most-Favoured Nation
MINEDAF	Conference of African Ministers of Education
MMSD	Mining, Minerals and Sustainable Development
MRU	Mano River Union
NAFTA	North American Free Trade Agreement



NBA	Niger River Basin Authority
NBI	Nile Basin Initiative
NEPAD	New Partnership for Africa's Development
NGOs	Non-governmental Organizations
NICI	National Information and Communications Infrastructures
OAG	Official Airline Guide
OAU	Organization of African Unity
OBC	Okavango River Basin Commission
OMVG	Organisation pour la Mise en Valeur du Fleuve Gambie
OMVS	Organisation pour la Mise en Valeur du Fleuve Sénégal
PANAFTEL	Pan African Telecommunication Network
PANAFTIS	Pan African Trade Information System
PANFACT	Pan African Factual Database Management
PANGIS	Pan-African Network for a Geological Information System
PICTA	Partnership in Information and Communication Technology in Africa
PPP	Private-Public Sector Partnerships
PRIDE	Programme Régional Intégré de Développement des Échanges
PSDS	Private Sector Development Strategy
PTA	Preferential Trade Area of Eastern and Southern African States
RASCOM	Regional African Satellite Communication
RBOs	River/Lake Basin Organizations
RECs	Regional Economic Communities
RIFF	Regional Integration Facilitation Forum
SACCAR	Southern African Centre for Cooperation in Agricultural Research and Training
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
SAPP	Southern African Power Pool
SARPCCO	Southern Africa Police Chiefs' Cooperation Organization
SAT	Small Aperture Terminal
SATCC	Southern Africa Transport and Communications Commission
SAEN	Southern Africa Entrepreneurs Network
STD	Sexually Transmitted Diseases

TAG	Tariff in Africa Group
TRAC	Trans African Concessions
TRAINS	Trade Analysis and Information System
TRANSMED	Trans-Mediterranean Gas Pipeline
UDEAC	Central African Economic and Customs Union
UEMOA	West African Economic and Monetary Union
UMA	Arab Maghreb Union
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNHCR	United Nations Higher Commission for Refugees
UNICEF	United Nations International Children's Fund
UNIDO	United Nations Industrial Development Organization
UNISA	University of South Africa
UNLO	United Nations Liaison Office
UNTACDA	United Nations Transport and Communications Decade for Africa
URTNA	Union of National Radio and TV Corporations
WAGP	West African Gas Pipeline
WAMA	West African Monetary Agency
WAMI	West African Monetary Institute
WBCG	Walvis Bay Corridor Group
WEAN	West African Entrepreneurs Network
WEC	World Energy Council
WHO	World Health Organization
WTO	World Trade Organization
ZRA	Zambezi River Authority

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# Foreword

Africa is increasingly focusing on regional integration as a strategy for achieving sustainable economic growth as there is a consensus that by merging its economies and pooling its capacities, endowments and energies, the continent can overcome its daunting development challenges. Deeper integration would allow it not only to achieve sustained and robust economic growth but it will also ensure poverty alleviation, enhanced movement of goods, services, capital and labour, socio-economic policy coordination and harmonization, infrastructure development as well as the promotion of peace and security within and between the regions.

To attain these objectives, African countries, in collaboration with their pan-African institutions such as the African Union Commission (AUC), the African Development Bank (AfDB), the United Nations Economic Commission for Africa (UNECA) and Regional Economic Communities (RECs), have embarked on the process of integration along a systematic continuum of Free Trade Area, Customs Union and Common Market. As envisaged in the Abuja Treaty, these efforts are expected to converge towards an African Economic Community, in which the separate economic, monetary, fiscal and social policies applied separately by individual African countries of the continent would be fully harmonized and integrated into uniform policies common to them all. The wider economic space created will strengthen Africa's voice and bargaining power in its relations with the rest of the world.

In spite of the constraints inherent to integration, the continent is making commendable progress in this area and the Assessing Regional Integration in Africa series are dedicated to keeping track of the process. A number of RECs have taken action to create free trade areas and customs unions; they have also introduced community passports to ease movement of goods and persons; and established macroeconomic convergence targets. In addition, a number of the RECs are harmonizing their business laws and pursuing vigorously their implementation with the aim of promoting trans-boundary businesses and investments in Africa. Significant strides have also been made in strengthening infrastructure and Information and Communication Technology (ICT) development on the continent, through various programmes and initiatives at the national, regional and continental levels. Despite these impressive efforts and achievements, a lot still remains to be done. A key remaining challenge is the low level of trade

within Africa . It is for this reason that this fourth report on *Assessing Regional Integration in Africa* (ARIA IV) is focused on intra-African Trade.

ARIA IV, which is a joint-publication of the ECA, the AUC and the AfDB, finds on average that over the past decades, only about 10 to 12 per cent of African trade is within the continent which is one of the lowest intra-regional trade levels worldwide. Low intra-African trade implies that many opportunities are lost for benefiting from the gains of trade, promoting growth and accelerating development. Indeed, the empirical research reviewed in ARIA IV suggests that there is a positive correlation between trade openness and economic growth, in particular through the transmission of technological innovation and the creation of enhanced capacity to compete with more advanced economies on the international market. Greater trade openness also increases competition in the local market, which in turn increases productive efficiency, economic growth as well as price convergence across countries and regions. Finally, trade liberalization contributes to economic growth by creating incentives for governments to adopt less distortionary domestic policies and more disciplined management of the macro economy. The situation raises serious questions relating to the reasons for the low level of intra-African trade and the potential for reversing the situation.

ARIA IV attempts to answer these questions through rigorous analysis and makes concrete proposals that can be implemented by member States, Regional Economic Communities, private sector operators and other key stakeholders to deepen intra-Africa trade. The analyses and findings also provide policy advice that contributes to the attainment of the objectives of the Abuja Treaty and the African Union.

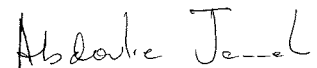
It is, therefore, our hope that ARIA IV will provide useful reading to all those working on addressing the challenges posed by integration, particularly the challenge to increase the level of intra-African trade.



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# Introduction



Regional integration remains the key strategy that will enable African governments to accelerate the transformation of their fragmented small economies, expand their markets, widen the region's economic space, and reap the benefits of economies of scale for production and trade, thereby maximizing the welfare of their nations. Regional integration increases competition in global trade and improves access to foreign technology, investment, and ideas. African leaders thus consider it an important path to broad-based development and a continental economic community, in accordance with the Treaty Establishing the African Economic Community (1991) and the Constitutive Act of the African Union (2000).

Assessing Regional Integration in Africa (ARIA) is a major publication of the Economic Commission for Africa (ECA), produced in collaboration with the African Union Commission (AUC) and other development partners. It is devoted to a close analysis and evaluation of Africa's progress towards regional integration. ARIA addresses achievements and challenges and considers solutions to improve the implementation of these objectives. This series of reports can be comprehensive or thematic in nature.

The first report, ARIA I, published in May 2004, assessed the present status of regional integration in Africa. ARIA II, published in 2006 in collaboration with the African Union Commission, examined the rationalization of multiple regional integration groups and their overlapping memberships. The report's recommendations influenced the AUC's consultations with regional economic communities (RECs) and member States and eventually led to the political decision of the African Union (AU) to put an embargo on the establishment of more RECs beyond the eight currently recognized as the AU's main building blocks. ARIA III, published in 2008, examined member States' progress towards macroeconomic policy convergence and monetary and financial integration in the context of their respective RECs' programmes. It was designed to help accelerate these objectives and thus also promote trade, investments, and economic growth.

The current report, ARIA IV, addresses another crucial issue, of intra-African trade, a key agenda of Africa's integration process.

## Trade Matters

Trade is a powerful engine for economic growth and development. In recent years, countries have increasingly opened their economies to international trade, whether through the multilateral trading system, increased regional cooperation, or as part of domestic reform programmes, which have brought enormous benefits to many countries and citizens (World Trade Organization [WTO], 2007).

The relationship between trade openness and economic growth has been the subject of considerable study and analysis, the majority of which suggest a positive correlation between the two. Trade can influence growth through several channels. One is by the transmission of technological innovation. Trade openness leads to more exposure of the domestic economy, in which increased and sustainable international trade allows domestic producers to learn, adopt, or imitate foreign technologies and incorporate them in the production process. Thus, trade can help transmit technological innovations and knowledge among trading partners (Grossman and Helpman, 1991).

Increased exposure to foreign technology emanates from the importation of high-tech commodities or from interaction with the sources of innovation due to better international communication and mobility. Such exposure creates a greater capacity to compete with advanced economies on the international market, which leads to broad transformation of product composition of output and exports from agriculture to heavy industry and finally to high-tech goods. Such was the pattern experienced by the East Asian countries economic growth miracle (Wacziarg, 2001).

Advanced technology is also transmitted through increased foreign direct investment (FDI), either by importing capital goods or by sharing knowledge and expertise. Harrison and Renvege (1995) found that trade openness, as measured by total trade flows, is positively correlated with FDI, which implies that open economies attract FDI more than closed economies do.

Greater trade openness also increases competition in the local market, which increases productive efficiency and economic growth (Vickers and Yarrow, 1991). Open economies are more likely to have tradable goods at competitive world market prices (or fewer market distortions), because free trade facilitates price convergence across countries or regions. Access to larger markets also can benefit countries economically by increasing the sizes of the markets, which allows their economies to better capture the potential benefits of increasing returns to scale (Ades and Glaeser, 1999). Furthermore, trade liberalization contributes to economic growth by creating incentives for governments to adopt less distortionary domestic policies and a more disciplined management of the macro economy. Evidence suggests that there



is a significant correlation between trade openness and economic growth (Bassanin et al., 2001).

The world has become wealthier over the past several decades. Global poverty has steadily declined, and the lives of millions of people have substantially improved. Trade has contributed enormously to the development of industrialized economies and can be expected to make a similar contribution to those of less-developed countries, including African economies.

Trade openness is believed to have been particularly instrumental, for example, in the remarkable economic growth of many East Asian countries and in relieving their regional poverty, and once-insolvent Southeast Asian countries have become some of the world's economic leaders. Trade may affect the income of the poor, though in varying degrees across countries or regions, through its effects on economic growth, employment, revenue, consumer prices and government spending (WTO, 2007).

The emergence of India and China as economic powers has contributed to a significant decline in world poverty. But while many countries have benefited from increased trade, Africa has, in general, been left behind. International trade statistics indicate that its share in world trade has declined from around 6 per cent 25 years ago to about 2 per cent; less than 1 per cent, if South Africa is excluded. This trend points to the continent's increased marginalization in the context of world trade.

The situation is no different, if not worse, with regard to intra-Africa trade, which has consistently remained minimal compared with its intercontinental trade. The pattern of African exports continues to be heavily influenced by historical links with the rest of the world. More than 80 per cent of African countries' exports are still destined for markets outside the continent, with the EU and the United States accounting for more than 50 per cent of this total. On average, over the past decades, only about 10 to 12 per cent of African trade takes place among other African nations. This is not an encouraging trend, especially when compared with other world regions.

For example, about 40 per cent of North American trade occurs with other North American countries. Similarly, about 63 per cent of Western European trade takes place with other Western European nations.

The implications of low intra-African trade are many and far reaching. Many opportunities are lost for using trade within the continent to enhance the prospects for specialization between African countries and accelerated development and integration. Intra-African trade can generate development and dynamic integration among African sub-regions and is a powerful driver of African growth and economic maturity.

The main question, therefore, is how to reverse the situation so that African countries can benefit from improved intra-regional trade.

The production and export structures of most African economies are geared to primary commodities such as minerals, timber, coffee, cocoa, and other raw materials, for which demand is externally oriented. Most lack the industrial capacity for diversified manufactured goods to support trade within regional markets. Yeats argues that Africa's non-oil exports are concentrated in very few products, none of which are important as regional imports. Sub-Saharan African countries appear to have relatively few goods to trade with each other. An analysis of historical changes in the other countries' exports indicates that the "non-complementarity" problem in African trade cannot be resolved quickly.

Although regional agreements may vary, all have the objective of reducing trade barriers among member countries. Accordingly, various trade liberalization schemes have been launched in African RECs to stabilize and remove tariff and non-tariff barriers to trade, harmonize customs duties and internal taxes, facilitate trade through information and promotional services and abolish restrictions to the movement of people, goods, services, and investments across borders. But some countries continue to demand high tariffs on imports, even from their neighbours. They also persist in applying non-tariff barriers and impose quantitative restrictions. Road-blocks and checkpoints, security agents at border posts, and inconsistent procedures and regulations continue to present serious obstacles to intra-Africa trade. Unless these are addressed millions of Africans will continue to suffer from poverty and underdevelopment.

Inadequate infrastructure remains one of the chief obstacles to intra-African trade, investment, and private-sector development. Programmes to cultivate transport and communications networks, energy resources, and information technology would accelerate trade progress and transform Africa into a haven for investment.

RECs have fostered trade development through programmes aimed at achieving a free-trade area, a customs union, and a common market. However, numerous initiatives and decades of experimentation with integration in Africa have brought no significant improvements to intra-REC and intra-African trade. These countries generally lack a strong industrial capacity for diversified manufactured goods to trade within regional markets. The continent's multiple national currencies continue to lack convertibility, while efforts towards monetary, financial, and physical integration have not been promising. There remains a high cost of doing business due to infrastructural gaps, duplicative border procedures and cumbersome paper requirements. Paperless trade is a distant objective. Free movement of people and right of establishment have progressed in some RECs but remains a paper objective in many African subregions.

ARIA IV attempts to address these pressing issues. It undertakes a comprehensive empirical analysis of intra-African trade to determine why it has remained consistently low over the past decades. The report proposes concrete recommendations, to be implemented by member States, RECs, members of the private-sector, and other stakeholders in Africa's development. It also analyses the various policy issues and other factors that have affected intra-African trade, although these issues may have been addressed in different contexts.

## A Map of ARIA IV

ARIA IV comprises 14 chapters, including this introductory chapter. Chapter 2 assesses the progress of African regional integration, highlighting achievements, challenges and constraints. Chapters 3 through 13 contain the report's main substance, with each chapter addressing specific aspects of the intra-African trade problem. Chapter 14 presents ARIA IV's conclusions and policy recommendations.

Chapter 3 presents theoretical perspectives of trade and demonstrates the connections among trade, growth and poverty reduction. Chapter 4 provides important observations and statistics on trade flows and trends in Africa over the past three decades. The chapter reveals the persistently low trend of intra-African trade and demonstrates how much of the continent's trade continues to be skewed towards the outside world. Chapter 5 complements Africa's formal trade data by highlighting the scope and significance of informal trade in Africa, drawing on two case studies involving West and Eastern Africa.

Chapter 6 analyses trade facilitation in intra-African trade, including the extent and gravity of the continued imposition of tariff and non-tariff barriers by certain member States to border practices and operations that impinge on trade and the associated cost of doing business. Chapter 7 reviews the situation peculiar to Africa's landlocked countries and gives an overview of the operations of selected African corridor management institutions. Chapter 8 examines the role of payment systems in facilitating cross-border trade, highlighting the challenges and constraints of various payments arrangements in place at the national and regional levels. Chapter 9 focuses on the vital issue of infrastructure as the bedrock of any attempt to boost intra-African trade and analyses infrastructure problems, challenges and their impact. The role of infrastructure on trade in general and intra-African trade in particular cannot be overemphasized.

Chapter 10 analyses the potential of intra-African trade and the supply-side and demand constraints for its realization, acknowledging that there can be no effective

trade without goods to supply the market. Chapter 11 examines the institutional and external dimensions of intra-African trade, with particular emphasis on how it is affected by Economic Partnership Agreements (EPAs) with the EU. Chapter 12 addresses the role of women in intra-African trade based on a West African case study. Chapter 13 analyses intra-regional trade in other regions of the world such as the EU with a view to extracting lessons for Africa. In light of the findings and analyses in the first 13 chapters, Chapter 14's conclusions and recommendations present a way forward.



# The Status of Regional Integration in Africa

## 2.1 Introduction

The question of Africa's regional integration has preoccupied many African leaders since the early years of independence. Many have viewed it as a tool for promoting economic growth and sustainable development and improving the living standards of the African people. The overall strategic objective of regrouping African countries was to fight the impact of colonialism and build a united Africa.

It is indisputable that Africa's development will be achieved through the unity of its people. African leaders' quest for unity clearly demonstrates their commitment, which gave impetus to the formation of Organization of African Unity (OAU) in 1963. The African Union Commission (AUC), the Economic Commission for Africa (UNECA), the African Development Bank (AfDB), and the Regional Economic Communities (RECs) are among the key players of regional integration.

The formation of the OAU, now the African Union (AU) was the first step towards promoting continental unity. Since its inception, significant new efforts have been put in place. Nevertheless, Africa has comparatively few success stories to tell with respect to regional integration. The continent's slow pace towards this goal has been largely attributed to Africa's many extraordinary challenges, including inadequate financial resources, macro-economic instability, poor governance, conflicts and war, the prevalence of HIV and AIDS, and numerous sub-groupings. In addition, African member States' multiple memberships to different RECs have contributed significantly to the slow pace of Africa's integration.

Recognizing the importance of regional integration to developing a strong, united Africa, the continent's leaders have established a number of initiatives, the most notable of which include the following:

- The formation of the Organization of African Unity (OAU) in 1963;
- The 1980 Lagos Plan of Action for the Economic Development of Africa;
- The African Charter on Human and People's Rights drafted in 1981;

- Africa's Priority Programme for Economic Recovery (APPER) in 1985, to address the emerging crisis of the 1980s;
- The Treaty Establishing the African Economic Community (EAC), known as the Abuja Treaty, in 1991;
- The Sirte Declaration of 1999;
- The 2000 Solemn Declaration on security, stability, development and cooperation of the African continent;
- The AU programme, the New Partnership for Africa's Development (NEPAD) in 2000; and
- The AU Constitutive Act of 2001.

In 2009, the AUC, in collaboration with the RECs, took steps to elaborate a Minimum Integration Programme (MIP). This followed decisions taken by various AU Conferences of African Ministers in Charge Integration (COMAIs), which identified the urgent need to rationalize and harmonize REC activities and programmes, if the AEC were to become realized as it was conceived in the Abuja Treaty and the AU Constitutive Act.

The various AU COMAIs recommended the following:

- The AUC, in collaboration with the UNECA, AfDB and the RECs, should review the stages of the Abuja Treaty, taking into account the recent AU decisions, including the Sirte Declaration;
- The MIP should be adopted and implemented as a dynamic strategic and continental framework for the integration process;
- The AUC should elaborate the MIP for RECs, bearing in mind that they implement their activities and programmes independently;
- The AUC should coordinate REC activities and harmonize their policies and programmes, as recommended in the AU decision taken in The Gambia<sup>1</sup>; and
- The free movement of persons, goods, capital and services among and across all RECs should be encouraged and promoted to accelerate continental integration.

In implementing these recommendations, the AUC undertook a study, "Rationalization of the Regional Economic Communities (RECs): Review of the Abuja Treaty and Adoption of the Minimum Integration Programme," which was completed in April 2007. Since then the AUC has been consulting with the RECs and other stake-

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1 The AU Assembly in Banjul, The Gambia recommended recognising the eight RECs, putting a moratorium on the new RECs and focusing on rationalising and harmonising REC policies and programmes.

holders, exchanging views on how to elaborate MIPs for RECs to advance Africa's integration.

The results of the study were presented to the Second Conference of Ministers in Charge of Integration in Rwanda, in July 2007. A more recent study, on the quantification of scenarios for the rationalization of RECs in terms of advantages and costs, is in its final stages, and is to be presented during the Fifth Conference of Ministers in Charge of Integration to be held in Tripoli, Libya in early May 2010.

Despite such significant progress, many challenges persist, including the matter of inadequate financial resources. Pan-African institutions such as the AUC and the RECs continue to depend heavily on contributions from their member States to implement integration activities and programmes. However, these resources have turned out to be insufficient.

During the last decade, several authors have explored the subject of regional economic integration and have concluded that global economic integration is the key to promoting resource allocation, technology transfer and enhancing the standard of living. Some studies have further concluded that economic integration has led to trade imbalances, increased financial market volatility and fostered less-effective macroeconomic policies. However, there is no consensus on this, and researchers have yet to reach definitive conclusions. But most papers do agree that national borders present considerably greater impediments to regional integration than had previously been imagined.

Some papers have been written on the issues and challenges of economic integration. For instance, according to economist Michael Mussa, the former Director of Research at the International Monetary Fund (IMF), three fundamental factors affect the process of economic integration, namely, technology, preferences and public policy.<sup>2</sup> Increased technology has bolstered economic integration by lowering the cost of transporting goods and also has reduced the cost of communicating economically useful knowledge. By contrast, public policies have at times promoted economic integration while at the same time inhibiting globalization. Although these three factors have important independent influence on the pace and progress of economic integration, they clearly interact with one another.

Regional integration accomplishes common objectives that encourage economic transformation in the following areas:<sup>3</sup> trade, customs union, common markets economic union, to mention but a few. This chapter addresses progress in intra-African trade; the free movement of persons, goods and services; macroeconomic policy

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2 These factors were discussed during the World Bank's Symposium in 2000.

3 Balassa and DeRosa also mentioned these as the main objectives of regional economic integration.

convergence; physical integration (transportation, energy, water, communications); sectoral integration (including agriculture); and larger cross-cutting issues such as the private sector, peace and security and gender).

## 2.2 Current achievements and challenges facing regional integration

### 2.2.1 Trade and market integration

Regionalism has proliferated in sub-Saharan Africa since decolonization began. Nevertheless, economic development in the region has not met expectations. A number of African countries are attempting to enhance their regional groupings, but figures on intra-African trade remain lower than projected. This is largely caused by the slow implementation of regional integration agreements designed to eliminate tariff and non-tariff barriers, even though a number of trade agreements have been signed among member states. Countries that have managed to intensify their connections with the global economy through trade and investment have grown more rapidly over a sustained period and have consequently experienced larger reductions in poverty.

Intra-regional trade flows in Africa have been generally low compared with other regions, primarily because of poor infrastructure development, maintenance and connectivity, conflicts and security issues among the regions and the presence of trade barriers. With respect to infrastructure, a number of the continent's railways and roads often lead to marine ports rather than linking countries over land. Internal waterways are insufficiently exploited and in most cases underdeveloped, making it difficult to conduct intra-continental business. There is need to develop linkages among African regions in order to improve the movement of goods and services.

Current studies indicate that African regional trade arrangements (RTAs) have been instrumental in promoting trade and foreign direct investment. But much more needs to be done. Tariff and non-tariff barriers must be removed and infrastructure developments, including the Programmes for Infrastructure Development in Africa (PIDA), must be strengthened. Trade barriers make it difficult for African countries to reap the full benefits of RTAs. To increase regional trade and investment, it is imperative that African countries liberalize and streamline existing RTAs.

Studies also show that too much self-sufficiency and protectionism deprive populations of the benefits of free trade. The principles of comparative advantage, introduced by 19th century British political economist David Ricardo, demonstrate that



the gains from free trade outweigh the losses, as free trade creates more jobs than it destroys. Indeed, it allows countries to specialize in the production of goods and services in which they have comparative advantage.

## 2.2.2 The progress of regional integration in the eight RECs recognized by the AU

Tremendous efforts are being made to accelerate regional and continental integration. The AUC, working with the UNECA, the AfDB and the RECs, has made notable progress in this area, by:

- Developing Minimum Integration Programmes (MIPs);
- Working to establish three pan-African financial institutions, the African Central Bank, the African Monetary Fund, and the African Investment Bank;
- Preparing a continental PIDA; and
- Developing a template to be used as a guide for negotiations for Economic Partnership Agreements (EPAs).

**Table 2.1**

**Status of efforts to establish FTAs and customs unions in the eight RECs**

Regional building blocks of the African Economic Community (AEC)								
Stage 3 Abuja Treaty*	AMU	CEN-SAD	ECOWAS	ECCAS	COMESA	EAC	IGAD	SADC
Free Trade Area	No progress	In progress	Established	Created and in force	Established	Established	In progress	Launched
Customs Union	No progress	No progress	In progress	Proposed for 2010	Launched	In full force	No progress	Proposed for 2010

\* Stage three of the Abuja Treaty requires the establishment of an FTA according to a timetable for the gradual removal of tariff and non-tariff barriers to intra-community trade and the establishment of a customs union by means of adopting a common external tariff.

It should be recalled that the creation of the AEC as set out in the Abuja Treaty was intended to be implemented in six stages. Stage two, completed in 2007, required strengthening intra-REC integration and inter-REC harmonization. Stage three, to be completed by 2017, requires establishing an FTA and customs union in each regional bloc. But the pace of implementing these stages varies. Although all the RECs, with the exception of IGAD, AMU and CEN-SAD, have launched FTAs, some member States have not yet joined the FTA, which has serious implications for intra-REC trade flows. Given that obstacles to intra- and inter-REC trade prevail in these regions, it is imperative that RECs, and particularly member States, implement

decisions that the AEC has agreed on to spearhead the production and exchange flow among African countries.

RECs also are attempting to rationalize their programmes and activities. A declaration of the rationalization of RECs in Central Africa was adopted in October 2007 in Brazzaville, Republic of the Congo, by the Head of States and Government of the Economic Community of Central African States (ECCAS), inviting the current presidents of the ECCAS and the Central African Economic and Monetary Community (CEMAC) to set up a joint steering committee of rationalization in Central Africa, including the AUC, the ECA and the AfDB.

### *Economic Community of West African States (ECOWAS)*

ECOWAS has already established its own FTA and customs union jointly with the West African Economic and Monetary Union (UEMOA). The establishment of the FTA should involve a mechanism for compensating revenue losses member States incur when tariffs on products derived from within the community are removed. ECOWAS' financial compensation arrangement was set at four years effective 1 January 2004.

The amount of compensation depends on the loss of customs revenue the State incurs by importing approved-origin industrial products. The following discounted rates are used:

- A 10 per cent decrease incurred in 2004;
- An 80 per cent decrease incurred in 2005;
- A 60 per cent decrease incurred in 2006;
- A 30 per cent decrease incurred in 2007; and
- A zero per cent decrease incurred, effective 1 January 2008. The efficiency of this mechanism is, however, minimal because the compensation budget depends on State contributions.

Goods subject to the trade liberalization scheme must comply with rules of origin, which in this case are defined as products originating from ECOWAS, including local products, products fully sourced in the member States, and goods manufactured from substances other than live animals born and raised in the country, used alone or mixed with other materials, if their ratio in quantity is higher or equal to 60 per cent of the raw materials used. However, agriculture, livestock products and handmade items are exempt. A procedure regulating litigations arising from the application of the liberalization scheme is in place. If a disagreement among parties arises, the ECOWAS Court of Justice is authorized to make a final judgment, without appeal.

## *Challenges*

ECOWAS faces persistent barriers to trade, despite having signed cross-border trading provisions. A number of state employees deliberately continue to violate such provisions. A large percentage of trade in the region is small in scale or informal and is often sustained by price variability from country to country. In the past, such activities among traders were viewed as smuggling, which prompted their unfair treatment by security agencies. The treaty's effect on the free movement of persons also presents problems, namely harassment, multiple roadblocks, illegal barriers and reduced road.

## *Common Market for Eastern and Southern Africa (COMESA)*

The COMESA Treaty, which sets the agenda for COMESA, covers many sectors and activities. To become more effective as an institution, COMESA has defined its medium-term priorities to be the “promotion of regional integration through trade and investment.” COMESA is concentrating on trade in goods and services; monetary integration, including payments and settlement arrangements; investment promotion and facilitation; and infrastructure development (air, road, rail, maritime and inland transportation, ICT and energy).

COMESA launched its customs union in June 2009, which will allow the application of a single tariff, the common external tariff (CET) in all COMESA States for an interim of three years. A program for eliminating non-tariff barriers has been implemented through organizational structures at the national and regional level. By 2025, COMESA expects to remove all tariff barriers. Consultations on a single FTA among COMESA, EAC and SADC are ongoing, and it is expected that the three RECs will coordinate their programmes to form a single customs union comprising all three.

## *Challenges*

Implementing a customs union in the COMESA region will not be easy. Several enormous tasks already have presented themselves, including the following:

- Accession of all member States to the COMESA FTA before launching the COMESA customs union;
- Finalizing of the regional framework on trade in services;
- Fully implementing COMESA trade and transit transportation facilitation instrument to enhance the movement of transit and cross-border traffic;

- Establishing a seamless rail transportation system in the COMESA region; and
- Establishing a COMESA Monetary Institute to make the necessary preparations for a COMESA Monetary Union. The COMESA Clearing House needs to accelerate the establishment of the Regional Payment and Settlement System (REPS) to become operational.

### *Economic Community for Central African States (ECCAS)*

The ECCAS FTA was created in July 2004 with the aim of establishing a customs union of common external tariff by 2008. The FTA is now in full force. ECCAS also has realized many of its efforts to achieve peace and security in its region.

ECCAS member States adopted a plan to gradually scrap tariff fees on intra-community trade, known as the ECCAS Preferential Tariff. The timeframe for the planned reduction of tariff fees is as follows: for traditional handicraft and local products other than mineral products, a 100 percent reduction from 1 July 2004, and for mineral and manufactured products with an origin status, 50 percent from 1 July 2004. ECCAS also began to harmonize commercial policies concerning rules of origin and tariff reduction with the Economic and Monetary Community of Central Africa (CEMAC).

### *Challenges*

ECCAS was scheduled to launch its customs union by 2008, but political and financial obstacles delayed the plan, and political instability also has postponed the implementation of protocols designed to facilitate the movement of goods and services.

### *Southern Africa Development Community (SADC)*

The SADC FTA entered into force in January 2008 and was officially launched during the SADC Summit held in Sandton, South Africa, in August 2008. However, the programme is not being implemented effectively. Member States are not participating fully, because many are still completing their respective offers, and the business community and general public are not fully engaged.

The SADC Secretariat undertook two preliminary studies to prepare for negotiations for the SADC customs union. The first related to the customs union model, while the second concerned the compatibility of trade policies. From the resulting consultations and discussions, the SADC Council of Ministers approved the establishment of technical working groups to begin to make progress customs union issues such

as a common external tariff; revenue collection; a distribution and sharing mechanism (including the development fund); legal and institutional arrangements; and coordinating industrial, agricultural, infrastructure, competition and other sectoral policies.

The SADC also has made progress in accelerating the free movement of goods, services and capital by taking these actions:

- Creating initiatives to coordinate customs procedures and instruments (including electronically exchanging customs data);
- Developing a single customs administrative document (SADC CD) to harmonize customs declarations in the SADC;
- Passing a law on a SADC customs model to facilitate the coordination of customs in national legislations;
- Adopting a nomenclature of common tariffs;
- Proposing and developing a regional transit framework;
- Initiating a review of rules of origin in 2007;
- Creating a software on trade facilitation: for example, the promotion of a single counter at border posts and to implement SADC Transit Chain Bond Guarantee regulations;
- Updating non-tariff obstacles to inform, monitor and eliminate non-tariff obstacles in 2007;
- Harmonizing trade liberalization through a tripartite task force comprising SADC, COMESA and EAC;
- Drafting protocols on trade and the free movement of people, goods, capital and services; and
- Developing a regional qualifications framework for coordinating education systems in the region to facilitate the free movement of people and manpower.

### *Challenges*

SADC intends to launch its customs union in 2010. However, this is expected to create complications in view of the fact that some COMESA member States also belong to SADC. Further, COMESA launched its own customs union during its 13th Summit of Heads of State and Governments, held on 7 and 8 June 2009. This is expected to be implemented within three years. Member States of these RECs will face enormous tests when the two customs unions are fully operational.

To resolve these questions, the three RECs—SADC, EAC and COMESA—formed a tripartite task force to coordinate their trade-related programmes and eliminate any duplication of efforts. Afterwards the RECs’ Heads of State and Government met in October 2008 in Kampala, Uganda and agreed to:

- Form an enlarged FTA encompassing SADC, EAC and COMESA leading to an enlarged customs union;
- Develop a roadmap for establishing the enlarged FTA; and
- Directed the chairs for the three RECs to accelerate the development of joint programmes that enhances cooperation and coordination in industrial and competition policies.

### *The East African Community (EAC)*

The main goal of the EAC, as an economic and political entity, is to improve the standard of living of the population through increased competitiveness, value-added production, trade and investment. It intends to promote sustainable development and foster a prosperous, internationally competitive, secure, stable and politically united region.

Economic integration has been one of the main justifications for regional integration among African countries. In the case of East Africa however, the common history, language, culture and personal ties raise a deep-rooted and longstanding commitment among the member States to deepen cooperation in a broad range of political, economic, social and cultural programmes. According to its treaty, the EAC’s vision is to be realized in an incremental progression through the stages of a customs Union; a common market; a monetary union; and ultimately a political federation.

With the implementation of the EAC customs union, launched on 1 January 2005, all member States have reported progress, particularly in promoting investments, trade and tariff reductions. The EAC is preparing to launch its next common market by 2010, followed by a monetary union in 2012. Progress has been made in promoting investments and trade and in identifying and developing regional infrastructure projects, including roads, railways, civil aviation, post and telecommunications, energy and the Lake Victoria Development Programme. Other achievements include the previously established convertibility of East African currencies, in place since 1997; preparations towards achieving a single currency by 2012; the progressive reduction of tariffs; and the revival of regional cooperation in research, human resources, and the development of science and technology.

There is significant leveraging of regional programmes in the promotion of trade and investment as well as development of regional infrastructure. The customs union,

launched in 2005, has taken on a life of its own. Its positive influence on increased intra-EAC trade and revenue growth is experienced by all the regional member States. Each has recorded increased revenues since the customs union was launched. These developments inspire confidence and comfort despite early doubts. However, the situation has reversed as the region proceeds to establish the common market.

### *Challenges*

Like most Africa and the developing world, the EAC has not been spared the harrowing effects of the prevailing unfavourable terms of trade. It imports twice as much as it exports or consumes twice as much as it produces in trade value terms. EAC countries export mainly primary unprocessed products and import mainly finished consumer and capital goods.

The leading economic activities of the EAC member States today are agriculture, which contributes an average of 39 per cent of GDP and provides employment to 85 per cent of the population; tourism, which contributes an average of 14 per cent of GDP with investments worth US\$ 3,230 million; and manufacturing, which contributes an average of 10.4 per cent of GDP with investments worth US\$ 2,131 million. Evidently, a great deal more effort must be applied to boost the region's industrial and manufacturing sector and to enhance food security.

### *The Community of Sabel-Saharan States (CEN-SAD)*

CEN-SAD is just implementing the FTA. However, the implementation process faces many obstacles, particularly with respect to institutional harmonization and policy coordination. The CEN-SAD Secretariat currently covers 28 countries. A study was undertaken as a technical basis for creating the FTA and supported by the AfDB, designed to help member countries identify tariff and non-tariff obstacles and adopt measures to intensify intra-community trade.

On trade and integration, CEN-SAD launched the trade liberalization process in accordance with the Abuja Treaty of June 1991, with technical assistance and guidance UNECA and AfDB. It also began the process of facilitating the free movement of people, which has begun to bear fruit.

The free movement of people and services ranks high among CEN-SAD's major objectives. The treaty that established the community contains language permitting the removal of restrictions that prevent the gathering of CEN-SAD member States by taking measures to ensure the free movement of persons, goods, capital and the interest of nationals of member States; the freedom of residence, ownership and

economic performance; and the freedom of trade and movement of goods, products and services from signatory countries.

Holders of diplomatic passports are exempted from visa obligations in CEN-SAD. This privilege shall be extended to students, businessmen and academicians, among others. CEN-SAD is also in the process of elaborating a protocol on free movement, inspired by the current experience of ECOWAS member States. At the meantime, the region has adopted a transition measure exempting holders of diplomatic and service passports, as well as special envoys, from visas. CEN-SAD worked with the technical assistance of the AfDB to establish an FTA, which it recommended that the Secretary-General ensure is compatible with other programmes, particularly those in COMESA, ECOWAS and AMU.

In addition to intra-African trade, the chief trading partner of CEN-SAD is the European Union (EU), which accounts for 36 per cent of exports. Africa accounts for less than 10 per cent of community trade flows. Inter-community trade is slightly under 6 per cent. This trend provides a picture of trade volume opportunities for agricultural products, livestock breeding and fishing that should be exploited.

### *Challenges*

CEN-SAD, like other regional economic communities, must have a coordinated regional and continent-wide approach to infrastructure financing and institutional and policy coordination. Improving the continent's transportation infrastructure is critical to enhancing trade both within and outside the region.

## **Intergovernmental Authority on Development (IGAD)**

IGAD's main objectives are in line with those of the other RECs and these include: harmonization of policies with respect to trade, customs, transport, communications, agriculture and natural resources, and to promote the free movement of goods, services and people within the region. IGAD has promoted the COMESA programme on trade aimed at, among others, avoiding duplicating efforts and resources. These include the proposed FTA and the present World Trade Organization (WTO) negotiations and EPA. IGAD and COMESA have a memorandum of understanding that complements their trade issues. However, with the 2008 tripartite summit among COMESA, SADC and EAC, it is vital that IGAD review its programmes so that they coincide with those of COMESA.

IGAD is planning a provision for the free movement of persons, services, goods and capital to be implemented through a protocol. A study to design a roadmap leading to the development of an FTA is currently under way, following a recommendation



from the MIP meeting that was held in Addis Ababa, Ethiopia from 5 to 7 November 2000.

### *Challenges*

IGAD still lags behind in its regional integration efforts because of regional conflicts, and unlike other RECs, it is still operating at the level of harmonizing its policies. Of the six members that also are members of COMESA, only three belong to the COMESA's FTA—Djibouti, Kenya and Sudan. However, given that IGAD and COMESA agree on trade issues, they should harmonize their trade activities and thus encourage implementation of a memorandum of understanding. The proposed FTA, it is hoped, will help harmonize the tripartite FTA.

### **2.2.3 Intra-REC trade**

Intra-REC and intra-African trade flows have been analyzed in detail in Chapter 4 of this publication. Suffice to say that intra-REC trade in particular, and intra-African trade in general, is generally low though the data analyzed in Chapter 4 suggests some upward trend over the period between 2000 and 2007. African countries in general tend to trade more with countries outside the continent than among themselves. The most important trading partners are the EU and USA, although China in particular and Asia in general are increasingly also becoming important destinations for Africa's exports and sources of its imports.

### **2.2.4 Free movement of persons, goods, services and capital**

The free movement of commodities, capital and people is essential for regional integration to occur. Although some improvements have been made in this area, the process continues to encounter difficulties. Nevertheless, a number of RECs have registered significant progress while others still consider the task daunting. The paragraphs below present some of the RECs' achievements and the problems they encountered in dealing with these issues.

#### ***ECOWAS***

This REC records significant progress in the area of free movement. Six countries, namely, Benin, Cote d'Ivoire, Guinea, Liberia, Niger, Nigeria, Senegal and Togo are already using the ECOWAS common passport, which was introduced in 2000. The

passport allows ECOWAS members to travel to any country of the region without a visa, in lieu of the national passports.

Since 2005 ECOWAS has attempted to transform process of the border regions into pilots units to facilitate the free movement of persons living along these borders. These pilots units include the civil society, judges, parliamentarians and various media. During the ECOWAS Head of States and Government Conference in January 2006, the Program of Cross-Border Initiatives and the Cross-Border Cooperation Facilitation Fund were adopted. ECOWAS also is considering establishing an electronic identity card to facilitate registration at border entry and exit points, to replace its national identity cards.

By ensuring the free movement of goods and persons and improving the road transportation system, the Authority of Heads of States and Government adopted a decision to establish national committees to monitor implementation of ECOWAS decisions and protocols on the free movement of persons and vehicles. In 2008 an ECOWAS-West African Monetary Institute (WAMI) joint task force was established to accelerate ratification and implementation of all ECOWAS protocols and conventions relating to trade and the free movement of persons, goods, services and the right to establish business in the West African Monetary Zone (WAMZ).

### ***COMESA***

Recently, COMESA has made significant progress in this area. A number of COMESA member States treat visa issues with great flexibility. Using the protocol on the gradual relaxation of visas, a number of COMESA countries are giving visas to individuals upon arrival at the airport.

COMESA also approved two protocols, one on the free movement of persons, labour, services, right of establishment and right of residence, which was adopted in 2001 during the 6th COMESA Summit of Cairo, Egypt, and the gradual relaxation and eventual elimination of visas, adopted in 1984. However, only few member States (4 among the 19) have signed them.

To remove all barriers to free movement, COMESA developed a timetable for the period between 2000 and 2014, illustrated in Table 2.2, below:

**Table 2.2****Proposed COMESA timetable, 2000-2014**

Timeframe	Projects
2000-2002	Gradual removal of visa requirements
2002-2006	Movement of skilled labour and movement of services
2006-2010	Right of establishment
2014	Right of residence (20 years from date of entry in COMESA)

Source: COMESA

A project to coordinate visas is under way and expected to be completed by 2014. A data base has been set up to monitor the movement of persons, particularly those who are undesirable in COMESA. Finally, policies are being developed on the treatment of asylum seekers, the national registration of citizens and the use of a common travel certificate.

### ***ECCAS***

This is one of the regions that lags behind in regional integration, particularly in the free movement of persons, goods and services. This is mainly caused by the region's poor infrastructure network and the imposition, for security reasons, of visas between some member States.

Nevertheless, ECCAS is endeavoring to improve the situation. For instance, a convention on cooperation and legal aid has been concluded, which is expected to be adopted by the Assembly of Heads of State and Government. Once adopted, the region will begin to implement the protocol on the free movement of persons which was adopted in 2007.

In March 2006, the Council of Ministers of Foreign Affairs and the Ministers in Charge of Immigration and Ministers of Justice adopted a Convention on Cooperation and Mutual Legal Assistance. It was intended to facilitate a decision on the free movement of persons of certain categories of nationals of member States of ECCAS within the community.

### ***SADC***

Like ECCAS, SADC lags behind the other RECs with respect to the free movement of persons. Little has been done to implement the protocol about visa exemption agreements for SADC citizens. Of the 19 member States, only nine have signed it and four have ratified it.

The SADC Ministers of Foreign Affairs Council, held in Sandton, South Africa on 7 September 2009, expressed how urgent it is for the protocol to be implemented. During the meeting, member States agreed to conclude, by the end of 2009, more bilateral agreements on establishing visa exemptions to facilitate travel during the FIFA World Cup to be held in South Africa in 2010.

Since then SADC has taken significant initiatives to facilitate the free movement of goods and services, including harmonizing custom procedures and instruments (such as the electronic exchange of customs data); adopting a single administrative document (SADC CD) for streamlining customs declarations in SADC; creating a nomenclature of common tariffs; and coordinating trade liberalization through a task force formed by SADC, COMESA and EAC.

### *EAC*

The EAC is one of the most dynamic regions in terms of integration. This process began in the early 20th century with a customs union formed among the three founding countries, Kenya, Uganda and Tanzania. After establishing several institutions, however, the community collapsed in 1977. In 1999, the three decided to reconstitute the community. A treaty was signed on 30 November 1999 and entered in force on 7 July 2000. Later, in 2007, Rwanda and Burundi joined the community, becoming full members on 1 July 2007.

EAC has achieved a great deal since its reconstitution in 1999, including:

A common passport allowing multiple entries and exits to citizens from an EAC member State for six months. The internationalization of the common passport between the countries' members, endorsed by the EAC Council of Ministers, is expected to be introduced by 2011;

- The project to establish a single tourist visa for the region, like that of the West African Economic and Monetary Union (UEMOA). Discussions continue on the protocol regarding EAC as a single tourist destination; and
- The East African Common Market Protocol, expected to be launched by 2010, which includes the issue of free movement of persons, goods and services across the region.

### *IGAD and CEN-SAD*

These two RECs also have been slow to implement protocols relating to the free movement of persons, goods and services. IGAD is the only REC that has not set a

protocol on the free movement of persons, right of residence and establishment and CEN-SAD is similarly encountering problems. Neither has developed a protocol concerning the free movement of goods, services and capital.

Nevertheless, these RECs continue to work toward these goals. IGAD has established a resource center on migration within its Secretariat and plans to create a visa exemption for Africans holding diplomatic and service passports. CEN-SAD has already adopted the visa exemption, thanks to the Article 2 of its Treaty on the Establishment of the Community. Its visa exemption covers members of official delegations, holders of regular passports whose entry is the subject of prior arrangements and family members of residents, spouse and infant children, who have a valid residence permit. CEN-SAD also is establishing security instruments in the region.

### **2.2.5 Macroeconomic policy convergence**

The creation of the AEC requires the effective implementation of monetary integration. The success of the integration process depends on stable economies in terms of inflation, interest rates and levels of employment, among other factors. There is no question that prudent macroeconomic policies would lead to economic growth and sustainable development, price stability among the regions and the promotion of trade flows.

Thus a number of African RECs have developed and adopted formal frameworks intended to coordinate the convergence of national economic structures and macroeconomic policies. Indeed some RECs, such as UEMOA, ECOWAS, COMESA, EAC and CEMAC, already have created macroeconomic convergence programs. However, these programmes have different targets and objectives. For instance, COMESA aims at establishing a currency union by 2015.

**Table 2.3**  
*RECs macroeconomic convergence criteria Inflation rates (Average)*

RECs	2001	2002	2003	2004	2005	2006	2007	2008
COMESA	34.9	19.3	7.0	2.0	22.4	8.0	8.9	14.3
EAC	5.1	0.57	7.2	8.1	5.3	5.0	8.0	17.0
ECOWAS	6.6	7.5	7.2	6.7	8.5	7.8	7.0	11.5
SADC	49.8	27.8	6.0	7.0	1.0	10.1	9.3	12.3
UEMOA	4.1	3.0	1.3	0.5	2.6	2.4	2.4	7.4
CEMAC	4.4	3.0	1.3	0.6	2.9	9.2	0.3	13.3
IGAD	3.64	3.81	9.19	10.56	10.73	6.89	7.46	16.53
MRU	6.04	8.45	7.38	12.64	18.45	19.33	14.55	21.09
ECCAS	48.64	14.80	13.70	10.97	18.89	10.79	5.63	16.79
CEN-SAD	6.06	8.60	6.98	8.03	10.15	8.65	6.35	13.52

*Source: ECA, compiled from IMF Website*

### *Progress of the inflation rate, 2001-2008*

COMESA and SADC have recorded the highest inflation rates since 2001 and UEMOA and CEMAC, the lowest. One of the reasons contributing to their low rates is the fact that they are both monetary unions, which mandate that their central banks control their monetary policies.

In 2008 most RECs recorded double-digit inflation rates. Several important factors contributed to this, including the increase in the cost of fuel and food and the global financial crisis. In COMESA, the highest rate of inflation has been registered in Ethiopia, with 29.07 per cent in 2008, in Kenya 27 per cent and in Seychelles 25.35 per cent. The Kenyan high inflation rate is explained by political conflicts that occurred in the country during that period. In Seychelles, it is due to the depreciation of its currency, the rupee.

**Table 2.4****Growth performance (average)**

RECs	2001	2002	2003	2004	2005	2006	2007	2008
COMESA	3.2	3.0	2.4	4.4	4.5	6.0	6.1	6.0
EAC	5.1	5.0	4.9	5.7	6.6	8.0	6.8	7.3
ECOWAS	5.1	3.7	2.6	3.8	4.8	4.5	4.2	5.0
SADC	2.3	4.4	2.9	4.6	4.5	7.1	6.9	5.3
UEMOA	4.4	1.6	3.9	2.8	4.1	3.9	2.9	4.1
CEMAC	4.0	5.6	5.0	8.3	4.2	2.7	5.6	4.2
IGAD	5.69	3.24	2.48	5.97	6.00	7.08	7.06	6.44
MRU	8.35	11.78	6.65	4.27	5.29	5.77	5.92	6.85
ECCAS	9.59	7.35	3.90	10.53	6.84	5.39	7.03	6.15
CEN-SAD	5.03	3.80	2.14	5.00	4.40	4.97	4.37	4.82

*Source:* ECA, compiled from IMF website

### *Progress of the growth performance, 2001-2008*

The EAC has demonstrated the best performance, with an average growth of 6 per cent between 2001 and 2008—near the 7 per cent growth rate required to achieve Objective 1 of the Millennium Development Goal. CEMAC’s good performance can be explained by the expansion of the oil sector (Equatorial Guinea, Chad and Congo), public investments, and improvements in infrastructure.

In ECOWAS, some countries registered good growth performance, except in 2003, when the average growth rate was below 3 per cent. The high growth rates can be explained by the thriving production of cocoa in Ghana and Sierra Leone as well as intelligent investments in extractive sectors after conflicts occurred in Liberia and Sierra Leone. In 2007, these two countries recorded average growth rates of about 9.4 per cent and 6.9 per cent, respectively.

## **2.2.6 Physical integration**

Fully functional infrastructures are essential to facilitate trade, reduce poverty and to permit the free transport of goods and the free movement of persons. Africa continues to experience deficiencies in transport, communications and hydro-energetic supply, but the various RECs do register progress in these areas, as follows.

Several projects are current under implementation in ECOWAS. With the support of the World Bank, the region is preparing a project to create a single window in the main ports of the Abidjan-Lagos corridor to facilitate transport and transit. This project is expected to cover five countries: Cote d’Ivoire, Ghana, Togo, Benin and

Nigeria. Its main objective is to remove bottlenecks that currently hinder the movement of goods along the corridor. Projects to rehabilitate post-conflict areas also are under way. These include a corridor to connect Liberia and Ghana, via Côte d'Ivoire. ECOWAS and UEMOA are preparing to implement five programs under a Community Plan of Action on Infrastructures and Road Transport. Among them are a road development project south along the Bamako-Dakar (PR2) corridor, with the construction of roads and bridges along the border between Mali and Senegal; and the Dori-Tera corridor between Burkina Faso and the Niger (PR3). The UEMOA Commission is in the process of eliminating illegal checkpoints by setting up an observation of illegal practices along the interstate road axis.

In COMESA transit facilitation instruments are being developed to improve road infrastructure. These include axle load limits, gross vehicle weights, harmonized road user charges, carrier licenses and the Regional Customs Transit Guarantee (RCTG). COMESA's main challenge will be to fully implement these measures to ease cross-border traffic.

The EAC has made progress particularly in the area of roads and corridors developments. The East African Road Network project (Mombassa to Katuna Road/North; Dar es-Salaam to Mutukula/Central), are now in the implementation phase. The region also has made significant progress in construction the Arusha-Namanga-Athi River Road.

CEN-SAD has established a community plan to improve the infrastructures in its member States. It includes plans for new transit roads and corridors and the maintenance and improvement of infrastructure services. However, the process must be accelerated. To date, only three countries, Egypt, Morocco and Tunisia, have repaved more than 50 per cent of their roads.

IGAD is currently undertaking studies on the implementation of the Isiolo-Moyale Corridor, which is intended to connect Kenya and Ethiopia.

In terms of rail travel, in SADC, a project for the Lesotho Railway is under way, linking territory to the east and west of Lesotho. Its objective is to create a major corridor from Durban to Kimberly, and onward to Botswana and Namibia. In 2007 COMESA adopted a model agreement for railways concessioning. In EAC, a project for the EAC Railways Development Master Plan is under way, which will provide guidance for developing the region's railways transport sector over the next 25 years. In the Arab Maghreb Union (UMA), a memorandum of understanding was signed in April 2008 to modernize the Trans-North African linking Tunis, Algiers and Casablanca and to improve its services. A feasibility study also is being undertaken to consider a TGVM (High Speed North African Train) that would link Tripoli with Casablanca via Tunis and Algiers.



## *Energy*

Africa has abundant energy resources, which unfortunately are unevenly distributed and underexploited. Africa's comparative lack of modern technology is largely to blame. This handicap, to the large extent, has resulted in the exportation of unfinished products at a very low price compared with finished goods.<sup>4</sup>

Supplying energy to rural areas in most African countries has been a major problem, because of poor infrastructure and the high cost of energy production. Efforts are being to improve this situation both at the national and regional level.

In the case of ECOWAS, some projects in the energy program have been expanded, including the West African Gas Pipeline (WAGP), the West African Power Pool (WAPP) and the ECOWAS Regional Policy on Energy Access. The WAGP connects Nigeria, Benin, Togo and Ghana, and a feasibility study is current under way to examine the possibility of extending it to Cote d'Ivoire. The new discovery of oil and gas in Ghana, it is hoped, will accelerate the process. The WAPP became functional in 2006. Its main objective is to provide reliable and sustainable electricity for economic development in the member States by integrating their national systems. In 2008, an Emergency Power Supply Security Plan was adopted to prevent an energy crisis. By 2020, a project for implementing a regional electricity market of about 10,000 megawatts of capacity should be completed. The ECOWAS Regional Policy on Energy Access, adopted in 2006, plans to increase access to energy services for rural and peri-urban populations.

In SADC, efforts focus on energy supply security. According to current statistics, the SADC regions will continue to face power deficits until around 2012. The situation has forced the region to commence a major project to supply an additional 400 megawatts from Hidroelectrica de Cahora Bassa to restore other generators in Botswana, the Democratic Republic of Congo, South Africa, Zambia and Zimbabwe. Other measures include a 10 per cent reduction in consumption through rationing, power buy-back arrangements and penalties and the adoption by South African public utility ESKOM of a Brazilian power conservation model for continuing to supply power to other SADC member States.

The East African Power Master Plan in EAC is planning a seven-year Regional Power System Program with a Power Pool as its central feature. The discovery of oil in the Albertine Graben, Uganda, will allow construction of a top-up oil refinery to exploit oil for local use. Tanzania has discovered gas at Songo Songo and Mnazi Bay and is already using it to generate electricity and fuel. Rwanda generates methane gas annually in Lake Kivu, Burundi explores petroleum in the Rusizi and

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<sup>4</sup> This has been the case with products such as oil and minerals.

Tanganyika basins and Kenya is developing the geothermal potential in the Great Rift Valley.

Like other RECs COMESA faces energy shortages, particularly in electricity. According to available statistics, its energy demand exceeds its supply by more than 20 per cent, and it is projected that in 2010, demand will increase by up to 46 per cent. Energy infrastructure must be improved. An energy master plan is being developed to tackle a joint energy strategy and priority investment plan that will mobilize public and private resources.

### ***Water***

Water is an essential resource. Agriculture, one of Africa's main forms of production, depends on it. According to the ADB, access to water supply in 2006 in Africa was estimated at 64 per cent, which was less than world average of 87 per cent. Many African countries, including those in the RECs, have adopted some measures to conserve water. There are several notable achievements. The Lake Victoria Development Programme in the EAC focuses on navigation safety; a programme of conservation of the ecosystem of Mount Elgon in Uganda, Kenya; and the development of fisheries through the Lake Victoria Fisheries Organization. On 30 April 2008, member States of the Niger Basin Development Authority signed a Water Charter (*Charte de l'Eau*), whose objectives are the knowledge, conservation, protection, mobilization and use of the water resources of the basin. The authority also is working on a study of the Niger Basin, a project to fight the silting of the Niger River, which is unfavorable to agricultural production.

A project also has been suggested to transfer water from Ubangui-Chari and Congo River to lake, and SADC is implementing the Ground Water Drought Management Project (GDMP), launched in 2007, which is being funded by the Global Environmental Fund.

### ***Information and communications technologies (ICT)***

ICT is vital to regional integration. A significant financial investment in this area is necessary for economic growth and sustainable development to occur. Even in predominantly agricultural regions, where the majority of the African people live, ICT is necessary. Recently we have seen a growing demand for cellular phones in lieu of land lines. In 2000, about 10 million mobile phone users were recorded. This figure increased dramatically, to about 180 million in 2007. This explosion can be explained by market liberalization, which permitted many mobile companies to operate in a number of African countries. By contrast, internet access in many parts of Africa lags behind the rest of the world. According to the Networked Readiness

Index (NRI), between 2007 and 2008, sub-Saharan countries were classified as the lowest in ICT use. However, North-African countries, South Africa and Mauritius have made some progress in the ICT.

Like Western countries and South America, Africa is attempting to integrate its ICT policies into its national science, technology and innovation programmes. A number of RECs are also attempting to promote the use of ICT in their regions.

ECCAS has prepared a strategy, with UNECA's support, to develop ICT in Central Africa that includes infrastructures, wide-band networks and interconnections.

SADC also has moved ahead in the ICT sector, implementing the SADC Regional Information Infrastructure (SRII), which is intended to provide the necessary telecommunications infrastructure and connectivity. The program takes place in three stages: the short term covers the digitalization of transmission links; the medium term deals with the expansion of those activities; and the long term involves the implementation of all fiber regional transmission highways. The South African Telecoms Association (SATA) is undertaking a study on long-term project for the implementation of a minimum network that would interconnect its member States with the East Africa Submarine Cable System (EASSY).

IGAD is implementing a regional ICT support programme to contribute to the overall integration process with an effective and efficiently functioning ICT environment. Once the project is completed, the costs of doing business in the REC should be reduced drastically. The programme's aim is to reduce the digital divide by removing some of the constraints to the use of ICT.

COMESA has established the Association of Regulators of Information and Communication in Central and Eastern Africa (ARICEA). The ARICEA is a consultative and collaborative forum that gathers regulators and associated actors in the ICT sector in the Eastern and Southern African region.

Regional cooperation among RECs in terms of ICT remains one of their major priorities. COMESA, IGAD, EAC and IOC are cooperating to address several aspects of ICT development, including policy and regulatory integration; infrastructure development; capacity strengthening; partnership and regional cooperation; and promoting investment. They also have initiated the Regional ICT Support Programme (RICTSP) to contribute to the Eastern and Southern African region's agenda to promote a strong ICT environment.

Many RECs' partners are supporting the implementation of these major projects. This is true in the case of UNECA, which supports the policies of the National Information and Communication Infrastructure (NICI). Its main objective is to

realize the vision of the African Information Society (AIS<sup>5</sup>) at the national level and to create a conducive environment for the liberalization and deregulation of the telecommunications sector. In collaboration with COMESA, IGAD and SADC, the New Partnership for Africa's Development (NEPAD) e-Africa Commission has undertaken integration and rationalization plans to develop a fiber-optic network in Eastern and Southern Africa. The AfDB Group is leading a project to connect African capital cities with high speed dorsals by 2012.

In 2007 UMA began to implement the Ibn Khaldun Project for a North African fiber-optic network. It also received financial support from the AfDB Group in 2009, under the aegis of NEPAD's Infrastructure Projects Preparation Fund (NEPAD-IPPF), to finance a technical study to promote ICT development.

Some RECs have established new mobile operators and better access to internet services. The ICT market should be further liberalized by accelerating the privatization of the telecommunication network to attract foreign investors, establishing telecommunication projects in rural areas, promoting ICT training centers and reducing communications prices.

## **2.2.7 Sectoral integration**

### *Agriculture*

Agriculture is the primary economic activity in many African countries. It employs millions and forms the basis of many other industries. A large proportion of the total African labour force is engaged in agricultural activity. In most African countries, agriculture supports the survival and well-being of more than 70 percent of the population. About 90 per cent of the rural population depends directly or indirectly on agriculture, and 60 per cent of the total labour force is employed in agriculture. Nevertheless, only 6 per cent of arable African lands are irrigated, compared with 40 per cent of those of Asia. Agricultural production also is hobbled by drought, floods, the proliferation of pests and the consequences of these problems. A number of RECs have established programmes to improve agricultural production in Africa.

Several years ago SADC implemented the SADC Seed Security Network (SSSN), a regional seed market that concluded its first phase in March 2007. The community is currently working on phase two of the project with the support of Swiss government.

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5 The African Information Society Initiative, launched by UNECA in May 1996. This is a framework for building an information and communication infrastructure in Africa.

EAC member States have established two documents to promote agriculture development and ensure the security of the REC's food supply, the Agriculture and Rural Development Policy and the Agriculture and Rural Development Strategy. The latter is a medium and long term project (2005-2030) whose objective is to improve the livelihood of people in rural areas over the next 25 years through increased productivity, better trade policies, and social service programs.

COMESA also has programmes aimed at increasing agricultural productivity, including the Comprehensive Africa Agriculture Development Programme (CAADP) of AU/NEPAD, whose objectives concern trade in agricultural production, sanitary and phytosanitary issues and the improvement of livelihood of pastoralists, among others.

ECOWAS is implementing the 2005-2010 Action Plan on Agricultural Policy (ECOWAP), whose mission is to meet the food needs of the population, ensure economic and social development and attempt to eradicate poverty in its member States. It also aims at to reduce inequalities among the territories, zones and countries. It also participates in CAADP of AU/NEPAD.

ECCAS has developed a regional food security programme and a common agricultural policy. Agricultural processing units, which will targets such products as coffee, cotton, cocoa and timber, have been established in a number of ECAAS countries. These units, it is hoped, will increase their value added and improve producers' revenue.

UMA countries are located in semi-arid zones and are subject to frequent droughts. During the UMA Ministers Agriculture Conference, held in Morocco in July 2008, several ideas and projects were recommended relating to the agriculture sector, including setting up a North African strategy for food security, establishing a North African observatory on cereals, designating a North African free trade area for agricultural products, conducting seed research and using non conventional waters (saline water, worn waters). Morocco established its own *Plan Vert* (Green Plan) whose objective is to promote national agriculture and reinforce competitiveness. The plan will ensure the sector's sustainable development and make that one of the chief forces driving growth over the next 15 years.

## ***Industry***

Over the past decades, Africa's efforts to promote industrialization have failed because too much attention was placed on domestic markets. In the today's economy, all countries must depend heavily on industrial sectors if they are to make a dent in the global markets.

In 2007, industry in Africa increased by a rate of 8 per cent, with manufacturing dominating, at a rate of 9.6 per cent of average growth, followed by the mining sector. Eastern and Southern Africa recorded the highest growth rates, particularly in mining and building. In Western and Central Africa, the average growth of the manufactured sector has decreased compared with the last decade. In Northern Africa, growth in the manufacturing sector slowed in 2006, to 5.4 per cent of average.

ECOWAS member States are planning to develop the final Common Industrial Policy report for the region and an ECOWAS protocol on industry. These projects should significantly increase the productivity and competitiveness of many African countries, at the same time help create jobs and reduce poverty.

## 2.3 Cross-cutting issues

### 2.3.1 Private sector

The private sector is an engine for economic growth and sustainable development. Countries need dynamic private sectors to promote their economic growth. Hence, cooperation between public and private agencies is essential. In most cases, the private sector, farmers, micro-entrepreneurs and others, have the common objective of bring economic development through creating jobs.<sup>6</sup> Recognizance of the role by the private sector in promoting economic development, The AU, members States and the RECs have recognize the important role private sector businesses play in promoting economic development and so have intensified their cooperation with them. The AU organizes yearly Private Sector Development Fora to discuss important issues relating to private sector and economic development.

In 2004 SADC launched the SADC Business Forum (SBF), a regional private sector umbrella organization to serve as the chief business in the SADC region. It will also monitor implementation of SADC's regional strategy to maintain a strong partnership between regional private sector and public entities. The SBF's members include nine regional business organizations: the chambers of commerce and industry, road transport associations, mining industry associations, agricultural unions, enterprise networks, railways associations, bankers' associations, employers' organizations and a regional small business support network.<sup>7</sup>

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6 World Bank Development Report 2005.

7 The launch followed the dialogue that took place between the SADC Secretariat and 12 regional business organisations on the progressive engagement of the private sector in the SADC's political structures relating to economic development.

ECOWAS' Private sector Department is responsible for stimulating the region's cross-border investments, joint-venture business and small and medium enterprises, which contribute significantly to the sort of competitive, dynamic and diversified regional economy that investors prefer. In February 2009 the community held its second business forum in Ouagadougou, Burkina Faso. Its objective was to support the commission's efforts to encourage the private sector to contribute to regional competitiveness, food security and development through trade partnerships and integration.

In IGAD efforts are under way to revive the IGAD Business Forum (IBF). Private sector agencies led by the Uganda National Chamber of Commerce and Industry (UNCCI) are currently engaged in plans with the IGAD Secretariat to host the first revival meeting in mid 2010 in Kampala. The IBF is to serve as the business community's voice to influence policy and action at the regional level.

### **2.3.2 Peace and security**

Peace and security continue to challenge Africa's integration and development efforts. Achieving both is critical to creating the environment in which regional integration in all aspects can be fostered. At the meantime, a number of African countries continue to experience conflicts and civil wars, including Sudan (Darfur and Southern Sudan), Ethiopia-Eritrea, Somalia, the Democratic Republic of the Congo (DRC), the Comoros and the Central African Republic. The destructive and recurrent nature of these conflicts has had devastating and far-reaching consequences for the State, the region and the continent as a whole and has created an environment of perpetual insecurity.

The high intensity and frequently protracted nature of these conflicts have resulted in a massive loss of human life, the displacement of people, the recruitment of child soldiers and social exclusion. It has also destroyed the socio-economic infrastructure, eroded institutional capacity aggravated poverty and human misery across the continent and made it even more difficult to achieve the continent's sustainable development and Millennium Development Goals.

The AU has made peace and security key priorities. Between 2000 and 2004 African leaders took bold initiatives in these areas and have established a continental peace and security architecture that contains the Protocol Relating to the Establishment of the Peace and Security Council of the African Union.

In ECOWAS, the political situation in Cote d'Ivoire has improved since 2008. A peace agreement has been recently signed in Libya between the rebels and the government of Niger, and some signs of stability are emerging in Northern Mali.

In ECCAS, a committee on security questions was established in 1992 to ensure peace operations in Central Africa. The committee continues to develop and promote measures in preventive diplomacy and peace-building. A regional peacekeeping brigade was formed under the framework of the multinational force in the Central African Republic and whose headquarters are based in Libreville, Gabon.

IGAD continues to experience conflicts among its members. In 2000 IGAD established the Conflict Early Warning and Response Mechanism (CEWARN) whose objective is to prevent violent conflicts. The EAC has developed the peace and security strategy and is about to conclude a protocol identifying areas of cooperation among the partner states.

### **2.3.3 Gender**

The RECS are sensitive to issues concerning violence against women, achieving a more prominent representation of women among positions of socio-economic authority and eliminating all forms of discrimination.

There is no doubt that women are generally worse off than men in most countries, especially in the Third World. In most cases, women have limited access to education and other opportunities, making their productivity relatively lower than that of men. Nevertheless women constitute a larger proportion of population actively involved in small- or medium-sized business enterprises. Improving women's productivity would contribute significantly to economic growth, efficiency, regional integration and poverty reduction.

RECs, member States, and pan-African institutions should all emphasize gender equality. In SADC, the issue of gender mainstreaming has been echoed in the Regional Indicative Strategic Development Plan. The Third Ordinary Session of the AU Assembly of Heads of State and Government, held in Addis Ababa, Ethiopia in July 2004, adopted the Solemn Declaration on Gender Equality in Africa. The declaration is an important African instrument for promoting gender equality and women's empowerment. Through it, African leaders commit to report annually on progress towards meeting these goals.



## 2.4 Conclusion

Despite the many challenges discussed in this chapter, a number of RECs have recorded significant progress in the regional integration process. Of course, much more must be done. Implementing the MIP is a major step towards regional integration, if it is to become a reality. African countries also must implement the various decisions adopted by the African Heads of State and Government pertaining to regional integration.

Member States, particularly policy-makers should consider regional integration part of their broader strategic development package. Africa's fragmented markets must be integrated in order to attract substantial investments, both from within Africa and the rest of the world, and to assist in building competitive and more diversified economies.

Given the importance of ICT to Africa's economic growth, member States and stakeholders should intensify their efforts to liberalize the ICT market by accelerating the privatization of telecommunication networks to attract foreign investors, through establishing rural telecommunication projects, promoting ICT training centers and reducing communications prices.

RECs should establish programmes to improving agricultural production in areas beset by drought, floods and pests through sharing best practices and developing an early warning system and improved food storage. Therefore, all RECs must enhance the implementation of CAADP to address the problem of food security on the continent.

Regarding the free movement of goods, services and persons, there is an urgent need for infrastructure development, which is one of the main obstacles to transporting goods and services. Border and passport issues must also be addressed to facilitate the free movement of person among regions.

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# 3

# Theoretical Perspectives on Trade, Growth and Poverty Reduction

## 3.1 Introduction

The consensus in the theoretical literature is that trade promotes economic growth and reduces poverty, because it behaves as a channel through which surplus national production can exchange the products of other countries. Trade also encourages the allocation of resources based on the perceived comparative advantages of participating countries and drives economic growth. Participating countries derive significant welfare gains from trading.

Nevertheless, while trade between countries may generate growth globally, there are no guarantees that its aggregate benefits are distributed equitably among trading partners. There are winners and losers in any trading relationship. However trading partners all may gain differing degrees. Many factors determine the extent to which a country may benefit from a trading relationship. These include the terms of trade a country faces vis-à-vis its trading partners, the international exchange rate among the traded goods and the market characteristics of the country's exportable goods.

Winters (2002) has demonstrated that trade can affect poverty through different channels (economic growth, price changes, market and government revenue). Because poverty remains Africa's greatest challenge, analyzing the link between trade and poverty is crucial, and reducing its effects is the fundamental objective. Given the potential gains from increased trade, many African countries are pursuing trade liberalization policies to achieve prosperity and growth and eventually alleviate poverty. The literature indicates that a close relationship exists between aggregate economic growth and poverty reduction. These simple correlations do not prove any causal relationship, but they do show the relevant role that pro-growth policies play in any poverty-reducing strategy.

This chapter is organized as follows: Section 3.2 demonstrates the link between trade, growth and poverty reduction; Section 3.3 focuses on the links between trade and finance; Section 3.4 examines Africa's performance in the context of global trade; and Section 3.5 presents conclusions.

## 3.2 The connection between trade, growth and poverty reduction

Baldwin (2003) has demonstrated persuasively that countries with few trade restrictions achieve more rapid economic growth than countries with more restrictive policies. As poverty will be reduced more quickly through faster growth, poor countries could use the trade liberalization as a policy tool. Trade liberalization reduces relative price distortions and allows those activities with a comparative advantage to expand and consequently foster economic growth.

Poor countries tend to engage in labour-intensive activities due to an overabundance of available labour. Thus the removal of trade barriers in these countries promotes intensive economic activity and provides employment and income to many impoverished people. On the other hand, the pursuit of trade-restrictive policies by labour-endowed poor countries distorts relative prices in favour of capital-intensive activities. The removal of trade barriers could lead to a decline in the value of assets of protected industries and therefore to the loss of jobs in those industries. This implies that trade liberalization has distributional effects as industries adjust to liberalized trade policies.

### 3.2.1 Linking trade to growth

Winter McCulloch and McKay (2004) have shown that the alleviation of poverty is attained through long-term economic growth. They argue that faster economic growth raises income levels, which in turn allows governments more tax revenue to take redistributive measures. To understand the effects it is important to separate the links between the openness of an economy and growth and between growth and inequality.

The theory that trade is positively correlated with economic growth goes back to Adam Smith, who argued that trade allows for increased specialization. Specialization permits increased attainment of economies of scale, especially from countries with relatively small domestic markets. A country's abundant means of production also is fully exploited through trade. Domestic businesses are forced to improve their technologies because of competition from imports. Further, increased economic integration with the outside world encourages technological innovation through the diffusion of new technologies from more advanced countries. Increased imports curb domestic monopolies that hold production below and prices above socially optimal levels.

Trade affects economic growth via two mechanisms: efficiency gains from specialization and economies of scale. For example, because of efficiency gains through spe-

cialization, most developing countries will obtain aircraft more cheaply by importing them from Boeing or Airbus using earnings from exports than by attempting to build them domestically. Most developing countries, moreover, depend even more on the world market for economies of scale than do large industrial countries. Costa Rica, for example, has economies of scale from exporting computer chips from its Intel plant. This would not be the case if it did not have access to the external market. Similarly, the anti-monopoly mechanism for a beneficial impact of open trade is likely to be even more important for developing countries than for industrial countries, again because the domestic market will tend to be smaller and hence more susceptible to monopolization.

The link between trade and growth may occur through increased productivity. Contacts with the world market enhance total factor productivity in an agricultural product. Agriculture is a sector in which technical change has been extremely important. This was demonstrated by the Green Revolution in Asia in its improved practices and new seed varieties and, in Brazil, by the spread of genetically modified crops. These advances might not have occurred if these countries had had no contact with global markets. According to Krugman (2003), history demonstrates that poor countries that worked to improve their standard of living achieved it through globalization as they produced for the world market rather than choosing to be self-sufficient. Grossman and Helpman (1994) show that integration with the world economy can boost a country's productivity. First, residents of a country that is integrated into world markets are likely to enjoy access to a larger technical knowledge base than those living in relative isolation, because trade helps disseminate technology. Second, exposure to international competition may mitigate redundant industrial research. While a firm that develops a product for a domestic market need only use technologies new to the local economy, one that hopes to compete in the international marketplace will be forced to generate ideas that are truly innovative on a global scale. Third, by expanding the size of the potential customer base, international integration may bolster incentives for industrial research.

Transmission mechanisms from more open trade to the dynamic gain of factor productivity growth should not apply any less to developing countries than to industrial countries. Certainly, for the two countries with the largest poverty-stricken populations in the world, China and India, the experience of the past two decades has been resoundingly consistent with the diagnosis that opening trade to the world economy fosters productivity and economic growth.

To illustrate this connection some economists use neoclassical models, which are essentially general equilibrium models, with constant or decreasing returns of scale, rational individuals acting solely through markets and no transaction costs. In this case, the trade patterns among countries are determined by comparative advantage. Others use Ricardian models in which the comparative advantage takes the form of

technological differences. In Heckscher-Ohlin models, the comparative advantage takes the form of differences in resource endowment. The result obtained from the neoclassical models is that a country will have static gains from trade liberalization, the most important being an increase in allocative efficiency. By lowering trade barriers, a country faces the international relative prices that induce the efficient allocation of domestic resources to sectors with comparative advantage, increasing aggregate welfare. However, Rodrik (1988), Devarajan and Rodrik (1989) and Krugman (1994) have challenged these results, arguing that the neoclassical models only capture increases in the level of income and that therefore trade liberalization may not lead to a persistent increase in the growth rate. They argue that, under conditions of economies of scale and imperfect competition, the welfare impact of trade liberalization can be negative.

In response to the weaknesses of neoclassical growth models, some economists, while preserving most of the model, have introduced new features, which consider growth to be endogenous. The theory is that there is an “accumulable” factor, technology, which is produced by intermediate inputs. An increase in the productivity of the intermediate inputs leads to an increase in the rate of accumulation and growth of output in subsequent periods. Hence there is an appreciable difference between the neoclassical growth model and endogenous models.

Whereas the impact of neoclassical models could be negative, according to the new growth models, trade policy affects both an economy’s level and long-term rate of growth—not only its level of income. Using the endogenous model, Duncan and Quang (2003) explain that developing countries embracing protectionist policies that deny access to imported capital goods embodying improved technology inhibit long-term growth. They argue that there are “spillover effects” to be gained from trade including the dissemination of new knowledge, which could improve efficiency and sustainable growth.

A strand of the literature emphasizes the importance of institutions, suggesting that trade liberalization will have a positive impact on growth if the appropriate institutions are in place. Otherwise, trade reforms and other structural reforms will be ineffective. According to this strand of literature, trade liberalization thus has a much wider effect than changing relative prices. It also implies multiple institutional changes.

Empirical assessment of the connection between trade and growth is not conclusive. Some studies find a positive correlation between the two, while others conclude that the impact of reducing trade barriers has a negative effect. Little, Scitovski and Scott (1970) and Balassa (1971) were first to address this subject. Since then many economists have attempted to relate trade policy variables to economic performance and growth. The research can be divided into two groups: multi-country studies that



investigate in detail the experience of some countries that have been subject to trade reforms and cross-country econometric studies that analyze the relationship between openness and trade.

Initial studies carried out by Dollar (1992), Sachs and Warner (1995), Ben-David (1993) and others undertook cross-country regression analyses and found positive correlations between a country's openness and faster economic growth. However, Rodriguez and Rodrik (1999) and again Rodrik (2001) have questioned these results, arguing that openness is likely to be an outcome rather than a prerequisite of growth. To address the problem of causality, Frankel and Romer (1999) analyse only the effect of the component of trade that cannot be influenced by growth in the short term, mainly caused by populations, land areas and distances. They observe that this component accounts for a significant proportion of the differences between countries in income and growth and suggest a general relationship connecting increased trade to increased growth.

Dollar and Kraay (2002) also have shown a link between trade liberalization and the reductions in the level of poverty through growth. Salinas and Aksoy (2006) use within-country estimation to circumvent the need to measure trade openness and find that on average the growth of GDP per capita increases between 1.2 and 2.6 per cent after trade liberalization. From these studies one can conclude that trade reforms contribute to sustained economic development in developing countries. Furthermore, trade liberalization has a positive influence on efficiency and long-term stability.

According to Winters et al. (2004), there are three potential difficulties in trying to establish an empirical link between trade and economic growth. First, for countries that engage in little or no trade with the outside world it is very difficult to measure their trade stance. Second, trade liberalization in itself does not guarantee a long-term effect on growth. It has to be combined with other structural policies. Third, causality is very difficult to establish.

### **3.2.2 Trade policy, growth and poverty alleviation**

Trade policy reforms and strategies are said to be responsible for the sustainability of growth in a number of countries. The experience of the Southeast Asian economies, especially Singapore, Hong Kong, Japan, Taiwan (China) and Korea bears out this observation. In the last few years, Chile and Mauritius also experienced remarkable increases in income due in part to trade reforms. All of these countries have significantly increased their exports and trade-to-GDP ratio, increased income levels and reduced poverty and now actively participate in the global marketplace. Although

export expansion is the common element among these success stories, there are considerable differences in the trade policy models.

Trade policy reforms can take different forms. However, three kinds are used by some successful countries. The first, economy-wide trade liberalization reform, is used by Hong Kong, Singapore and Chile. These countries removed all non-tariff barriers. A World Bank report indicates that Hong Kong and Singapore practiced free trade, with zero tariffs, while Chile employed low uniform tariffs.

A second important category of reform is protection with offsetting policies for exporters. This reform would impose significant import controls on the domestic markets and thereby discourage exports. Through protectionist trade policy reforms, firms have incentives to produce and sell to the domestic market, biasing exports. Korea, Taiwan, China and Japan used this method to achieve and sustain rapid growth in trade and GDP. Protection of intermediate products and services creates a serious handicap to export industries because it raises their costs to higher levels than those of their potential competitors in world markets, discouraging them through protectionism's impact on the real exchange rate.

Korea's trade policies provide a good example of the effects of protectionism. A World Bank report notes that during the 1960s and 1970s Korea's exports and economy grew very rapidly, despite that it had relatively high import tariffs and non-tariff barriers.<sup>1</sup> Economic theory suggests that the levying of tariffs on imports renders production for the home market more profitable, biasing the export market. Korea offset the bias against exports by giving duty-free access to intermediate goods used in production for export goods, as well as capital subsidies to exporters. It also gave exporters preferred access to capital at interest rates that were considerably lower than those paid by firms supplying the domestic market. The policy greatly promoted exports, reduced imports and increased Korea's economic growth.

The third trade policy tool to strengthen trade and growth is protection with export processing zones (EPZs). EPZs promote exports of a country that has a protected trade regime that discourages exports. Exporters in an EPZ have tariff-free access to intermediate inputs and often fewer regulatory constraints. As a result they are able to compete on a footing almost equal to producers for the domestic market. Mauritius has expanded its exports significantly and reduced poverty through EPZs in a trade regime that was not liberal overall. Watson (2000) argues that for low-income countries with weak trade-related institutions, EPZs can be effective vehicles to promote export production, not only because they allow duty-free access to imported inputs, but because they provide a means to deal with infrastructure and public-sector service-related weaknesses that impede investment.

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1 See [www.worldbank.org/trade](http://www.worldbank.org/trade).

As suggested earlier, a practical way to stimulate trade and open up to the international economy is through liberal trade regimes. But there are costs associated with this strategy, which may be discouraging countries from pursuing such reforms for fear of potentially negative effects on their economy and on the poor. However, Matusz and Tarr (2000), in a review of more than 50 empirical studies, found that the adjustment costs to the economy are very small in relation to the benefits of trade liberalization. A study by Papageorgiou, Choksi and Michaely (1990) of trade reforms in 19 developing countries concluded that trade liberalization did not generally result in decreased employment, even in the short term. The authors observed that compared with the pre-reform period, manufacturing employment was higher one year after liberalization. In fact, in 12 of the 13 cases, manufacturing employment was higher during the reform period compared with the levels registered prior to liberalization. Parker et al. (1995) and Harrison and Revenga (1995) performed similar studies with similar results.

The evidence shows that adjustment costs are generally short-term and disappear when workers find a job, while the benefits of trade reform can be expected to grow with the economy. In developing economies, such as those of Africa, trade liberalization should favour employment, since exports will typically be labour-intensive. Significant within-industry shifts typically occur after liberalization, which tends to minimize the dislocation of factors of production. Moreover, the duration of unemployment for most industries tends to be short. In many industries normal turnover exceeds dislocation from liberalization, so downsizing that where necessary could be accomplished without causing much unemployment.

Most of these studies focused on industrialized nations, thus more research is needed to extrapolate the results to developing countries. However, Liedholm and Meade (1995) have found that there are high start-up rates for medium and small enterprises (MSEs) in developing countries, where MSEs account for a significant portion of total employment. The high start-up rates indicate that entrepreneurs respond quickly to new opportunities, making speedy adjustment to trade reform likely. So the magnitude of dislocation liberalization causes is unlikely to be significantly larger than those associated with the daily functioning of economies in many countries.

In the 1970s a number of developing countries began to liberalize trade and sought to open their economies to international communities. As Baldwin (2003) pointed out, these policies, known as “import-substitution industrialization,” were based on two fundamental premises: addressing the widening gap between rich and poor countries, given the absence of industry in the developing countries; and in order to industrialize, smaller countries required protection to the newly emerging manufacturing sector. These ideas were particularly influential in Latin America and some African countries.

Kruger (1998) suggests that it was not until the late 1980s that protectionist policies began to wane. Developing countries shifted from import- to export-substituting industrialization, which implies trade liberalization. He observes that the main arguments against the former are as follows:

- Developing countries, including those of Africa, generally have comparative advantage in the production of labour-intensive goods while importing capital-intensive goods and services. This means that the protection of import-competing industries would require developing economies to substitute domestically-produced, capital-intensive goods at higher costs than imported ones. Higher prices for investment goods imply a lower level of real investment for the same nominal investment expenditure and results in a lower rate of growth;
- Protectionism by developing countries also drains resources away from exports and allocates them towards import-substituting industries, putting stress on foreign currency reserves;
- Developing countries have low income per capita and their markets are relatively small. Protecting these markets can result either in concentrated market power or fragmented industries, with too many small firms below minimum efficient size. In either case, domestic consumers have to pay more than they do for imports; and
- Import-substitution policies tend to contribute to corruption among bureaucrats who control import licensing and collect customs duties.

### **3.2.3 Trade policy instruments**

This section focuses on trade policy instruments that influence the flow of goods and services among countries. In designing a strategic framework trade policy for growth and poverty alleviation, a country must have the appropriate instruments in its “toolbox.” It is therefore paramount for governments to understand how trade policies work, including how non-tariff barriers, such as licenses and permits, affect the economy. Policy-makers also should understand the structure of the tariff, including its dispersion, exemptions and rebates; revenues derived from tariffs; what export goods must be taxed or subsidized; whether trade-related institutions, such as standards organizations, export finance and marketing facilities, are adequate to support export expansion; and the protectionist policies that favour and assist the poor during the transition. The following paragraphs discuss several trade instruments that policymakers may use as tools.

Non-tariff barriers include mechanisms such as quotas, licenses and monopoly rights to import. The mechanisms should be used for reasons of health or safety only, otherwise they become barriers to trade and inhibit growth and the alleviation

of poverty, because they encourage competing interests to lobby for the licenses, promoting rent-seeking activities and diverting valuable resources. Non-tariff barriers also lack transparency, and so may allow protection to go relatively unnoticed. These protectionist measures tend to benefit powerful interest groups and not the poor.

Tariff regimes must be appropriately applied. Michalopoulos (1999) suggests that most developing countries have differentiated tariff structures with significant tariff escalation. These escalations are used for objectives, import substitution motivations and the rent-seeking activities of interested parties. Tariff escalation may negatively affect the economy by imposing protection on final goods producers and discouraging the development of intermediate industries.

Tarr (2001) suggests that it is advantageous for countries to levy a uniform tariff, which discourages rent-seeking activities by significantly reducing the benefit to industry lobbying for protections. A uniform tariff simplifies customs operations, eliminates corruption and conserves scarce administrative resources. It also encourages scarce entrepreneurial talent to be employed more productively in creating better and cheaper products. The level of protection is likely to be lower as the incentive to lobby for higher tariffs is attenuated. Many of these factors reduce the potential for the abuse of power and rent-seeking. Bannister and Thugge (2001) argue that uniformity of tariff does not imply that there can be no exceptions. Products that are deemed to be of critical public health and social importance, such as essential medicines or mosquito netting, would be exempt.

***Special customs regimes for exports may be needed to boost exports.*** Tariffs on imports could potentially hurt exports in various ways. Tariffs reduce the demand for foreign exchange, which tends to cause the appreciation of the real exchange rate. The appreciated real exchange rate hurts exporters and the competitiveness of national firms, which must pay higher prices for their imported intermediates. Prices of capital goods are also bid up by import-competing sectors that the tariff favours.

Special customs programmes, such as duty drawback and temporary admission, if properly administered, could allow exporters duty-free access to imported intermediates. Although the exchange-rate bias against exports that results from protection remains, provision of tariff-free access to imported intermediates for exporters provides partial relief. This measure should be applied also for countries with uniform tariffs, although the need for duty-free access declines as the average level of the tariff falls.

The principal problem with duty-drawback schemes, involving the repayment of duties paid on imported inputs embodied in subsequent exports, is that their administration can be very costly, lead to cumbersome procedures and delays when tariffs are high and encourage corrupt rent-seeking activities. Exporters complain of

delays and defaults in many countries. When tariffs are high there is also the risk of fraudulent claims. Mittra (1992) empirically demonstrates that in countries without well-functioning public administrations, duty drawback schemes are ineffective, because they are difficult to administer at tariff rates above 15 or 20 percent because of leakage, payment delays and fraudulent claims.

Temporary admissions have been documented to be more effective at allowing tariff free access to intermediate inputs for exporters. This is because they do not involve payment of duties on imported inputs, but rather require that firms document export that these inputs have been used in the production of exports. A potential problem with this approach in low-income countries with weak administrative capacity is the leakage of goods that are not used for export production into the economy. A solution to control such leakage is the bonded warehouse, or on a larger scale, an export-processing zone. These are specific territories controlled by customs, where imports are not taxed on entry but goods are taxed if sold into the domestic market.

Some countries use export subsidies to promote exports and offset associated costs for firms breaking into new markets. They are also used to address anti-export bias that other policies invite. While subsidies can stimulate exports, they strain the national budget. They could also negatively affect the poor by increasing rent monies to relatively rich exporters. Using subsidies to offset the negative effect on exports of other policies, such as protection, is inappropriate. Such situations call instead for the adoption of instruments such as drawback schemes or EPZs. Unfortunately, wealthy countries use export subsidies for agricultural commodities, which destabilizes world food prices, to the detriment of the developing countries in which the commodities are produced.

Some developing countries choose to impose export taxes on primary-commodity exports. These taxes could be imposed instead of royalties for the extraction of minerals or to exercise market power or support local processing industries. These have adverse effects on the poor.

Export taxes yield for farmers a lower price for their commodities than they would reap in world markets. Eliminating the tax would raise poor farmers' incomes and reduce the profitability of established processing facilities. In West Africa, cocoa and coffee processors buy beans at prices below the export price. The same applies to textile firms in Pakistan, India and Francophone West Africa, which obtain domestic cotton at favourable prices because of export taxes or restrictions. Leather processing firms in India buy local and partly processed hides at low prices as a result of cascading export taxes. And in Mozambique, cashew-nut processors benefit from export taxes on raw cashews. The export taxes are economically inefficient because

they lower the incentive to produce the primary agricultural product relative to the incentive to process it.

Export processing zones (EPZs), designated areas for export production, are another tool to promote a country's exports. They often involve non-traditional exports and cases where comprehensive trade reform is impeded or infrastructure and regulatory requirements cannot be met on a national basis. Effective EPZs guarantee clear property rights, impose no restrictions on foreign exchange, ensure tariff-free imports for inputs for export production, moderate levels of taxation and streamline administrative procedures and private sector management. Mauritius contains some of the most successful EPZs which, in 1994, generated 70 per cent of gross exports and employed 17 per cent of the work force. Mexico has also had successful EPZs. In Bangladesh, the EPZ not only expanded exports but also had a significant effect in raising female employment. Madani (1999) reports that in the Dominican Republic, EPZ employment was an important factor in decreasing the percentage of female poor from 23 per cent to 16 per cent between 1986 and 1993.

The literature indicates that the development of EPZs, including their infrastructure and management, should be handled privately or through public-private partnerships. Publicly developed and managed EPZs have typically been unsuccessful. Attracting investment to EPZs depends on many factors, some that are national—such as political stability and sound macroeconomic management. An overvalued exchange rate impedes exports from EPZs just as it does from the rest of the economy. A successful EPZ requires the same complementary policies that make trade reform successful. EPZs must be a short-term transitional mechanism while liberal trade regimes are being developed.

In addition to these commercial policy instruments discussed above, several other trade-related instruments can be used to reform trade, including customs clearance, export finance, product standards and access to information on market opportunities.

The simplification of customs clearance procedures is important to increase the efficiency and transparency of trade-related transactions and to minimize trade costs. Burdensome and redundant procedures - red tape - lead to uncertainty and are often associated with rent-seeking and corruption. Adopting international standards for classifying goods, eliminating most exemptions and providing officials with training and appropriate information communication technology (ICT) are critical dimensions of trade reform.

Providing export finance support to investors should be part of any trade reform package, because traders from least-developed economies find that having little or no financial support impedes promoting exports. These inadequacies may be due in

part to the general weakness of the financial sector or reflect difficulties in assessing traders' creditworthiness—or because traders have insufficient assets to be judged creditworthy. To the extent that the poor are involved in trade, they may face special difficulties in obtaining the trade credit they need, just as they meet obstacles in accessing other parts of the financial sector. Some countries are taking steps to expand exports and promote opportunities for the poor in the export sector.

Countries must maintain product standards based on international norms and standards. When standards are used appropriately in international and domestic trade, they facilitate the interconnection of goods and the exchange of information and guarantee safety, health, quality of the environment. The poor have less access to information and fewer resources to buy higher quality goods and services and so depend more on efficient standardization and consumer protection regimes. The lack of resources severely constrains developing countries from maintaining proper product standards. Developing countries must reform their regulations, but they also need adequate resources to establish efficient testing, certification and laboratory accreditation. They must also maintain sanitary, phytosanitary and product standards. Institutional arrangements need to be developed to ensure that poor firms, such as farmers, small producers and artisans, have access to standards organizations - cooperatives and collectives - and are not unduly penalized by the use of intensive-production technologies.

Marketing exports internationally is a challenging task for all low-income countries. They have to overcome a lack of information, product and country recognition, and quality concerns. Firms, with the support of their countries, could benefit from foreign partners and foreign direct investments (FDIs) to provide the necessary contacts and advice. The countries could also organize a local association of exporters or producers. When producers tend to be a large number of small, poor farmers, cooperatives and similar ventures can be very helpful in ensuring that they realize the potential benefits from exports.

Trade liberalization is achieved not simply by eliminating quotas and reducing average tariffs and dispersion across tariffs, but also by strengthening trade-related institutions, in particular customs and standards bodies. In addition to these actions, complementary policies are needed to support trade reform.

Trade liberalization must be supported by a stable macroeconomic environment and a competitive real exchange rate to ensure an efficient allocation of resources and sustain the trade liberalization reforms. Trade reform works through the transmission of price signals. It is therefore important that trade reforms occur in an environment of macroeconomic stability.



A competitive real exchange rate is equally important to create conditions that support and sustain trade liberalization policies. An overvalued exchange rate places import-competing industries at a competitive disadvantage. Shatz and Tarr (2001) suggest that such an environment generates difficult political pressures in the face of rising trade deficits and declining foreign-exchange reserves.

In the first stages of trade liberalization, a country will likely experience a trade deficit because at first imports tend to rise faster than exports. A depreciation of the real exchange rate will help restore the balance because it makes imports more expensive, and exports are more profitable in domestic currency. Under a flexible exchange-rate regime, the real exchange rate will adjust through market forces. Under a fixed exchange-rate regime, devaluation of the domestic currency would be required to accompany trade reforms. The level of depreciation would depend on the extent of trade liberalization and the lags in the export supply response.

Countries distrust the notion of liberalizing trade because they fear losing trade taxes or tariff revenues. Ebrill, Strotzky and Gropp (1999) show that trade taxes as a per cent of GDP averages around 0.6 per cent among Organisation for Economic Cooperation and Development (OECD) countries and 4.4 per cent among non-OECD countries. That is why trade policy reforms should be accompanied by effective strategies to optimize fiscal revenue and tariff reforms. These are very important for developing countries. If these measures are not undertaken in tandem with trade liberalization reforms, they could result in a substantial reduction of government revenue, yielding larger fiscal deficits and inducing inflation. Ebrill et al. (year) point out that countries such as Ghana, Kenya, Senegal and Malawi have implemented successful trade-reform programmes without any significant loss of revenue.

Developing countries can address the issue of revenue loss by removing quantitative restrictions on imports. The literature demonstrates that government revenue increases when quantitative restrictions are converted into tariffs. This should be accompanied by reducing tariffs to more moderate levels, which in turn will increase imports and revenues and also diminish the incentive to smuggle. Moreover, exemptions often are a significant source of revenue loss, and their reduction increases tariff collections. Finally, an exchange-rate depreciation, which should accompany significant tariff reduction, will raise the local currency value of imports and thus tariff revenue.

In countries where tariff rates are already low and uniform, a further tariff reduction could mean a loss in revenue. This presents a greater challenge to trade liberalization. In this case alternative revenue sources must be sought and trade reform sequenced to coincide with their availability. These alternative sources could include broad-based tax instruments, which are more efficient and less distorting than trade taxes. In the case of many products, such as alcohol, tobacco and petroleum, collecting taxes on

domestic production and imports will yield low additional administrative costs and will reduce incentives to develop inefficient import-substituting firms. Cambodia successfully introduced broad-based consumption taxes, which reduced its dependence on customs duties and raised revenues to support its development objectives.

Nogues (1991) has suggested that reform of the labour markets should accompany trade reforms to enhance labour mobility. He argues that in Peru in the 1980s, trade reform failed to generate supply response because of severe labour-market rigidities. In that case, legislation prohibited firms to shed labour, close plants or even change activities, which led to multiple bankruptcies, contributed to foreign-exchange and financial crises and a failure of the trade liberalization reform.

It is well known that the poor are often concentrated in the informal sector. Hence, labour-market reforms aimed at increasing labour mobility in the formal sector can have a powerful effect on reducing poverty when combined with trade liberalization. They open up jobs in the formal sector for workers previously fixed in the informal sector.

Reducing trade barriers also attracts foreign direct investment (FDI). As the literature suggests, FDI is an important channel through which technology transfer across national boundaries can take place. ECA research also indicates that developing countries that receive FDI perform better in terms of productivity than those without FDI. What matters from a poverty reduction perspective is whether and to what extent FDI has a positive effect on the incomes of the poor and on the prices of their consumer goods. For income to increase FDI must involve labour-intensive production and result in the transfer of skills through training.

With improvements in ICT, transportation and global trade-policy reforms, a number of developing countries have benefited from outsourcing and processing trade, where the labour-intensive parts of production are located in the countries. Developing countries should avoid offering trade protection to foreign investors, because protecting foreign investors could decrease competition for FDIs and deprive the host country of the benefits from participating in international production and distribution networks. Protection may also result in losses to the host economy by providing rents to foreign investors at the expense of domestic consumers.

Smarzynska (2000) suggests that intellectual property rights protection can attract FDI in sectors that rely extensively on patent protection, helping to tilt the focus of investment projects towards manufacturing and away from distribution. Intellectual property protection is critical for the poor in developing countries, especially for products and sectors that depend on traditional knowledge and culture. Maskus (2001) notes that the absence of effective intellectual property rights can adversely affect the poor, including artisans or beneficiaries of assets that have

accrued over time (for example, bodies of knowledge about traditional designs or of plant varieties). The costs of intellectual property rights include the price-increasing effect of protection. Thus intellectual property rights protection must complement trade and competition policy instruments that offset the market power granted to right holders.

### **3.2.4 The impact of trade policies on growth and poverty**

As the previous sections argue, trade openness has a positive effect on economic growth which, in turn, reduces poverty. The share of the population living in absolute poverty will decrease as the average income increases, unless growth seriously deteriorates the income distribution. The rise in income levels will also improve in other social indicators of poverty such as infant mortality, maternal mortality and education. That is why governments' actions are critical in determining how trade policies contribute to sustainable economic growth and poverty reduction in the long term.

To test the importance of the trade liberalization or openness to growth, economists tend to use the ratio of trade to gross domestic product (GDP). But care is needed when using this indicator. This is because a larger economy will tend to have a lower ratio of trade to GDP, even under free trade, than a smaller economy, because of the greater potential for economies of scale in the domestic market. Also, an economy with an impoverished natural-resource base will tend to have a higher trade ratio than an economy with abundant agricultural land, minerals and energy reserves, because it will need to specialize more in exporting manufacturing products to obtain food and fuel through imports. Similarly, movements in the ratio of trade to GDP will not necessarily be driven by changes in trade policy. Commodity-dependent countries may exhibit a prolonged decline in the ratio of their trade to GDP, even though they have no tariff or non-tariff barrier (NTB) protection, or have not increased this protection because of adverse trends in global commodity prices.

Despite the hurdles, the literature attempts empirically to test the contribution of trade reforms to economic growth and poverty reduction. Dollar and Kraay (2002) demonstrate that an increase in the ratio of trade to GDP is a strong indication of an opening in trade policy. Their study also shows that developing countries that reformed their trade policies towards more openness experienced an increase in growth rates from 2.9 per cent in the 1970s to 3.5 per cent in the 1980s and 5 per cent in the 1990s.

Sachs and Warner (1995) examine growth performance as a function of trade policy and other variables (investment rate, government spending as a percentage of GDP,

education and the number of political revolutions and coups) for 79 countries during the period of 1970 to 1989. They first conducted regressions relating to growth in real per capita income during the period to initial per capita income, a binary variable for whether the economy was “open” during the full period, the investment rate, the relative price of investment goods, government consumption spending relative to GDP and a series of variables for political stability. Their results found a statistically significant coefficient on openness, which indicates that over the two decades examined, real per capita income grew at 2.2 percentage points faster in open economies than in closed economies.

Reviewing the work of Sachs and Warner (1995) Berg and Krueger (2003) find support for the positive correlation between trade policy and growth. They conclude that although the influence of trade policy is admittedly difficult to disentangle from that of overall policy quality, it is not necessary to do so for the purposes of arriving at advice favouring open trade policies. Other researchers have obtained positive growth effects using the Sachs and Warner index. Using data for 84 countries from 1960 to 2000, Bosworth and Collins (2003) estimate regressions of per capita growth on initial income per capita, human capital as proxied by life expectancy in the initial year, change in terms of trade, institutional quality, geography (number of frost days and size of tropical area), change in inflation, budget balance and Sachs and Warner openness. Their coefficient on the Sachs and Warner variable indicates a statistically significant increase of 0.82 percentage points in per capita growth for open versus closed economies. They argue that the influence of trade openness on growth is through capital deepening rather than the argument Sachs and Warner use, that it is a shift in total-factor productivity.

Greenaway, Morgan and Wright (1998) also performed a study on 69 countries, which relates per capita GDP growth to per capita income, secondary-school enrolment, change in terms of trade, population growth, the ratio of investment to GDP and the Sachs and Warner trade-policy variable. They find a significant coefficient on the index indicating that a shift to openness boosts the rate of per capita GDP growth by a sustained annual 2.7 per cent. Edwards (1998) also examines the strength of the empirical relationship between trade policy and growth. He first uses estimates of capital and labour stocks for 93 developing and industrial countries to estimate growth in total-factor productivity (TFP), which is a residual in a regression of real GDP growth on growth in capital and labour.

Edwards then tests the relationship between TFP growth and trade-policy openness, using nine alternative measures of the latter. These include the Sachs and Warner variable discussed above; the World Bank’s outward orientation index; Leamer’s (1988) index of openness (the country’s average residual from disaggregated trade-flow regressions); the average black-market premium; the average tariff in 1982; the average coverage of NTBs both from Barro and Lee (1994); the Heritage Foundation

Index of Distortions in International Trade; the collected trade taxes ratio for 1980 to 1985; and a regression-based index of import distortions in 1985 prepared by Wolf (1993). For each measure, each country's benchmark value is typically for the early 1980s. In each, he finds that there is a significant, positive relationship between openness and productivity growth.

Wacziarg and Welch (2003) extend Sachs and Warner's analysis by shifting the focus from cross-section to time-series and panel analysis. They replicate and update the Sachs and Warner measure of openness and confirm their finding that trade liberalization has a positive impact on growth. Wacziarg and Welch set the date of trade regime opening for each of 133 countries and find that growth for post-liberalization country periods was, on average, 1.4 per cent higher than in pre-liberalization periods.

Recently, some studies have explored the relative contribution of income growth and distributional changes to changes in poverty. They indicate that the extent to which governments should focus on growth or distributional changes to achieve poverty reduction depends on country conditions such as the level of economic development, initial inequality, and the society's level of aversion to inequality.<sup>2</sup> These studies call on governments of developing countries to pursue appropriate policies, including trade reforms, to boost trade and reduce poverty.

Kraay (2004) studies the partial correlations between two sources of pro-poor growth (growth in average income and changes in relative incomes) and a number of interesting variables. He finds the correlation between openness to trade and growth to be stronger than the correlation with distributional change. In addition, Kraay finds that distributional change tends to be poverty-reducing in countries that trade more. Dollar and Kraay (2002) also find evidence that trade openness generates pro-poor growth. Srinivasan and Bhagwati (2001) analyze the experiences of a number of countries and find a strong link between trade liberalization reforms and growth.<sup>3</sup> Besley and Cord (2007) have observed that trade liberalization has allowed low-income countries to benefit from export-led growth and reduced poverty.<sup>4</sup> The positive results indicate that poor households stand to gain from trade-policy reforms.

The impact of trade liberalization on poor countries varies depending on the size of production units, access to capital, technical assistance and transaction costs. Trade liberalization, combined with land reforms, helped Vietnam to become a major

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2 See Lopez, Deininger and Squire, 1998; Foster and Székely, 2001; Dollar and Kraay, 2002; Ravallion, 2001 and 2004; Bourguignon, 2003; ECLAC et al., 2002; Lopez and Servén, 2004.

3 Many of these studies find that openness has a positive effect on growth through different channels (see, for example, Edwards and Lederman, 2002; Besley and Cord, 2007; World Bank, 2005; Ravallion and Datt, 2002; Ravallion and Chen, 2002; Ravallion, 2004; Ravallion and Lokshin, 2004; Arbache et al., 2004).

4 They examined the experiences of Bangladesh, Ghana, Uganda and Vietnam.

world exporter of rice and coffee in the 1990s, benefiting poor farmers. Studying the experience of India, Ravallion and Datt (2002) find that pro-poor growth is more likely to occur where initial conditions offer the poor an opportunity to take advantage of growth.

It would seem that the weight of the empirical evidence is on the side of those who judge that more open trade policies lead to better growth performance. Despite criticisms of some of the empirical studies (Rodriguez and Rodrik, 1999) persuasive statistical evidence indicates better growth results using protectionist trade regimes. Furthermore, cross-country regression studies suggest that trade liberalization alone is not enough to boost growth and reduce poverty. Reforms need to be supported by appropriate and efficient policies on education, macroeconomic stability and infrastructure.

### 3.3 Trade and finance

A well-developed and stable financial sector is crucial and important for trade to flourish and economic growth to be sustained. Disruptions to financial systems' stability also affect the functioning of trading systems. This section addresses the important link between trade and the financial sector. It demonstrates how weak financial systems and financial instability interrupts the flow of goods and services and why protectionism undermines financial stability.

The section begins by briefly reviewing why trade openness and financial-sector development are good for growth. Its main purpose, however, is to elaborate the ways in which trade depends on a well-functioning financial sector. First, credits help to bridge the time between an order and payment for the order, so that trade can take place even if none of the parties is liquid enough to finance the transaction. Second, the financial sector helps to mitigate a number of risks for traders, such as commercial risk, transportation risk, exchange risk and political risk. Numerous trade-specific financial instruments have been developed, and governments sometimes help to cover particularly large or unpredictable risks in trade through export credit agencies. The present section also covers the importance of exchange risk and the advantages and disadvantages of various exchange regimes and exchange allocation mechanisms.

### 3.3.1 The link between trade and finance<sup>5</sup>

The link between international trade and the financial sector is very important, as modern trade depends on credit and other key financial services to finance trade-related expenditure and guard against trade-related risks. The growing importance of trade and the financial sector can be seen in their expanding share in economic growth over several decades. The ratio of the international trade of goods and services to global GDP has risen from about 8 per cent at the founding of the General Agreement on Tariffs and Trade (GATT) in 1947, to about one-quarter of global GDP at present. The growth of financial transactions also has been very strong in recent years. In the United States, the financial sector, including banks, securities, insurance and real estate, expanded from 11 per cent of output in 1950 to 25 per cent in 2007. Kono, Low, Luanga, Mattoo, Oshikawa, and Schuknecht (1997) suggest that the growth of international financial transactions has been even more rapid, with many such transactions growing three- to tenfold in the 1990s alone.

International trade has grown very rapidly since World War II, chiefly because of significant declines in trade barriers and transaction costs. Reduced tariff and non-tariff barriers to trade and falling transportation and communication costs helped stimulate trade expansion. The rapid growth of the financial sector, thanks to a favourable environment and technological advances, increasingly liberal domestic and international financial policies, rapid progress in telecommunications and information technology and new financial instruments, also contributed to the enormous expansion of financial services and capital flows within and across borders.

#### *How do trade and the financial sector contribute to economic welfare and growth?*

Trade increases efficiency because of specialization according to comparative advantage across countries, which in turn allows countries to benefit from economics of scale. Trade also increases the choice of available goods and services, enhances competition and stimulates international skill and technology transfer. Each of these factors can have positive long-term effects on welfare and growth. Empirical literature shows that the growth performance of open economies is better than that of closed economies. Sachs and Warner (1995) find that annual growth in open economies exceeds that of more closed countries by 2 to 2.5 per cent.

Significant gains may be derived from well-functioning financial systems. Economic theory suggests that the financial sector exists to deal with asymmetric information between creditors and borrowers. In financial markets there is generally asymmetric information, because one party often does not know enough about the other party to make accurate decisions. A borrower who takes out a loan usually has better

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<sup>5</sup> The section relies heavily on Fingerand and Ludger (1999). Trade, Finance and Financial Crisis, WTO Special Studies No. 3.

information than the lender about the potential returns and risk associated with the investment project in question. This absence of information creates problems in two stages: before the transaction is entered into (known as adverse selection) and after (known as moral hazard).

Adverse selection in financial markets occurs when the potential borrowers who are the most likely to produce an adverse outcome—the bad credit risks—are the ones who most actively seek out a loan and are thus most likely to be selected. Because adverse selection makes it more likely that loans might be made to bad credit risks, lenders may decide not to make any loans even though there are good credit risks in the marketplace.

Moral hazard in financial markets is the hazard that the borrower might engage in activities that are undesirable (“immoral”) from the lender’s point of view, because they make it less likely that the loan will be repaid. Thus lenders may refuse to make the loan. The term was originally coined by the insurance industry referring to the phenomenon in which people may become careless with their home once they have acquired theft or fire insurance.

Asymmetric information requires financial institutions to specialize in assessing the creditworthiness of borrowers and monitor those to whom they lend. As specialists, financial institutions can perform this function at a lower cost than individuals. Financial institutions also may spread the risk of default over a larger number of transactions and can require forms of collateral and restrictive covenants. Levine (1997) suggests that a variety of other financial instruments exist to reduce transaction and information costs and improve the allocation of resources. Thus financial intermediaries in an efficient financial system can pay savers a better risk-adjusted interest rate, and borrowers find it easier and cheaper to obtain credit tailored to their needs.

The presence of financial markets therefore enhances economic welfare and growth through more efficient mediation between savers and investors. Levine (1997) finds that a well-developed financial system contributes at least 1 per cent of GDP growth. Francois and Schuknecht (1999) argue that the competition-enhancing effect of openness to trade stimulates economic growth by a similar amount. Thus, trade flourishes when essential trade-related financial services are available.

Trade benefits strongly from a well-developed and functioning financial system and vice-versa. Finance is a “lubricant” for international trade. Trade also prompts demand for and promotes the development of financial services and institutions. International trading activities are basically part of the investment process. Exporters and importers engage in these activities in hopes of making profits.



The financial sector supports international trade in four key ways:

- a) It helps bridge the period between the need of funds for production, transportation and the payment for products by the importer;
- b) It provides services that help the exporter receive payment in the least costly and risky manner;
- c) It provides valuable information to investors/traders, informing clients about present and future money and capital market conditions; and
- d) It offers insurance against certain risks involved in the trading process. Without these financial instruments, international trade would be much impeded.

The provision of trade-related credits by financial institutions is responsible for the substantial growth of world trade in recent years. In particular, trade credits help trading partners bridge the time between an export order and payment for the goods and services produced. Exporters usually have to wait until their products have been delivered before they can receive payments. In many cases they use financial institutions to obtain trade financing until they receive payments for their exports. On the other hand, there are instances where the importer has to secure capital if payment for the imports has to be made at the time of order. An exporter/importer's decision to finance a trade transaction depends on the type of product, the trading relationship and the comparative advantage in securing financing. A very liquid exporter in a long-term trading relationship of standardized products may not ask for payment until after delivery, whereas an exporter from a country with very tight credit conditions in a one-off trade transaction of a highly specialized product may want the importer to pay upon order.

Four types of risks are assessed by financial institutions in determining the availability and cost of trade credits: economic or commercial risk, exchange risk, transportation risk and political risk.

**Economic or commercial risk.** This risk exists both in domestic and international trade. The risk the exporter faces in trade transactions is the danger that the importer does not accept the merchandise or does not pay for it after accepting it. The importer faces the risk that the exporter may not deliver products of the agreed quality and on time. In both scenarios, the capital invested in the activity, whether it was from internal resources of the exporter/importer or through a credit facility extended by a financial institution, is at risk.

**Commercial risk** stems from asymmetric information, which can be significantly greater in the international context. Information about the situation of foreign companies is limited to the exporter and his bank. That is why large banks often open

corresponding banks or branch offices abroad, which provide the necessary facts about foreign clients, the legal system and other potentially relevant information. A key consideration in mitigating commercial risk is the choice of trade-financing instrument. If an exporter takes on a credit to finance his trade-related activities, he can seek a guarantee or an insurance against commercial risk from a commercial or public agency.

Exchange-rate risk. Both exporter and importer run the risk that between order and delivery the economic environment can change such that the profitability of the trade deal is adversely affected. Exchange-rate risk can produce such an alteration in economic circumstances, as large exchange-rate adjustments can significantly increase or reduce the benefits from a trade transaction. An importer, for example, who orders goods for \$US1 million, may have to pay 20 per cent more for the imports in his own currency, should the exchange depreciate by 20 per cent at the time of delivery.

The magnitude of the exchange risk depends on the domestic exchange-rate regime. In countries with fixed exchange rates, this risk depends on the probability that the parity cannot be maintained and a depreciation or appreciation occurs. Flexible exchange rates can create considerable risk if exchange rates are volatile. A number of instruments have been developed to hedge against exchange risk at fairly low cost. For example, an exporter with large transactions could sell his expected foreign exchange in the forward market. As transactions in forward markets typically start with amounts above \$US1 million, smaller exporters generally have to turn to the currency future markets, where they can buy “put options,” which are options to sell foreign exchange for a specific rate at a certain point in the future.<sup>6</sup>

Transportation risk. Merchandise may be damaged or destroyed during the voyage from the seller to the buyer. This danger is greater in international trade, where distances and travel time are often longer, ships can sink and merchandise can get detained in customs. Goods also may spoil through environmental variables or they may not arrive because they are stolen or misdirected in transit. A trader can mitigate risk by buying freight insurance to cover freight-related losses.

Political risk. Wars, embargoes and unconstitutional changes in governments may prevent merchandise from reaching its destination, and civil wars may prevent a trade transaction from being completed. Economic policy changes may also prohibit the transfer of foreign exchange and prevent an importer from paying for his purchases.

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<sup>6</sup> It must be noted that about half of world trade is conducted in US dollars with rest in Euros, pounds and Yen. Inconvertible currencies are rarely used for trade contracts. Countries with such currencies also have underdeveloped financial systems with limited or no hedging possibilities. Traders from those countries are therefore at an important disadvantage to traders from countries with convertible currencies and well-developed currency markets.

Political risk is typically covered through an export credit agency. These risks are rare to almost nonexistent in domestic transactions.

In some cases governments have to step in to prevent market failures. Acute asymmetric information problems in international trade and commercial banks' unwillingness or inability to assume certain economic and political risks may cause market failures. Government involvement in providing trade financing is a justifiable economic policy. In some countries, government addresses the problem by creating export credit agencies (ECAs) that offer trade financing, generate and provide information, act as forums for government and industry lobbying towards contract fulfillment by foreign governments and traders, and pool risks.

ECAs also provide trade-related financing through three primary instruments:

- Credits for trade transactions that would be difficult or much more costly to finance through purely commercial lending;
- Guarantees for repaying credits which, in turn, help exporters receive more favourable terms from their banks; and
- Insurance for exporters against commercial and political risk.

The composition of ECA portfolios and institutional structures, however, differs markedly in different countries. Some maintain ECAs as government departments, but increasingly they are run as government or commercial enterprises that administer an account for the government.

### 3.4 The African experience

This section examines the performance Africa in global trade. As the first report, *Assessing Regional Integration in Africa (ARIA I)*, pointed out, the structure of trade in many African countries is as follows:

- The commodity structure of exports is dominated by primary products in the Standard International Trade Classification (SITC) categories 0-4.<sup>7</sup> More than 80 per cent of export earnings of most African countries are estimated to be derived from exporting primary commodities;
- The commodity composition of Africa's imports is heavily weighted in favour of a wide variety of manufactured goods in the SITC product categories 4 through 8; and

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<sup>7</sup> These are food and live animals (Section 1), beverages and tobacco, crude materials, except fuel (section 2), mineral fuels (Section 3) and animal and vegetable oils and fats (Section 4).

- More than 80 per cent of Africa's total exports, almost invariably primary commodities, are destined for Europe, Asia and America, while a comparable percentage of the continent's import needs, usually of manufactured goods, are obtained from the same markets.

Africa's fundamental role in the global trade market has generally been one of producing and exporting primary commodities in exchange for manufactured goods. Given that the relative prices of primary goods have been declining at an average rate of between 0.5 per cent and 1.3 per cent per annum over the past century, Africa's participation in world trade, in terms of the decline in terms of trade, has been a loss.<sup>8</sup>

Using neoclassical trade models, Frankel and Romer (1995) demonstrate that there is a positive correlation between trade and economic growth and consequently potential improvements in the welfare of producers. However, in Africa we observe that economic growth has not always enhanced the welfare of certain parts of the community. Bhagwati (1955), who coined the expression immiserizing growth, explains that although expanding the production of primary commodities boosts economic growth, it also places a downward pressure on the terms of trade exporting nations face, and that welfare actually falls rather than increases. This explains why recent trade-related growth has been welfare-reducing as we still notice high levels of poverty, unemployment and underemployment in the agricultural sector of most African countries. Many African countries have adopted modern improvements such as fertilizer, herbicides, insecticides, better seed varieties and irrigation schemes that help expand output and exports. But the resulting oversupply on the world markets, relative to demand, may sufficiently depress primary commodity prices such that farm incomes are lower after growth than before the output expansion. Then, too, unanticipated non-market exogenous shocks such as flood, drought and crop pests often intensify poverty.

Mankiw, Romer and Weil (1992) point out that Africa's poor macroeconomic performance, relative to that of its Asian counterparts, also is responsible for the long-term deficiency in saving and physical capital accumulation on the continent. Other studies also show that rapid productivity growth in Asia and poor cross-country income growth in sub-Saharan Africa, were partly due to differences in the technological innovations to the production structure in the two regions. Africa's trade potential has also been hampered by restrictive trade orientation, macroeconomic policy failure, the absence of strong institutions, weak economic and political governance and lack of financial depth, among other factors.

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<sup>8</sup> See, for example, Spraos (1980), Sapsford (1985), Grilli and Yang (1988), Bleaney and Greenaway (1993) and Thirwall (1983, 1995).

Africa must shift from being an exporter of primary commodities and diversify the structure of its production and trade. This is why regional integration as an integrated, subregional, continental market offers Africa the best hope for large-scale manufacturing viability. With the sustained development of physical infrastructures, removing commercial obstacles to the free movement of goods and productive resources, harmonizing sub-regional monetary, fiscal and financial policies, the expanded market is likely to present a vastly improved operating environment for foreign investors relative to individual national markets.

The continent faces daunting challenges to national production and trade diversification. The challenge African countries face in attempting to diversify and shift production and trade away from sole dependence on primary production, is that the average size of individual national markets on the continent is small, measured either in terms of population or aggregate purchasing power. The other obstacle to diversification is technology. Underlying the concept of the production function for a manufactured good is the technically determined minimum level of output that potentially guarantees attainment of the lowest possible average cost of production, or maximum profitability. Moreover, specialization is limited by the size of the internal market. African countries' attempts to structurally diversify their economies in the 1970s via the import-substitution approach failed largely because the industrial outfits were designed for small domestic economies. The resulting high-cost ventures made them uncompetitive relative to the manufactured imports they were meant to displace.

A regional integration agenda that would lead to the continent's deeper market integration is vital if Africa is to play its rightful role in the global marketplace. A stand-alone nation-state backed by a rigid adherence to the sanctity of national sovereignty is too small to compete effectively in global markets. But through comprehensive regional integration these countries can pool their resources to form a single African market with the right comparative advantages and economies of scale to participate in the global market.

For most African countries, accelerated economic growth and development cannot be achieved in a reasonable length of time without first overcoming their demographic and economic limitations. Out of 53 independent African countries, 38 (about 72 per cent) have a population of 15 million people or fewer, while a third have a population of 3 million or fewer. Of the 46 countries in the world classified as least developed (in per capita income terms), 31 are located in Africa. These statistics suggest that regional integration offers a viable means of overcoming the limitations of internal market size.

One of the principal pillars to which virtually all African regional economic communities are anchored is the objective of fostering intra-African trade and unifying

each regional marketplace by progressively removing artificial barriers to trade in the continent. That is why the RECs are forming free trade areas (FTAs) or customs unions, to integrate national economies, giving them large enough internal markets to achieve production efficiency levels comparable to those in the industrialized countries. The FTA or customs union generates important spin-off effects associated with the enlarged market. Some of the dynamic effects of regional markets include the following:

- Enlarged regional markets provide incentives not only for private cross-border investments but also foreign direct investment. Establishing optimum-sized industrial and service projects previously constrained by the limited size of individual country markets could be facilitated by adopting appropriate trade and macroeconomic policy regimes. The combination of a stable investment climate, the development of transportation and communication infrastructure and sound and coordinated regional economic policy could provide adequate incentives for large-scale investment in manufacturing and service projects that are subject to economies of scale;
- Regional market integration at the REC level is expected to lead to regional growth poles capable of generating sufficient externalities to the RECs' less-developed member states; and
- As production structures are diversified away from primary production and trade, African countries' long-term dependence on developed market economies for manufactured goods is expected to diminish as the markets become integrated.

Cernat (2001) finds empirical evidence to support that African FTAs and customs unions stimulate trade not only within the continent but also with non-African countries. Similarly, Elbadawi (1997) argues that the expanded subregional markets that characteristically accompany the formation of African regional trade blocs could generate sufficient scale economies that could result in the much-desired production complementarities and diversity among member States of such unions. In a similar analysis, Lewis et al. (1999) and Evans (1998) found that Southern African regional integration schemes generated significant, positive net welfare effects.

### 3.5 Conclusion

Regional economic integration, as a prelude to continental market integration, is an imperative survival strategy for Africa. Through deeper integration, the continent could pool its resources to create a single strong market and therefore halt its marginalization in global production and trade.

Africa's loss of market power and competitiveness in trade is closely related to its longstanding role as producer and exporter of primary commodities and importer of manufactures and technology. The reality today is that most African countries are too small, in terms of economic and demographic size, to influence global trade. Trade and market integration of the 53 economies into a single African Economic Community offers perhaps the best chance for African economies to overcome the inherent disadvantages associated with small internal market size.

Promoting intra-African trade remains one of the AU's, and the RECs', key objectives. However, a number of factors hamper the process. The presence of high levels of tariff and non-tariff barriers hinders intra-REC and intra-African trade. Removing artificial obstacles to intra-African trade may not be enough to expand trade within the continent, because structural deficiencies and other weaknesses remain. In this regard the following challenges need be addressed:

- Measures must be taken to deepen market integration with policies and programmes that address production and the continent's supply-side constraints. Insufficient production, poor diversification and low competitiveness is responsible for the paucity of intra-African trade and weak participation in world trade;
- Intra-African trade suffers from deficiencies in transportation and communication networks. The continent's remains weak and inadequate;
- Multiple checkpoints, border-post delays and ignorance about rights and benefits conferred on RECs' trade-liberalization schemes inhibit intra-regional trade;
- Africa's energy enormous potential is but remains essentially untapped to generate enough electricity to buttress manufacturing or high-value-added enterprises; and
- Restrictions remain to the free movement of people and means of production and cross-border investments, and weak banking and financial intermediation in trade and productive sectors. These factors contribute to the high marginal cost of production and reduce the competitiveness of the African entrepreneurs.

Consequently, most RECs' trade expansion and market integration objectives have not been met over the past decade. Some RECs were further affected by a hostile political environment, which made the integration process even more difficult.

These challenges only reemphasize the urgency for promoting intra-continental and external trade through the following measures:

- African RECs must fast-track their trade liberalization programmes and strengthen transit and trade facilitation programmes. Member States should ratify and implement the trade protocols of the RECs to which they belong. Inter-REC FTAs should be established. The steps taken by COMESA, EAC and SADC to form a single market are commendable as they contribute to the promotion of trade within all three RECs;
- Trade policies should be harmonized, for example by using common documents for cross-border clearance of cargo, vehicles and business people; programmes should not be duplicated; investment codes should be coordinated; and subregional markets should be unified;
- Effective and affordable physical infrastructures, services information and communications technologies should be developed to support market integration. This would contribute substantially to reducing the cost of doing business in Africa and in turn contribute to expanding trade and market integration among the RECs;
- Monetary, fiscal and financial policies in the community should be to facilitate the RECs' allocative and operational efficiency;
- Trade and industrial policies must be harmonized throughout the RECs. African countries should develop capacities in production diversification and export substantial amounts of manufactured products to the rest of Africa. Cross-border private investment in industry, agriculture and infrastructure should be encouraged to enhance intra-community trade; and
- Policies should be implemented to encourage the flow of foreign direct investment (FDI) to boost the domestic capacity to support trade. FDI is not just an avenue to expand capacity and growth; it also generates considerable technological benefits to host countries in education and training, innovative marketing and management procedures and imports of modern technologies.

Mainstreaming trade must be emphasized if intra-African market integration is to succeed. It depends on having trade policies clearly identified and properly integrated in national development plans and strategies. Trade can play a positive role in development if appropriate, coherent, complementary and coordinated import and export policies are adopted.

By mainstreaming trade at the national level, African countries could adopt and implement policies to improve domestic supply capabilities and international competitiveness. But African countries would have to liberalize import trade policies as well as those pertaining to exports.



The policies and processes for mainstreaming trade have been tested for years and in many countries. Rodrik (2001) identifies three broad categories of trade-related strategies that have been tried in the past, namely: import-substituting industrialization (ISI), outward-orientated industrialization (OOI) and two-track strategies (2-TS). While the track record of mainstreaming trade into these different strategies has been uneven, it is nevertheless evident no “one-size-fits-all” approach to mainstreaming trade exists. Instead, a judicious mix of policies is necessary to reduce institutional and infrastructural constraints and create profitable investment opportunities according to each country’s circumstances.

Some African countries have removed import controls, reduced tariffs and rationalized the tariff structure to the extent that they have become some of the most open economies in the world in terms of the ratio of imports and exports to their GDP. However, Africa’s poor trade performance, irrespective of such extensive import liberalization, indicates that trade policy has to be part of a wider strategy to build supply capacities, improve international competitiveness and access external markets.

African countries may use a range of trade and complementary policies to improve export performance. For example, a country could use trade-promotion mechanisms, such as duty drawback or exemption schemes, bonded manufacturing warehousing and export-processing zones. Furthermore, WTO rules allow least developed countries (LDCs) and developing countries with per capita incomes of less than US\$1000 to give export subsidies. Such policies would also need to be supported by the removal of policies that discriminate against exports such as high import duties on raw materials and intermediate goods, export taxes and export licensing.

Trade mainstreaming to foster African development would be successful if backed by a sound macroeconomic and microeconomic environment and supply side capabilities. In addition to obvious infrastructural needs such as improved roads and irrigation schemes, the links between trade and energy, especially electricity, transportation and trade facilitation need to be enhanced. Trade financing and access to ICTs are also essential.

In mainstreaming trade into national policies and strategies, a country’s international commitments and the delicate matter of trade negotiations must also be taken into account. African countries need to accelerate their intra-regional trade, a small percentage of total African trade, with exports having a share of 10 per cent and imports a mere 1 per cent. Furthermore, they should only seek to conclude bilateral, regional and multilateral trade agreements that bring about improved market access and balanced and fairer trade rules. In particular, African states should negotiate results that provide sufficient flexibility and space to adopt beneficial developmental policies.

African countries also must strengthen their human and institutional capacity in the area of trade. Doing so may be difficult in view of their resource constraints, but one option would be to seek trade-related technical assistance for this purpose, especially on a collective basis.

The process of mainstreaming trade has to begin quite naturally with the explicit inclusion of trade-related policies into national development plans and strategies. A key aspect of mainstreaming would be to make institutional arrangements for inter-ministerial coordination to ensure coherence throughout the policies of different ministries and to address such issues as the pacing and sequencing of trade policies.

The mainstreaming process would also require that arrangements be put in place to ensure coherence in trade negotiations to avoid overstressing the already limited number of trade negotiators and risk giving away more in bilateral and regional deals than is required. Such arrangements will ensure a better appreciation of the policy flexibilities of various sectors and avoid reduplicating trade-related technical assistance.

Mainstreaming trade in Africa should move it beyond mere import liberalization to a more integrated approach that increases Africa's international competitiveness and improves its countries' supply capabilities. This would also entail adopting a judicious mix of trade and complementary policies taking into account of the institutional strengths and requirements.

Prompt, noticeable action is required to initiate these processes. Better inter-ministerial coordination of policies should ensure the coherence and consistency of trade-related programmes and activities. Africa could benefit from a study of other developing countries' best practices and build on current trade-related technical assistance programmes to further mainstream trade into national development strategies.

To sum up, it may not be easy for some African countries to adopt policies that promote and strengthen their trading activities. Existing interest groups that benefit from the status quo may oppose reform and attempt to postpone adjustments. While this is the likely environment in which trade reforms are usually proposed, it is nonetheless extremely important to investigate the impact of reforms on specific groups of the poor and to begin to address them. The timing of trade reform implementation should be closely linked to the establishment of the programmes dealing with their impact on the poor.

It is also important to undertake broad trade reforms in all trade-related areas, such as measures frequently meet with less political resistance than cuts in protections to individual sectors. Broad reforms help beneficiaries of reform recognize their potential gains and tend to reduce costs, even among industries that lose protection on

their output. Countries should not wait for some important infrastructure project to be completed, such as a port facility or a road, before embarking on trade reforms.

Given that change takes time, African countries should begin trade reforms by establishing macroeconomic stability and a competitive exchange-rate mechanism. The best results for the poor can be expected when, as a result of the overall reform process, growth accelerates in the economy as a whole. That said, the poor are the least able to bear risks, and in the short term some groups will suffer losses. Policymakers should understand reform's likely effects on the poor, and take measures to mitigate them. Recognizing that safety nets may neither exist nor be adequate in many African countries, reform should not be postponed but rather should be implemented gradually. Reforms could follow an announced schedule and be accompanied by steps to minimize adverse consequences to society's most disadvantaged. This could be accomplished by targeting trade policies that are clearly detrimental to the interests of the poor.

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# African Trade Flows and Patterns

## 4.1 Introduction

African countries and their regional economic communities (RECs) are pursuing integration through free trade and developing customs unions and a common market. Eventually, these efforts are expected to converge in an African Common Market (ACM) and an African Economic Union (AEU), whereby economic, fiscal, social and sectoral policies will be continentally uniform. Through such an economic marketplace, Africa can strengthen its economic independence and empowerment with respect to the rest of the world.

African countries and their regional integration institutions must expand trade among their partners through trade liberalization. They must establish a free-trade area and customs union by adopting strategies to abolish tariff and non-tariff trade restrictions and agree on a common external tariff for third-party countries.

Trade has made and will continue to make a tremendous contribution to many developed and developing countries. It enables countries to specialize and export goods that they can produce cheaply in exchange for what others can provide at a lower cost. Trade also provides the material means in terms of the capital goods, machinery and raw and semi-finished goods that are critical for growth. This is a driving force behind economic development. If trade is a vehicle to growth and development, then removing the barriers that inhibit it can only help to increase its impact. Thus, free trade is an important instrument for removing such impediments and promoting greater levels of trade among African countries.

The present chapter presents figures and analyses concerning Africa's trade flows and patterns, with particular reference to intra-regional and intra-African trade. It provides data on the direction and structure of Africa's intra-continental trade and with the rest of the world to identify the nature and scope of intra-African trade between 2000 and 2007. These figures are based on data from the International Monetary Fund (IMF) Direction of Trade statistics (DOT) of February 2009 and on trade data from 1995 to 2006 using the United Nations Conference on Trade and Development (UNCTAD) Handbook 2008, which, unlike IMF DOTs, permits trade flows

by products to be analyzed. The chapter provides data and discusses trends in the following major areas:

- Intra-REC export and import trends;
- REC exports to rest of Africa;
- Overall direction of exports by REC;
- Intra-REC import trends;
- Sources of REC imports;
- Rates of growth of intra-REC trade, overall intra-Africa trade and Africa's trade with the rest of the world; and
- Assessments of countries' performance in intra-African trade, by product.

## 4.2 Intra-REC export and import trends

This section demonstrates export and import trends by region, including their relative shares in total intra-Africa exports and imports.

### 4.2.1 Export trends

Table 4.1<sup>1</sup> presents the available data on the value of intra-REC exports in millions of US dollars. In general, intra-REC exports have been growing in value across most RECs. At the global level, Africa's share in global exports increased from 2.4 per cent in 2000 to 2.9 per cent in 2007, but averaged about 2.5 per cent between these periods.

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1 See Annex 4.1 for intra-REC exports by country.

**Table 4.1**  
**Intra-REC exports 2000-2007 (in US\$ millions)**

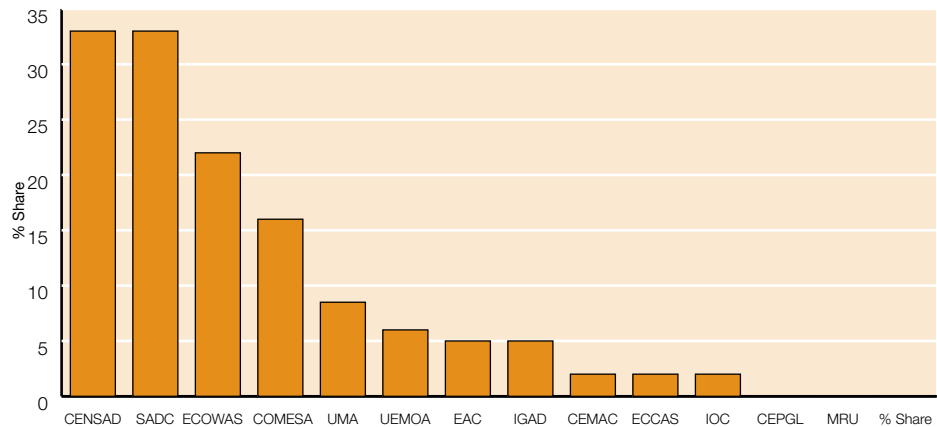
RECs	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
CEMAC	96	117	134	146	174	198	245	304	177
CENSAD	4,017	3,577	4,671	4,882	6,470	8,433	9,099	11,555	6,586
CEPGL	10	11	13	15	19	22	24	30	18
COMESA	2,119	2,074	2,353	2,797	3,541	4,629	3,455	4,571	3,192
EAC	689	533	590	720	946	1,081	1,279	1,587	928
ECCAS	181	193	187	184	221	252	327	410	244
ECOWAS	2,715	2,242	3,136	3,037	4,363	5,506	5,957	7,341	4,287
IGAD	639	676	664	875	951	1,166	1,282	1,546	975
IOC	106	134	105	179	155	159	172	204	152
MRU	5	4	5	5	6	6	8	9	6
SADC	4,296	3,881	4,329	5,484	6,508	7,453	8,466	11,678	6,512
UEMOA	741	775	857	1,076	1,233	1,390	1,545	1,917	1,192
UMA	1,094	1,137	1,202	1,338	1,375	1,886	2,478	3,076	1,698
A	12,044	11,438	13,130	15,603	19,196	23,215	28,050	35,573	1,9781
B	153,435	134,841	141,167	173,467	222,532	286,063	347,875	400,906	23,2536
C (% share)	2.4	2.2	2.2	2.3	2.4	2.7	2.9	2.9	2.5
Total World Exports	6,455,988	6,188,181	6,484,586	7,547,559	9,182,967	10,474,871	12,087,769	13,833,041	9031870

*Legend: A = Intra-African exports; B = African exports to world; C = Africa's share in total world exports.*

*Source: Compiled from DOTS, IMF February 2009*

As figure 4.1 shows, on average between 2000 and 2007, the top five RECs in intra-REC exports as a share of total exports within Africa in value terms were CEN-SAD (33 per cent), SADC (33 per cent), ECOWAS (22 per cent), COMESA (16 per cent) and UMA (9 per cent). The RECs that traded least among themselves, at 1 per cent or less, on average between 2000 and 2007 were CEMAC, ECCAS, CEPGL and MRU.

**Figure 4.1**  
Per cent share of intra-REC exports



**Source:** Based on Table 4.1

In CENSAD, 82 per cent of the exports came from a few countries: Nigeria (28 per cent), Côte d'Ivoire (22 per cent), the Libyan Arab Jamahiriya (9 per cent), Tunisia (9 per cent), Egypt (8 per cent) and Senegal (6 per cent). In SADC, 64 per cent of the exports were provided by South Africa, while exports from the rest of the SADC countries ranged from 0.4 to 10 per cent. In ECOWAS, intra-REC exports were dominated by Nigeria (44 per cent) and Côte d'Ivoire (34 per cent). The two countries provided about 78 per cent of ECOWAS intra-export trade. In COMESA, 81 per cent of intra-community exports were provided by Kenya (29 per cent), the Libyan Arab Jamahiriya (15 per cent), Egypt (13 per cent), Zambia (11 per cent), Zimbabwe (8 per cent) and Uganda (6 per cent). Intra-UMA's exports were dominated by Tunisia (37 per cent), the Libyan Arab Jamahiriya (30 per cent) and Algeria (23 per cent). The three countries together constituted 90 per cent of intra-UMA exports. In other RECs, exports within the community originated from a few countries. For example, 77 per cent of intra-CEMAC exports came from Cameroon, and 79 per cent of intra-EAC exports came from Kenya. The same country provided 59 per cent of intra-IGAD exports. In CEPGL, DRC provided 66 per cent of the export trade within the community.

## 4.2.2 Exports to the rest of Africa

**Table 4.2**

*REC exports to rest of Africa in US\$ millions, 2000-2007*

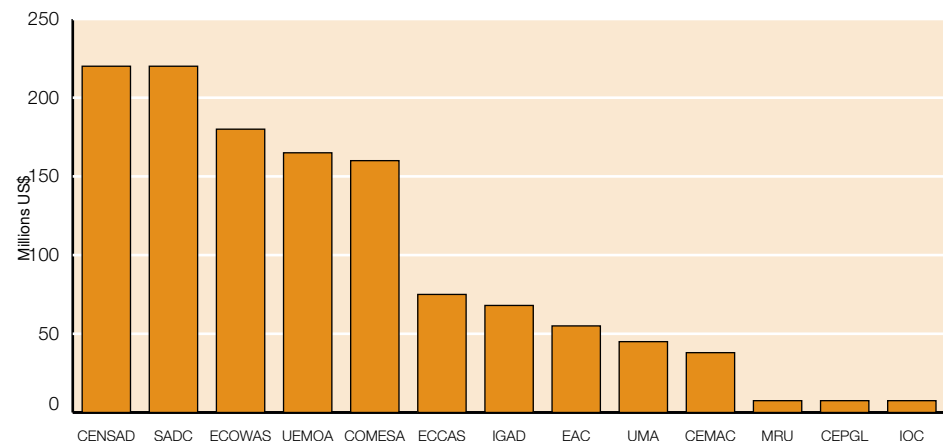
RECs	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
CEMAC	220	249	294	282	336	483	614	580	382
CENSAD	883	1,200	978	1,576	1,802	1,960	4,495	4,925	2,227
CEPGL	30	112	28	34	44	54	98	202	75
COMESA	581	323	678	1251	1095	756	3,595	4,272	1,569
EAC	286	298	394	457	568	664	869	1,037	572
ECCAS	191	306	314	301	622	813	1,036	2,384	746
ECOWAS	1,026	1,270	977	1,504	1,809	1,885	3,010	3,226	1,838
IGAD	358	325	409	484	608	656	1,156	1,375	671
IOC	38	43	55	75	82	79	84	114	71
MRU	57	93	44	83	25	45	230	61	80
SADC	1,230	1,277	1,586	1,879	2,222	2,731	2,879	3,740	2,193
UEMOA	947	1,393	1,326	1,194	1,568	1,907	2,107	2,651	1,637
UMA	80	37	27	14	118	216	1,418	1,770	460

*Source: Compiled from IMF DOTS, February 2009*

As figure 4.2 further illustrates, on average, countries within CEN-SAD registered the highest exports beyond their borders to the rest of African countries, followed by SADC, ECOWAS, UEMOA and COMESA.

**Figure 4.2**

*REC exports to the rest of Africa (average 2000-2007)*



*Source: Based on table 4.2*

## 4.2.3 The direction of exports

Table 4.3<sup>2</sup> and Figure 4.3 illustrate the direction of REC exports to the entire African continent and to global markets.

**Table 4.3**

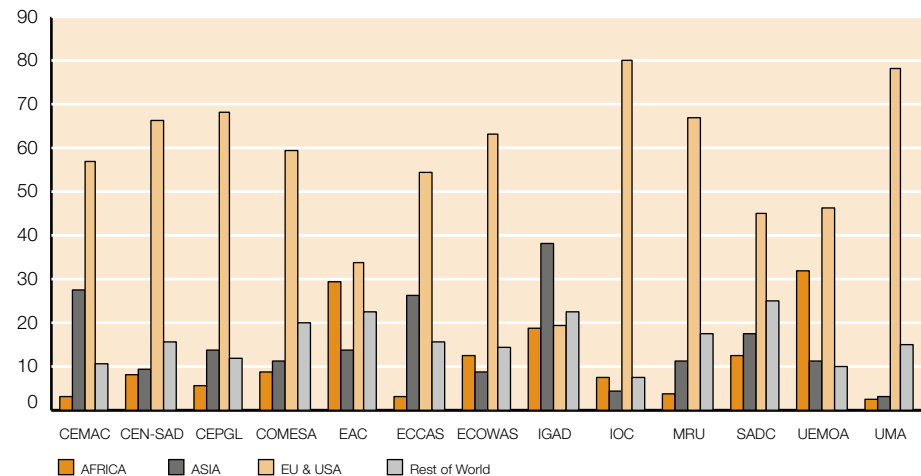
*Direction of REC exports in US\$ millions, average between 2000 and 2007*

RECs	AFRICA	CHINA	ASIA	EU	JAPAN	USA	Rest of World	WORLD
CEMAC	558.8	2594.5	1948.1	4453.9	142.5	4887.7	1641.8	16227.2
CEN-SAD	8813.5	4294.0	5750.7	50831.0	1879.9	20682.4	15218.3	107469.9
CEPGL	93.3	146.9	66.6	898.6	23.1	176.2	168.9	1573.6
COMESA	4761.1	3986.8	1925.6	27827.5	1046.8	3432.0	9366.3	52346.1
EAC	1499.7	156.1	532.8	1515.9	113.6	199.1	1026.1	5043.3
ECCAS	990.4	6502.3	2351.8	8125.6	370.1	10234.0	4992.5	33566.7
ECOWAS	6125.7	616.3	3693.6	13556.4	788.6	17073.2	6168.6	48022.3
IGAD	1646.2	2740.0	552.8	1480.6	545.1	212.7	1412.6	8590.0
IOC	223.2	35.9	106.7	1930.1	59.3	515.5	170.6	3041.4
MRU	85.7	39.2	206.3	1327.7	4.2	167.9	387.0	2218.0
SADC	8704.9	7139.5	5184.6	20679.4	2672.8	11266.5	14973.9	70621.6
UEMOA	2828.4	253.9	776.4	3549.8	42.6	589.9	853.9	8894.9
UMA	2158.4	1079.9	1511.6	50915.4	485.1	9147.5	10996.8	76294.7

Source: Compiled from IMF DOTS, February 2009

**Figure 4.3**

*Overall direction of exports (per cent)*

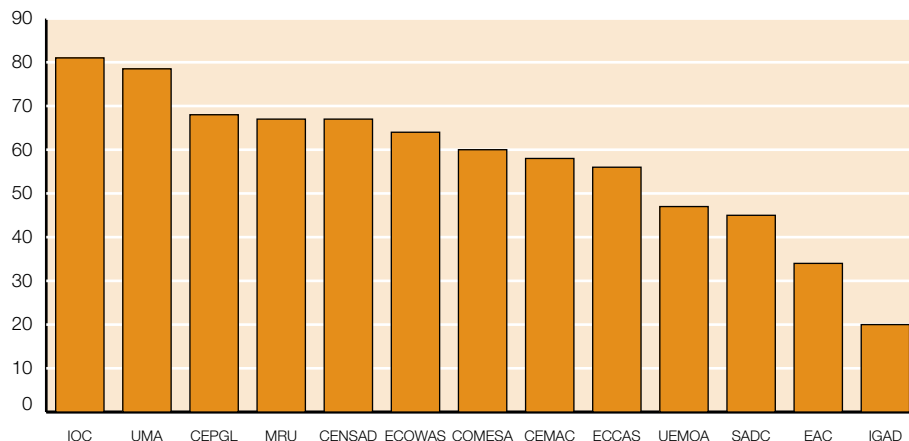


Source: Based on table 4.3.

<sup>2</sup> See Annex 4.2 for details by country.

The data show that the RECS' major export destinations are the EU and USA, which constitute an average of 57 per cent of the exports of the African RECs. For some RECs, the EU and USA comprise more than 60 per cent of their export markets (see figure 4.4). For RECs such as IOC and UMA, about 80 per cent of their exports were destined, between 2000 and 2007, for the EU and USA markets. Asia, and China in particular are important export markets for the RECs.

**Figure 4.4**  
*Exports to the EU and United States (per cent)*



**Source:** Based on Table 4.3

#### 4.2.4 Intra-REC import trends

Table 4.4<sup>3</sup> provides data on the value of intra-REC imports in \$US millions. As in the case of exports, intra-REC imports also have witnessed a growing trend in value across most RECs. On average, between 2000 and 2007, the top five RECs in intra-REC imports were CEN-SAD (34 per cent), SADC (32 per cent), ECOWAS (22 per cent), COMESA (16 per cent) and UMA (9 per cent). The same RECs also dominate intra-REC exports. On average, between 2000 and 2007, the most significant importing countries among these top five RECs in terms of intra-community imports were:

- CEN-SAD: Egypt (24 per cent), Nigeria (16 per cent), Morocco (15 per cent) and Tunisia (11 per cent);
- SADC: South Africa (69 per cent) and Angola (9 per cent);
- ECOWAS: Nigeria (40 per cent), Liberia (14 per cent), Ghana (11 per cent) and Côte d'Ivoire (9 per cent);

<sup>3</sup> See Annex 4.3 for details by country.

- COMESA: Egypt (45 per cent), the Libyan Arab Jamahiriya (12 per cent) and Kenya (9 per cent); and
- UMA: Algeria (32 per cent), Morocco (31 per cent) and Tunisia (22 per cent).

Between 2000 and 2007, 9 per cent of Africa's imports were provided by African countries. Africa sourced more than 90 per cent of its imports from beyond Africa.

**Table 4.4**  
*Intra-REC imports, 2000-2007, in US\$ millions*

REC	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
CEMAC	112	134	128	172	191	219	270	335	195
CENSAD	4060	4249	4182	5273	7120	8905	10305	12653	7093
CEPGL	11	12	14	16	21	24	27	33	20
COMESA	1932	2039	2234	2724	3403	3939	4914	5048	3279
EAC	422	503	525	631	828	946	1407	1746	876
ECCAS	207	219	187	215	244	279	343	426	265
ECOWAS	2471	2702	2483	3292	4717	5840	6538	8057	4512
IGAD	576	741	729	1031	1031	1247	1408	1698	1057
IOC	56	71	98	117	172	177	191	227	139
MRU	7	6	7	8	9	10	13	16	9
SADC	3913	3906	4252	4726	6924	7958	9563	12802	6755
UEMOA	686	744	841	968	1166	1310	1680	2085	1185
UMA	1190	1224	1334	1483	1512	2074	2725	3384	1866
A	11631	12466	13224	15572	20994	24854	31660	39565	21246
B	133416	129508	144445	176929	232189	273509	329785	418931	229839
C	9	10	9	9	9	9	10	9	9
D	6653669	6414806	6664703	7771121	9462990	10776488	12337928	14056584	9267286
E	2	2	2	2	2	3	3	3	2

*A=Intra-Africa imports; B= African imports from the world; C=Share of intra-Africa imports to Africa's total imports;*

*D= World Imports; E=Share of Africa's imports in World imports*

**Source:** *Compiled from IMF DOT February 2009*

As noted, on average, between 2000 and 2007 Africa's export trade represented about 2.9 per cent of world trade. On the import side, Africa constituted only 2 per cent of total world imports over the same period. These statistics confirm Africa's infinitesimal share in global trade.

Table 4.5 presents the major sources of Africa's imports, and table 4.6 indicates the percentage shares of the various sources. As for exports, the major sources of imports to Africa lie outside the continent. However, it is interesting to observe that within the



CEPGL, Africa was a significant source of imports to the community, representing about 42 per cent of the total imports. About a fourth of imports by UEMOA also came from Africa. But for the rest of the RECs, the EU continues to be a major source of imports.

**Table 4.5**  
*Average sources of REC imports in US\$ millions, 2000-2007*

RECs	Africa	China	Asia	EU	Japan	USA	Rest of world	Total WORLD
CEMAC	972.1	366.9	474.4	3489.0	122.2	710.3	598.5	6733.5
CEN-SAD	11088.3	9069.1	12440.7	49034.0	3527.7	7780.2	26122.6	119062.6
CEPGL	898.94	86.76	66.03	720.15	174.46	74.50	106.82	2127.65
COMESA	7768.8	5015.4	6760.8	19799.6	2356.4	4869.5	17252.7	63823.2
EAC	1398.7	775.6	1462.1	2362.6	532.0	577.3	4076.7	11185.2
ECCAS	2367.7	879.2	1567.9	6836.3	279.1	1561.7	1561.4	15053.2
ECOWAS	6038.15	4364.23	7204.29	15632.77	1750.96	2701.52	9131.31	46823.2
IGAD	1987.57	1852.09	2274.24	3308.42	731.42	769.88	5558.92	16482.5
IOC	688.62	516.89	942.79	1451.25	137.27	126.37	1082.49	4945.7
MRU	375.80	431.95	2962.15	1811.35	984.55	156.86	1826.11	8548.8
SADC	8584.76	5949.47	8133.55	25872.92	3922.57	5713.28	14590.90	72767.4
UEMOA	3251.6	1288.5	1202.1	5240.2	191.0	475.2	1820.4	13469.1
UMA	2535.8	2852.5	2640.5	34453.9	1169.0	2472.8	11857.1	57981.5

**Source:** Compiled from IMF DOTS, February 2009

**Table 4.6**  
*Average per cent share of import sources between 2000 and 2007*

REC	Africa	China	Asia	EU	Japan	USA	ROW	World
CEMAC	14	5	7	52	2	11	9	100
CEN-SAD	9	8	10	41	3	7	22	100
CEPGL	42	4	3	34	8	4	5	100
COMESA	12	8	11	31	4	8	27	100
EAC	13	7	13	21	5	5	36	100
ECCAS	16	6	10	45	2	10	10	100
ECOWAS	13	9	15	33	4	6	20	100
IGAD	12	11	14	20	4	5	34	100
IOC	14	10	19	29	3	3	22	100
MRU	4	5	35	21	12	2	21	100
SADC	12	8	11	36	5	8	20	100
UEMOA	24	10	9	39	1	4	14	100
UMA	4	5	5	59	2	4	20	100

**Source:** Compiled from Table 5.

## 4.2.5 Growth of trade

The preceding section presented data to show the overall direction of intra-REC and intra-Africa trade on average between 2000 and 2007, as well as trade with the rest of the world. The data in table 4.7 show the growth of trade on three fronts: intra-REC trade, overall intra-Africa trade, and Africa's trade with the rest of the world.

All RECs demonstrated moderate growth in intra-REC trade between 2000 and 2007. Intra-REC exports generally registered an average growth rate of 15 per cent, compared with an overall growth in intra-Africa exports of 25 per cent, suggesting that trade that is confined to the RECs is less optimal than Africa-wide trade. This would argue for redoubling efforts to harmonize community markets to create a larger Africa-wide marketplace, given that countries' trading interests are not necessarily confined within their respective REC borders. This notwithstanding, it is encouraging to observe that all other things being equal, including the inflation factor, growth in intra-African trade outpaced the growth in Africa's trade with the rest of the world by about 10 percent.

**Table 4.7**  
*Average per cent trade growth rates, 2000-2007*

ECs	Intra-REC Trade		Intra-African Trade		Trade with rest of the world	
	Exports	Imports	Exports	Imports	Exports	Imports
CEMAC	18	17	16	16	20	20
CENSAD	17	18	19	20	16	16
CEPGL	17	17	51	26	9	-3
COMESA	13	15	19	17	19	19
EAC	14	23	16	20	15	12
ECCAS	13	12	38	18	23	24
ECOWAS	17	19	17	18	13	13
IGAD	14	18	17	22	22	21
IOC	13	23	14	10	6	5
MRU	8	13	55	15	19	21
SADC	16	19	16	20	14	13
UEMOA	15	17	16	14	11	14
UMA	17	17	25	25	16	16
<b>Average</b>	<b>15</b>	<b>18</b>	<b>25</b>	<b>19</b>	<b>16</b>	<b>15</b>

*Source: ECA, compiled from IMF DOT, February 2009.*

## 4.3 Assessing intra-African trade performance

### 4.3.1 General assessment

This section examines the records of individual African countries with respect to intra-African trade. Its objective is to determine the extent and range of the products countries traded within the continent of Africa and with the rest of the world. First, based on average trade data in value terms between 2000 and 2007 according to IMF DOT statistics, we examine in table 4.8 the value and share of countries' exports to and imports from Africa.

**Table 4.8<sup>4</sup>**

*Exports to and imports from African countries in US\$ millions*

Country	Average 2000-2007		Country	Average 2000-2007	
	Exports	Share (%)		Imports	Share (%)
South Africa	5,859.0	29.6	South Africa	2205.1	10.4
Nigeria	3,065.2	15.5	Zimbabwe	1296.6	6.1
Côte d'Ivoire	1,838.9	9.3	Zambia	1268.9	6.0
Kenya	924.0	4.7	Ghana	1245.9	5.9
Zimbabwe	704.3	3.6	Côte d'Ivoire	1236.1	5.8
Egypt	700.9	3.5	Nigeria	1080.0	5.1
Zambia	686.0	3.5	Mozambique	847.9	4.0
Libya	611.9	3.1	Mali	808.5	3.8
Algeria	545.1	2.8	Morocco	753.2	3.5
Tunisia	512.1	2.6	Egypt	743.3	3.5
Senegal	460.9	2.3	DRC	677.0	3.2
Morocco	379.7	1.9	Kenya	653.6	3.1
Angola	338.0	1.7	Angola	648.6	3.1
Mozambique	301.2	1.5	Tanzania	636.0	3.0
Cameroon	294.4	1.5	Uganda	626.4	2.9
Togo	231.8	1.2	Libya	576.6	2.7
Djibouti	212.3	1.1	Tunisia	481.8	2.3
Tanzania	205.9	1.0	Cameroon	475.9	2.2
Ghana	186.2	0.9	Senegal	465.9	2.2
Uganda	173.2	0.9	Malawi	426.8	2.0
Mauritius	169.5	0.9	Mauritius	386.1	1.8
Gabon	162.9	0.8	Algeria	369.9	1.7

<sup>4</sup> See Annex 4.4(a) and 4.4(b) for annual details on exports and imports, respectively.

Country	Average 2000-2007		Country	Average 2000-2007	
	Exports	Share (%)		Imports	Share (%)
SACCA Excluding RSA*	148.0	0.7	Burkina Faso	360.3	1.7
Mauritania	143.3	0.7	Benin	259.6	1.2
Malawi	135.7	0.7	Somalia	236.2	1.1
Benin	123.6	0.6	Sudan	220.3	1.0
Ethiopia	88.8	0.4	Madagascar	191.7	0.9
Niger	87.9	0.4	Niger	180.0	0.8
Congo DR	78.7	0.4	Guinea	175.2	0.8
Congo Rep	67.3	0.3	Gabon	165.2	0.8
Sudan	52.6	0.3	Rwanda	155.7	0.7
Burkina Faso	50.9	0.3	Ethiopia	138.3	0.7
Guinea	40.8	0.2	Togo	125.3	0.6
Liberia	37.6	0.2	Liberia	122.0	0.6
Madagascar	35.0	0.2	Gambia	113.7	0.5
Mali	18.9	0.1	Mauritania	111.1	0.5
Seychelles	18.1	0.1	Congo	107.9	0.5
Equatorial Guinea	17.8	0.1	Equatorial Guinea	106.7	0.5
Guinea – Bissau	14.8	0.1	Djibouti	99.0	0.5
Somalia	10.2	0.1	Chad	84.1	0.4
Chad	9.1	0.0	Sierra Leone	78.6	0.4
Gambia	8.3	0.0	Seychelles	76.0	0.4
Burundi	7.8	0.0	Burundi	66.3	0.3
Sierra Leone	7.4	0.0	Guinea – Bissau	38.9	0.2
CAR	7.2	0.0	Comoros	34.9	0.2
Rwanda	6.1	0.0	Cape Verde	34.7	0.2
Cape Verde	1.0	0.0	CAR	32.3	0.2
Comoros	0.4	0.0	SACCA excluding RSA	18.0	0.1
São Tomé & Príncipe	0.3	0.0	São Tomé & Príncipe	3.7	0.0
<b>Total</b>	<b>19781</b>	<b>100</b>	<b>Total</b>	<b>21246</b>	<b>100</b>

\* SACCA consists of Botswana, Namibia, Lesotho and Swaziland.

Source: ECA, compiled from IMF DOT, February 2009

South Africa is a dominant force both in terms of exports to and imports from Africa. Between 2000 and 2007, on average, South Africa exported about US\$5.9 billion worth of goods to the African continent, which represents about 29.6 per cent of intra-Africa's export trade. South Africa is followed by Nigeria, whose US\$3 billion worth of goods to the African market represented 10.4 per cent of intra-

African exports. Other significant exporters to the African market were Côte d'Ivoire (9.3 per cent) and Kenya (4.7 per cent). With respect to imports, South Africa also ranks first as a major importer of goods from Africa, followed by Zimbabwe, Zambia and Ghana.

In the context of intra-African trade, table 4.9 shows the ratios of countries' exports and imports relative to their average GDP figures between 2000 and 2007. For countries such as Djibouti, exports to the African region represent a significant proportion of the country's GDP, reflecting a heavy dependence on the African market. While South Africa and Nigeria are significant exporters to the African region, their intra-African exports represented less than 4 per cent of their GDP. However, Côte d'Ivoire, also a major player, accounted for about 13 per cent of its GDP from intra-African exports. Other countries whose intra-African trade exports represented between 10 and 20 per cent of their GDP were Zimbabwe (19 per cent), Togo (12 per cent), and Zambia (11 per cent). In terms of imports, the following countries depended relatively heavily on African imports as a percentage of GDP: Zimbabwe (35.2 per cent); the Gambia (24.4 per cent); Liberia (21.5 per cent); and Zambia (20.9 per cent).

**Table 4.9**

*Intra-African trade by country as average per cent share of GDP, 2000-2007*

Country	GDP at market prices		
	US\$ millions	Share of Export in GDP (%)	Share of Imports in GDP (%)
Algeria	84268	0.59	0.40
Angola	24696	0.84	3.43
Benin	3672	4.04	6.91
Burkina Faso	4507	1.10	7.63
Burundi	741	1.03	8.91
Cameroon	14392	1.97	3.39
Cape Verde	880	0.10	3.44
CAR	1251	0.56	2.45
Chad	3936	0.30	2.08
Comoros	325	0.12	11.15
Congo DR	6424	1.16	9.65
Congo Rep	4801	1.49	2.22
Côte D'Ivoire	14356	12.60	8.15
Djibouti	664	30.88	15.20
Egypt	96544	0.70	0.75
Equatorial Guinea	4880	0.63	2.48
Ethiopia	11202	0.84	1.12

Country	GDP at market prices		
	US\$ millions	Share of Export in GDP (%)	Share of Imports in GDP (%)
Gabon	7101	2.24	2.21
Gambia	449	1.97	24.40
Ghana	8953	2.04	13.61
Guinea	3493	1.21	4.96
Guinea-Bissau	261	5.10	14.58
Kenya	17618	5.34	3.63
Liberia	550	6.39	21.47
Libya	35974	1.71	1.63
Madagascar	5063	0.70	3.60
Malawi	2593	4.88	16.89
Mali	4458	0.47	19.85
Mauritania	1666	8.68	6.71
Mauritius	5484	3.07	7.17
Morocco	52393	0.69	1.37
Mozambique	5507	5.19	14.72
Niger	2818	3.29	6.34
Nigeria	91676	3.28	1.12
Rwanda	2171	0.30	6.96
SACCA Excluding RSA	16820	0.98	0.15
São Tomé & Príncipe	102	0.29	3.61
Senegal	7362	6.02	6.38
Seychelles	696	2.50	10.77
Sierra Leone	1093	0.72	6.76
Somalia		N.A	N.A
South Africa	189995	3.12	1.03
Sudan	23949	0.18	0.75
Tanzania	11802	1.70	5.17
Togo	1852	11.99	6.46
Tunisia	26069	1.76	1.66
Uganda	7495	2.39	8.07
Zambia	6261	10.52	20.89
Zimbabwe	7420	18.89	35.24

**Source:** Our own calculation, ECA Research; N.A (non-available)

### 4.3.2 Assessment by merchandise exports in major product categories

This section examines African countries' exports to the African market relative to their global exports, based on selected major-project categories, according to the Standard International Trade Classification (SITC). The trade figures are compiled from the UNCTAD Handbook 2008, between 1995 and 2006, using the average of the export data during this period. Box 4.1 presents a comparative analysis of African countries' trade within the continent and with the rest of the world, based on the project categories. Table 4.10 presents data on Africa's share in each country's total exports to the world in the major project categories based on the SITC.

#### Box 4.1

##### *SITC project categories*

###### **Foods, Basic (SITC 0+22+4)**

0 – Food and live animals

00 – Live animals other than animals of division 03

01 – Meat and meat preparations

02 – Dairy products

03 – Fish (not marine mammals), crustaceans, mollusks and aquatic invertebrates, preparations thereof

04 – Cereals and cereal preparations

05 – Vegetables and fruits

06 – Sugars, sugar preparations and honey

07 – Coffee, tea, cocoa, spices and manufactures thereof

08 – Feeding stuff for animals (not including unmilled cereals)

09 – Miscellaneous edible products and preparations

22 – Oil Seeds and oleaginous fruits

4 – Animal and vegetable oils, fats and waxes

41 – Animal oils and fats

42 – Food vegetable fats and oils, crude, refined or fractionated

43 – Animal or vegetable fats and oils, processed; waxes of animal or vegetable origin; inedible mixtures or preparations of animal or vegetable fats or oil

###### **Beverages and Tobacco (SITC 1)**

11 – Beverages

12 – Tobacco and tobacco manufactures

###### **Ores, metals, precious stones and non-monetary gold (SITC 27+28+667+68+971)**

27 – Crude fertilizers other than those of division 56, and crude minerals (excluding coal, petroleum and precious stones)

28 – Metalliferous ores and metal scrap

667 – Pearls and precious or semi precious stones, unworked or worked

68 – Non-ferrous metals

971 – Gold, non-monetary (excluding gold ores and concentrates)

**Fuels (SITC 3)**

- 3 – Mineral fuels, lubricants and related materials
  - 32 – Coal, coke and briquettes
  - 33 – Petroleum, petroleum products and related materials
  - 34 – Gas, natural and manufactured
  - 35 – Electric current

**Manufactured Goods (SITC 6+8 excluding 667 and 68)**

- 6 – Manufactured goods classified chiefly by material
  - 61 – Leather, leather manufactures, and dressed fur skins
  - 62 – Rubber manufactures
  - 63 – Cork and wood manufactures (excluding furniture)
  - 64 – Paper, paperboard and articles of paper pulp, of paper or of paperboard
  - 65 – Textile yarn, fabrics, made-up articles, and related products
  - 66 – Non metallic mineral manufactures (Excluding 667- Pearls and precious or semiprecious stones, unworked and worked)
  - 67 – Iron and Steel(Excluding 68-Non ferrous metals)
  - 69 – Manufactures of metals

**Chemicals and Related Products (SITC 5)**

- 5-Chemicals and related products
  - 51 – Organic chemicals
  - 52 – Inorganic chemicals
  - 53 – Dyeing, tanning and coloring materials
  - 54 – Medicinal and pharmaceutical products
  - 55 – Essential oils and resinoids and perfume materials; toilet, polishing and cleansing preparations
  - 56 – Fertilizers (other than those of group 272)
  - 57 – Plastics in primary forms
  - 58 – Plastics in non-primary forms

**Machinery and Transport equipment (SITC 7)**

- 7-Machinery and Transport equipment
  - 71 – Power-generating machinery and equipment
  - 72 – Machinery specialized for particular industries
  - 73 – Metalworking machinery
  - 74 – General industrial machinery and equipment, and machine parts
  - 75 – Office machines and automatic data-processing machines
  - 76 – Telecommunications and sound-recording and reproducing apparatus and equipment
  - 77 – Electrical machinery, apparatus and appliances, and electrical parts thereof including non-electrical counterparts of electrical household-type equipment
  - 78 – Road vehicles (including air-cushion vehicles)



**Table 4.10*****Africa's per cent share of total exports based on average exports 1995-2006***

Country	Food Basics	Beverages & Tobacco	Ores, metals, precious stones	Fuels	Manufactured goods	Chemicals and related products	Machinery & transport equipment
Algeria	13.5	22.4	7.7	1.8	22.8	9.4	9.4
Angola	13.0	93.4	0.2	1.1	13.8	33.7	11.3
Benin	31.6	81.5	24.5	30.6	72.0	85.2	61.3
Botswana	43.9	99.1	4.4	99.9	59.1	98.2	86.3
Burkina Faso	55.7	83.4	4.4	69.1	36.1	69.0	49.6
Burundi	9.6	95.8	6.3	99.8	75.5	88.2	57.5
Cameroon	8.1	87.8	10.9	8.5	55.9	98.9	78.8
Cape Verde	14.3	56.8	6.2	33.8	2.4	2.6	5.2
Central African Republic	45.7	72.7	0.3	50.5	33.0	49.3	37.3
Chad	57.2	8.3	27.9	0.0	28.3	10.7	2.5
Comoros	0.9	87.6	76.3	100.0	33.3	1.5	15.2
Congo, Republic of	21.0	2.8	3.7	1.0	22.0	30.8	36.5
Congo - Kinshasa(DRC)	4.1	4.5	4.5	8.4	18.7	17.6	45.0
Côte d'Ivoire	9.0	96.5	10.2	62.0	49.1	97.0	28.9
Djibouti	33.3	30.0	49.6	79.2	40.7	25.9	47.5
Egypt	13.3	25.2	6.9	1.4	10.6	13.7	21.4
Equatorial Guinea	0.1	73.4	8.0	0.8	3.2	0.1	4.9
Eritrea	47.1	30.4	1.9	31.4	35.5	32.2	50.1
Ethiopia	9.0	20.4	1.1	58.9	2.9	11.8	21.2
Gabon	14.3	99.3	1.4	3.1	12.9	24.1	14.6
Gambia	26.0	74.7	37.4	74.5	67.7	88.5	30.9
Ghana	2.1	24.7	27.0	19.6	48.7	21.6	22.6
Guinea	3.9	57.0	0.4	9.0	13.4	16.4	44.6
Guinea Bissau	3.1	88.1	1.8	2.3	87.4	91.8	88.6
Kenya	22.9	77.7	38.3	79.1	73.2	86.8	79.7
Lesotho	99.0	100.0	34.9	99.7	14.7	98.6	99.2
Liberia	33.1	0.7	0.3	48.6	10.7	6.5	0.2
Libya	55.2	71.3	2.5	2.5	44.0	20.9	23.5
Madagascar	3.4	22.1	2.4	29.0	4.6	3.7	13.5
Malawi	35.8	15.4	86.4	93.7	70.5	93.7	69.8
Mali	90.4	80.7	51.4	87.4	74.1	80.2	56.8
Mauritania	16.8	0.0	2.9	7.5	8.6	3.7	33.4
Mauritius	3.1	47.2	9.4	43.3	7.7	63.3	13.9
Morocco	7.5	22.3	2.0	5.4	4.0	4.4	4.2

Country	Food Basics	Beverages & Tobacco	Ores, metals, precious stones	Fuels	Manufactured goods	Chemicals and related products	Machinery & transport equipment
Mozambique	23.4	53.3	0.9	78.1	60.1	29.5	65.6
Namibia	47.7	99.5	10.0	72.3	84.1	29.5	90.6
Niger	99.0	81.3	36.3	80.2	83.2	94.6	89.9
Nigeria	10.7	35.4	7.3	8.2	42.4	61.1	6.6
Rwanda	68.6	93.9	16.2	74.5	77.6	82.4	74.4
São Tomé & Príncipe	2.0	87.0	0.6	8.1	27.7	4.2	28.6
Senegal	22.1	81.7	27.4	41.8	80.1	41.2	47.2
Seychelles	1.1	22.0	77.1	0.3	6.9	0.7	2.8
Sierra Leone	1.0	7.7	0.2	79.0	6.2	11.1	3.3
South Africa	24.5	28.3	1.5	19.1	19.9	30.5	23.3
Sudan	12.6	28.5	0.7	0.7	2.7	90.7	7.4
Swaziland	90.2	99.7	99.6	100.0	62.3	91.8	96.2
Tanzania	15.1	17.7	18.3	78.1	60.9	73.3	80.2
Togo	48.6	86.8	15.2	33.5	91.5	7.7	42.1
Tunisia	21.6	18.9	11.3	0.6	5.3	15.8	6.8
Uganda	27.4	36.4	20.5	45.9	83.7	48.5	54.8
Zambia	68.7	78.7	18.5	92.9	38.5	73.8	93.5
Zimbabwe	61.1	13.4	38.3	98.7	42.1	85.3	84.6

Source: Compiled from UNCTAD Handbook, 2008.

Tables 4.11(a) and 4.11(b) reorganize the information in table 4.10 to show the rankings of countries under each product category. For instance, on basic foods, countries such as Lesotho, Niger, Mali and Swaziland export between 90 and 100 per cent of what they produce to the African market. Table 4.11 demonstrates that when it comes to beverages and tobacco, 25 African countries sell more than 70 per cent of their exports to other African countries. Three other countries target the African market for 50 per cent of their exports. This is the product category in which Africa appears to be a favorite export market for the majority of African countries. In the ores, metals and precious-stones category, Swaziland exports all its products to Africa, followed by Malawi (86 per cent), Seychelles (77 per cent) and the Comoros (76 per cent). In the fuel category, Africa appears to be a marginal export market for major oil producers such as Nigeria, Algeria, the Libyan Arab Jamahiriya, Angola, the Sudan, Gabon and Cameroon. Table 4.11(b) shows that Africa constitutes a significant export market for a number of countries in the product categories shown. For countries such as South Africa and Egypt, the African market constituted fewer than 25 per cent of their exports in manufactures and machinery and transport equipment.

**Table 4.11(a)*****Africa's average share in countries' exports by product, 2000-2007***

Countries	Basic Foods	Countries	Beverages & Tobacco	Countries	Ores, metals, precious stones	Countries	Fuels
Lesotho	99	Lesotho	100	Swaziland	100	Comoros	100
Niger	99	Swaziland	100	Malawi	86	Swaziland	100
Mali	90	Namibia	99	Seychelles	77	Botswana	100
Swaziland	90	Gabon	99	Comoros	76	Burundi	100
Zambia	69	Botswana	99	Mali	51	Lesotho	100
Rwanda	69	Côte d'Ivoire	96	Djibouti	50	Zimbabwe	99
Zimbabwe	61	Burundi	96	Zimbabwe	38	Malawi	94
Chad	57	Rwanda	94	Kenya	38	Zambia	93
Burkina Faso	56	Angola	93	Gambia	37	Mali	87
Libya	55	Guinea Bissau	88	Niger	36	Niger	80
Togo	49	Cameroon	88	Lesotho	35	Djibouti	79
Namibia	48	Comoros	88	Chad	28	Kenya	79
Eritrea	47	São Tomé & P	87	Senegal	27	Sierra Leone	79
CAR	46	Togo	87	Ghana	27	Tanzania	78
Botswana	44	Burkina Faso	83	Benin	25	Mozambique	78
Malawi	36	Senegal	82	Uganda	21	Rwanda	75
Djibouti	33	Benin	81	Zambia	19	Gambia	75
Liberia	33	Niger	81	Tanzania	18	Namibia	72
Benin	32	Mali	81	Rwanda	16	Burkina Faso	69
Uganda	27	Zambia	79	Togo	15	Côte d'Ivoire	62
Gambia	26	Kenya	78	Tunisia	11	Ethiopia	59
South Africa	24	Gambia	75	Cameroon	11	CAR	50
Mozambique	23	Equatorial Guinea	73	Cote d'Ivoire	10	Liberia	49
Kenya	23	CAR	73	Namibia	10	Uganda	46
Senegal	22	Libya	71	Mauritius	9	Mauritius	43
Tunisia	22	Guinea	57	Equatorial Guinea	8	Senegal	42
Congo, Rep	21	Cape Verde	57	Algeria	8	Cape Verde	34
Mauritania	17	Mozambique	53	Nigeria	7	Togo	34
Tanzania	15	Mauritius	47	Egypt	7	Eritrea	31
Gabon	14	Uganda	36	Burundi	6	Benin	31
Cape Verde	14	Nigeria	35	Cape Verde	6	Madagascar	29
Algeria	14	Eritrea	30	Congo, DR	5	Ghana	20
Egypt	13	Djibouti	30	Botswana	4	South Africa	19
Angola	13	Sudan	29	Burkina Faso	4	Guinea	9
Sudan	13	South Africa	28	Congo, Rep	4	Cameroon	9
Nigeria	11	Egypt	25	Mauritania	3	Congo, DR	8

Countries	Basic Foods	Countries	Beverages & Tobacco	Countries	Ores, metals, precious stones	Countries	Fuels
Burundi	10	Ghana	25	Libya	2	Nigeria	8
Ethiopia	9	Algeria	22	Madagascar	2	São Tomé & Príncipe	8
Côte d'Ivoire	9	Morocco	22	Morocco	2	Mauritania	7
Cameroon	8	Madagascar	22	Eritrea	2	Morocco	5
Morocco	7	Seychelles	22	Guinea Bissau	2	Gabon	3
Congo, DR	4	Ethiopia	20	South Africa	1	Libya	3
Guinea	4	Tunisia	19	Gabon	1	Guinea Bissau	2
Madagascar	3	Tanzania	18	Ethiopia	1	Algeria	2
Guinea Bissau	3	Malawi	15	Mozambique	1	Egypt	1
Mauritius	3	Zimbabwe	13	Sudan	1	Angola	1
Ghana	2	Chad	8	Sao Tome & P	1	Congo, Rep.	1
São Tomé & Príncipe	2	Sierra Leone	8	Guinea	0	Equatorial Guinea	1
Seychelles	1	Congo, DR	5	Liberia	0	Sudan	1
Sierra Leone	1	Congo, Rep.	3	CAR	0	Tunisia	1
Comoros	1	Liberia	1	Sierra Leone	0	Seychelles	0
Equatorial Guinea	0	Mauritania	0	Angola	0	Chad	0

Source: Based on table 4.10

**Table 4.11(b)**

*Africa's average share in countries' exports by product, 2000-2007*

Countries	Manufactured goods	Countries	Chemicals and related products	Countries	Machinery & transport equipment
Togo	91	Cameroon	99	Lesotho	99
Guinea Bissau	87	Lesotho	99	Swaziland	96
Namibia	84	Botswana	98	Zambia	94
Uganda	84	Côte d'Ivoire	97	Namibia	91
Niger	83	Niger	95	Niger	90
Senegal	80	Malawi	94	Guinea Bissau	89
Rwanda	78	Guinea Bissau	92	Botswana	86
Burundi	75	Swaziland	92	Zimbabwe	85
Mali	74	Sudan	91	Tanzania	80
Kenya	73	Gambia	89	Kenya	80
Benin	72	Burundi	88	Cameroon	79
Malawi	70	Kenya	87	Rwanda	74
Gambia	68	Zimbabwe	85	Malawi	70
Swaziland	62	Benin	85	Mozambique	66
Tanzania	61	Rwanda	82	Benin	61
Mozambique	60	Mali	80	Burundi	58

Countries	Manufactured goods	Countries	Chemicals and related products	Countries	Machinery & transport equipment
Botswana	59	Zambia	74	Mali	57
Cameroon	56	Tanzania	73	Uganda	55
Côte d'Ivoire	49	Burkina Faso	69	Eritrea	50
Ghana	49	Mauritius	63	Burkina Faso	50
Libya	44	Nigeria	61	Djibouti	47
Nigeria	42	CAR	49	Senegal	47
Zimbabwe	42	Uganda	49	Congo, DR	45
Djibouti	41	Senegal	41	Guinea	45
Zambia	39	Angola	34	Togo	42
Burkina Faso	36	Eritrea	32	CAR	37
Eritrea	35	Congo, Rep	31	Congo, Rep	36
Comoros	33	South Africa	30	Mauritania	33
CAR	33	Namibia	30	Gambia	31
Chad	28	Mozambique	29	Côte d'Ivoire	29
São Tomé & P	28	Djibouti	26	Sao Tome & P	29
Algeria	23	Gabon	24	Libya	24
Congo, DR	22	Ghana	22	South Africa	23
South Africa	20	Libya	21	Ghana	23
Congo, Rep	19	Congo, DR	18	Egypt	21
Lesotho	15	Guinea	16	Ethiopia	21
Angola	14	Tunisia	16	Comoros	15
Guinea	13	Egypt	14	Gabon	15
Gabon	13	Ethiopia	12	Mauritius	14
Liberia	11	Sierra Leone	11	Madagascar	13
Egypt	11	Chad	11	Angola	11
Mauritania	9	Algeria	9	Algeria	9
Mauritius	8	Togo	8	Sudan	7
Seychelles	7	Liberia	7	Tunisia	7
Sierra Leone	6	Morocco	4	Nigeria	7
Tunisia	5	São Tomé & P	4	Cape Verde	5
Madagascar	5	Madagascar	4	Equatorial Guinea	5
Morocco	4	Mauritania	4	Morocco	4
Equatorial Guinea	3	Cape Verde	3	Sierra Leone	3
Ethiopia	3	Comoros	2	Seychelles	3
Sudan	3	Seychelles	1	Chad	3
Cape Verde	2	Equatorial Guinea	0	Liberia	0

Source: Based on table 4.10

### 4.3.3 Intra-African trade potential

This section covers Africa's potential to supply its import needs from its own sources in the different product categories. Its data are based on average trade flows between 1995 and 2006 in terms of Africa's exports to the world (including to Africa) and its imports from the rest of the world.

Table 4.12 shows that between 1995 and 2006, Africa exported on average about US\$15 billion worth of goods in the basic food category against imports of about US\$21 billion. This information suggests that Africa registered negative terms of trade in this product category. Matching Africa's exports to the rest of the world against its imports from the world in this category also suggests a certain deficit in basic foods or lack of self-sufficiency in this product category (see box 4.2 on efforts to improve the situation). Similar tendencies occur in terms of manufactured goods, machinery, transportation equipment and chemical products.

However, the continent appears to be well-endowed in the categories relating to beverages and tobacco, and ores, metals and precious stones. It also appears to have a huge endowment in the fuels product category, where its world exports exceed its imports by a significant margin. This implies that Africa is more than capable of supplying its import needs in fuel.

**Table 4.12**

*Africa's world exports and imports: Average trade figures in US\$, 1995-2006*

Product Categories	Exports to World	Imports from World	Difference
Basic food	14,875,274	21,052,701	-6,177,427
Beverages and tobacco	1,934,175	1,653,717	280,458
Ores, metals, precious stones	19,304,114	3,931,312	15,372,801
Fuels	81,278,815	17,188,542	64,090,273
Manufactured goods	19,442,801	34,861,887	-15,419,085
Chemical products	6,829,963	16,684,141	-9,854,178
Machinery and transport equipment	9,685,665	53,868,421	-44,182,756
Product total	153,350,808	149,240,722	4,110,086

*Source: Compiled from UNCTAD Handbook 2008*

## Box 4.2

### *Strengthening agricultural production and intra-African trade in strategic agricultural commodities through regional value chains*

Africa was a net exporter until the mid-1960s. Since then, African agriculture has failed to keep up with the increasing food demands of its rapidly growing population or to generate employment and income opportunities to reduce poverty significantly.

Africa's rural landscape is still marked by smallholder subsistence farms, low technology and weak, knowledge-based agricultural production systems, owing to the lack of development or appropriate technology and the extreme paucity in basic support infrastructure. Input and product markets are incomplete, and have weak infrastructure and information and communication support services. They are poorly integrated at all levels. Private investment in farming systems and market chains is inhibited by the lack of sustainable financial structures that could respond to the needs and demands of rural communities.

Agricultural productivity in Africa is vital to attaining food security. Agriculture represents 70 per cent of the continent's full-time employment, 33 per cent of its GDP and 40 per cent of its export earnings. Thus it is also a key engine of economic growth. Yet for more than two decades, it has suffered from a lack of consistency in the degree and the course of priority given to the development of the sector. African agriculture is today one of the most undercapitalized in the world.

On the output side, it is estimated that about 20 to 25 per cent of Africa's agricultural production is marketed, and only 10 to 15 per cent of total agricultural production is processed. This contrasts with the region's sizeable and increasingly effective demand for imported processed food and agricultural products from outside of the continent. Rapid population growth and urbanization (with 50 to 60 per cent of the total population projected to live in cities by 2025) contribute to increasing the resulting import bill, as the gap between aggregate domestic (regional) production and demand translates into the demand for processed food and agricultural products that fit the evolving urban consumption patterns.

These challenges are compounded by the very nature of the African agricultural market, which is extremely fragmented along subregional, national and even subnational borders, resulting in segmented markets too small to ensure the profitability of optimal-scale private investment in the different stages of the commodity chains described above. Paradoxically, while being largely closed to each other, these markets are increasingly open to trade with the outside world.

Thus the gap between national/subregional domestic production and increasing regional demand tends to be filled by imports from non-African sources. Conversely, the fragmented national food and agriculture systems strive to produce for exports aimed primarily at international markets. Worse, agricultural subsidies and support measures of key trading partners of Africa typically encourage the continent's imports and hinder its exports. Charity should begin at home: With an annual food and agricultural import bill of US\$ 33 billion, the biggest challenge that Africa probably faces in the area of market access is in granting its own (domestic) food and agricultural systems full access to the intra-African market.

The Resolution of the Abuja Food Security Summit\* identifies nine continental strategic commodities (rice, legumes, maize, cotton, oil palm, beef, dairy, poultry and fisheries products) and some regional strategic commodities (cassava, sorghum and millet). For such selected strategic commodities, building a Common African Market (CAM) that transcends national and subregional borders would offer an appropriate economic space for private investments at the level of regional economies of scale that would ensure profitability. Hence, for those strategic food/agricultural commodity chains, market integration must encompass the global regional market: a single, common African market.

The emergence and development of vibrant, private regional agro-industrial sectors capable of adding maximum value to and raising the competitiveness of agricultural commodities is lagging because of delays in establishing enabling policy and institutional environments. As a result, food-surplus areas face difficulties in supplying food-deficit ones regionally, and the growing urban demand for food and agricultural products tends to be mostly met by imports from outside of the continent.

UNECA, in the Comprehensive Africa Agriculture Development Program (CAADP) framework, has launched an initiative to develop and promote strategic commodity regional value chains in Africa. Its mission is to enable effective public-private partnerships to play a significant role in developing a vibrant agribusiness sector capable of capturing untapped opportunities such as economies of scale, intra-regional complementarities and trade, and economies of transactions in cross-border investment.

Well-functioning value chains in selected food and agricultural sub-sectors will contribute significantly to improved access to markets. To remain competitive in global trade, the small and medium enterprises (SMEs) must be integrated in the global value chain as suppliers or major players. The SCRVC approach takes a systematic view to improve the market performance of a subsector by analyzing the various functions and processes and the different actors involved. In a highly competitive business environment, organizing the stakeholders to plan and implement activities that address the constraints of a particular subsector becomes imperative. Value chains are instruments to improve quality and productivity as well as the cost efficiency of subsectors. Promoting value chains spurs economic development and creates linkages and interaction among stakeholders, thus combining entrepreneurial development at the micro-level with institutional change at all levels.

*\* Resolution of the Abuja Food Security Summit (FS/Res (I)), Summit on Food Security in Africa, December 4-7, 2006, Abuja, Nigeria. [http://www.africaunion.org/root/au/Conferences/Past/2006/December/REA/summit/doc/Abuja\\_Res\\_Final\\_Eng\\_tracked.doc](http://www.africaunion.org/root/au/Conferences/Past/2006/December/REA/summit/doc/Abuja_Res_Final_Eng_tracked.doc)*

In the next section, we examine the scope of each country's potential trade within Africa in the context of table 4.12. annex 4.5 provides the information on the individual countries. Its matrix is explained as follows:

- Column 1 presents the country's exports to Africa;
- Column 2 presents the country's exports to the world;
- Column 3 presents Africa's share in the country's total exports;
- Column 4 presents Africa's imports from the world;
- Column 5 contains calculations indicating each country's potential to export to the African region, given the country's global export capacity measured in terms of its total exports to the world;
- Column 6 is the same as column 5 in percentage terms; and
- Column 7 also contains calculations to match the country's exports to the world against Africa's imports from the world, to show the country's capability to meet Africa's import needs in that particular product category.

As annex 4.5 indicates, there is great potential for African countries to export their products to the rest of Africa should they choose to do so. The reason that Africa



is not a favorite export destination for the countries is likely due to several factors including poor infrastructure, communication and trade bottlenecks.

Only a few countries had Africa's share in their total export trade equal or exceed 40 per cent on average between 1995 and 2006: Benin (41 per cent), Burkina Faso (49 per cent), Djibouti (43 per cent), Kenya (49 per cent), Mali (57 per cent), the Niger (65 per cent), Senegal (40 per cent), Sierra Leone (85 per cent) and Togo (44 per cent). Nevertheless, they represented only 10 per cent of the total value of exports to Africa. Disregarding Kenya's exports to Africa, they constituted only about five percent.

Indeed, in value terms, the leading exporters to Africa were South Africa (27 per cent), Nigeria (11 per cent), Côte d'Ivoire (8 per cent), Swaziland (6 per cent) and Kenya (6 per cent). Together they constitute about 58 per cent of the value of the total exports to Africa by African countries.

## 4.4 Conclusions and Key Messages

The following facts emerge from this analysis of Africa's trade flows and patterns:

- In each REC, intra-REC exports and imports tend to be dominated by a few countries;
- South Africa dominates exports to Africa. Other top exporters to the African market are Nigeria and Côte d'Ivoire;
- The EU and USA are major export destinations for Africa. Both markets constitute at least 50 percent of the exports for a number of RECs, and more than 60 per cent in many others;
- Asia and China in particular, are also important export markets for the RECs;
- As in the case of exports, the major sources of imports to Africa are outside the African continent;
- Africa's export trade represents just under 3 per cent of world trade;
- Africa constituted only 2 per cent of total world imports;
- These statistics confirm the well-known fact that Africa holds an infinitesimal share of the global trade market;
- Intra-REC exports in general registered an average growth rate of 15 per cent;
- Growth in intra-Africa exports was 25 per cent, suggesting that trade confined within the RECs appears to be less optimal than trade at the Africa-

wide level. The lesson in this is to redouble efforts to harmonize community markets to create a larger Africa-wide marketplace, given that trading interests of countries are not necessarily confined inside REC borders;

- Growth in intra-African trade outpaced the growth in Africa's trade with the rest of the world by about 10 per cent;
- Africa has a potential to supply its import needs from its own sources in some project categories, particularly fuels, beverages and tobacco, and in ores, metals and precious stones; and
- The continent shows some lack of capacity to be self-sufficient in basic foods.

The present chapter has focused mainly on trade in goods in the formal economy, for which data are readily available. It has not included trade in the informal economy, for which statistics are elusive. Yet in Africa the informal economy accounts for a significant proportion of economic activities and large sections of the population depend on it for their survival. It is estimated, for instance, that about 60 to 70 per cent of African families are sustained by the informal economy either directly as operators or indirectly as beneficiaries of the services of the sector. A significant level of cross-border trade also is believed to occur within the informal economy that is not captured by official records. If such trade were accounted for, the figures for intra-African trade would likely be much greater than the current trend of 10 per cent.

In view of the important economic part it plays, chapter 5 is devoted to the role of the informal economy in intra-African trade, drawing on two case studies involving the West African and eastern African subregions.

# Annexes

## Annex 4.1

### Intra-REC exports by country in millions of US\$

	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
<b>CEMAC</b>	<b>95.9</b>	<b>116.8</b>	<b>133.6</b>	<b>145.8</b>	<b>173.6</b>	<b>198.4</b>	<b>245.2</b>	<b>304.3</b>	<b>176.7</b>
Cameroon	57.0	61.3	92.8	121.8	143.4	163.8	202.5	251.3	136.7
Central African Republic	0.3	0.4	0.4	0.5	0.6	0.7	0.9	1.1	0.6
Chad	4.2	2.3	2.7	3.1	4.1	4.7	5.8	7.2	4.3
Congo, Republic of.	3.9	3.4	30.2	13.9	18.8	21.5	26.6	33.0	18.9
Equatorial Guinea	19.6	36.5	0.2	0.4	0.2	0.3	0.4	0.4	7.3
Gabon	10.8	12.9	7.3	6.0	6.5	7.4	9.1	11.3	8.9
<b>CENSAD</b>	<b>4017.2</b>	<b>3577.3</b>	<b>4670.6</b>	<b>4865.4</b>	<b>6469.8</b>	<b>8433.2</b>	<b>9099.3</b>	<b>11555.5</b>	<b>6586.0</b>
Benin	26.9	46.2	70.8	49.0	68.9	70.5	94.8	118.6	68.2
Burkina Faso	22.3	26.1	27.3	39.5	61.3	53.4	67.3	83.9	47.6
Central African Republic	1.3	1.6	1.7	1.7	2.0	2.3	2.2	2.7	1.9
Chad	7.5	7.4	5.0	8.7	7.2	7.4	9.1	11.3	7.9
Comoros	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Côte d'Ivoire	945.4	923.3	1275.4	999.4	1498.3	1830.6	1812.7	2418.6	1463.0
Djibouti	80.2	88.5	96.1	121.7	159.8	182.8	225.6	280.2	154.4
Egypt	175.0	153.6	223.6	347.7	478.5	757.6	833.2	1011.4	497.6
Eritrea									
Gambia, The	1.2	0.7	1.0	1.0	2.7	2.8	1.8	2.4	1.7
Ghana	64.0	72.9	98.9	125.6	144.5	151.0	123.0	244.0	128.0
Guinea	9.3	5.2	18.4	57.8	7.5	23.2	26.8	33.4	22.7
Guinea Bissau	1.7	2.0	4.1	14.2	15.9	20.3	25.4	32.8	14.5
Liberia	10.8	8.7	10.1	11.5	12.5	12.8	15.7	19.5	12.7
Libya	430.3	412.5	418.9	453.1	513.9	718.0	889.8	1093.9	616.3
Mali	12.6	9.3	9.8	12.9	14.6	15.6	17.2	21.6	14.2
Morocco	216.8	233.6	252.4	258.1	271.3	298.8	356.3	465.5	294.1
Niger	95.1	73.6	74.2	82.3	69.6	80.4	98.3	126.6	87.5
Nigeria	1377.3	820.0	1208.5	1100.2	1901.5	2583.8	2712.5	3321.7	1878.2
Senegal	154.0	173.4	247.1	392.4	440.6	545.2	523.4	665.6	392.7
Sierra Leone	3.2	1.3	1.1	2.0	1.9	4.8	2.8	5.2	2.8
Somalia	6.8	7.5	11.1	6.6	8.7	10.1	12.7	15.8	9.9
Sudan	7.6	9.2	8.7	52.2	24.7	64.2	109.3	65.2	42.6
Togo	66.8	131.7	145.5	235.7	250.9	257.3	257.5	384.5	216.2
Tunisia	301.1	369.1	461.0	491.9	512.9	740.6	881.8	1131.0	611.2

	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
<b>CEPGL</b>	<b>10.2</b>	<b>10.9</b>	<b>13.0</b>	<b>14.5</b>	<b>19.1</b>	<b>21.8</b>	<b>24.4</b>	<b>30.3</b>	<b>18.0</b>
Burundi	2.0	2.4	3.6	2.5	3.2	3.7	4.0	4.9	3.3
Congo, Democratic Republic of	6.3	6.9	7.3	9.9	12.9	14.8	16.7	20.7	11.9
Rwanda	1.9	1.6	2.0	2.2	2.9	3.3	3.8	4.7	2.8
<b>COMESA</b>	<b>2118.9</b>	<b>2074.4</b>	<b>2352.6</b>	<b>2796.9</b>	<b>3541.3</b>	<b>4628.9</b>	<b>3454.8</b>	<b>4570.8</b>	<b>3192.3</b>
Burundi	20.4	16.2	15.8	15.2	5.4	10.8	8.8	14.6	13.4
Comoros	0.1	0.2	0.2	0.9	0.4	0.2	0.3	0.3	0.3
Congo, Democratic Republic of	22.1	98.6	17.6	31.2	38.8	50.4	87.8	183.5	66.2
Djibouti	21.5	45.1	55.2	60.5	58.0	59.8	73.0	90.9	58.0
Egypt	134.9	127.7	154.6	240.3	387.6	586.8	718.6	857.4	401.0
Eritrea									
Ethiopia	87.1	156.2	106.1	150.5	96.7	139.7	98.2	121.6	119.5
Kenya	604.3	536.2	631.4	727.9	935.8	1075.0	1241.6	1555.0	913.4
Libya	422.1	458.9	428.9	558.3	639.2	1080.6	106.3	148.8	480.4
Madagascar	22.9	28.9	21.2	53.2	37.9	22.4	20.2	24.3	28.9
Malawi	25.4	38.4	41.5	59.6	70.4	85.8	140.2	170.7	79.0
Mauritius	113.2	134.3	120.5	167.7	154.0	166.9	131.6	161.6	143.7
Rwanda	3.0	2.1	3.3	2.8	4.3	4.5	5.1	6.3	3.9
Seychelles	2.1	3.7	2.8	0.5	13.5	18.2	32.7	37.6	13.9
Sudan	39.7	59.9	64.7	125.7	115.5	137.7	152.5	85.9	97.7
Swaziland									
Uganda	185.8	169.0	168.5	213.5	195.1	218.6	138.9	155.6	180.6
Zambia	166.2	141.3	123.2	165.1	515.5	782.9	281.6	625.9	350.2
Zimbabwe	248.1	57.7	397.1	224.0	273.4	188.5	217.5	330.7	242.1
<b>EAC</b>	<b>689.4</b>	<b>533.3</b>	<b>589.8</b>	<b>720.1</b>	<b>945.7</b>	<b>1080.6</b>	<b>1278.9</b>	<b>1587.1</b>	<b>928.1</b>
Burundi	8.2	5.7	9.3	2.9	3.9	4.4	5.5	6.8	5.8
Kenya	520.9	402.5	440.4	524.6	689.0	787.2	1123.3	1394.0	735.2
Rwanda	1.6	0.9	2.1	1.3	1.6	1.9	2.2	2.7	1.8
Tanzania	79.3	53.7	51.7	76.2	100.0	114.3	66.8	82.8	78.1
Uganda	79.3	70.5	86.4	115.1	151.2	172.8	81.2	100.7	107.2
<b>ECCAS</b>	<b>2181.2</b>	<b>2194.4</b>	<b>2188.9</b>	<b>2187.3</b>	<b>2224.7</b>	<b>2257.2</b>	<b>2332.8</b>	<b>2416.8</b>	<b>2247.9</b>
Angola	4.0	6.5	3.2	2.1	2.4	2.8	3.4	4.2	3.6
Burundi	0.0	0.3	0.6	0.3	0.4	0.5	4.0	4.9	1.4
Cameroon	102.5	103.1	106.0	124.2	146.5	167.4	207.0	257.8	151.8
Central African Republic	2.7	3.0	3.3	4.2	5.4	6.1	7.6	9.4	5.2
Chad	4.2	2.3	2.7	3.1	4.1	4.7	5.8	7.2	4.3
Congo, Democratic Republic of	4.9	4.9	7.3	8.6	6.9	7.8	24.0	29.8	11.8

	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
Congo, Republic of	22.0	12.3	43.9	19.6	27.4	31.3	38.7	48.1	30.4
Equatorial Guinea	19.6	36.5	0.2	0.4	0.2	0.3	0.4	0.4	7.3
Gabon	21.2	24.4	19.7	21.8	27.2	31.1	35.9	47.8	28.7
São Tomé and Príncipe	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
<b>ECOWAS</b>	<b>2714.9</b>	<b>2241.5</b>	<b>3135.7</b>	<b>3037.2</b>	<b>4363.1</b>	<b>5506.1</b>	<b>5957.4</b>	<b>7341.0</b>	<b>4287.1</b>
Benin	19.2	40.1	61.6	44.7	62.4	65.2	87.4	109.3	61.2
Burkina Faso	17.7	21.8	23.9	35.7	55.6	47.8	58.9	73.2	41.8
Cape Verde	0.1	0.1	0.6	0.1	0.1	0.1	0.1	0.1	0.2
Côte d'Ivoire	912.6	902.6	1252.0	956.6	1461.6	1805.4	1917.5	2411.7	1452.5
Gambia, The	1.3	0.7	1.0	1.0	2.7	2.8	1.9	2.4	1.7
Ghana	59.6	69.9	96.9	121.6	138.6	144.4	189.6	237.5	132.3
Guinea	2.1	4.4	13.1	56.9	6.5	16.6	18.7	23.2	17.7
Guinea-Bissau	1.4	2.0	4.1	14.2	15.9	20.3	25.5	33.0	14.6
Liberia	6.3	6.9	8.3	9.6	12.0	11.1	13.5	16.9	10.6
Mali	6.7	5.9	4.7	4.2	6.4	6.6	7.7	9.6	6.5
Niger	94.1	72.7	73.5	81.6	68.8	79.4	97.4	125.1	86.6
Nigeria	1375.0	817.9	1208.1	1092.2	1857.1	2565.0	2729.6	3292.9	1867.2
Senegal	151.1	167.9	245.6	387.6	428.6	490.0	508.0	630.7	376.2
Sierra Leone	3.2	0.3	0.7	1.0	1.6	4.5	3.8	4.7	2.5
Togo	64.7	128.3	141.6	230.2	245.0	246.8	297.9	370.7	215.7
<b>IGAD</b>	<b>638.8</b>	<b>676.2</b>	<b>663.6</b>	<b>874.9</b>	<b>951.4</b>	<b>1165.7</b>	<b>1281.5</b>	<b>1545.8</b>	<b>974.7</b>
Djibouti	100.8	133.0	150.9	182.0	217.3	242.0	298.4	370.6	211.9
Eritrea									
Ethiopia	52.4	121.4	56.6	128.1	40.9	75.6	80.9	99.7	81.9
Kenya	416.0	348.6	386.0	448.8	564.5	645.1	793.9	992.3	574.4
Somalia	0.5	0.5	0.5	1.0	1.0	1.3	3.0	3.2	1.4
Sudan	1.5	2.0	2.0	22.7	3.7	57.3	50.3	28.5	21.0
Uganda	67.7	70.6	67.6	92.5	123.9	144.5	55.0	51.4	84.1
<b>IOC</b>	<b>2106.0</b>	<b>2135.2</b>	<b>2107.4</b>	<b>2182.1</b>	<b>2158.9</b>	<b>2164.1</b>	<b>2178.1</b>	<b>2210.8</b>	<b>2155.3</b>
Comoros	0.0	0.1	0.1	0.8	0.3	0.2	0.3	0.3	0.3
Madagascar	21.1	26.5	17.8	46.7	34.3	17.5	18.7	22.2	25.6
Mauritius	82.7	103.9	84.7	131.2	114.0	132.5	122.9	147.4	114.9
Seychelles	2.1	3.7	2.8	0.4	6.4	8.9	30.2	33.9	11.0
<b>MRU</b>	<b>5.2</b>	<b>4.3</b>	<b>4.7</b>	<b>5.5</b>	<b>5.7</b>	<b>6.5</b>	<b>8.0</b>	<b>8.7</b>	<b>6.1</b>
Guinea	0.9	3.0	3.3	1.9	2.7	3.1	3.9	3.5	2.8
Liberia	1.3	1.3	1.4	3.4	2.4	2.8	3.4	4.2	2.5
Sierra Leone	3.1	0.0	0.0	0.2	0.5	0.6	0.8	0.9	0.8

	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
<b>SADC</b>	<b>4295.9</b>	<b>3881.2</b>	<b>4329.0</b>	<b>5484.2</b>	<b>6508.0</b>	<b>7453.5</b>	<b>8465.7</b>	<b>11677.7</b>	<b>6511.9</b>
Angola	9.8	1.4	11.4	2.3	260.9	296.3	366.2	1659.9	326.0
Congo, Democratic Republic of	10.6	90.4	7.6	18.8	26.6	31.6	65.4	162.0	51.6
Madagascar	22.0	26.2	16.6	60.5	32.5	15.6	16.1	22.5	26.5
Malawi	52.9	50.3	57.4	86.1	110.8	127.0	166.7	187.2	104.8
Mauritius	96.0	117.8	102.1	154.6	141.3	148.1	158.4	194.8	139.1
Mozambique	129.5	157.4	170.6	235.8	283.7	386.4	470.8	526.1	295.0
SACCA Excl. South Africa							87.0	108.0	97.5
South Africa	3168.4	2966.7	2990.9	3574.3	4055.0	4911.8	5188.8	6406.2	4157.8
Tanzania	51.2	33.0	73.0	92.9	126.8	176.0	190.9	195.7	117.4
Zambia	292.7	281.4	305.4	417.3	754.4	677.4	1283.0	1011.4	627.9
Zimbabwe	463.0	156.5	594.0	841.6	716.0	683.3	472.3	1204.0	641.3
<b>UEMOA</b>	<b>740.6</b>	<b>775.1</b>	<b>857.2</b>	<b>1076.1</b>	<b>1233.1</b>	<b>1390.2</b>	<b>1544.9</b>	<b>1917.2</b>	<b>1191.8</b>
Benin	10.9	11.5	12.3	27.0	40.0	47.9	66.1	82.0	37.2
Burkina Faso	8.7	12.0	12.3	20.9	36.2	25.4	31.2	38.7	23.2
Côte d'Ivoire	593.5	554.3	559.7	551.9	662.4	790.5	871.9	1082.0	708.3
Guinea-Bissau	0.3	0.7	0.9	0.9	0.2	0.3	0.8	1.0	0.6
Mali	6.3	4.8	4.6	3.7	5.7	5.7	6.6	8.2	5.7
Niger	11.5	7.9	10.8	12.0	9.1	4.6	5.0	6.2	8.4
Senegal	86.1	111.2	174.2	299.4	307.5	360.8	379.0	470.3	273.6
Togo	23.2	72.7	82.3	160.3	172.1	154.9	184.3	228.8	134.8
<b>UMA</b>	<b>1094.3</b>	<b>1136.9</b>	<b>1202.5</b>	<b>1338.2</b>	<b>1374.6</b>	<b>1885.7</b>	<b>2477.5</b>	<b>3076.1</b>	<b>1698.2</b>
Algeria	255.2	268.0	244.0	299.9	242.7	445.5	619.3	746.7	390.2
Libya	343.5	360.2	339.3	382.2	428.8	589.3	742.7	895.9	510.2
Mauritania	1.1	5.2	6.0	7.2	10.1	11.1	12.8	16.5	8.7
Morocco	142.0	137.1	162.1	136.2	155.5	137.4	177.2	224.6	159.0
Tunisia	352.5	366.5	451.1	512.6	537.5	702.4	925.5	1192.5	630.1

Source: Compiled from IMF DOT, February 2009.

## Annex 4.2

### Overall direction of exports, 2000-2007, averaged in millions of US\$

	INTRA-REC	ROA	ASIA	CHINA	EU	JAPAN	USA	ROW	WORLD
<b>CEMAC</b>									
Cameroon	136.7	157.7	116.5	312.4	1970.6	6.9	170.8	185.0	3056.5
Central African Republic	0.6	6.6	4.7	13.3	109.3	1.6	3.5	6.1	145.8
Chad	4.3	4.9	92.3	43.1	56.2	24.2	732.7	20.2	977.8
Congo, Republic of	18.9	48.4	1020.6	877.4	268.8	9.8	1063.8	319.2	3626.9
Equatorial Guinea	7.3	10.5	918.9	379.7	1322.4	28.8	996.8	435.2	4099.7
Gabon	8.9	154.0	441.5	322.2	726.7	71.1	1920.1	676.0	4320.5
Total	176.7	382.1	2594.5	1948.1	4453.9	142.5	4887.7	1641.7	16227.1
<b>CEN-SAD</b>									
Benin	68.2	45.5	58.6	83.1	44.3	0.1	1.0	30.4	331.2
Burkina Faso	47.6	3.2	76.8	91.4	47.0	9.4	1.9	23.7	301.2
Central African Republic	1.9	5.3	4.7	13.3	109.3	1.6	3.5	6.0	145.8
Chad	7.9	1.2	92.3	43.1	56.2	24.2	735.7	17.2	977.8
Comoros	0.1	0.3	0.1	4.4	15.5	0.7	5.0	3.4	29.4
Côte d'Ivoire	1463.0	360.6	46.6	248.5	2842.6	10.6	543.2	537.2	6052.3
Djibouti	154.4	57.9	1.5	5.3	13.2	0.1	1.6	31.8	265.7
Egypt	497.6	186.2	200.6	822.4	4840.8	334.3	1441.8	3939.6	12263.3
Eritrea				0.0				0.0	
Gambia	1.7	6.6	1.6	9.9	15.9	0.9	0.3	1.3	38.3
Guinea	14.5	0.2	49.3	129.9	1052.7	35.3	160.0	726.3	2168.3
Guinea Bissau	128.0	48.2	15.2	82.3	405.8	0.4	77.7	186.5	944.1
Ghana	22.7	18.1	0.2	79.0	5.0	0.1	3.6	13.8	142.4
Liberia	12.7	24.8	22.6	119.6	800.8	2.5	73.7	57.0	1113.7
Libyan Arab Jamahiriya	616.3	38.4	536.6	177.0	17675.7	8.9	928.7	2410.8	22392.4
Mali	14.2	4.7	44.8	82.1	68.1	0.3	5.4	27.4	246.9
Morocco	294.1	85.6	173.5	652.6	7064.0	211.1	349.4	1330.4	10160.7
Niger	87.5	0.4	0.2	1.6	114.0	12.0	23.6	18.1	257.4
Nigeria	1878.2	1167.2	272.3	2570.9	7591.3	705.6	16152.7	4341.4	34679.7
Senegal	392.7	68.2	15.2	144.8	359.2	9.9	7.9	176.0	1173.8
Sierra Leone	2.8	4.6	1.4	4.5	121.1	1.3	16.4	8.0	160.2
Somalia	9.9	0.3	3.1	16.4	2.1	0.4	0.3	154.9	187.5
Sudan	42.6	10.0	2640.6	168.2	180.2	469.1	5.3	356.6	3872.7
Togo	216.2	15.6	11.6	45.9	69.7	0.2	3.3	27.1	389.6
Tunisia	611.2	74.2	24.7	154.6	7336.7	40.8	140.3	793.2	9175.7
Total	6586.0	2227.5	4294.0	5750.7	50831.0	1879.9	20682.4	15218.3	107469.9
<b>CEPGL</b>									

	INTRA-REC	ROA	ASIA	CHINA	EU	JAPAN	USA	ROW	WORLD
Burundi	3.3	4.8	0.1	2.9	18.0	0.2	0.4	21.6	51.2
Democratic Republic of Congo	11.9	66.9	130.3	7.9	847.1	7.9	169.7	91.5	1333.2
Rwanda	2.8	3.6	16.5	55.8	33.5	15.0	6.1	55.9	189.2
Total	18.0	75.3	146.9	66.6	898.6	23.1	176.2	168.9	1573.6
<b>COMESA</b>									
Burundi	13.4	5.3	0.1	2.9	18.0	0.2	0.4	15.6	55.8
Comoros	0.3	0.1	0.1	4.4	15.5	0.7	5.0	3.4	29.4
Democratic Republic of Congo	66.2	12.6	130.3	7.9	847.1	7.9	169.7	83.3	1325.1
Djibouti	58.0	104.3	1.5	5.3	13.2	0.1	1.6	81.8	265.7
Egypt	401.0	268.6	200.6	822.4	4840.8	334.3	1441.8	3953.8	12263.3
Eritrea				0.0				0.0	
Ethiopia	119.5	23.0	40.8	63.1	224.3	61.4	37.8	90.9	660.9
Kenya	913.4	195.7	31.8	279.8	821.1	25.9	150.4	580.4	2998.6
Libya	480.4	77.7	536.6	177.0	17675.7	8.9	928.7	2507.4	22392.4
Madagascar	28.9	6.1	20.8	54.0	497.4	23.7	246.5	45.7	923.0
Malawi	79.0	56.8	0.7	20.5	184.9	24.8	70.3	93.7	530.7
Mauritius	143.7	25.9	13.3	42.9	1207.2	14.2	260.1	113.7	1821.1
Rwanda	3.9	2.4	16.5	55.8	33.5	0.4	6.1	70.5	189.2
Seychelles	13.9	4.2	1.7	5.5	210.0	20.7	3.9	8.0	267.9
Sudan	97.7	40.6	2640.6	168.2	180.2	369.1	5.3	370.9	3872.7
Swaziland									
Uganda	180.6	7.0	22.1	19.9	239.7	13.1	17.2	104.9	604.6
Zambia	350.2	336.1	90.1	102.3	394.9	20.4	13.8	604.2	1912.0
Zimbabwe	242.1	402.2	239.2	93.7	424.0	121.1	73.3	638.3	2233.9
Total	3192.3	1568.7	3986.8	1925.6	27827.5	1046.8	3432.0	9366.3	52346.1
<b>EAC</b>									
Burundi	5.84	2.29	0.1	2.9	18.0	0.2	0.4	21.6	51.2
Kenya	735.24	369.90	31.8	279.8	821.1	25.9	150.4	468.0	2882.2
Rwanda	1.78	4.59	16.5	55.8	33.5	0.4	6.1	46.1	164.8
Tanzania	78.09	130.70	85.6	174.3	403.6	74.1	25.0	146.2	1117.6
Uganda	107.16	64.10	22.1	19.9	239.7	13.1	17.2	288.4	771.7
Total	928.1	571.6	156.1	532.8	1515.9	113.6	199.1	970.3	4987.5
<b>ECCAS</b>									
Angola	3.58	334.40	4667.7	1261.8	2219.7	219.5	6070.0	1087.0	15863.6
Burundi	1.37	6.76	0.1	2.9	18.0	0.2	0.4	26.2	55.8
Cameroon	151.81	145.20	116.5	312.4	1970.6	6.9	170.8	182.4	3056.5
Central African Republic	5.22	2.70	4.7	13.3	109.3	1.6	3.5	5.3	145.8



	INTRA-REC	ROA	ASIA	CHINA	EU	JAPAN	USA	ROW	WORLD
Chad	4.27	4.87	92.3	43.1	56.2	24.2	732.7	20.2	977.8
Congo, Democratic Republic of	11.78	67.04	130.3	7.9	847.1	7.9	169.7	83.3	1325.1
Congo, Republic of	30.42	39.90	130.3	7.9	847.1	9.8	169.7	2391.7	3626.9
Equatorial Guinea	7.25	10.54	918.9	379.7	1322.4	28.8	996.8	435.2	4099.7
Gabon	28.65	134.27	441.5	322.2	726.7	18.5	1920.1	728.6	4320.5
São Tomé and Príncipe	0.07	0.25	0.2	0.6	8.5	52.7	0.2	32.6	95.1
Total	244.43	745.93	6502.35	2351.85	8125.55	370.11	10233.95	4992.55	33566.72
<b>ECOWAS</b>									
Benin	61.2	62.2	58.6	83.1	44.3	0.1	1.0	20.7	331.2
Burkina Faso	41.8	9.1	76.8	91.4	47.0	9.4	1.9	23.7	301.2
Cape Verde	0.2	0.8	0.0	0.2	18.9	0.0	2.4	0.8	23.3
Côte D'Ivoire	1452.5	367.0	46.6	248.5	2842.6	10.6	543.2	541.3	6052.3
Gambia	1.7	6.6	1.6	9.9	15.9	0.9	0.3	1.3	38.3
Ghana	132.3	54.0	49.3	129.9	1052.7	35.3	160.0	554.8	2168.3
Guinea	17.7	22.1	15.2	82.3	405.8	0.4	77.7	322.9	944.1
Guinea-Bissau	14.6	0.2	0.2	79.0	5.0	0.1	3.6	39.8	142.4
Liberia	10.6	27.0	22.6	119.6	800.8	2.5	73.7	57.0	1113.7
Mali	6.5	12.4	44.8	82.1	68.1	0.3	5.4	27.4	246.9
Niger	86.6	1.3	0.2	1.6	114.0	12.0	23.6	18.1	257.4
Nigeria	1867.2	1170.0	272.3	2570.9	7591.3	705.6	16152.7	4349.6	34679.7
Senegal	376.2	84.8	15.2	144.8	359.2	9.9	7.9	176.0	1173.8
Sierra Leone	2.5	4.9	1.4	4.5	121.1	1.3	16.4	8.0	160.2
Togo	215.7	16.1	11.6	45.9	69.7	0.2	3.3	27.1	389.6
Total	4287.1	1838.5	616.3	3693.6	13556.4	788.6	17073.2	6168.6	48022.3
<b>IGAD</b>									
Djibouti	211.9	0.4	1.5	5.3	13.2	0.1	1.6	31.8	265.7
Eritrea				0.0				0.0	
Ethiopia	81.9	6.8	40.8	63.1	224.3	41.1	37.8	165.0	660.9
Kenya	574.4	534.7	31.8	279.8	821.1	25.9	150.4	580.4	2998.6
Somalia	1.4	8.8	3.1	16.4	2.1	0.4	0.3	154.9	187.5
Sudan	21.0	31.6	2640.6	168.2	180.2	469.1	5.3	356.6	3872.7
Uganda	84.1	89.1	22.1	19.9	239.7	8.5	17.2	123.9	604.6
Total	974.7	671.5	2740.0	552.8	1480.6	545.1	212.7	1412.6	8590.0
<b>IOC</b>									
Comoros	0.26	0.15	0.1	4.4	15.5	0.7	5.0	3.4	29.4
Madagascar	25.59	9.44	20.8	54.0	497.4	23.7	246.5	45.7	923.0
Mauritius	114.94	54.70	13.3	42.9	1207.2	14.2	260.1	113.7	1821.1
Seychelles	11.02	7.08	1.7	5.5	210.0	20.7	3.9	7.9	267.9

	INTRA- REC	ROA	ASIA	CHINA	EU	JAPAN	USA	ROW	WORLD
Total	151.8	71.4	35.9	106.7	1930.1	59.3	515.5	170.6	3041.4
<b>MRU</b>									
Guinea	2.78	38.00	15.2	82.3	405.8	0.4	77.7	321.9	944
Liberia	2.53	35.02	22.6	119.6	800.8	2.5	73.7	57.0	1114
Sierra Leone	0.77	6.61	1.4	4.5	121.1	1.3	16.4	8.0	160
Total	6.1	79.6	39.2	206.3	1327.7	4.2	167.9	387.0	2218.0
<b>SADC</b>									
Angola	326.0	12.0	4667.7	1261.8	2219.7	219.5	6070.0	1087.0	15863.6
DRC	51.6	27.2	130.3	7.9	847.1	1.3	169.7	89.9	1325.1
Madagascar	26.5	8.5	20.8	54.0	497.4	12.3	246.5	57.1	923.0
Malawi	104.8	31.0	0.7	20.5	184.9	24.8	70.3	93.7	530.7
Mauritius	139.1	30.5	13.3	42.9	1207.2	6.7	260.1	121.2	1821.1
Mozambique	295.0	6.3	31.5	39.8	882.1	10.7	13.6	116.2	1395.2
SACCA Exclu. SA	24.4	129.2	56.0	-22.6	34.0	7.0	53.0	699.6	980.6
South Africa	4157.8	1733.4	1818.3	3358.9	13584.4	2185.0	4271.1	11295.1	42403.9
Tanzania, United Republic of	117.4	93.5	85.6	174.3	403.6	64.0	25.0	231.7	1195.2
Zambia	627.9	58.5	90.1	102.3	394.9	20.4	13.8	604.2	1912.0
Zimbabwe	641.3	63.0	239.2	93.7	424.0	121.1	73.3	578.3	2233.9
Total	6511.9	2193.0	7153.5	5133.4	20679.4	2672.8	11266.5	14973.9	70584.3
<b>UEMOA</b>									
Benin	37.2	86.4	58.6	83.1	44.3	0.1	1.0	20.5	331.2
Burkina Faso	23.2	27.7	76.8	91.4	47.0	9.4	1.9	23.7	301.2
Côte d'Ivoire	708.3	1131.3	46.6	248.5	2842.6	10.6	543.2	521.3	6052.3
Guinea-Bissau	0.6	14.2	0.2	79.0	5.0	0.1	3.6	39.8	142.4
Mali	5.7	13.2	44.8	82.1	68.1	0.3	5.4	27.4	246.9
Niger	8.4	79.5	0.2	1.6	114.0	12.0	23.6	18.1	257.4
Senegal	273.6	187.4	15.2	144.8	359.2	9.9	7.9	176.0	1173.8
Togo	134.8	97.0	11.6	45.9	69.7	0.2	3.3	27.1	389.6
Total	1191.8	1636.6	253.9	776.4	3549.8	42.6	589.9	853.9	8894.9
<b>UMA</b>									
Algeria	390.2	89.1	224.1	518.0	18379.8	145.4	7721.7	6215.2	33683.5
Libya	510.2	53.4	536.6	177.0	17675.7	8.9	928.7	2501.9	22392.4
Mauritania	8.7	94.5	121.0	9.4	459.2	78.9	7.4	103.3	882.4
Morocco	159.0	165.1	173.5	652.6	7064.0	211.1	349.4	1386.0	10160.7
Tunisia	630.1	58.1	24.7	154.6	7336.7	40.8	140.3	790.4	9175.7
Total	1698.2	460.2	1079.9	1511.6	50915.4	485.1	9147.5	10996.8	76294.7

Source: Compiled from IMF DOT, February 2009.

### Annex 4.3

#### Intra-REC imports by country, 2000-2007 in millions of US\$

REC	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
<b>CEMAC</b>	<b>112.2</b>	<b>133.8</b>	<b>127.5</b>	<b>171.5</b>	<b>191.2</b>	<b>218.5</b>	<b>270.0</b>	<b>335.1</b>	<b>195.0</b>
Cameroon	34.3	48.4	13.6	17.2	4.2	4.8	6.0	7.4	17.0
Central African Republic	10.6	9.2	19.0	18.7	23.5	26.8	33.2	41.2	22.8
Chad	11.4	13.0	43.0	50.6	66.4	75.8	93.7	116.3	58.8
Congo, Republic of	27.9	31.4	26.0	32.0	12.4	14.1	17.5	21.7	22.9
Equatorial Guinea	10.0	12.9	2.1	2.6	3.8	4.3	5.3	6.6	5.9
Gabon	18.0	18.7	23.7	50.2	81.0	92.5	114.4	141.9	67.6
<b>CENSAD</b>	<b>4059.9</b>	<b>4249.1</b>	<b>4181.6</b>	<b>5272.5</b>	<b>7120.3</b>	<b>8904.5</b>	<b>10305.2</b>	<b>12653.3</b>	<b>7093.3</b>
Benin	116.4	148.8	173.1	192.8	220.0	231.0	322.8	399.0	225.5
Burkina Faso	178.7	199.9	246.2	286.9	356.0	430.9	548.7	679.3	365.8
Central African Republic	4.6	4.9	4.8	7.0	7.9	9.1	11.6	14.3	8.0
Chad	7.9	10.2	8.3	17.2	27.3	28.0	35.3	43.3	22.2
Comoros	0.8	1.1	1.2	1.3	0.8	1.5	1.9	2.4	1.4
Côte d'Ivoire	712.3	548.2	469.1	606.5	1073.4	1610.3	1767.3	2137.7	1115.6
Djibouti	5.7	8.9	2.4	2.3	1.3	1.5	2.1	2.6	3.4
Egypt	175.5	145.2	164.7	182.0	255.3	251.7	316.3	316.2	225.9
Eritrea									
Gambia, The	54.9	50.3	67.8	75.6	104.3	143.7	157.6	195.6	106.3
Ghana	508.9	581.7	653.0	762.4	977.7	1218.4	1497.7	1819.4	1002.4
Guinea	109.0	98.2	87.4	71.4	197.8	176.0	163.1	202.1	138.1
Guinea-Bissau	14.5	17.6	24.8	60.2	40.4	49.9	41.8	51.9	37.6
Liberia	131.5	47.9	35.8	35.8	58.8	103.7	121.6	149.4	85.6
Libya	419.4	389.0	475.8	501.1	497.2	605.5	833.2	1074.9	599.5
Mali	299.7	334.3	318.2	292.4	434.2	521.2	633.1	785.4	452.3
Morocco	198.4	217.7	244.5	312.2	324.5	420.2	502.3	620.4	355.0
Niger	101.9	117.3	134.0	171.1	154.4	177.2	218.6	268.5	167.9
Nigeria	91.4	373.8	117.3	379.5	734.0	855.1	921.3	1193.4	583.2
Senegal	275.8	260.2	273.2	441.2	519.7	578.6	346.6	424.8	390.0
Sierra Leone	17.8	31.9	43.0	58.2	67.7	92.9	78.6	97.6	61.0
Somalia	88.5	97.5	105.8	132.7	174.3	199.2	246.3	305.6	168.8
Sudan	31.7	40.0	43.8	108.3	210.7	392.1	433.7	526.4	223.3
Togo	59.2	47.3	59.9	82.8	95.7	75.4	160.5	199.0	97.5
Tunisia	455.2	477.1	427.4	491.5	586.8	731.4	943.2	1144.0	657.1
<b>CEPGL</b>	<b>11.1</b>	<b>11.9</b>	<b>14.2</b>	<b>15.9</b>	<b>20.9</b>	<b>23.9</b>	<b>26.7</b>	<b>33.2</b>	<b>19.7</b>
Burundi	1.6	1.2	1.4	2.1	2.8	3.2	1.8	2.3	2.1
Congo, Democratic Republic of	1.2	1.4	1.9	2.1	2.7	3.1	4.1	5.1	2.7

REC	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
Rwanda	8.4	9.2	10.8	11.7	15.4	17.6	20.8	25.8	15.0
<b>COMESA</b>	<b>1932.0</b>	<b>2038.8</b>	<b>2234.2</b>	<b>2723.6</b>	<b>3402.9</b>	<b>3939.0</b>	<b>4914.2</b>	<b>5047.5</b>	<b>3279.0</b>
Burundi	19.3	16.3	24.8	43.0	48.6	60.2	67.4	69.9	43.7
Comoros	12.9	18.1	18.1	23.4	28.9	31.6	16.1	20.2	21.2
Congo, Democratic Republic of	72.3	104.6	119.6	139.5	248.2	259.7	515.1	734.0	274.1
Djibouti	63.6	138.7	65.7	139.2	41.0	69.8	82.5	102.4	87.9
Egypt	602.1	499.3	586.9	634.4	765.2	799.1	617.5	738.7	655.4
Eritrea							0.0	0.0	
Ethiopia	69.7	100.7	116.3	129.1	130.8	209.3	231.7	249.5	154.6
Kenya	88.4	141.5	150.2	188.7	218.9	250.0	196.0	236.1	183.7
Libya	128.1	122.6	150.0	162.6	246.2	262.8	123.7	155.8	169.0
Madagascar	15.9	27.5	28.9	63.9	138.5	167.3	143.6	172.5	94.7
Malawi	119.6	25.4	99.1	66.8	111.5	137.5	101.8	82.6	93.0
Mauritius	83.9	102.2	111.2	118.1	129.1	105.6	103.9	112.6	108.3
Rwanda	74.1	71.0	88.5	113.9	149.2	169.6	197.0	234.1	137.2
Seychelles	14.5	15.3	28.4	16.8	20.6	24.2	21.5	26.6	21.0
Sudan	91.6	103.9	111.2	210.0	315.3	505.5	534.4	630.6	312.8
Swaziland							0.0	0.0	
Uganda	316.5	296.9	330.8	375.6	485.5	553.4	744.0	924.1	503.4
Zambia	85.3	115.4	124.7	264.2	205.6	209.3	285.8	348.9	204.9
Zimbabwe	74.2	139.4	79.9	34.2	119.8	124.1	932.2	208.9	214.1
<b>EAC</b>	<b>422.3</b>	<b>502.8</b>	<b>524.8</b>	<b>630.5</b>	<b>828.1</b>	<b>946.1</b>	<b>1406.8</b>	<b>1745.8</b>	<b>876</b>
Burundi							61.0	75.7	68
Kenya	18.9	107.2	106.5	135.5	177.9	203.3	55.5	68.8	109.2
Rwanda							177.3	220.0	198.7
Tanzania	98.7	107.4	97.9	126.9	166.7	190.5	363.6	451.2	200.4
Uganda	304.6	288.1	320.4	368.1	483.5	552.4	749.4	930.0	499.6
<b>ECCAS</b>	<b>206.8</b>	<b>218.6</b>	<b>186.9</b>	<b>214.8</b>	<b>244.2</b>	<b>279.0</b>	<b>343.4</b>	<b>426.1</b>	<b>265.0</b>
Angola	42.7	23.2	13.2	9.4	14.0	16.0	19.7	24.5	20.3
Burundi	0.7	0.7	0.6	1.4	1.8	2.1	0.8	1.0	1.1
Cameroon	34.4	50.0	13.9	18.5	5.9	6.8	8.4	10.4	18.5
Central African Republic	12.1	10.9	20.9	21.1	26.6	30.4	37.5	46.6	25.8
Chad	11.4	13.0	43.0	50.6	66.4	75.8	93.7	116.3	58.8
Congo, Democratic Republic of	40.9	47.8	32.3	20.0	26.0	29.7	37.0	45.9	34.9
Congo, Republic of	35.0	39.4	34.2	38.1	15.0	17.2	21.2	26.4	28.3
Equatorial Guinea	10.0	12.9	2.1	2.6	3.8	4.3	5.3	6.6	5.9
Gabon	18.5	19.3	24.3	51.0	82.1	93.8	115.9	143.8	68.6
São Tomé and Príncipe	1.0	1.1	2.3	2.1	2.7	3.1	3.8	4.7	2.6

REC	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
<b>ECOWAS</b>	<b>2470.8</b>	<b>2701.7</b>	<b>2482.5</b>	<b>3291.6</b>	<b>4717.2</b>	<b>5840.2</b>	<b>6538.1</b>	<b>8056.5</b>	<b>4512.3</b>
Benin	105.3	146.1	165.9	187.3	215.0	221.9	311.6	385.1	217.3
Burkina Faso	156.5	176.4	217.6	250.8	312.8	371.0	469.2	582.3	317.1
Cape Verde	2.8	3.0	15.9	6.5	3.9	15.9	35.9	44.6	16.0
Côte d'Ivoire	697.4	525.3	419.7	570.0	1014.6	1513.4	1702.5	2057.2	1062.5
Gambia, The	51.0	44.3	58.4	65.6	93.5	130.6	141.3	175.3	95.0
Ghana	496.9	570.0	635.6	742.8	950.7	1189.8	1462.7	1776.1	978.1
Guinea	105.6	92.8	74.3	61.0	188.0	149.1	129.4	160.4	120.1
Guinea-Bissau	13.9	16.8	23.3	59.3	40.1	48.9	40.6	50.4	36.7
Liberia	55.1	44.6	32.6	29.7	53.1	96.0	112.8	140.0	70.5
Mali	285.4	316.9	299.1	271.7	414.3	498.2	603.6	748.8	429.7
Niger	98.6	111.5	124.7	157.1	144.8	164.8	199.4	244.7	155.7
Nigeria	77.4	351.2	88.3	361.7	679.9	803.6	856.9	1110.0	541.1
Senegal	250.6	231.7	238.0	398.1	458.3	481.1	248.9	304.7	326.4
Sierra Leone	17.1	27.9	39.0	52.8	60.6	84.3	68.4	84.9	54.4
Togo	57.2	43.4	50.1	77.2	87.7	71.6	154.9	192.0	91.8
<b>IGAD</b>	<b>575.7</b>	<b>740.5</b>	<b>729.1</b>	<b>1030.7</b>	<b>1030.7</b>	<b>1247.0</b>	<b>1407.6</b>	<b>1697.7</b>	<b>1057.4</b>
Djibouti	59.7	139.0	65.7	39.7	39.7	69.7	83.6	103.8	75.1
Ethiopia	43.3	65.0	78.6	84.9	84.9	137.7	167.4	170.4	104.0
Kenya	8.2	65.6	68.4	117.4	117.4	135.1	23.0	28.5	70.4
Somalia	130.6	144.2	156.6	258.9	258.9	295.8	310.4	385.2	242.6
Sudan	37.2	45.0	46.8	60.4	60.4	72.6	96.1	107.5	65.7
Uganda	296.6	281.7	313.0	469.5	469.5	536.2	727.1	902.4	499.5
<b>IOC</b>	<b>56.1</b>	<b>70.6</b>	<b>97.9</b>	<b>116.6</b>	<b>171.9</b>	<b>176.7</b>	<b>191.4</b>	<b>226.8</b>	<b>138.5</b>
Comoros, The	2.3	6.4	5.3	7.3	7.8	7.6	9.0	11.3	7.1
Madagascar	10.9	17.1	17.8	41.1	110.1	129.0	117.7	140.3	73.0
Mauritius	34.6	38.3	55.4	59.0	40.8	24.3	48.0	54.6	44.4
Seychelles	8.4	8.7	19.3	9.3	13.2	15.8	16.7	20.6	14.0
<b>MRU</b>	<b>7.1</b>	<b>6.2</b>	<b>6.7</b>	<b>8.0</b>	<b>8.8</b>	<b>10.1</b>	<b>12.5</b>	<b>15.5</b>	<b>9.4</b>
Guinea	3.5	0.0	0.0	2.0	0.6	0.7	0.9	1.1	1.1
Liberia	0.1	2.1	2.3	0.3	0.8	0.9	1.1	1.4	1.1
Sierra Leone	3.4	4.1	4.4	5.7	7.4	8.4	10.4	12.9	7.1
<b>SADC</b>	<b>3912.5</b>	<b>3906.0</b>	<b>4251.6</b>	<b>4726.1</b>	<b>6923.5</b>	<b>7957.7</b>	<b>9562.8</b>	<b>12802.4</b>	<b>6755.3</b>
Angola	346.4	337.7	359.0	495.8	533.8	609.0	775.3	884.0	542.6
Congo, Democratic Republic of	160.5	167.3	237.5	251.8	389.0	452.2	768.8	1236.0	457.9
Madagascar	41.9	56.4	42.4	131.1	212.7	228.0	214.6	340.7	158.5
Malawi	401.0	282.4	373.5	367.6	458.2	499.7	429.2	490.1	412.7
Mauritius	355.7	320.2	312.4	352.8	370.5	315.8	302.1	323.3	331.6

REC	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
Mozambique	529.4	450.2	399.1	686.0	894.0	1118.7	1111.3	1469.1	832.2
South Africa	335.4	337.7	427.0	594.6	1092.5	1272.0	1640.0	3707.3	1175.8
Tanzania	186.7	216.4	198.7	425.7	523.2	576.6	490.7	569.5	398.4
Zambia	742.9	720.8	702.1	1003.8	1173.8	1442.8	1749.6	2241.8	1222.2
Zimbabwe	812.7	1016.8	1200.0	416.8	1275.9	1442.9	2081.2	1540.6	1223.4
<b>UEMOA</b>	<b>685.6</b>	<b>744.2</b>	<b>841.1</b>	<b>967.7</b>	<b>1166.3</b>	<b>1309.5</b>	<b>1680.4</b>	<b>2085.4</b>	<b>1185.0</b>
Benin	71.9	86.5	97.7	94.7	121.3	120.7	185.8	230.6	126.2
Burkina Faso	148.9	168.6	209.1	240.1	298.7	354.8	449.3	557.5	303.4
Côte d'Ivoire	22.2	27.2	31.8	46.4	32.6	45.1	47.1	58.5	38.9
Guinea-Bissau	13.5	16.3	22.7	58.6	39.3	48.0	39.4	48.9	35.8
Mali	279.5	289.2	297.9	266.8	407.2	489.0	592.1	734.8	419.6
Niger	63.7	71.7	87.8	110.7	93.9	96.7	113.9	141.4	97.5
Senegal	42.2	53.8	56.8	92.9	101.9	96.7	114.3	141.8	87.6
Togo	43.7	30.9	37.3	57.6	71.5	58.5	138.5	171.9	76.2
<b>UMA</b>	<b>1190.2</b>	<b>1223.8</b>	<b>1334.1</b>	<b>1483.1</b>	<b>1511.9</b>	<b>2074.2</b>	<b>2725.3</b>	<b>3383.8</b>	<b>1865.8</b>
Algeria	49.5	71.3	126.8	148.2	174.5	221.0	291.3	376.9	182.4
Libya	360.0	338.2	433.3	448.9	430.9	524.8	729.1	942.1	525.9
Mauritania	29.6	32.6	39.2	43.1	50.1	56.9	69.2	84.8	50.7
Morocco	284.5	307.2	298.1	306.1	294.6	542.0	644.1	781.2	432.2
Tunisia	466.6	474.5	436.7	537.0	561.8	729.5	991.7	1198.8	674.6

Source: Compiled from IMF DOT, February 2009.

**Annex 4.4(a)****African countries' exports to Africa**

Country	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
Algeria	297.2	280.7	284.7	311.9	264.2	500.1	1,100.1	1,321.9	545.1
Angola	16.0	10.9	32.2	9.6	270.3	307.9	379.8	1,677.1	338.0
Benin	28.4	433.3	77.2	57.5	81.1	81.0	102.1	128.3	123.6
Burkina Faso	26.4	29.9	28.8	44.8	65.1	55.1	69.9	87.0	50.9
Burundi	8.3	6.0	9.8	3.4	4.8	6.2	7.7	16.3	7.8
Cameroon	148.2	160.3	183.4	286.6	329.8	357.3	393.9	495.9	294.4
Cape Verde	0.2	0.2	0.7	0.2	0.3	1.7	2.1	2.6	1.0
CAR	3.9	4.8	5.2	6.3	7.2	8.2	9.6	12.7	7.2
Chad	9.8	7.4	5.2	8.9	7.1	8.4	12.3	14.0	9.1
Comoros, The	0.1	0.2	0.2	0.9	0.4	0.6	0.4	0.5	0.4
Congo Democratic Republic of	24.9	105.9	26.4	41.6	53.8	64.2	106.7	206.0	78.7
Congo Republic of	70.9	24.6	92.8	34.0	40.2	86.3	83.8	105.5	67.3
Côte D'Ivoire	1,237.4	1,238.9	1,518.8	1,361.6	1,790.6	2,159.4	2,397.1	3,007.7	1,838.9
Djibouti	101.7	133.6	151.2	182.1	217.8	242.2	298.6	370.8	212.3
Egypt	205.7	167.5	317.5	503.0	638.4	967.7	1,304.5	1,503.1	700.9
Equatorial Guinea	20.8	39.3	2.1	3.1	3.7	10.2	28.2	35.1	17.8
Ethiopia	52.4	121.4	56.7	128.1	42.1	77.3	103.7	128.6	88.8
Gabon	62.2	129.5	138.5	88.6	121.2	210.7	331.8	220.8	162.9
Gambia	8.3	7.5	7.5	8.8	13.3	14.6	2.5	3.9	8.3
Ghana	81.3	93.3	140.2	164.3	195.9	212.9	268.1	333.6	186.2
Guinea	46.6	80.2	31.6	68.2	8.5	25.2	29.2	36.7	40.8
Guinea - Bissau	1.7	3.0	4.3	14.3	16.0	20.4	25.6	33.0	14.8
Kenya	706.3	596.8	687.1	801.3	1,066.2	1,195.4	1,037.9	1,300.5	924.0
Liberia	8.0	9.9	11.2	13.6	14.8	14.6	202.9	25.3	37.6
Libya	431.9	415.5	423.8	455.0	516.1	661.5	893.3	1,098.1	611.9
Madagascar	25.9	33.6	22.1	67.2	41.3	26.2	27.4	36.5	35.0
Malawi	62.3	57.5	67.2	96.7	124.4	142.0	247.5	287.9	135.7
Mali	22.5	13.6	16.8	15.9	17.5	16.9	21.2	26.7	18.9
Mauritania	109.4	115.4	77.0	97.4	140.5	169.4	194.2	243.1	143.3
Mauritius	113.2	137.8	135.1	185.1	174.1	182.3	192.8	235.7	169.5
Morocco	199.1	214.7	275.0	296.3	354.8	417.2	568.8	711.8	379.7
Mozambique	131.3	158.8	174.4	260.2	291.4	393.1	472.2	528.4	301.2
Niger	95.2	73.9	74.0	82.2	69.6	81.0	99.5	127.7	87.9
Nigeria	1,901.3	1,146.3	1,731.8	2,010.4	3,130.9	3,813.4	4,805.2	5,982.7	3,065.2
Rwanda	7.2	11.0	4.6	3.2	4.8	6.0	5.8	6.4	6.1
SACCA Excl. SA	129.2	114.8	235.9	147.3	113.2	129.4	140.1	174.0	148.0

Country	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
São Tomé & Príncipe	0.1	0.1	0.4	0.2	0.2	0.4	0.5	0.7	0.3
Senegal	195.5	234.6	310.1	450.4	502.2	621.8	612.9	759.9	460.9
Seychelles	5.0	5.6	3.3	1.0	21.5	28.9	35.2	44.1	18.1
Sierra Leone	7.3	6.8	6.3	6.3	7.2	11.4	5.6	8.0	7.4
Somalia	6.1	7.4	10.9	6.3	8.2	10.5	14.4	17.9	10.2
South Africa	3,993.7	3,949.6	4,092.7	4,988.2	5,851.5	7,117.2	7,581.0	9,298.0	5,859.0
Sudan	7.6	9.2	8.7	52.2	24.7	64.2	160.1	94.3	52.6
Tanzania	139.2	90.4	133.6	183.5	243.0	310.6	262.1	284.5	205.9
Togo	80.6	140.8	153.2	243.0	259.3	261.7	320.9	394.9	231.8
Tunisia	201.3	184.0	206.1	238.6	279.1	377.7	1,139.2	1,470.7	512.1
Uganda	122.5	133.2	158.4	189.2	200.2	232.3	161.6	188.5	173.2
Zambia	316.5	306.5	318.2	431.4	777.3	746.3	1,314.5	1,277.6	686.0
Zimbabwe	573.6	192.2	676.7	952.8	790.2	765.7	475.6	1,207.8	704.3
Total	12,044.1	11,438.0	13,129.9	15,602.6	19,196.0	23,214.7	28,049.7	35,572.6	19,780.9

**Source:** Compiled from IMF DOT, February 2009.



**Annex 4.4(b)****African countries' imports from Africa**

Country	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
Algeria	160.4	153.8	211.9	250.6	287.7	366.7	712.4	815.6	369.9
Angola	447.4	459.5	466.8	569.6	636.2	708.0	883.3	1017.9	648.6
Benin	126.9	167.2	192.4	247.9	248.0	266.4	372.2	455.4	259.6
Burkina Faso	169.4	188.1	232.8	272.2	338.5	405.5	569.2	706.8	360.3
Burundi	38.2	33.5	43.9	69.0	82.4	92.3	84.5	86.6	66.3
Cameroon	434.3	435.8	355.3	354.5	396.4	468.3	615.7	746.7	475.9
Cape Verde	4.8	5.5	26.9	23.4	24.0	42.0	68.4	82.4	34.7
CAR	14.7	14.3	23.9	25.7	31.7	36.7	48.9	62.6	32.3
Chad	19.5	25.3	52.0	71.3	96.5	109.2	134.7	164.5	84.1
Comoros, The	23.4	29.0	33.5	42.8	43.0	42.1	28.1	37.0	34.9
DRC	293.4	301.9	373.5	397.0	588.9	689.7	1111.0	1660.7	677.0
Congo	67.5	77.1	68.3	89.5	36.5	140.2	175.6	208.7	107.9
Côte D'Ivoire	792.4	669.9	562.1	698.8	1184.0	1722.9	1922.9	2335.8	1236.1
Djibouti	66.3	156.3	75.4	147.0	49.0	79.0	102.9	116.3	99.0
Egypt	286.2	307.4	461.1	559.8	730.4	861.7	1228.8	1511.2	743.3
Equatorial Guinea	41.1	36.3	32.9	167.6	76.1	134.6	163.4	201.3	106.7
Ethiopia	44.0	65.4	78.8	93.6	85.4	138.4	289.2	311.9	138.3
Gabon	78.4	78.6	99.8	125.3	178.9	207.9	252.7	299.7	165.2
Gambia	57.2	56.7	69.8	80.4	113.6	150.8	172.5	208.3	113.7
Ghana	647.1	683.5	778.1	962.7	1234.4	1540.6	1860.2	2260.5	1245.9
Guinea	133.0	109.8	103.3	93.4	256.0	223.5	218.1	264.6	175.2
Guinea -Bissau	14.9	18.0	25.2	60.7	41.4	50.9	44.4	55.9	38.9
Kenya	275.3	408.4	436.0	551.4	775.5	837.7	845.3	1098.8	653.6
Liberia	161.9	62.7	52.8	61.3	92.4	142.5	181.8	220.8	122.0
Libya	368.2	352.7	453.3	474.2	458.3	552.0	854.4	1100.0	576.6
Madagascar	47.2	75.3	70.9	159.7	259.0	286.3	250.2	384.9	191.7
Malawi	411.0	289.2	382.9	378.6	468.7	511.7	452.9	519.6	426.8
Mali	685.0	723.1	731.8	738.7	943.6	1069.0	693.1	884.0	808.5
Mauritania	58.6	76.2	91.5	96.9	95.2	125.4	156.3	189.1	111.1
Mauritius	384.1	353.6	374.4	391.8	407.0	357.3	392.1	428.5	386.1
Morocco	427.1	486.0	473.0	504.2	563.9	867.9	1195.6	1507.7	753.2
Mozambique	541.7	451.5	402.1	697.9	925.1	1171.6	1114.4	1479.1	847.9
Niger	105.5	120.0	139.1	185.2	175.4	188.9	236.3	289.3	180.0
Nigeria	244.2	711.6	397.5	746.8	1285.7	1519.0	1667.6	2067.9	1080.0
Rwanda	84.9	83.8	101.2	130.8	169.1	190.0	220.8	264.5	155.7
SACCA excl. South Africa	51.2	53.1	21.3	2.3	3.1	3.5	4.3	5.4	18.0

Country	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
São Tomé and Príncipe	2.6	1.7	3.6	2.6	5.5	3.6	4.4	5.7	3.7
Senegal	304.0	300.9	318.1	485.3	587.0	640.2	491.7	599.8	465.9
Seychelles	51.2	45.2	70.2	58.9	57.7	129.9	102.7	92.1	76.0
Sierra Leone	21.2	36.1	49.0	71.1	90.9	118.3	111.7	130.4	78.6
Somalia	131.6	144.7	157.5	197.9	259.9	297.6	312.1	388.0	236.2
South Africa	621.0	750.8	969.4	1206.1	2199.6	2296.4	3714.2	5883.7	2205.1
Sudan	51.8	70.5	84.0	111.9	115.4	141.5	543.6	643.7	220.3
Tanzania	308.4	344.3	320.5	597.2	759.4	834.0	876.3	1048.0	636.0
Togo	73.6	63.5	77.3	115.5	109.0	104.6	199.5	259.1	125.3
Tunisia	204.5	209.9	205.7	238.5	202.1	216.6	1159.6	1417.2	481.8
Uganda	381.2	371.5	417.6	483.6	612.3	689.1	905.4	1150.3	626.4
Zambia	759.6	737.2	726.0	1047.8	1229.7	1505.5	1813.8	2332.0	1268.9
Zimbabwe	914.5	1069.5	1329.4	433.1	1384.5	1576.3	2100.7	1564.7	1296.6
Total	11631.2	12465.8	13223.8	15572.2	20994.0	24853.6	31659.9	39564.8	21245.7

**Source:** Compiled from IMF DOT, February 2009.

## Annex 4.5

### Scope and nature of African countries' export trade by product groups

Data used are average export trade figures between 1995 and 2006 in 000 of US\$

ALGERIA	Exports to Africa	Exports to world	Africa's % share in exports	Africa's imports from world	Potential trade to Africa	Potential trade to Africa (%)	Ratio of Exports to World relative to Africa's imports
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food basics	7,095	52,473	13.5	21,052,701	45,378	86.5	0.00
Beverages and tobacco	1,773	7,930	22.4	1,653,717	6,157	77.6	0.00
Ores, metals, precious stones	8,765	114,525	7.7	3,931,312	105,760	92.3	0.03
Fuels	391,081	22,283,768	1.8	17,188,542	21,892,687	98.2	1.30
Manufactured goods	29,930	130,996	22.8	34,861,887	101,066	77.2	0.00
Chemical products	18,963	200,953	9.4	16,684,141	181,990	90.6	0.01
Machinery & transport equip.	3,605	38,499	9.4	53,868,421	34,894	90.6	0.00
Total all products	461,212	22,829,144	2.0	149,240,722	22,367,932	98.0	0.15
ANGOLA	Exports to Africa	Exports to world	Africa's % share in exports	Africa's imports from world	Potential trade to Africa	Potential trade to Africa (%)	Ratio of exports to world relative to Africa's imports
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	5,262.8	40,582.4	13.0	21,052,701.0	35,319.7	87.0	0.00
Beverages and tobacco	147.7	158.1	93.4	1,653,717.4	10.4	6.6	0.00
Ores, metals, precious stones	922.3	445,319.1	0.2	3,931,312.3	444,396.8	99.8	0.11
Fuels	100,936.1	9,501,926.0	1.1	17,188,541.6	9,400,989.9	98.9	0.55
Manufactured goods	1,715.7	12,470.3	13.8	34,861,886.8	10,754.6	86.2	0.00
Chemical products	655.5	1,943.2	33.7	16,684,141.4	1,287.7	66.3	0.00
Machinery & transport equip.	2,470.7	21,849.5	11.3	53,868,421.2	19,378.8	88.7	0.00
Total all products	112,110.6	10,024,248.6	1.1	149,240,721.6	9,912,138.0	98.9	0.07

<b>BENIN</b>	<b>Exports to Africa</b>	<b>Exports to world</b>	<b>Africa's % share in exports</b>	<b>Africa's imports from world</b>	<b>Potential trade to Africa</b>	<b>Potential trade to Africa (%)</b>	<b>Ratio of exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	12,932.0	40,956.4	31.6	21,052,701.0	28,024.4	68.4	0.00
Beverages and tobacco	11,930.3	14,645.7	81.5	1,653,717.4	2,715.4	18.5	0.01
Ores, metals, precious stones	11,563.6	47,155.1	24.5	3,931,312.3	35,591.6	75.5	0.01
Fuels	1,072.6	3,503.6	30.6	17,188,541.6	2,431.1	69.4	0.00
Manufactured goods	11,299.8	15,695.4	72.0	34,861,886.8	4,395.6	28.0	0.00
Chemical products	1,543.0	1,811.2	85.2	16,684,141.4	268.2	14.8	0.00
Machinery & transport equip.	2,496.7	4,071.0	61.3	53,868,421.2	1,574.4	38.7	0.00
Total all products	52,837.9	127,838.4	41.3	149,240,721.6	75,000.5	58.7	0.00
<b>BOTSWANA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	41,084.4	93,573.4	43.9	21,052,701.0	52,489.1	56.1	0.00
Beverages and tobacco	1,541.4	1,556.2	99.1	1,653,717.4	14.7	0.9	0.00
Ores, metals, precious stones	134,307.5	3,045,044.0	4.4	3,931,312.3	2,910,736.5	95.6	0.77
Fuels	2,479.5	2,483.1	99.9	17,188,541.6	3.6	0.1	0.00
Manufactured goods	82,319.9	139,383.2	59.1	34,861,886.8	57,063.3	40.9	0.00
Chemical products	31,564.1	32,132.3	98.2	16,684,141.4	568.1	1.8	0.00
Machinery & transport equip.	118,084.5	136,861.6	86.3	53,868,421.2	18,777.1	13.7	0.00
Total all products	411,381.4	3,451,033.8	11.9	149,240,721.6	3,039,652.4	88.1	0.02

<b>BURKINA FASO</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	27,739.3	49,807.4	55.7	21,052,701.0	22,068.1	44.3	0.00
Beverages and tobacco	3,847.6	4,614.1	83.4	1,653,717.4	766.4	16.6	0.00
Ores, metals, precious stones	279.8	6,376.6	4.4	3,931,312.3	6,096.8	95.6	0.00
Fuels	2,005.4	2,903.0	69.1	17,188,541.6	897.7	30.9	0.00
Manufactured goods	7,000.6	19,413.3	36.1	34,861,886.8	12,412.8	63.9	0.00
Chemical products	1,383.3	2,005.0	69.0	16,684,141.4	621.8	31.0	0.00
Machinery & transport equip.	5,164.8	10,416.4	49.6	53,868,421.2	5,251.6	50.4	0.00
Total all products	47,420.6	95,535.8	49.6	149,240,721.6	48,115.2	50.4	0.03
<b>BURUNDI</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	4,823.6	50,180.0	9.6	21,052,701.0	45,356.4	90.4	0.00
Beverages and tobacco	1,502.1	1,568.0	95.8	1,653,717.4	65.9	4.2	0.00
Ores, metals, precious stones	1,681.6	26,752.9	6.3	3,931,312.3	25,071.3	93.7	0.01
Fuels	70.5	70.6	99.8	17,188,541.6	0.1	0.2	0.00
Manufactured goods	524.6	695.0	75.5	34,861,886.8	170.4	24.5	0.00
Chemical products	124.8	141.5	88.2	16,684,141.4	16.6	11.8	0.00
Machinery & transport equip.	359.0	624.0	57.5	53,868,421.2	265.0	42.5	0.00
Total all products	9,086.1	80,032.0	11.4	149,240,721.6	70,945.9	88.6	0.00

<b>CAMEROON</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	30,366.5	373,043.4	8.1	21,052,701.0	342,676.9	91.9	0.02
Beverages and tobacco	8,870.6	10,106.3	87.8	1,653,717.4	1,235.7	12.2	0.01
Ores, metals, precious stones	12,227.5	112,044.6	10.9	3,931,312.3	99,817.0	89.1	0.03
Fuels	82,376.9	966,861.4	8.5	17,188,541.6	884,484.5	91.5	0.06
Manufactured goods	38,828.9	69,451.4	55.9	34,861,886.8	30,622.6	44.1	0.00
Chemical products	17,084.3	17,273.1	98.9	16,684,141.4	188.8	1.1	0.00
Machinery & transport equip.	12,909.6	16,372.5	78.8	53,868,421.2	3,462.9	21.2	0.00
Total all products	202,664.3	1,565,152.7	12.9	149,240,721.6	1,362,488.5	87.1	0.01
<b>CAPE VERDE</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	522.8	3,657.2	14.3	21,052,701.0	3,134.4	85.7	0.00
Beverages and tobacco	255.6	449.6	56.8	1,653,717.4	194.0	43.2	0.00
Ores, metals, precious stones	4.3	69.6	6.2	3,931,312.3	65.3	93.8	0.00
Fuels	5,781.5	17,119.2	33.8	17,188,541.6	11,337.7	66.2	0.00
Manufactured goods	265.8	10,982.9	2.4	34,861,886.8	10,717.1	97.6	0.00
Chemical products	50.4	1,908.1	2.6	16,684,141.4	1,857.7	97.4	0.00
Machinery & transport equip.	708.3	13,615.9	5.2	53,868,421.2	12,907.6	94.8	0.00
Total all products	7,588.7	47,802.5	15.9	149,240,721.6	40,213.8	84.1	0.00

<b>CENTRAL AFRICAN REPUBLIC</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	1,657.2	3,623.0	45.7	21,052,701.0	1,965.8	54.3	0.00
Beverages and tobacco	90.7	124.8	72.7	1,653,717.4	34.1	27.3	0.00
Ores, metals, precious stones	157.5	62,065.6	0.3	3,931,312.3	61,908.1	99.7	0.02
Fuels	126.8	251.1	50.5	17,188,541.6	124.3	49.5	0.00
Manufactured goods	517.0	1,568.2	33.0	34,861,886.8	1,051.2	67.0	0.00
Chemical products	104.2	211.4	49.3	16,684,141.4	107.2	50.7	0.00
Machinery & transport equipment	1,459.2	3,914.0	37.3	53,868,421.2	2,454.9	62.7	0.00
Total all products	4,112.6	71,758.2	5.7	149,240,721.6	67,645.6	94.3	0.00
<b>CHAD</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	489.9	855.8	57.2	21,052,701.0	365.9	42.8	0.00
Beverages and tobacco	1,699.0	20,446.4	8.3	1,653,717.4	18,747.3	91.7	0.01
Ores, metals, precious stones	50.5	180.8	27.9	3,931,312.3	130.4	72.1	0.00
Fuels	5.4	47,607.8	0.0	17,188,541.6	47,602.3	100.0	0.00
Manufactured goods	296.3	1,045.3	28.3	34,861,886.8	749.0	71.7	0.00
Chemical products	37.3	348.4	10.7	16,684,141.4	311.1	89.3	0.00
Machinery & transport equip.	263.9	10,475.4	2.5	53,868,421.2	10,211.6	97.5	0.00
Total all products	2,842.3	80,959.9	3.5	149,240,721.6	78,117.7	96.5	0.00

<b>COMOROS</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	52.6	5,782.6	0.9	21,052,701.0	5,730.1	99.1	0.00
Beverages and tobacco	1.1	1.3	87.6	1,653,717.4	0.2	12.4	0.00
Ores, metals, precious stones	10.4	13.7	76.3	3,931,312.3	3.2	23.7	0.00
Fuels	0.8	0.8	100.0	17,188,541.6	0.0	0.0	0.00
Manufactured goods	27.5	82.8	33.3	34,861,886.8	55.2	66.7	0.00
Chemical products	13.8	914.7	1.5	16,684,141.4	900.9	98.5	0.00
Machinery & transport equip.	99.9	657.6	15.2	53,868,421.2	557.7	84.8	0.00
Total all products	206.1	7,453.4	2.8	149,240,721.6	7,247.3	97.2	0.00
<b>CONGO, REPUBLIC OF</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	5,997.9	28,624.6	21.0	21,052,701.0	22,626.7	79.0	0.00
Beverages and tobacco	1,232.2	43,488.0	2.8	1,653,717.4	42,255.8	97.2	0.03
Ores, metals, precious stones	5,114.5	138,185.8	3.7	3,931,312.3	133,071.2	96.3	0.04
Fuels	24,682.4	2,365,232.2	1.0	17,188,541.6	2,340,549.8	99.0	0.14
Manufactured goods	4,934.0	22,425.4	22.0	34,861,886.8	17,491.4	78.0	0.00
Chemical products	1,493.5	4,844.2	30.8	16,684,141.4	3,350.8	69.2	0.00
Machinery & transport equip.	2,722.1	7,460.7	36.5	53,868,421.2	4,738.6	63.5	0.00
Total all products	46,176.6	2,610,260.9	1.8	149,240,721.6	2,564,084.3	98.2	0.02



<b>CÔTE D'IVOIRE</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	226,142.9	2,518,380.5	9.0	21,052,701.0	2,292,237.6	91.0	0.12
Beverages and tobacco	12,374.9	12,829.2	96.5	1,653,717.4	454.4	3.5	0.01
Ores, metals, precious stones	3,412.9	33,596.0	10.2	3,931,312.3	30,183.1	89.8	0.01
Fuels	584,746.5	943,732.4	62.0	17,188,541.6	358,985.9	38.0	0.05
Manufactured goods	236,056.6	480,886.2	49.1	34,861,886.8	244,829.6	50.9	0.01
Chemical products	207,939.8	214,449.0	97.0	16,684,141.4	6,509.2	3.0	0.01
Machinery & transport equip.	90,943.1	314,440.8	28.9	53,868,421.2	223,497.7	71.1	0.01
Total all products	1,361,616.6	4,518,314.1	30.1	149,240,721.6	3,156,697.5	69.9	0.03
<b>DJIBOUTI</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	1,166.9	3,504.3	33.3	21,052,701.0	2,337.3	66.7	0.00
Beverages and tobacco	25.5	84.9	30.0	1,653,717.4	59.4	70.0	0.00
Ores, metals, precious stones	767.9	1,549.5	49.6	3,931,312.3	781.6	50.4	0.00
Fuels	718.9	908.0	79.2	17,188,541.6	189.1	20.8	0.00
Manufactured goods	727.8	1,788.7	40.7	34,861,886.8	1,060.9	59.3	0.00
Chemical products	241.8	933.7	25.9	16,684,141.4	691.9	74.1	0.00
Machinery & transport equip.	1,040.7	2,192.0	47.5	53,868,421.2	1,151.4	52.5	0.00
Total all products	4,689.4	10,961.0	42.8	149,240,721.6	6,271.6	57.2	0.00

<b>DRC</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	2,400.1	57,873.1	4.1	21,052,701.0	55,473.0	95.9	0.00
Beverages and tobacco	2,371.1	52,409.4	4.5	1,653,717.4	50,038.3	95.5	0.03
Ores, metals, precious stones	48,151.2	1,063,411.9	4.5	3,931,312.3	1,015,260.7	95.5	0.27
Fuels	15,182.7	181,553.7	8.4	17,188,541.6	166,371.1	91.6	0.01
Manufactured goods	5,545.0	29,706.7	18.7	34,861,886.8	24,161.7	81.3	0.00
Chemical products	1,217.6	6,903.5	17.6	16,684,141.4	5,685.9	82.4	0.00
Machinery & transport equip.	3,532.8	7,846.5	45.0	53,868,421.2	4,313.8	55.0	0.00
Total all products	78,400.5	1,399,704.8	5.6	149,240,721.6	1,321,304.3	94.4	0.01
<b>EGYPT</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	66,723.4	501,175.6	13.3	21,052,701.0	434,452.2	86.7	0.02
Beverages and tobacco	946.1	3,748.9	25.2	1,653,717.4	2,802.8	74.8	0.00
Ores, metals, precious stones	17,366.6	253,421.4	6.9	3,931,312.3	236,054.8	93.1	0.06
Fuels	36,514.2	2,614,022.5	1.4	17,188,541.6	2,577,508.3	98.6	0.15
Manufactured goods	143,981.5	1,356,108.5	10.6	34,861,886.8	1,212,127.0	89.4	0.04
Chemical products	47,866.0	349,658.0	13.7	16,684,141.4	301,791.9	86.3	0.02
Machinery & transport equip.	12,471.3	58,290.6	21.4	53,868,421.2	45,819.4	78.6	0.00
Total all products	325,869.0	5,136,425.5	6.3	149,240,721.6	4,810,556.4	93.7	0.03

<b>EQUATORIAL GUINEA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	19.0	16,610.1	0.1	21,052,701.0	16,591.1	99.9	0.00
Beverages and tobacco	23.0	31.3	73.4	1,653,717.4	8.3	26.6	0.00
Ores, metals, precious stones	4.6	57.1	8.0	3,931,312.3	52.6	92.0	0.00
Fuels	8,283.2	1,098,068.6	0.8	17,188,541.6	1,089,785.3	99.2	0.06
Manufactured goods	267.8	8,468.2	3.2	34,861,886.8	8,200.4	96.8	0.00
Chemical products	18.4	34,549.7	0.1	16,684,141.4	34,531.4	99.9	0.00
Machinery & transport equip.	191.0	3,876.7	4.9	53,868,421.2	3,685.7	95.1	0.00
Total all products	8,806.9	1,161,661.7	0.8	149,240,721.6	1,152,854.8	99.2	0.01
<b>ERITREA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	6,197.5	13,159.5	47.1	21,052,701.0	6,962.0	52.9	0.00
Beverages and tobacco	56.7	186.4	30.4	1,653,717.4	129.7	69.6	0.00
Ores, metals, precious stones	147.6	7,802.1	1.9	3,931,312.3	7,654.4	98.1	0.00
Fuels	10.1	32.2	31.4	17,188,541.6	22.1	68.6	0.00
Manufactured goods	1,701.3	4,796.5	35.5	34,861,886.8	3,095.2	64.5	0.00
Chemical products	145.5	451.9	32.2	16,684,141.4	306.4	67.8	0.00
Machinery & transport equip.	1,009.8	2,016.4	50.1	53,868,421.2	1,006.5	49.9	0.00
Total all products	9,268.5	28,444.9	32.6	149,240,721.6	19,176.4	67.4	0.00

<b>ETHIOPIA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	36,304.0	402,971.0	9.0	21,052,701.0	366,667.0	91.0	0.02
Beverages and tobacco	40.6	199.2	20.4	1,653,717.4	158.6	79.6	0.00
Ores, metals, precious stones	272.0	23,775.0	1.1	3,931,312.3	23,503.0	98.9	0.01
Fuels	923.9	1,567.6	58.9	17,188,541.6	643.7	41.1	0.00
Manufactured goods	1,305.2	44,325.0	2.9	34,861,886.8	43,019.8	97.1	0.00
Chemical products	158.3	1,340.6	11.8	16,684,141.4	1,182.3	88.2	0.00
Machinery & transport equip.	100.6	473.8	21.2	53,868,421.2	373.2	78.8	0.00
Total all products	39,104.5	474,652.1	8.2	149,240,721.6	435,547.6	91.8	0.00
<b>GABON</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	26,123.3	15,179.6	172.1	21,052,701.0	-10,943.7	-72.1	0.00
Beverages and tobacco	8,292.4	8,351.6	99.3	1,653,717.4	59.3	0.7	0.01
Ores, metals, precious stones	1,349.3	98,440.1	1.4	3,931,312.3	97,090.8	98.6	0.03
Fuels	79,039.4	2,539,402.3	3.1	17,188,541.6	2,460,362.9	96.9	0.15
Manufactured goods	10,053.0	77,672.6	12.9	34,861,886.8	67,619.6	87.1	0.00
Chemical products	1,503.1	6,228.1	24.1	16,684,141.4	4,725.0	75.9	0.00
Machinery & transport equip.	5,349.4	36,624.8	14.6	53,868,421.2	31,275.4	85.4	0.00
Total all products	131,709.7	2,781,899.0	4.7	149,240,721.6	2,650,189.3	95.3	0.02

<b>GAMBIA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	2,097.2	8,079.8	26.0	21,052,701.0	5,982.7	74.0	0.00
Beverages and tobacco	288.4	386.2	74.7	1,653,717.4	97.8	25.3	0.00
Ores, metals, precious stones	50.2	134.2	37.4	3,931,312.3	84.1	62.6	0.00
Fuels	16.0	21.5	74.5	17,188,541.6	5.5	25.5	0.00
Manufactured goods	816.0	1,205.7	67.7	34,861,886.8	389.7	32.3	0.00
Chemical products	204.7	231.2	88.5	16,684,141.4	26.5	11.5	0.00
Machinery & transport equip.	456.8	1,477.6	30.9	53,868,421.2	1,020.8	69.1	0.00
Total all products	3,929.3	11,536.3	34.1	149,240,721.6	7,607.0	65.9	0.00
<b>GHANA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	21,626.9	1,038,268.5	2.1	21,052,701.0	1,016,641.6	97.9	0.05
Beverages and tobacco	3,848.4	15,596.2	24.7	1,653,717.4	11,747.8	75.3	0.01
Ores, metals, precious stones	188,813.6	700,234.2	27.0	3,931,312.3	511,420.5	73.0	0.18
Fuels	13,550.5	69,062.5	19.6	17,188,541.6	55,512.0	80.4	0.00
Manufactured goods	116,279.5	238,669.8	48.7	34,861,886.8	122,390.3	51.3	0.01
Chemical products	6,925.4	32,132.3	21.6	35,060.3	25,206.8	78.4	0.92
Machinery & transport equip.	6,375.8	28,190.8	22.6	53,868,421.2	21,815.0	77.4	0.00
Total all products	357,420.0	2,122,154.1	16.8	132,591,640.5	1,764,734.1	83.2	0.02

<b>GUINEA-BISSAU</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	1,209.1	38,801.9	3.1	21,052,701.0	37,592.7	96.9	0.00
Beverages and tobacco	347.1	393.9	88.1	1,653,717.4	46.8	11.9	0.00
Ores, metals, precious stones	5.0	280.0	1.8	3,931,312.3	275.0	98.2	0.00
Fuels	242.9	10,406.9	2.3	17,188,541.6	10,164.0	97.7	0.00
Manufactured goods	1,604.0	1,835.5	87.4	34,861,886.8	231.5	12.6	0.00
Chemical products	145.1	158.0	91.8	16,684,141.4	12.9	8.2	0.00
Machinery & transport equip.	3,353.1	3,785.2	88.6	53,868,421.2	432.0	11.4	0.00
Total all products	6,906.4	55,661.4	12.4	149,240,721.6	48,755.0	87.6	0.00
<b>GUINEA, REPUBLIC OF</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	1,209.1	31,167.5	3.9	21,052,701.0	29,958.4	96.1	0.00
Beverages and tobacco	220.1	385.8	57.0	1,653,717.4	165.7	43.0	0.00
Ores, metals, precious stones	2,056.3	526,565.1	0.4	3,931,312.3	524,508.8	99.6	0.13
Fuels	1,048.9	11,655.1	9.0	17,188,541.6	10,606.2	91.0	0.00
Manufactured goods	2,407.1	18,009.3	13.4	34,861,886.8	15,602.2	86.6	0.00
Chemical products	13,012.7	79,174.3	16.4	16,684,141.4	66,161.6	83.6	0.00
Machinery & transport equip.	4,388.8	9,847.1	44.6	53,868,421.2	5,458.3	55.4	0.00
Total all products	24,343.0	676,804.2	3.6	149,240,721.6	652,461.2	96.4	0.00

<b>KENYA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	227,584.4	992,367.0	22.9	21,052,701.0	764,782.6	77.1	0.05
Beverages and tobacco	40,332.8	51,930.9	77.7	1,653,717.4	11,598.1	22.3	0.03
Ores, metals, precious stones	27,738.4	72,462.6	38.3	3,931,312.3	44,724.2	61.7	0.02
Fuels	214,583.0	271,242.9	79.1	17,188,541.6	56,659.9	20.9	0.02
Manufactured goods	289,799.2	395,668.6	73.2	34,861,886.8	105,869.3	26.8	0.01
Chemical products	119,631.3	137,802.4	86.8	16,684,141.4	18,171.1	13.2	0.01
Machinery & transport equip.	38,280.6	48,016.9	79.7	53,868,421.2	9,736.3	20.3	0.00
Total all products	957,949.8	1,969,491.4	48.6	149,240,721.6	1,011,541.5	51.4	0.01
<b>LESOTHO</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	5,136.9	5,188.7	99.0	21,052,701.0	51.8	1.0	0.00
Beverages and tobacco	8,922.3	8,922.7	100.0	1,653,717.4	0.5	0.0	0.01
Ores, metals, precious stones	13,670.9	39,159.5	34.9	3,931,312.3	25,488.6	65.1	0.01
Fuels	44.0	44.1	99.7	17,188,541.6	0.1	0.3	0.00
Manufactured goods	42,652.4	290,993.0	14.7	34,861,886.8	248,340.6	85.3	0.01
Chemical products	938.3	951.5	98.6	16,684,141.4	13.1	1.4	0.00
Machinery & transport equip.	10,088.5	10,168.2	99.2	53,868,421.2	79.8	0.8	0.00
Total all products	81,453.2	355,427.7	22.9	149,240,721.6	273,974.5	77.1	0.00

<b>LIBERIA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	1,428.0	4,308.5	33.1	21,052,701.0	2,880.5	66.9	0.00
Beverages and tobacco	9.2	1,359.6	0.7	1,653,717.4	1,350.3	99.3	0.00
Ores, metals, precious stones	598.6	186,459.0	0.3	3,931,312.3	185,860.4	99.7	0.05
Fuels	17,024.2	35,022.8	48.6	17,188,541.6	17,998.6	51.4	0.00
Manufactured goods	761.3	7,117.4	10.7	34,861,886.8	6,356.1	89.3	0.00
Chemical products	431.5	6,621.2	6.5	16,684,141.4	6,189.7	93.5	0.00
Machinery & transport equip.	1,448.9	632,946.5	0.2	53,868,421.2	631,497.5	99.8	0.01
Total all products	21,701.8	873,834.9	2.5	149,240,721.6	852,133.2	97.5	0.01
<b>LIBYA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	11,662.9	21,145.2	55.2	21,052,701.0	9,482.3	44.8	0.00
Beverages and tobacco	98.6	138.1	71.3	1,653,717.4	39.6	28.7	0.00
Ores, metals, precious stones	847.1	34,273.0	2.5	3,931,312.3	33,426.0	97.5	0.01
Fuels	276,530.3	10,892,812.7	2.5	17,188,541.6	10,616,282.3	97.5	0.63
Manufactured goods	66,986.2	152,087.7	44.0	34,861,886.8	85,101.5	56.0	0.00
Chemical products	76,584.2	366,624.5	20.9	16,684,141.4	290,040.2	79.1	0.02
Machinery & transport equip.	3,834.0	16,306.0	23.5	53,868,421.2	12,471.9	76.5	0.00
Total all products	436,543.4	11,483,387.2	3.8	149,240,721.6	11,046,843.8	96.2	0.08



<b>MADAGASCAR</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	9,113.2	270,031.2	3.4	21,052,701.0	260,918.0	96.6	0.01
Beverages and tobacco	211.6	956.2	22.1	1,653,717.4	744.6	77.9	0.00
Ores, metals, precious stones	779.1	32,653.6	2.4	3,931,312.3	31,874.5	97.6	0.01
Fuels	10,158.3	34,968.4	29.0	17,188,541.6	24,810.1	71.0	0.00
Manufactured goods	9,838.0	213,082.4	4.6	34,861,886.8	203,244.4	95.4	0.01
Chemical products	358.6	9,624.2	3.7	16,684,141.4	9,265.6	96.3	0.00
Machinery & transport equip.	2,877.8	21,348.7	13.5	53,868,421.2	18,470.9	86.5	0.00
Total all products	33,336.5	582,664.7	5.7	149,240,721.6	549,328.1	94.3	0.00
<b>MALAWI</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	43,464.8	121,546.5	35.8	21,052,701.0	78,081.7	64.2	0.01
Beverages and tobacco	44,474.1	288,651.7	15.4	1,653,717.4	244,177.6	84.6	0.17
Ores, metals, precious stones	763.8	884.5	86.4	3,931,312.3	120.7	13.6	0.00
Fuels	953.4	1,017.6	93.7	17,188,541.6	64.2	6.3	0.00
Manufactured goods	32,146.5	45,619.5	70.5	34,861,886.8	13,472.9	29.5	0.00
Chemical products	2,519.3	2,689.5	93.7	16,684,141.4	170.1	6.3	0.00
Machinery & transport equip.	7,281.5	10,439.3	69.8	53,868,421.2	3,157.8	30.2	0.00
Total all products	131,603.5	470,848.6	28.0	149,240,721.6	339,245.1	72.0	0.00

<b>MALI</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	43,769.1	48,396.0	90.4	21,052,701.0	4,626.9	9.6	0.00
Beverages and tobacco	385.2	477.2	80.7	1,653,717.4	92.0	19.3	0.00
Ores, metals, precious stones	207,232.8	403,528.6	51.4	3,931,312.3	196,295.8	48.6	0.10
Fuels	5,436.2	6,220.0	87.4	17,188,541.6	783.9	12.6	0.00
Manufactured goods	9,481.8	12,804.6	74.1	34,861,886.8	3,322.7	25.9	0.00
Chemical products	2,215.7	2,761.1	80.2	16,684,141.4	545.4	19.8	0.00
Machinery & transport equip.	9,404.4	16,556.0	56.8	53,868,421.2	7,151.7	43.2	0.00
Total all products	277,925.2	490,743.5	56.6	149,240,721.6	212,818.4	43.4	0.00
<b>MAURITANIA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	30,484.0	181,311.0	16.8	21,052,701.0	150,827.0	83.2	0.01
Beverages and tobacco		10.6	0.0	1,653,717.4	10.6	100.0	0.00
Ores, metals, precious stones	7,598.5	258,115.9	2.9	3,931,312.3	250,517.4	97.1	0.07
Fuels	521.1	6,954.5	7.5	17,188,541.6	6,433.4	92.5	0.00
Manufactured goods	98.9	1,150.9	8.6	34,861,886.8	1,052.0	91.4	0.00
Chemical products	2.4	65.3	3.7	16,684,141.4	62.8	96.3	0.00
Machinery & transport equip.	738.4	2,213.2	33.4	53,868,421.2	1,474.8	66.6	0.00
Total all products	39,443.2	449,821.3	8.8	149,240,721.6	410,378.0	91.2	0.00

<b>MAURITIUS</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	14,266.8	464,221.5	3.1	21,052,701.0	449,954.8	96.9	0.02
Beverages and tobacco	2,058.1	4,360.1	47.2	1,653,717.4	2,302.1	52.8	0.00
Ores, metals, precious stones	3,517.0	37,445.0	9.4	3,931,312.3	33,928.1	90.6	0.01
Fuels	317.0	732.5	43.3	17,188,541.6	415.5	56.7	0.00
Manufactured goods	85,032.9	1,103,085.1	7.7	34,861,886.8	1,018,052.2	92.3	0.03
Chemical products	12,038.3	19,009.6	63.3	16,684,141.4	6,971.4	36.7	0.00
Machinery & transport equip.	12,729.2	91,833.2	13.9	53,868,421.2	79,104.0	86.1	0.00
Total all products	129,959.1	1,720,687.1	7.6	149,240,721.6	1,590,728.0	92.4	0.01
<b>MOROCCO</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	128,850.8	1,726,606.3	7.5	21,052,701.0	1,597,755.5	92.5	0.08
Beverages and tobacco	3,473.7	15,551.1	22.3	1,653,717.4	12,077.4	77.7	0.01
Ores, metals, precious stones	14,681.6	739,552.5	2.0	3,931,312.3	724,870.8	98.0	0.19
Fuels	14,314.1	262,690.6	5.4	17,188,541.6	248,376.5	94.6	0.02
Manufactured goods	115,618.3	2,924,510.3	4.0	34,861,886.8	2,808,892.1	96.0	0.08
Chemical products	46,583.6	1,065,605.7	4.4	16,684,141.4	1,019,022.1	95.6	0.06
Machinery & transport equip.	38,300.8	920,864.2	4.2	53,868,421.2	882,563.4	95.8	0.02
Total all products	361,822.8	7,655,380.7	4.7	149,240,721.6	7,293,557.8	95.3	0.05

<b>MOZAMBIQUE</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	38,211.1	162,960.2	23.4	21,052,701.0	124,749.1	76.6	0.01
Beverages and tobacco	12,435.2	23,323.6	53.3	1,653,717.4	10,888.5	46.7	0.01
Ores, metals, precious stones	3,645.7	401,001.8	0.9	3,931,312.3	397,356.1	99.1	0.10
Fuels	88,000.9	112,711.4	78.1	17,188,541.6	24,710.5	21.9	0.01
Manufactured goods	14,799.5	24,635.6	60.1	34,861,886.8	9,836.1	39.9	0.00
Chemical products	364.6	1,236.2	29.5	16,684,141.4	871.6	70.5	0.00
Machinery & transport equip.	19,826.9	30,205.6	65.6	53,868,421.2	10,378.7	34.4	0.00
Total all products	177,283.9	756,074.4	23.4	149,240,721.6	578,790.6	76.6	0.01
<b>NAMIBIA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	142,496.6	298,470.1	47.7	21,052,701.0	155,973.5	52.3	0.01
Beverages and tobacco	52,958.1	53,244.3	99.5	1,653,717.4	286.2	0.5	0.03
Ores, metals, precious stones	53,113.9	530,157.4	10.0	3,931,312.3	477,043.5	90.0	0.13
Fuels	5,974.9	8,261.4	72.3	17,188,541.6	2,286.5	27.7	0.00
Manufactured goods	122,040.0	145,193.0	84.1	34,861,886.8	23,153.0	15.9	0.00
Chemical products	7,161.6	24,239.7	29.5	16,684,141.4	17,078.1	70.5	0.00
Machinery & transport equip.	50,573.4	55,843.8	90.6	53,868,421.2	5,270.4	9.4	0.00
Total all products	434,318.5	1,115,409.7	38.9	149,240,721.6	681,091.3	61.1	0.01

<b>NIGER</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	70,695.2	71,418.8	99.0	21,052,701.0	723.6	1.0	0.00
Beverages and tobacco	20,215.4	24,858.1	81.3	1,653,717.4	4,642.6	18.7	0.02
Ores, metals, precious stones	49,366.1	136,171.6	36.3	3,931,312.3	86,805.5	63.7	0.03
Fuels	2,721.5	3,394.8	80.2	17,188,541.6	673.3	19.8	0.00
Manufactured goods	21,037.7	25,279.6	83.2	34,861,886.8	4,241.9	16.8	0.00
Chemical products	2,054.4	2,171.3	94.6	16,684,141.4	116.9	5.4	0.00
Machinery & transport equip.	21,772.2	24,219.1	89.9	53,868,421.2	2,446.9	10.1	0.00
Total all products	187,862.5	287,513.2	65.3	149,240,721.6	99,650.7	34.7	0.00
<b>NIGERIA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	19,057.4	178,520.7	10.7	21,052,701.0	159,463.2	89.3	0.01
Beverages and tobacco	696.6	1,969.9	35.4	1,653,717.4	1,273.3	64.6	0.00
Ores, metals, precious stones	1,943.2	26,709.2	7.3	3,931,312.3	24,766.0	92.7	0.01
Fuels	1,761,873.0	21,487,569.8	8.2	17,188,541.6	15,426,668.6	71.8	1.25
Manufactured goods	47,273.3	111,368.6	42.4	34,861,886.8	64,095.4	57.6	0.00
Chemical products	11,877.6	19,432.5	61.1	16,684,141.4	7,554.9	38.9	0.00
Machinery & transport equip.	13,041.8	197,289.6	6.6	53,868,421.2	184,247.8	93.4	0.00
Total all products	1,855,762.8	22,022,860.3	8.4	149,240,721.6	15,868,069.2	72.1	0.15

<b>RWANDA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	24,847.5	36,208.2	68.6	21,052,701.0	11,360.7	31.4	0.00
Beverages and tobacco	135.7	144.4	93.9	1,653,717.4	8.8	6.1	0.00
Ores, metals, precious stones	3,075.7	19,007.6	16.2	3,931,312.3	15,931.9	83.8	0.00
Fuels	696.0	933.9	74.5	17,188,541.6	237.8	25.5	0.00
Manufactured goods	1,313.7	1,692.8	77.6	34,861,886.8	379.1	22.4	0.00
Chemical products	258.5	313.7	82.4	16,684,141.4	55.1	17.6	0.00
Machinery & transport equip.	1,837.4	2,469.1	74.4	53,868,421.2	631.6	25.6	0.00
Total all products	32,164.7	60,769.7	52.9	149,240,721.6	28,605.1	47.1	0.00
<b>SÃO TOMÉ &amp; PRÍNCIPE</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	74.6	3,727.1	2.0	21,052,701.0	3,652.5	98.0	0.00
Beverages and tobacco	44.3	50.9	87.0	1,653,717.4	6.6	13.0	0.00
Ores, metals, precious stones	0.0	8.3	0.6	3,931,312.3	8.2	99.4	0.00
Fuels	0.0	0.4	8.1	17,188,541.6	0.3	91.9	0.00
Manufactured goods	33.0	119.4	27.7	34,861,886.8	86.4	72.3	0.00
Chemical products	2.0	48.0	4.2	16,684,141.4	46.0	95.8	0.00
Machinery & transport equip.	53.0	185.1	28.6	53,868,421.2	132.1	71.4	0.00
Total all products	207.0	4,139.1	5.0	157,763,422.2	100.0	2.4	0.00

<b>SENEGAL</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	51,679.7	233,422.7	22.1	21,052,701.0	181,743.0	77.9	0.01
Beverages and tobacco	9,061.4	11,091.7	81.7	1,653,717.4	2,030.4	18.3	0.01
Ores, metals, precious stones	12,711.4	46,344.1	27.4	3,931,312.3	33,632.7	72.6	0.01
Fuels	71,340.1	170,855.7	41.8	17,188,541.6	99,515.7	58.2	0.01
Manufactured goods	61,646.0	76,945.5	80.1	34,861,886.8	15,299.5	19.9	0.00
Chemical products	86,042.1	208,753.1	41.2	16,684,141.4	122,711.0	58.8	0.01
Machinery & transport equip.	22,207.7	47,074.6	47.2	53,868,421.2	24,866.9	52.8	0.00
Total all products	314,688.4	794,487.4	39.6	149,240,721.6	479,799.1	60.4	0.01
<b>SEYCHELLES</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	1,521.1	133,888.7	1.1	21,052,701.0	132,367.6	98.9	0.01
Beverages and tobacco	201.5	917.4	22.0	1,653,717.4	715.8	78.0	0.00
Ores, metals, precious stones	131.6	170.8	77.1	3,931,312.3	39.2	22.9	0.00
Fuels	200.9	59,190.9	0.3	17,188,541.6	58,990.0	99.7	0.00
Manufactured goods	212.2	3,074.0	6.9	34,861,886.8	2,861.7	93.1	0.00
Chemical products	22.5	3,376.9	0.7	16,684,141.4	3,354.3	99.3	0.00
Machinery & transport equip.	198.6	7,091.1	2.8	53,868,421.2	6,892.5	97.2	0.00
Total all products	2,488.6	207,709.8	1.2	149,240,721.6	205,221.2	98.8	0.00

<b>SIERRA LEONE</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	281.9	29,341.0	1.0	21,052,701.0	29,059.1	99.0	0.00
Beverages and tobacco	12.0	156.7	7.7	1,653,717.4	144.7	92.3	0.00
Ores, metals, precious stones	71.6	29,866.9	0.2	3,931,312.3	29,795.3	99.8	0.01
Fuels	156.9	198.5	79.0	17,188,541.6	41.6	21.0	0.00
Manufactured goods	189.7	3,042.3	6.2	34,861,886.8	2,852.6	93.8	0.00
Chemical products	66.9	603.7	11.1	16,684,141.4	536.7	88.9	0.00
Machinery & transport equip.	101.3	3,047.7	3.3	53,868,421.2	2,946.4	96.7	0.00
Total all products	880.3	66,256.7	1.3	149,240,721.6	65,376.5	98.7	0.00
<b>SOUTH AFRICA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	553,667.6	2,261,740.6	24.5	21,052,701.0	1,708,073.0	75.5	0.11
Beverages and tobacco	148,148.6	523,684.4	28.3	1,653,717.4	375,535.7	71.7	0.32
Ores, metals, precious stones	111,826.3	7,686,267.2	1.5	3,931,312.3	7,574,440.8	98.5	1.96
Fuels	556,253.0	2,919,366.0	19.1	17,188,541.6	2,363,113.0	80.9	0.17
Manufactured goods	1,268,182.1	6,372,186.5	19.9	34,861,886.8	5,104,004.4	80.1	0.18
Chemical products	749,667.3	2,459,965.3	30.5	16,684,141.4	1,710,298.0	69.5	0.15
Machinery & transport equip.	1,268,448.1	5,452,594.6	23.3	53,868,421.2	4,184,146.4	76.7	0.10
Total all products	4,656,193.1	27,675,804.6	16.8	149,240,721.6	23,019,611.5	83.2	0.19



<b>SUDAN</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	33,366.5	265,183.6	12.6	21,052,701.0	231,817.1	87.4	0.01
Beverages and tobacco	34.8	121.8	28.5	1,653,717.4	87.0	71.5	0.00
Ores, metals, precious stones	467.5	69,209.8	0.7	3,931,312.3	68,742.3	99.3	0.02
Fuels	11,181.0	1,544,551.7	0.7	17,188,541.6	1,533,370.7	99.3	0.09
Manufactured goods	394.9	14,809.9	2.7	34,861,886.8	14,415.0	97.3	0.00
Chemical products	1,675.2	1,846.6	90.7	16,684,141.4	171.4	9.3	0.00
Machinery & transport equip.	3,345.7	45,040.4	7.4	53,868,421.2	41,694.7	92.6	0.00
Total all products	50,465.6	1,940,763.8	2.6	149,240,721.6	1,890,298.2	97.4	0.01
<b>SWAZILAND</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	219,874.31	243,871.11	90.16	21,052,701.01	23,996.81	9.84	0.01
Beverages and tobacco	11,420.05	11,455.15	99.69	1,653,717.42	35.10	0.31	0.01
Ores, metals, precious stones	4,562.41	4,579.99	99.62	3,931,312.27	17.59	0.38	0.00
Fuels	9,495.76	9,498.56	99.97	17,188,541.55	2.80	0.03	0.00
Manufactured goods	188,509.31	302,395.77	62.34	34,861,886.82	113,886.45	37.66	0.01
Chemical products	522,690.56	569,490.23	91.78	16,684,141.36	46,799.67	8.22	0.03
Machinery & transport equip.	67,297.05	69,979.98	96.17	53,868,421.19	2,682.93	3.83	0.00
Total all products	1,023,849.45	1,211,270.79	84.53	149,240,721.62	187,421.34	15.47	0.01

<b>TANZANIA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	55,143.2	365,534.7	15.1	21,052,701.0	310,391.5	84.9	0.02
Beverages and tobacco	13,301.0	75,083.6	17.7	1,653,717.4	61,782.6	82.3	0.05
Ores, metals, precious stones	58,199.9	317,533.2	18.3	3,931,312.3	259,333.3	81.7	0.08
Fuels	1,825.3	2,336.3	78.1	17,188,541.6	511.0	21.9	0.00
Manufactured goods	30,080.5	49,359.5	60.9	34,861,886.8	19,279.0	39.1	0.00
Chemical products	8,725.0	11,898.2	73.3	16,684,141.4	3,173.2	26.7	0.00
Machinery & transport equip.	10,208.7	12,727.9	80.2	53,868,421.2	2,519.3	19.8	0.00
Total all products	177,483.5	834,473.4	21.3	149,240,721.6	656,989.9	78.7	0.01
<b>TOGO</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	30,127.0	62,018.6	48.6	21,052,701.0	31,891.6	51.4	0.00
Beverages and tobacco	5,968.2	6,879.0	86.8	1,653,717.4	910.9	13.2	0.00
Ores, metals, precious stones	10,983.2	72,325.3	15.2	3,931,312.3	61,342.1	84.8	0.02
Fuels	4,648.6	13,864.2	33.5	17,188,541.6	9,215.6	66.5	0.00
Manufactured goods	91,912.4	100,480.7	91.5	34,861,886.8	8,568.4	8.5	0.00
Chemical products	6,450.8	84,061.7	7.7	16,684,141.4	77,610.8	92.3	0.01
Machinery & transport equip.	8,507.4	20,209.6	42.1	53,868,421.2	11,702.2	57.9	0.00
Total all products	158,597.5	359,839.2	44.1	149,240,721.6	201,241.6	55.9	0.00

<b>TUNISIA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	132,593.4	614,380.9	21.6	21,052,701.0	481,787.5	78.4	0.03
Beverages and tobacco	12,883.2	68,116.5	18.9	1,653,717.4	55,233.4	81.1	0.04
Ores, metals, precious stones	11,297.4	100,402.4	11.3	3,931,312.3	89,105.0	88.7	0.03
Fuels	4,160.0	709,397.2	0.6	17,188,541.6	705,237.3	99.4	0.04
Manufactured goods	201,689.1	3,786,658.9	5.3	34,861,886.8	3,584,969.8	94.7	0.11
Chemical products	119,958.4	760,784.1	15.8	16,684,141.4	640,825.6	84.2	0.05
Machinery & transport equip.	75,995.1	1,112,950.0	6.8	53,868,421.2	1,036,955.0	93.2	0.02
Total all products	558,576.5	7,152,690.0	7.8	149,240,721.6	6,594,113.5	92.2	0.05
<b>UGANDA</b>	<b>Exports to Africa</b>	<b>Exports to World</b>	<b>Africa's Share in exports (%)</b>	<b>Africa's imports from World</b>	<b>Potential Trade to Africa</b>	<b>Potential Trade to Africa (%)</b>	<b>Ratio of Exports to World relative to Africa's imports</b>
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	97,916.23	356,878.14	27.44	21,052,701.01	258,961.91	72.56	0.02
Beverages and tobacco	10,493.13	28,833.21	36.39	1,653,717.42	18,340.09	63.61	0.02
Ores, metals, precious stones	11,174.24	54,432.66	20.53	3,931,312.27	43,258.43	79.47	0.01
Fuels	9,685.25	21,094.35	45.91	17,188,541.55	11,409.10	54.09	0.00
Manufactured goods	22,437.97	26,797.81	83.73	34,861,886.82	4,359.84	16.27	0.00
Chemical products	7,722.68	15,907.25	48.55	16,684,141.36	8,184.58	51.45	0.00
Machinery & transport equip.	11,483.03	20,961.56	54.78	53,868,421.19	9,478.53	45.22	0.00
Total all products	170,912.52	524,905.00	32.56	149,240,721.62	353,992.48	67.44	0.00

ZAMBIA	Exports to Africa	Exports to World	Africa's Share in exports (%)	Africa's imports from World	Potential Trade to Africa	Potential Trade to Africa (%)	Ratio of Exports to World relative to Africa's imports
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	61,379.6	89,387.6	68.7	21,052,701.0	28,008.0	31.3	0.00
Beverages and tobacco	20,280.3	25,768.0	78.7	1,653,717.4	5,487.7	21.3	0.02
Ores, metals, precious stones	179,403.1	968,644.2	18.5	3,931,312.3	789,241.1	81.5	0.25
Fuels	16,098.5	17,337.5	92.9	17,188,541.6	1,239.0	7.1	0.00
Manufactured goods	51,866.4	134,654.8	38.5	34,861,886.8	82,788.5	61.5	0.00
Chemical products	11,668.3	15,817.6	73.8	16,684,141.4	4,149.3	26.2	0.00
Machinery & transport equip.	27,492.9	29,395.0	93.5	53,868,421.2	1,902.1	6.5	0.00
Total all products	368,189.1	1,281,004.7	28.7	149,240,721.6	912,815.6	71.3	0.01
ZIMBABWE	Exports to Africa	Exports to World	Africa's Share in exports (%)	Africa's imports from World	Potential Trade to Africa	Potential Trade to Africa (%)	Ratio of Exports to World relative to Africa's imports
Product Description	A	B	$C=A/B*100$	D	$E=B-A$	$F=E/B$	$G=B/D$
Food, Basic	149,617.1	244,868.9	61.1	21,052,701.0	95,251.8	38.9	0.01
Beverages and tobacco	67,891.3	506,427.4	13.4	1,653,717.4	438,536.1	86.6	0.31
Ores, metals, precious stones	126,389.3	329,747.5	38.3	3,931,312.3	203,358.3	61.7	0.08
Fuels	24,059.7	24,386.0	98.7	17,188,541.6	326.4	1.3	0.00
Manufactured goods	181,051.6	430,304.8	42.1	34,861,886.8	249,253.3	57.9	0.01
Chemical products	40,570.8	47,565.5	85.3	16,684,141.4	6,994.7	14.7	0.00
Machinery & transport equip.	42,147.1	49,808.7	84.6	53,868,421.2	7,661.6	15.4	0.00
Total all products	631,726.7	1,633,108.9	38.7	149,240,721.6	1,001,382.1	61.3	0.01
Total		153,350,807.54		149,240,721.6			

Source: Data compiled from UNCTAD Handbook, 2008

# Informal Trade in Africa

# 5

## 5.1 Introduction

Informal trade is as old as the informal economy. It is the main source of job creation in Africa, providing between 20 per cent and 75 per cent of total employment in most countries, with the exception of South Africa, where the estimated figure is 12 per cent of the active population (McLachlan, 2005). In West Africa, where the informal sector constitutes 20 per cent to 90 per cent of the national economy (McLachlan, 2005); National Institute of Statistics and Economic Analysis [INSAE] 2002, informal trade constitutes a large share of the informal economy.

The informal economy is even larger. Even when trade is official or formally recorded by the relevant state monitoring and controls apparatus, its organizational methods are just as informal. Barely 60 per cent of activity is declared and recorded, blurring the border between the informal sector, fraud and the infringement of national or community regulations.

It is therefore necessary to revisit analyses of the informal sector to overturn inherited stereotypes and invent a fresh way of looking at things. A reinvigorated approach will help breathe new dynamism into African economies by incorporating the informal sector's potential—a traditionally inexhaustible source of responses to the challenges of internal or imported crises that populations face.

Informal trade in Africa has always been the response of the population, women in particular, to the economic crises arising primarily from the failure of political and financial governance, and to the fratricidal wars that often have ensued. Such trade permits the distribution of consumer goods, whether or not they are prohibited. It is an ungoverned continuum of official trade and the major factor driving imports from the rest of the world. Unfortunately, national accounts have problems absorbing this trade in its entirety, jeopardizing the assessment of national wealth.

Section 5.2 defines informal trade, then focuses on informal cross-border trade (ICBT), which consists of many products of African and non-African origin. Section 5.3 proposes a typology of products of all types: unprocessed products; precious

stones; banned products and highly regulated products such as arms, ammunition and hunting guns; drugs and pharmaceutical products of dubious origin; petroleum products; foodstuffs; electronic materials and cyclo-motors; textiles and paper products; chemical manure and fertilizers; plastics and building materials; photocopy, recording, audio-visual and photographic machines; and toys.

Section 5.4 analyses the characteristics of those involved as a guide to understanding the technical constraints inherent in being a trader. An examination of the nature of trade flows follows, to consider human, technical and financial resources and the potential business acumen of contributors to the informal sector. Despite the limitations, data from African economic communities (ECOWAS, WAMU, COMESA, SADC, SACU and CEMAC) gives a general idea of the volume of informal trade. Detailed information on cross-border trade between Ethiopia and the Horn of Africa offers insight into regional specificities drawn from recent case studies. Also, a strengths, weaknesses, opportunities and threats (SWOT) analysis of intra-African trade guides the analysis, to better target the trading policies that boost intra-African trade. Finally, conclusions and recommendations are presented proposing areas for further research and formulating policy options for the RECs.

The methodology adopted is based on reviews of available literature from West and East Africa, supplemented by interviews and site observations. Product identification is based on references to the Economic Community of West African States (ECOWAS) database and the Laboratory of Regional Analysis and Social Expertise (LARES) tariff codes. Products in the various proposed categories of informal trade can be identified from products or tariff headings found in 34 chapters of the ECOWAS Harmonized System of Classification (HSC). Estimates of current volumes of ICBT are drawn from fieldwork and rapid appraisals conducted in the Nigeria-Benin-Niger economic zones, and along the Ethiopia-Kenya and the Ethiopia-Djibouti borders.

## 5.2 Defining informal trade

The definition of informal trade is often used interchangeably with a definition of informal activity. Yet the definition of the latter is itself far from perfect. Based on the National Accounts Systems, informal activity is characterized primarily by four elements:

1. It operates on a small scale, with weak levels of organization and with little or no distinction between the factors of production (capital, labour).

2. Informal employment relationships are usually based on part-time employment, kinship or personal and social relationships, rather than contractual agreements or formal guarantees.
3. Individual enterprises are not distinct moral entities separate from the households to which they belong. They do not keep accounts that distinguish their activities of production from the other activities of their owners. Thus, assets used do not belong to the unit but to their owners.
4. From a legal perspective, “there is personal, unlimited liability on the part of the proprietor for all commitments entered into during the production process” (AFRISTAT, Methods Series no. 2, 1999).

However, according to the International Labor Organization (ILO), “the informal sector should be defined independently of the location of productive activity, the extent to which fixed capital is used, the effective life-span of the enterprise (permanent or temporary), and the principal or secondary nature of the employment” (AFRISTAT, 1999). Thus, for the ILO, the unit or formal enterprise must be defined by one of the following criteria:

1. The enterprise or paid workers are not registered; or
2. The size of the unit is not commensurate with its levels of employment.

Based on these two definitions, it follows that, “Informal activity is any activity that is unregistered and/or without formal written accounts, carried out as a principal or secondary employment, by a person as a boss or in his own individual capacity. This person, actively employed, is thus considered the head of an informal unit” (AFRISTAT, 1999).

These definitions, obviously, have as their basis the notion of ownership rights, particularly as they include an involuntary bias by assimilating or confusing the informal activity with the informal unit or enterprise. A substantial share of the activities of many registered or formal enterprises may be unregistered or unrecorded on national accounts. They may be considered hybrid enterprises, carrying out both informal and formal activities. Their mixed nature makes it possible to envisage informal trade as all or part of trading activity recorded or unrecorded, with and without formal (official) written accounts.

This definition makes it possible to add, under the informal trade category, re-export activities and cross-border trade. Such products often are under-reported either because of the deliberate use of positive fiscal policy benefiting from opportunities arising from differences in national political economies, because states do not apply community customs regulations, or even because of inappropriate methods of recording the flow of goods. As in informal enterprise, individual ownership (in the

strict sense of active workers and the absence of a distinction between the resources of commercial activity and those of the household) characterizes informal trade. However, this does not necessarily legitimize it. In fact, because small traders have registration problems along borders, many informal traders go unregistered. This makes them illegal traders or classifies them with smugglers, with all the associated risks and uncertainties. Such unregistered activities may be defined as illegal, unofficial, underground/parallel/black market activities, over-invoicing and under-invoicing, smuggling and contraband activities (Meagher, 1997).

Informal trade covers re-export activities, cross-border trade, domestic trade on the pavements and marketplaces, informal trade contracts based on trust and the given word, and the portion of official trade that goes unrecorded or under-recorded. However, it is difficult to assess the true extent of unrecorded trade, since it merges with fraud in formal enterprises, only to be revealed under duress or when uncovered by effective control methods. When defined as a separate category, ICBT can be said to occur where business activities cross borders, mainly based on popular supply and demand or comparative advantages, registered or unregistered. Officially registered informal cross-border trade is sometimes determined bilaterally or unilaterally by neighbouring countries or by multilateral subregional agreements.

ICBT between the Sudan and Ethiopia, for instance, is defined by bilateral agreements, while Ethiopia has made unilateral decisions to liberalize ICBT with Djibouti, Kenya and Somalia. Such decisions and agreements determine their definitions of ICBT based on the following criteria:

- The goods are not readily obtained from the central national markets/domestic sources, but have acceptable qualities and standards and can be easily and cheaply obtained across the border in a timely and regular fashion. Such goods are listed in the agreements and official publications.
- Exchange of such goods is permissible only within a certain radius of border trading points, depending on population density and certain conditions. For example, the bilateral agreement between Ethiopia and the Sudan fixed a 90 kilometres distance along each of the border lines. Ethiopia made a unilateral decision authorizing a 200 kilometres distance from the Kenyan border; 100 kilometres from Djibouti borders, and from 15 specified Ethiopian towns located along the border of Ethiopia and Somalia.
- There is a capital limit or monetary value on goods for trade only within the defined radius/distance from the border trading points. For example, the value of goods traded along the border between Ethiopia and the Sudan is fixed at Birr 2,000 in one weekly crossing that can be repeated four times in a month and 48 times in a year. On the other hand, the value of goods (other than livestock) traded with Kenya is fixed at Birr 5,000 per week,



twice a month, or 24 times in a year, while the value of livestock is fixed at Birr 30,000. The value of goods traded with Djibouti is set at Birr 5,000 per week, twice a month, or 24 times in a given year. The value of goods traded with Somalia is fixed at Birr 10,000 a week, twice a month, 24 times a year.

Uganda also has taken a unilateral decision regarding the liberalization of ICBT for goods valued at less than US\$ 1,000. Sub-regional organizations such as COMESA, SADC and ECOWAS also have defined certain goods that should be traded informally across borders and even duty-free goods. For instance, maize is permitted to be freely traded across borders in Southern and Eastern Africa. However, implementing these agreements leaves much to be desired, as will be examined in greater detail with respect to ECOWAS and COMESA.

Once they have entered a country, goods informally traded across borders are openly sold in licensed shops by registered traders. Taxes and levies are paid to local administration on these goods (Little, 2007; MoARD, April 2008).

### 5.3 Types of informal goods

The ECOWAS data base uses the Harmonized System of Classification (HSC) to codify regionally traded goods based on their import value. The LARES data base details cross-border trade among Nigeria and neighbouring countries. Merging the two systems permits classification into five main categories: unprocessed products, artisanal products, re-exported products, pharmaceutical products and all other non-classified products. Lists of products traded on informal circuits are purely indicative, since they vary from country to country. The underlying assumption is that unprocessed products are excluded from official export channels by the state or trading companies because of their sectors' weaknesses or lack of organization. The lists also include products traded in organized sectors on the grounds that they may also appear on informal circuits simply because, in certain countries, there are parallel distribution channels to export these goods under the radar of state controls.

In the West African trading zones (Nigeria, Benin, Niger, Cameroon and Chad) such goods are cotton fiber, cement, vegetable oils, petroleum products, fertilizers and pesticides. Using a basic-needs approach to categorize goods traded informally among Ethiopia and neighbouring countries (Djibouti, Somali and Kenya), products identified are veterinary drugs, livestock, milk and dairy products, chickens and eggs, local fish, coffee, grains, beans, shoes, clothing, manufactured and electronic goods and *chat*. Whether the categories are based on cross-border trade, domestic markets or consumption requirements, African countries should closely review natu-

ral resource-based products—the continent’s most-traded products because of the little processing they require—since growth will stem primarily from the domestic processing and intra-African trade of these products.

Informal trade for re-export often differs from other informal activities in magnitude and in the more sophisticated structure of this trade, highly organized in finance, operation, transport, storage and information networks. These are no longer essential commodities but goods for consumption, destined to be sold far from the border areas in central national markets such as Addis Ababa, Nairobi, Djibouti, Berbera and Mogadishu, and even for re-export to the Middle East (products such as live-stock) and to Ethiopia (electronic goods, packed-good items and rice, used and new clothing, shoes, spare parts, drugs and manufactured goods imported from Asia).

Examining cross-border import-export flows and domestic flow, using the international HSC of products for a more detailed definition (computation up to six digits for simplification), and drawing on field observations in both West and Eastern Africa, permits a schematic classification into three main categories:

1. Products of agricultural provenance, fisheries and domestic livestock;
2. Domestic handicrafts;<sup>1</sup> and
3. Cross-border imports of manufactured products and those imported and re-exported without value added, on parallel circuits.

### **5.3.1 Unprocessed products**

This category includes most primary commodities except for agricultural seed and selected livestock breeds, imported or developed in research laboratories. Cereals, roots and tubers, oil-seed, leguminous seed, livestock and fisheries come under the category of informal trade in unprocessed products. Informal trade in goods derived from unprocessed products occurs in all trade sectors. However, there are variations in scale, depending on the sector and country. For example, a total of 156 products defined under HS 6 in the detailed list extracted from the database were identified in the category of unprocessed products from field observations. Annex 5.1 summarizes these products. Products may be classified in this table only because of the four-digit limitation, and they may not all necessarily fall under informal trade. Thus, under HS 0206, designating edible animal offal from cows, goats, sheep, pigs, horses and donkeys, there are three sub-products: HS 020610 (fresh or chilled edible offal of bovine animals); HS 020630 (fresh or chilled edible offal of swine); HS 020680 (fresh or chilled edible offal of sheep, goats, horses, asses, mules and hinnies) traded informally, out of the nine sub-products in this category.

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<sup>1</sup> The first two categories are theoretically exempted from customs duties in the trade liberalization schemes both inside domestic borders as well as for intra-community trade in WAMU and ECOWAS.

### 5.3.2 Artisanal products

A large, highly diversified number of artisanal products are traded informally throughout the continent. They are mainly of African origin, with provenance from many parts of the continent. The dominant products are worked in animal skin, particularly domesticated cattle, sheep and goats, camel and wild animals (lion, panther, antelope, snakes, reptiles, crocodile, boa and viper); masks and statues of vegetal origin; trunks of wood and stone; necklaces; lithographs; wicker products (furniture, baskets, bins.); clothing made of traditional cloth; toys and ornaments made of waste materials (plastics, fibers, scrap iron, aluminium); etchings, batiks, suitcases, handbags, cooking utensils in scrap aluminium.

In addition to artisanal products some products used for handicrafts could be classified as primary products or under other classifications, because they are primarily used for artisanal work and the potential development of this sector is linked to that of handicrafts. Among these products under Chapter 14 of the HS classification are bamboo, reeds and cereal chaff. Annex 5.2 shows the groups of products that make up the artisanal objects in informal trade flows. Ninety-six products are identified in this category. They are traded primarily for local use but can be found at border markets and are destined for cross-border flows.

Large quantities of these artisanal products circulate among urban centres. However, occasional markets from the more remote areas and rural markets are also centres for artisanal tools for hunting and farming: hoes, cutlasses, ploughs, rakes, axes, rope, baskets, pottery and traps, among other products. Apart from these products and furniture, products identified from the HSC are primarily artwork from diverse origins: masks, statues, necklaces in stone and leather and etchings. Nigeria, Ghana, Côte d'Ivoire and, secondarily, Burkina Faso and Benin, are large suppliers of such art objects. In addition, for some countries like Benin, there are articles made out of scrap: plastic bags recycled as handbags, key chains, wallets, and decorative articles women's organizations have made both to fight urban poverty and promote a cleaner environment.

### 5.3.3 Products for re-export

These products originate mainly from outside the continent. Their share of cross-border trade is directly proportional to the size of the national economies and the protectionist or liberal nature of trade policies. They consist mainly of products for daily use and basic consumption: fabrics, second-hand clothing or automobiles, tyres, foodstuffs and tobacco products. Annex 5.3 contains a partial description of these products (four-digit level, HS 4), for which a complete list can be found in the ECOWAS data base. In that data base are located about 327 tariff headings, from

vehicles to cereals (rice, wheat flour), including meats, alcoholic drinks, tobacco, fabrics and second-hand clothing.

### 5.3.4 Pharmaceutical products

Various pharmaceutical products, most of dubious origin, are traded informally in Africa. In West Africa, the most common are antibiotics, analgesics and increasingly, sedatives. It is difficult to select precise classifications from the HS, and they are grouped together under Chapter 30, particularly under HS 2935 and HS 3000. Annex 5.4 includes a list of some of these products.

## 5.4 Characteristics of informal traders

It is estimated that about 60 to 70 per cent of African families are sustained by the informal sector, either directly as operators, or indirectly as beneficiaries of the services it provides. A method of classifying those engaged in informal trade is first to make a functional distinction between actors; and second, to identify characteristics intrinsic to their nature on the one hand, and to consider the social capital required for informal trade in unprocessed products as a factor of reducing transaction costs (Tassou, 2004; Yérima, 1995), on the other. This method extends to classifying marketing networks involved or established by these actors (Yérima, 2008).

Four types of individuals are commonly involved in trading unprocessed products: wholesalers, including transporters/traders and producers/traders; semi-wholesalers; collectors; and retailers. With these are the participants: transporters, shopkeepers, lodgers for the livestock trade and other facilitators who often serve as brokers or apprentices.

Business success of any of these types depends on the accumulation of practical know-how, economic capital or, at the very least, capital built on trust and social relations (Labazée and Grégoire, 1993). Informal traders organize themselves in many different ways: self-help groups, *tontines*, market associations and associations based on ethnic groups, among others. Some groups are well-structured and function efficiently for the common good, the collective defense of members' interests and official recognition from public authorities. They tend to bring together members from the same ethnic group who are working outside their country of origin. Other groups will exercise control over the market, setting up barriers to entry. Benin contains such groups, among associations of food produce traders. Irrespective of their form, an analysis of their long-term effects on market efficiencies shows varying consequences.

Cross-border trade based on social/ethnic relationships and networks that source markets and arrange pricing levels and resources (credits/currencies deposits and so on) to sell and buy goods from neighbouring countries for resale at home, also has been stimulated by rising levels of unemployment, which has led many to enter the informal sector to earn a livelihood. In East Africa, for example, among the same ethnic groups living across borders such as the Afars, Somalis and the Borana Oromo, trust in ethnic trade relations and strong ethnic-based trade coalitions facilitate the opening up of markets without formal contract or written agreements.

Relationships may exist among the various organizations but contribute little to the efficiency of cross-border trade. They offer a private, institutional approach to resolving conflicts among members. Interpersonal relationships predominate in transactions in these micro-networks, which are the necessary social capital to lower transaction costs. The traders rarely exploit the advantages of the group and may not even be aware of them. However, opportunistic relationships are created between transporters and associations of foodstuff traders. These relationships are often created through contracts for large orders of produce by the institutions supporting food security in the interior and along the coast. In such cases, the wholesalers benefit from the transporters' ability to meet their contracted delivery deadlines efficiently.

#### **5.4.1 The role of women in informal trade**

Women play a prominent role in informal trade, and in informal business activities in particular. These few figures are proof enough: four to five million women in West Africa are involved in collecting, processing and marketing shea nuts and butter, bringing in an estimated 80 per cent of their income (Plunked and Stryker, 2002). In Benin, women are 80 per cent of those involved in informal trade, and the figure rises to 95 per cent for informal marketing of unprocessed goods. These figures can be explained by the share women represent in the informal sector in general. In sub-Saharan Africa, where three out of four people are unofficially employed, the non-agricultural informal sector creates employment opportunities for 91.5 per cent of women, compared with 70.7 per cent of the men (FAO, 2008). Out of those who work in the informal sector, 60 per cent are women. In Freetown, the capital of Sierra Leone, 70 per cent of the active population is engaged in the informal sector. The majority are women. In Lagos, Nigeria, that figure is 80 per cent (FAO, 2008). These data confirm the ancient tradition of women dominating West Africa's non-agricultural sector.

Indeed, Lagos' "Tinubu Square" bears the name of a female trader famous among Yoruba cities during the second half of the 19th century. Madam Tinubu embodied the dynamism of pre-colonial Yoruba civilisations and a resistance to outside interference. She is alleged to have owed her economic success to weapons trading

between the coast and the interior. In the 1850s she played a critical political role in Lagos, but her presence so irritated the British that she is alleged to have gone back to her hometown, Abeokuta, in southwest Nigeria, to finance wars against the Abomey kingdom of Benin (Humarau, 1999).

Madam Tinubu's fame has no doubt been surpassed by the rich merchant women of contemporary Togo, known as the "Nana-Benz." While these women have followed varying routes to success, they share several characteristics. Then, as now, these women conduct their businesses on the regional, and even international, stage, drawing on a long history of trading experience as informal actors. This results in their economic success, rather than initiating it. The volume of trade that passes through their hands enables them to regularly increase their economic and social capital (Humarau, 1999) even if their absence from or minimal institutional representation in formal political decision-making tends to minimize the crucial role that they could play in the development of intra-African trade. The factors that bring them together also separate them from most of the small-scale West African traders operating daily, who barely succeed in breaking even with their investments. All these groups constitute the major trading agents of both the formal and informal sectors.

Undoubtedly, women control the most efficient and dominant forms of the economy—the informal sector—and in the final analysis they are best-suited to coping with economic crises and making contributions that far exceed their share of the population of sub-Saharan Africa (FAO, 2008). All the women in the informal sector in Africa go beyond the purely economic requirements of their trade when it comes to strategies adopted to initiate, control or strengthen their trading activities (Humarau, 1999), for they also ensure household food security and mitigate harmful economic and social effects.

#### **5.4.2 Reasons for engaging in ICBT and informal trading networks**

ICBT used to be practiced during colonial times and along post-colonial state boundaries, (Little, 2007), although it predated by several centuries the establishment of state boundaries. Communities and people from the regions interacted and traded without need of interfering with traditional practices or requiring formal registration for such trade. Once borders were established, ICBT became illegal. Tariff and non-tariff barriers were imposed, disrupting economic activities. ICBT has, however, re-emerged and continued to flourish after independence.

Despite the fact that this form of trade is as old as the hills (Meillassoux, 1971; Polanyi, 1972), very little is known of local and regional markets in sub-Saharan Africa, both in terms of their structure and in the magnitude of trade flows. In fact,

informal trade there appears to be poorly structured, given the existence of multiple forms of coordination of the tight social networks (Agier, 1983; Gregoire, 1986). The predominant feature is flexibility, with each actor doing what resources permit, according to individual perceptions of market risk in terms of competition and the constraints of supply and demand. Market institutions undeniably have an effect on the market but, irrespective of the sector concerned, in most cases they do not impose any organization on the market. Informal trade, therefore, appears as a form of exchange without any observable rules. However, there may be specific group regulations for conflict resolution, lowering entry barriers to markets in certain cases or tacit price setting agreements.

ICBT has been practiced among homogeneous ethnic groups and communities that not only live along border areas but also are spread over long distances. For example, the Borana Oromo extend across 500 kilometres, from the Moyale border of Ethiopia and Kenya point to Isiolo, about 200 kilometres from Nairobi. The Somali ethnic groups live on four sides of the Kenya, Ethiopian, Djibouti and Somali borders; the Afars, along the three borders of Djibouti, Eritrea and Ethiopia, and the Tigrays and Kunamas on both Eritrean and Ethiopian sides, across borders. These cases illustrate how, despite the long distances from the national central markets, informal trade promotes and enhances the timely availability of basic goods across borders to remote communities far from central national markets. For instance, Moyale is 773 kilometres from Addis Ababa and about 700 kilometres from Nairobi; Dowelle is 720 kilometres from Addis Ababa but only 105 kilometres from Djibouti; Wuchale is about 700 kilometres from Addis Ababa but only about 250 kilometres from the port city of Berbera.

Trading channels for manufactured goods are organized according to their zones of commerce. The most difficult to capture by public institutional recording systems are described by LARES as within the “quitus system”, (no VAT or customs duty required). A multiplicity of participants carry on cross-border trade between Nigeria and her neighbours (notably Benin, Togo, Ghana, Burkina Faso and the Niger). These small-scale actors are forced to reduce the cost of clearing customs when they cross borders. They use informal transit services that load produce from all sources onto lorries, marked as packaged goods and transport them to their destinations after paying a token sum to customs.

Although the lack of standard organizations among Africa-wide informal trading activities has been emphasized, West Africa does exhibit two types of marketing networks: micro-networks that organize supply on a small scale at the borders, consisting predominantly of trade from nearby areas but also from the interior; and large trans-national or national networks that dominate trade in each sector, particularly unprocessed products and locally manufactured or imported products. Hausa, Yoruba, Ibo and Zerma traders control this sector in the eastern parts of the West

African region. In the Horn of Africa, secretly organized groups are created jointly to operate ICBT. Such clandestine cooperatives raise funds, organize purchases and sales of goods and livestock and arrange transport schedules across borders, even up to the national central markets (in Addis Ababa, Nairobi, Mogadishu, Berbera and Djibouti), probably through negotiations with custom and police officers, local militias and administrators.

Petroleum products follow distribution networks similar to the trading channels. They work along micro-networks of information that determine the efficiency of transactions, the speed of reaction and the adaptive capacity of the actors to the vagaries of trading in these products. Information often flows very quickly in this area of cross-border trade, much more so than anywhere because the use of micro-networks, mobile telephones and especially the systematic grid of short circuits along the border zones composed of many information processing and dissemination nodes. Here, particularly when it comes to the security of transactions, information is disseminated nearly cost-free. Each node and chain in the circuit processes information, ensuring that all the wholesalers and retailers receive the same information at the same time.

## 5.5 Intra-African cross-border trade: The case of Ethiopia

Petty- and small-scale traders supply border markets with essential goods for basic consumption by people and communities living along border areas. These include food grains and other foods including fish from lakes, clothing, medicines for people and animals and fuel, which cannot be obtained regularly from the central national markets at reasonable prices. This trade also encompasses products (livestock, food and manufactured goods) sold across borders as surplus at better prices or to earn income to purchase basic needs on the other side of the border.

In the Horn of Africa, operators are *delala* (brokers), *wokils* (agents) and *shirkas* (partners). These include both unregistered and registered traders: retailers, wholesalers, exporters and importers (MoARD, 2008). Women usually participate as small traders across borders and sometimes as travelers, shopkeepers and store owners. They sell milk and dairy products, chicken and eggs, grains and beans, clothes, shoes and electronic goods along the Kenya and Somalia borders. Large numbers of women can be seen transporting goods as hired porters, by hand and on their backs and heads across borders at Moyale towns. Women do not transport livestock and goods over long distances, although they sell small stock at border towns.



Non-essential items fit into the category of goods destined to be sold far away from the border areas and in the central markets of Addis Ababa, Nairobi, Djibouti, Berbera and Mogadishu. Large-scale traders with ready capital and heavy trucks tend to dominate the market. They handle both essential goods and luxury items such as food and clothing, livestock, electronic goods, medicines and medical supplies for people and animals, building materials, fuel and spare parts. The literature generally describes goods traded through ICBT as being produced and consumed in neighbouring countries.

Trade in the Horn of Africa illustrates, on a wider geographical scale, the nature of trade that stems from differences in political economies and trade regulations for re-export flows between Nigeria and her immediate neighbours to the east and north. These categories of operators are sophisticated and highly organized in finance, operation, transport, storage and information networks. They do not reside along the border areas, but in the central major cities. They re-export livestock to the Middle East and, to Ethiopia, electronic goods, rice, used and new clothing, shoes, spare parts, drugs and manufactured goods and other miscellaneous items imported from Asia.

Large ICBT operators in Ethiopia fund their own security guards with satellite mobile phones. They operate through their *wokils*, *delalas* or *shirkas*, usually collaborating with individuals who know local transport corridors and use their ethnic and clan connections. The types of goods traded through ICBT, using porters, transporters (for example, bicycles, animals or trucks) and security guards (Little, 2007; Umar, 2007; Mahmoud, 2003) are listed in table 5.1, below.

**Table 5.1**  
**Goods traded through ICBT between Ethiopia and neighbours**

Exports from Ethiopia	Imports into Ethiopia
Cattle	Cattle (from Kenya)
Goats & sheep	Goats & sheep (from Kenya)
Camels	Camels (from Kenya)
Chicken and eggs	Used and new cloths
Milk and raw butter	Maize flour (from Kenya) Used leather jackets Wheat flour (from Djibouti and Somaliland)
Maize and sorghum grains	Used leather shoes
Wheat flour	Used canvas shoes
Haricot and horse beans, lentils & other beans	
Fruits & vegetables	Rice (re-exported)
Teff and teff flour	Packed & canned food items Sugar and tea (other than from Sudan)

Exports from Ethiopia	Imports into Ethiopia
Chat, Coffee (to the Sudan, Somaliland, Somalia and Djibouti)	Edible oil (re-exported)
Beer & liquor spices	Sugar (re-exported)
Spices	Bottled juices and concentrates
Bed sheets	Canned butter (from Kenya)
New leather shoes	Cosmetics (re-exported)
Sugar (to Kenya)	Soap & washing powder Artificial hairs
Drinking water (to Kenya Moyale)	Glasses & plates
Fire wood & charcoal	Household utensils
Fuel oil (to Djibouti, Somali land and Kenya)	Cigarettes and shishas
Scrap metals (to Kenya)	Chat (to Dolo Ado area from Kenya)
Cement & building materials to Southern Sudan	Scrap iron
Cosmetic and electronic goods (to the Sudan)	Plastic products
Yarn (to Sudan)	Shoe polishes
Hides & skins	Various electronic goods (other than the Sudan)
Gold & minerals	Vehicles (from Djibouti, Somali)
Animal fodders	Motorcycles (other than from Sudan)
Woods	Weapons & ammunitions
Forged and genuine local and foreign currencies	Genuine & forged local and foreign currencies

**Source:** Drawn from key informants (custom officials, local administrators, traders/operators and site observations at Jijiga, Harar, Dire Dawa and Dewelle, and Shashmane, Awasa, Dilla and Moyale towns & MoARD).

The types and volumes of goods traded along borders and informal trade routes may fluctuate because of raids, strict customs controls, changes in domestic supply and demand, as well as fluctuations in the Middle East, usually due to veterinary controls in Saudi Arabia. But the type and structure of goods traded through ICBT remains relatively stable. For instance, livestock began to be exported from Kenya to Ethiopia for a while, probably because Saudi Arabia banned livestock imports from Kenya for veterinary reasons; however, exports recently resumed from Ethiopia to Kenya, and vice versa. The Djibouti corridor was overtaken by the Hartishek corridor due to strict custom controls and frequent raids, and was again overtaken by the Togo Wuchale corridor (both with Somaliland).

## 5.6 The scope of trade flows

As the case of Ethiopia demonstrates, informal African trade flows are dictated by the comparative economic advantages between and within countries, between areas of excess and deficit production. West African countries with more robust econo-

mies offer greater trading opportunities for regional products, a situation that is strengthened by the 2000 Common External Tariff of the West African Economic and Monetary Union and the ongoing approval processes in ECOWAS.

Thus in the eastern part of the West African region, one of the most dynamic informal trade in Africa takes place among the neighbouring countries of Nigeria, Benin, the Niger, Chad, Cameroon, Togo, Ghana and Burkina Faso. At the centre, mainly Ghana and Côte d'Ivoire are the cross-border trade dynamos with their Togolese, Burkina, Malian, Ghanaian and Liberian neighbours. The western part is focused mainly on Senegal, the main motor of cross-border trade with the Gambia, Mauritania, Mali, Guinea-Bissau and Guinea.

The largest informal trade flows in the four West Africa countries of Nigeria, Côte d'Ivoire, Ghana and Senegal relate to manufactured goods made locally and imported from the rest of the world. These flows are due to inequities in national economic development and, like the trade in petroleum products, responses to weaknesses in supply caused by the nascent industrial sector. This cross-border trade also illustrates the African hinterland's dependence on industrialized countries. Indeed, a large share of these trade flows come from Asia and South America, which are taking up an increasingly large share of markets once dominated by Europe, once West Africa's traditional suppliers. Industrialized goods for informal trade are usually inexpensive, poorly made products. They correspond to the purchasing power of the region's consumers.

### **5.6.1 Agricultural-ecological trade flows**

The flow of goods in each country stems from comparative advantages between producers of unprocessed products and the urban centres, through which travel imported goods and local industrial manufactures destined for rural areas. From rural markets to urban consumption centres flow products from agro-ecological zones that complement each other. Thus, products travel between primarily cereal-producing countries and large livestock-producing zones in the Sahel and the dry savannah to their counterparts on the coast and the semi-humid savannah of Guinea, where roots and tubers predominate and there are few animal resources available. Consequently, the major flows of unprocessed products in West Africa are cereals and leguminous products: sorghum/millet, beans and chickpeas that leave the Sahel zones of Nigeria, Burkina Faso, Senegal, Mali, Mauritania and the dry savanna of Guinea, Côte d'Ivoire, Benin and Togo to meet demand in the coastal cities following ancient informal trade transactions and routes.

Apart from their remoteness, border areas in the Horn of African are characterized by harsh, arid climates with scarce rainfall, desert and semi-desert conditions, short-

ages of water and grazing land, frequent droughts and low population densities. Survival in such environments depends on free movement across borders to sell goods and assets and the capacity to purchase basic needs from neighbouring countries. In East Africa, in the absence of other economic activities in remote isolated border areas, ICBT provides opportunities, including on- and off-farm income-generating activities (IGAs) for many households, particularly for the poor, youth and women.

Drawing on data obtained in early 2009 on the Horn of Africa, the consensus is that employment activities and income, as well as food security, would be depressed or totally eliminated in border areas without ICBT. Key informants attribute depressed economic activities along the border areas and Dire Dawa, Ethiopia, to restrictive controls of ICBT along the Djibouti–Dire Dawa route. Employment and incomes have been lost, food supply diminished and food prices rendered unaffordable along these border areas. Similar complaints were raised at Moyale, bordering Ethiopia and Kenya, allegedly because of restrictive ICBT controls. Livestock prices have fallen, while the prices of food grains and other foods products have risen. Accordingly, terms of trade assessed in terms of income from sales of livestock to purchase grains have fallen. For example, the price of one bull, which used to be Birr 1,000, has fallen to Birr 600, while the price of maize tripled from Birr 200 per 100 kg to Birr 600 per 100 kg.

Traders constantly seek alternative market outlets for surplus outputs, usually livestock and food grains, at better prices, the proceeds of which are used to purchase basic needs for survival. For example, Uganda may sell its surplus agricultural outputs, grain and fish, to Kenya, and import manufactured goods. Ethiopia is able to sell its livestock and other agricultural products to Kenya, Djibouti and Somalia, and import manufactured goods from or through these countries across borders. Through such practices, traders succeed in stabilizing food supplies and prices, creating balances in food security particularly during weather conditions such as drought common along the border areas in the Horn of Africa.

As noted, ICBT in livestock and other commerce contributes to food security in grain-deficit border areas. Income obtained from livestock sales and other commodities is used to purchase grains and other food commodities across borders for households along almost the entire Sudan, Ethiopia, Ethiopia/Djibouti, Ethiopia/Somalia and Ethiopia/Kenya borders, especially for herders who occupy these areas in the Horn (Guvele and Lautze 2000; Muchomba and Sharp, 2005) on southern Sudan/northern Kenya and on southern Sudan/northern Uganda. This is also the case on the border of Ethiopia and northern Kenya (Teka et al., 1999; Mahmoud, 2003); on the border of southern Somalia and northern Kenya (Little, 2000, 2006); in eastern Ethiopia Somaliland (Umar, 2007) and on the eastern border of Ethiopia with Djibouti (Teka and Azeze, 2002; Lawrence and Mohiddin, 2004). Thus livestock traders who sell animals across borders return with loads of grain and other foods to

supply the food-deficient border areas, probably using the same trucks that deliver livestock to market (Umar 2007, 2005). Umar describes this as the “conveyor belt concept”—trade as the conveyor belt that moves cattle to Somali ports and imports foods to be moved across the borders into Ethiopia thus connecting ports with pastoral areas. ICBT also facilitates the procurement of food aid, assisting donors, relief agencies, governments and formal traders bringing food across borders for emergency provision to neighboring countries.

Informal trade in petroleum products has helped make Nigeria the major economic power in West Africa, with more than two million barrels of oil per day, and the sixth global exporter of crude. These informal trade flows fill the deficits in supply to meet urban demand caused by weak infrastructure and official distribution equipment in rural areas. International companies (Total, Shell, BP and ESSO) prefer not to trade with these areas, and national distribution companies are incapable or prefer not to operate there. Accordingly, informal trade compensates for the weaknesses of West African countries and the continent as a whole, when it comes to distributing petroleum products.

A combination of political crises and weak local government in some countries in West Africa has fostered dangerous networks of modern and artisanal weaponry, munitions and drugs. The arms trade is an increasingly important area of informal clandestine trade. These diffuse flows arm rural areas and the multiple bandits that hold up banks, rob individuals and commit highway robbery. The proliferation of the cross-border trade reflects weaknesses in state security. Although this cannot explicitly be described as informal trade, the organization of this traffic may spawn an informal arms trade. These illegal and harmful goods often are hidden among legal products, thus their transactions often go undetected by relevant authorities and are not officially recorded (Ellis and McGaffey, 1997).

## 5.7 Trade volumes

A statistical void exists in assessing the informal economy. Evaluation methods are diverse and depend on the availability of both sources and data. Often they use estimates inherited from old sources; more or less recent surveys that are not specific to the informal sector, and even less to informal trade; and surveys that may be specific to the informal sector but cover limited geographical or sectoral areas of intervention (Leenhardt, 2008). Adequate secondary data and documents on ICBT are difficult to come by, while those that are available remain incomplete or are only case studies on exports or imports of certain commodities and livestock along specific routes in a given country.

Nevertheless, intra-African trade is estimated to account for barely 5.6 per cent to 11 per cent of total continental trade (ECA, 2007). At the same time, countries such as Benin, Togo and the Gambia conduct informal trade with their immediate neighbours at levels that far exceed official estimates. Benin and Nigeria illustrate the gap between fact and the official: these days, imports to Benin from its neighbour place it at the top rung of suppliers to Benin, ahead of France; yet less than 3 per cent, and only 1 per cent between 1993 and 1999, were officially declared and recorded (LARES, 1998, 1999).

However, to understand the scale of unofficial trade, one may refer to the proportion of the entire informal sector in national economies. In West Africa, this proportion varies between 20 per cent of GDP in Nigeria and 75 per cent in Benin. From 2006 to 2007, Burkina Faso and Mali traded about four million head of sheep and goats and more than 1.8 million head of cattle primarily among Benin, Ghana, Côte d'Ivoire and Senegal. Trade in livestock, mostly informal in Benin according to official statistics from the livestock directorate, amounted to 43,135 head imported and 92,179 exported. Field surveys (LARES, 2008) estimate 204,756 head of cattle traded in the major markets of northern Benin (Parakou, Tchaourou, Nikki, Kalalé and Pèrèrè) of which 57 per cent are exported to Nigeria and 70 per cent imported from Burkina Faso and Mali.

However, the LARES assessment method measures directly observable estimates of goods stored in warehouses and depots at the major markets, volumes weighed along major roads to periodic markets, an estimate of the volume of manufactured goods based on availability at market stalls and shop shelves and household consumption figures. These methods are time-consuming and expensive. Estimates from the literature show that even allowing for the approximate nature of most estimation methods, the magnitude of informal trade should not be underestimated. It may extend far beyond official trade in many of the non-mineral exporting countries.

According to the study by Ackello *et al.* (1996), the aggregate value of informal trade figures between Kenya and Uganda was US\$ 146 million in 1994. As table 5.2 shows, Kenya imported from Uganda US\$ 56.7 million and US\$ 5.4 million worth of agricultural and industrial goods, respectively, a total of US\$ 62.1 million. It exported to Uganda US\$ 37 million and US\$ 47.3 million worth of agricultural and industrial goods, respectively, a total of US\$ 84.3 million. The total trade balance for that period was in favour of Kenya, although Kenya was a net importer of agricultural goods, including maize, sorghum, fruits and vegetables and fresh fish, but a net exporter of manufactured goods, including maize and wheat flour, beer, confectionaries, milk and refined sugar.

Government statistics estimate that the value of this trade in East Africa amounts to a total average value of exports of US\$ 93.4 million by Kenya to Uganda and

imports of US\$ 2.4 million to Uganda between 1984 and 1994, yielding an annual total average of US\$ 96.3 million. Comparing the recorded total trade with the recorded official trade would thus give total unrecorded trade values at more than 150 per cent of the value of the total officially recorded trade balance (146 ÷ 96.3).

**Table 5.2**

**Aggregate unofficial trade between Kenya and Uganda in 1994 in US\$ millions**

Commodity category	Imports	Exports	Total
Agriculture goods	56.7	37.0	93.7
Industrial goods	5.4	47.3	52.7
Annual total	62.1	84.3	146.4

**Source:** *Unrecorded cross-border trade between Kenya and Uganda. Implications of food security (Ackello, Ogutu and P. Echessach, 1997).*

The Uganda Bureau of Statistics, on the other hand, estimated that the total value of Uganda's informal/unrecorded exports to its neighbouring countries was more than US\$ 200 million, while the value of its total imports from its neighbours was US\$ 65.87 million in 2005 (see table 5.3).

**Table 5.3**

**Uganda's 2005 estimated exports and imports with its neighbors by country trade balance (in US\$ thousands)**

Country	Exports	Imports	Total Trade	Trade Balance
DR Congo	73,964	19,550	93,513	54,414
Kenya	107,042	44,214	151,256	62,828
Rwanda	7,340	681	8,021	6,659
Sudan	9,119	820	9,939	8,300
Tanzania	2,842	607	3,449	2,235
Total	200,307	65,872	266,178	134,435

**Source:** *Informal Cross-Border Trade Survey Report, Uganda Bureau of Statistics (2006).*

The total value of Uganda's official/formal/recorded export was US\$ 810.9 million, and that of its total imports stood at US\$ 2,054 million in 2005. Thus, the value of its unrecorded/informal exports was 24.7 per cent of its total formal exports, while the value of its informal imports was 3.2 per cent.

Unrecorded ICBT is substantial in eastern and southern Africa. For instance, Achello and Ogutu (1996) estimated that 30,000 to 60,000 tons of maize are informally exported every year from Zambia to the Democratic Republic of the Congo in the amount of Zambia Kwacha 3 million. Most of Malawi's so-called "surplus" maize in the early 1980s was from Mozambique and the Uganda Petroleum Dealers

Association (1994) estimated that 25 per cent of fuel oil consumed in Uganda was smuggled from Kenya, costing the Ugandan Government about US\$ 1.2 million in annual tax revenue losses.

Teka et al. (1999) estimated that about 50,000 to 60,000 cattle are exported informally every year from Ethiopia to Kenya. P. Little (2007) stated that more than 95 per cent of livestock trade in the Horn of Africa, including the Sudan, northern Kenya, Somalia, Ethiopia, Eritrea and Djibouti, is conducted through informal trade. “In fact almost all regional trade (>95%) in livestock in Eastern Africa is carried out via unofficial channels.”<sup>2</sup>

A study sponsored by the Ministry of Agriculture and Rural Development (MoARD) of Ethiopia (April 2008) made elaborate estimates of the quantity and value of informal/illegal exports from Ethiopia to its neighbors, including sources, routes and destination and types of goods and livestock. Table 5.4 shows the estimates for livestock.

**Table 5.4**  
*Estimated illegal livestock exports from Ethiopia during 9 months, 2007–2008*<sup>3</sup>

Types of livestock	Sudan	Djibouti	Somalia	Total
Cattle in numbers	169,000	73,000	109,000	351,000
Value in US\$ at \$221/head	37,349	16,133	24,089	77,571
Camel in number	2,071	7,000	6,000	15,071
Value in US\$ at \$302/head	625	2,114	1,812	4,551
Sheep & goats in number	-	255,000	876,000	1,131,000
Value in US\$ at \$30/head	-	7,650	26,280	33,930
Total	37,974	25,898	52,181	116,052

**Source:** *Illegal Export and Import Trade, MoARD, (2007) Unpublished Amharic version*

The number and value of informal exports of livestock to Kenya are omitted, as this was considered to be ICBT in the opposite direction at the time of the study. The same study estimated the quantity and value of haricot beans, coffee and *chat*, by destination. Thus, an estimated 13,500 tons of haricot beans valued at US\$ 8.8 million were exported to Kenya through Moyale over eight months during 2007 and 2008. (An internal Ministry of Trade and Industry document indicated that 10 to 15 tons of horse beans are sold per day to the Sudan through Metema/Gallabat, although the value is not shown). Similarly, a minimum estimated amount of 5,736

2 Little, P. D., “Unofficial cross-border trade in Eastern Africa,” p. 3, presented at FAO Workshop on “Staple Food Trade and Market Policy Option for Promoting in Eastern and Southern Africa,” March 1–2 2007 FAO, p. 3. Rome, Italy.

3 *Illegal Exports and Imports Draft Report* (unpublished) MoARD, 2008 April, p. 16.



tonnes of *chat*, having an estimated value of US\$ 34.4 million were exported to Djibouti through informal trade, while 1,848 tons, valued at US\$ 11,688 million, were similarly exported to Somalia. Thus, a total of 7,584 tons of *chat*, valued at US\$ 41.98 million were informally exported to Djibouti and Somalia. This excludes the quality and value of *chat* exported to Kenya through Moyale.

An estimated 34,400 tons of informally exported coffee went to the Sudan, Djibouti and Somalia during 2007–2008 over ten months, valued at US\$ 65.36 million. Apart from the above, large quantities of fuel oil are being exported to Djibouti, Somalia and Kenya through informal trade channels. The MoARD study further described cases in which smuggled goods were confiscated. For instance, 400 quintals-*Ethiopia uses this measurement: 1 quintal is equivalent to 100kg*- of teff were caught being smuggled to Eritrea through Humera; 1,000 quintals to Djibouti through Galaffi; and 750 quintals through Dewelle. According to the MoARD study, the amount of illegal exports customs impounded is under 5 per cent of the total actually smuggled out.

## 5.8 Funding informal trade

Informal trade is funded by its own sources and contributions and credit from relatives, friends and associates. These traditional sources represented more than 90 per cent (Little et al., 2001). In modern times, these sources have expanded to include micro-finance institutions, NGOs and banks. However, operators far prefer their own sources, believing them less restrictive. The only constraint is that funds may not be available when needed. “Own sources” and traditional mutual arrangements (*tontine*) are more flexible and better-suited to the correlation between household income and trading income. “Trust-based” ethnic relations may also play a significant role in purchasing and selling on credit. Such credit purchases and sales may include implicit interest expenses in pricing, while contributions and credits from relatives and friends do not bear interest. Sales on credit to foreigners (importers) were practiced in the past but have stopped due to huge defaults. Occasionally, funds may be arranged through profit-sharing after settling expenses. Modern funding methods provide more reliable funding sources in the necessary amounts, although they also present the risk, as perceived by the operators, of recourse to the law when problems arise.

Direct formal credits from banking sources, furthermore, are practically impossible to obtain. There are few banks in remote border areas; acceptable collateral is not available in trading zones; and unlicensed operators are not eligible for banks loans (Teka et al., 1999). However, large ICBT operators may obtain bank loans more readily, as they have licenses for other businesses and can provide acceptable col-

lateral from major cities. In this way, they can redirect the credits secured for their other businesses to ICBT activities.

As a general rule, wholesalers work with apprentices from their family circle and with other associates who constitute their social capital. West African estimates reveal that their working capital varies between 500,000 CFA francs and 5 to 10 million CFA francs for unprocessed goods. Table 5.5 provides a summary of working and business capital in the cross-border trade of unprocessed agricultural produce and petroleum products in the north of Benin.

**Table 5.5**

*Working capital in informal trade of agricultural and petroleum products in northern Benin*

Types of actors	Annual working capital in thousands of CFA		Average annual business turnover in thousands of CFA	
	Agricultural products	Petroleum products	Agricultural products	Petroleum products
Wholesalers	500 – 5,000	9,600 – 61,440	72,165.5	48,840
Semi-wholesalers, retailers	150 – 400	8,736		33,176
Semi-wholesalers, non-retail	150 – 400	8,736	9,967	14,414
Retailers		4,320	5,812.5	7,776

*Source: Yérima, 2008.*

Quantities involved range from 156 to 1,500 tons of maize, sorghum and yams annually per wholesaler in Benin; from 1,000 to more than 5,000 tons in Nigeria for cereals, maize, sorghum and rice alone (Yérima, 2008).

In the case of Ethiopia, ICBT operators are not permitted to open letters of credit or to buy or sell foreign exchange. They may only take out and bring in goods and livestock within the defined values. In other words, they may take out goods and livestock for sale across the border and then use the proceeds to purchase goods for import. On the other hand, COMESA rules allow ICBT operators to buy and sell foreign exchange. Traders pay normal custom and all other taxes on imported goods. The prices of such goods are supposed to be revised every three months in the case of Ethiopia. Regional governments are empowered to oversee the administration of ICBT activities in Ethiopia, with quarterly reporting. However, only the Amhara region reports on ICBT with the Sudan, while the Somalia and Oromiya regions stopped reporting on the grounds that registered ICBT operators returned their licenses (see constraints, below).

The cross-border trade may also be funded by export revenue. Large-scale operators in East Africa use this cross-financing method. However, if export revenue is not immediately used to cross-finance imports, cash is transferred through private

“*Awalla*” or money-transfer arrangements, usually through ethnic trust-based communications (telephones, faxes and e-mails) that require the payment of fees lower than the bank charges. This protects the secrecy of foreign exchange transactions and transfers. The transactions are generally financed in cash, with a few exceptions, such as credit for domestic purchases based on ethnic or clan relations. In certain cases, cash is deposited with wholesalers who have branches at borders, for collection by the livestock traders. Such money transfer systems minimize the risk of losing cash in such hostile environments to banditry and by immigration and custom officials. Box 5.1 contains information from a case study of this mode of financing along Ethiopian borders, where price quotations are in Kenyan shillings, Djibouti francs or Somali shillings, depending on export destinations and the sources of imports.

### **Box: 5.1**

#### ***Informal currency exchange in informal trade in East Africa***

In Ethiopia, once prices are agreed upon in the relevant currencies, they are automatically converted into Birr at prevailing black market rates. Both buyers and sellers, including the *delalas* (brokers), carry small calculators for such purposes. At the time of this study, the value of Birr in the black market was less than the official exchange rate. For instance, the official exchange is Birr 1 = Ksh 13, while the black-market rate is Birr 1 = Ksh 5–6. Similarly, the black-market exchange rates for the Djibouti franc fluctuated around 30 per cent of the official rate. All key informants (operators and local administrators) complain that the value, or purchasing power, of Birr is falling. The economic implication is that terms of trade are unfavourable to Ethiopia; ICBT export values are substantially lower than the value of imports. This situation is consistent with current trade balances—a large deficit in the trade balance and a shortage in foreign currencies—in the formal foreign trade at the national level in Ethiopia.

Findings show that ICBT in the Horn of Africa is not only unfavourable to Ethiopia, but also, according to Ethiopian officials, results in unfair foreign-trade practices for three main reasons. First, neighbouring countries buy livestock and other goods with their own domestic currencies not only for their own consumption but also mostly for re-export, to earn foreign exchange. Second, fuel oil is imported from Ethiopia in the domestic currencies of importing countries, whereas petroleum products are imported to Ethiopia in foreign currency. And third, goods originating in third countries (Dubai and Asia) are imported to Ethiopia, contrary to the principles of ICBT and COMESA agreements.

## **5.9 Operational strategies**

The most common strategy shared among informal traders is to diversify. Traders avoid specialization in the strict sense of the term, even if, when it comes to specific business activities, certain sectors dominate in terms of total business share. This strategy derives from having low levels of highly volatile working capital, the avail-

ability of which is contingent upon social and household expenditures, and from an aversion to speculating on the often very high levels of risk inherent in the informal sector.

Two main strategies predominate: the collective, with its trend towards erecting entry barriers; and individual competitive strategies. These vary according to the actors and products and are based on relationships developed to undertake certain collective actions, such as resolving conflicts between actors and public institutions and protecting against the threat of competitors and foreign, often well-organized, clientele. The strategies are embedded in tax evasion. To secure supply, multiple guaranteed sources are necessary. For distributors, flows are concentrated on large consumer markets. The multiplicity of supply sources pits suppliers against each other while making them interdependent on one another's sources of credit.

Trader associations adopt these collective strategies to secure what can be described here as a "collective monopoly": a dominant position in the markets, reduced transaction costs and more efficient insertion into the trading activity. The aim is to achieve powerful collective solidarity when confronted with the vicissitudes of the environment. Such associations can lay down rules to counter competition from outside traders, thanks to their dominant position. Food crop trader associations use this strategy, constructing barriers to block foreign traders from direct access to the collection markets. They require foreign traders to order goods through wholesalers or semi-wholesalers, or, failing that, through collectors. Associations of food producers behave in this way to solve interpersonal and inter-institutional conflicts. Individual strategies are adopted to reduce risk. Bulk buyers who are not transporters and semi-wholesalers work with two or three types of food products simultaneously, depending on opportunity or market requirements. This enables them to spread the risk of loss and reduced profit margins created by price instability and substitution phenomena over several products.

In addition to the dominant trade-diversification strategy, there is what could be described as "trade on credit," which is dominated by women. Commercial credit is increasingly common for unprocessed agricultural products. The contract is thus expanded to include verbal contracts based on trust among traders of agricultural produce and agricultural producers who often are unable to secure credit when they need it during the crop year (Yérima, 1995). Difficulties households face, especially in urban centres, lead to these sales on credit by traders, who avoid taking too many risks or keeping stock with store-owners. Products are sold on credit and are reimbursable over a fixed period. Trust and the given word are the sole guarantees. However, more and more of these female traders possess notebooks in which they record names of clients who owe, amounts and the volumes of goods sold on credit. Current market prices apply. This type of trade continues until the product is collected or the producers and collectors are forced to abide by the constraints imposed by the

final payer in the chain and not the direct client. Although traders do not favour this form of trade, it continues to occur because of a lack of information and knowledge and limited access to market outlets. Nevertheless, it represents less than 2 per cent of the volume traded on the markets.

## 5.10 Informal trade's strengths, weaknesses, opportunities and threats

### 5.10.1 Informal trade's strengths

The strengths of cross-border trade are based on several factors. First and most significant, periodic markets are often paired with trade poles from nearby areas; second, actors have long experience conducting this form of trade; third, the social and cultural identities of the trading populations provide an operating base for powerful transnational merchants, national and micro-networks from nearby border zones and national periodic markets; fourth, informal trade creates employment; and fifth, traders can implement appropriate strategies to exploit opportunities stemming from weaknesses in trade and economic policies.

Informal domestic trade creates jobs, especially for women; supplies remote areas; offers the flexibility of informal transactions, as opposed to the modern form of rigid contracts and legal clauses restricting the motivation among partners to exchange; and supplies the informal distributional capacity to fill the gaps inherent in state policies and strategies for access to food security and health. Informal trade in food provides multiple sales points and secondary markets in remote districts, and so compensates for weak official distribution channels. In most cases, the informal sector creates a network of relations, conventions and more efficient rules than the formal sector (FAO, 2004). Finally, informal trade is based on an accumulation of age-old practices that enable traders, particularly women, to adapt to the vicissitudes of their socio-economic environment. Although there may be no obvious continuity between the earliest carriers of kolanuts and palm oil and 21<sup>st</sup> century traders, the timeless characteristics of cities in Ghana, Togo, Benin or Yoruba-land, and the ancient traditions have engendered the expansion of today's informal trade practices (Cocqueroy-Vidrovitch, 1994).

Intra-regional trade potential depends, on the one hand, on the potential of regional production and the main trends in the agricultural-ecological zones, and on the other, on the prospects offered by supply and demand. Africa's productive potential draws on five major elements drawn from West African data: the diversity of eco-systems; land availability and production systems; water resources and irrigation

potential; mobilization of productive potential; and conditions for the mobilization of productive capital.

The African continent comprises a great diversity of ecosystems. They include, in West Africa, humid coastal zones, northern dry lands, arid Sahel and desert, to the central Sudan semi-humid regions. Roots and tubers are produced along the coastal areas, and West Africa is one of the breadbaskets of the world for perennial cash crops (cocoa, palm oil, coffee, rubber) and corn. Central Sudan is a transition zone, considered “the middle belt” where dry cereals, oilseeds (including sesame, shea and groundnut) cashews and cotton are grown. Most of West Africa’s agricultural migratory routes converge in the regions that, with the reduction in river blindness, have become useful for agriculture in the trading zone. The Sahel desert fringe offers the best possibilities for raising livestock and producing fast-growing cereals and traditional grains. The development of large hydro-agricultural basins has facilitated sedentism for pastoralists and increased and diversified market gardening. The diversity of the ecosystem makes it possible to trade products based on agricultural-ecological complementarity, the initial steps for integrating regional markets.

According to FAO statistics, West Africa comprises 236 million hectares of arable land, 1.04 hectares per farm worker. About 24 per cent of this is cultivated annually. Although there are large disparities in its distribution, there is no doubt that given the tremendous potential for the varied range of production, land is the real source of opportunity for agricultural and commercial expansion.

With respect to water resources, all of West Africa except Burkina Faso and Cape Verde has more water than the international scarcity standards, which are defined as 1,700m<sup>3</sup> per inhabitant, per year. The potential for irrigation exists, although it may vary, ranging from zero per cent in Cape Verde to 26 per cent in Nigeria, which has the highest potential, followed by Ghana, with 21 per cent.

Mobilizing productive potential is one of ECOWAS’ agricultural policy concerns. Member states share the determination to reverse the trend through improved, more sustainable production systems, more efficient equipment and secure investments in agriculture.

The current mobilization of productive capital is inefficient and weak. However, regional policies match national policies in their attempt to create institutional, economic and commercial frameworks conducive to investment and to improve competition and productivity. The regional agricultural policy adopted in 2005 promotes transport facilitation through infrastructure development; uniform and simplified regulations; eliminating trade barriers that stem from the abusive practices of customs and police officials; harmonizing domestic fiscal policy and promoting fiscal incentives; and adapting external trade regimes to the specific conditions of supply

in the agricultural sector. Box 5.2 examines the potential for increasing supply and demand in West Africa.

### **Box 5.2**

#### ***Prospective demand in West Africa***

West Africa is faced with two major phenomena, given the current demographic trends and assumptions about life expectancy and mortality. First, an average annual population increase of 2.6 per cent, which means doubling the population in 25 years, with major consequences for consumption levels. And second, accelerated rates of urbanization such that by 2030, urban population shall account for 60 per cent of the total population (Blein *et al.*, 2008). Both formal and informal trade shall intensify to feed the population and supply cities with equipment. As mortality rates diminish, these trends may reach the point cited by Blein (2008): “What agricultural policies does West Africa need, and on what basis shall production policies stand, in order to meet most of the demand for food of a population of 455 million inhabitants, 261 to 273 million of whom will live in cities, a population for the most part living in poverty by the year 2030?”

#### **Prospects for autonomy of supply**

Despite any reservations one may express about statistics, West Africa is improving the exploitation of its productive capacity. This can be seen from production increases that are generally higher than regional population growth. The challenge will be to increase productive growth as the pressure of human dwellings on natural resources intensifies.

## **5.10.2 Weaknesses and barriers to informal trade**

A macroeconomic analysis of informal trade considers it to be a factor in the fragmentation of national economies, not readily captured in aggregates considered for national programming purposes, particularly at the level of national accounts. Weaknesses affecting cross-border trade are summarized below.

### ***Lack of precision regarding the volume of transactions, the diffuse nature of trade flows and the diverse nature of the products exchanged***

At the national level, periodical markets, most of which are organized in precarious shelters, are not designed for assessing the flow of goods on a sustainable basis and according to accepted norms. Although these spaces for trade often host thousands of people, they often lack sanitary and medical infrastructure and adequate security services. Suppliers of local markets, informal traders, often suffer from the seasonality affecting of the regular supply of agricultural produce (FAO, 2004). A striking illustration comes from the Horn of Africa where livestock destined for ICBT is usually trekked by hired pastoralists who mix such livestock to graze with their own herds near border crossing points. Sometimes livestock destined for ICBT is trekked

or trucked to the border cattle markets such as Moyale, Metema, Humera, Dolo Ado, Melka Suftu, Humera and other remote border cattle markets. When they arrive, they cross the borders that day or night, a few hundred metres or kilometres from the market centres, sometimes through negotiations with custom officers or other officials (MoARD, date?). Such practices are encouraged by the absence of holding grounds, watering points and fodder in the border cattle markets.

In the case of agricultural commodities such as grains and pulses, market activity is at its peak after harvest, to dispose of surpluses and pay debts and other obligations. On the other hand, marketing livestock usually takes place during the rainy season because livestock weigh more from eating plenty of grass and fodder and consuming water, and thus fetch good prices, and the availability of food and water makes trekking livestock possible and less arduous. Livestock arriving at the marketplace must be sold immediately to avoid weight loss while waiting to be sold. During drought, however, pastoralists are forced to sell their livestock at any price because they need cash to purchase grains and other food items before the livestock die, which is the inevitable outcome. In such cases, quantities of livestock are sold when lean at lower prices, while food prices escalate. Indeed, there are several NGOs and other food relief donors including “safety net programmes” in the areas. But according to key informants, support from relief food agencies is marginal, and thus pastoralist communities must meet most of their food requirements by selling their animals (Teka *et al.*, 1999).

The seasonality of ICBT also is affected by periodic income flows from the sale of agricultural goods, religious festivals and fasting and end-of-fasting seasons. For instance, domestic demand peaks from December to February thanks to increases from the sale of coffee and other agricultural products in remote areas such as Gedio, Sidama, Guji and the east and west Harar zones. This includes domestic products and imports of food products, clothing, shoes and electronics). The levels of domestic prices and demand for livestock and livestock products, other food items, clothing, shoes, electronic goods and other products peak in the central markets, increasing ICBT in early September (during the Ethiopian New Year and Meskel celebration) and Christmas and Easter holidays. Similarly, the prices and demand for food by the border communities reach their peak during Muslim fasting months, while the prices and demand for clothing, electronic goods, and food peak during Muslim holidays such as Id and at the end of fasting seasons (Teka *et al.*, 1999).

In addition, inadequate communications, transport and funding (little or non-existent access to credit, banks inaccessible to operators who lack collateral or licences) and the problems of storing and packaging produce create further bottlenecks to the flow of informal trade. Suppliers do not hold large stocks of goods to minimize costs of storage and working capital. Observations from large border trading towns in Ethiopia (Moyale, Togo Wuchale and Matema/Gallabat) note that a number of



large residential houses and storage warehouses have been built adjacent to or on the border only few hundred metres from customs controlling points. Large quantities of domestic food products, including grains, wheat flour and beans, are transported by trucks to these border towns under the guise of supplying them. Instead, the goods are sold across the borders by day or at night. Sometimes the goods are loaded on trucks from residential storage and warehouses, allegedly to supply surrounding domestic rural areas but are transported over the borders, through the bushes, after a few kilometres. Thus, there is a divide between the agricultural sub-sector of cash crops and that of food crops. The entire agricultural sector, including livestock, is further weakened by these different modes of operation that cannot always respond to local and regional consumer demand.

On a larger scale, ICBT operators who sell their exports and imports on an “air-by-air” basis organize forward sales, while goods are still in transit on the roads. When they arrive, goods are directly unloaded to buyers’ warehouses in such cities as Jijiga, Harar, Dire Dawa, Adama, Awasa and Addis Ababa. The operators—both smugglers and buyers in major towns—devise precisely organized transport schedules to deliver illegally exported and imported goods to suitable warehouses and storage areas.

### ***Small-scale operators versus big traders and public officials***

ICBT is a lucrative business for big traders and organized groups ready to take risks to benefit from price differentials, transport bottlenecks and niche markets. These traders have the financial capacity and operational ability to get rich quickly through “quick fixes.” The neo-corporatist system among women traders in Togo, West Africa, which once governed relations between the large sellers of textiles and the political authorities, seems to have fallen out of favour. In the medium and long term, despite the efforts of these substantial women traders to act as the legitimate spokespersons for as many other market women as possible, they no longer seem able to represent the interests of a group of women who, in their trade practices, have become more individualistic than homogenous.

Small-scale cross-border traders continue to apply heterogeneous practices. They avoid heavy taxes, custom dues, levies and other charges, including solicitation of bribery by border officials. They also try to reduce their transaction costs by avoiding cumbersome bureaucratic custom procedures and regulations and all non-tariff barriers. With regard to the latter, these quotas, veterinary and health controls, licensing procedures and regulations are often little-publicized or too complicated for small ICBT operators, who are often illiterate and unable to understand. On the other hand, the big operators are better organized and adopt rules agreed to collectively enabling them to increase market share. It has been observed that COMESA rules and regulations are not even disseminated to ICBT operators. Many border cus-

toms officials are unfamiliar with COMESA regulations, including the list of goods exempted from customs. Former licensed small ICBT operators stated that the price of one pack of soup they imported was Birr 158, while the price from a big importer came to Birr 128 per pack, after both parties, from as far away as Shashamane (500 kilometres from the border) had paid duties. This may be attributed to the fact that big traders are knowledgeable enough to negotiate with customs about COMESA rules.

Obsolete border infrastructure to store goods or care for livestock has already been mentioned. There also are difficulties in establishing customs offices and cattle markets in remote border areas. In particular, the absence of veterinary services in cattle market areas and along trekking routes, increases livestock mortality and weight loss, according to key informants. This is made worse by dilapidated transport and communications networks.

Formal and informal trade face the same obstacles from weaknesses and malfunctions in public administration, including the abuse of power. Transporting perishable goods exposes traders to blackmail from customs officials, health-service agents, police and local authority tax collectors. The risk of losing cattle or having goods impounded makes transporters pay to allow their vehicles through. Their lorries are often old, overloaded, have missed inspections or their insurance has expired. It is often an arduous process to obtain certificates of origin to export produce. Many traders must be classed as professional to be certified, which means being registered by the Ministry of Trade. Delays in crossing borders for products in sub-Saharan Africa are estimated to be the lengthiest in the world: 12 days compared with less than four days in Western Europe, for an annual cost of US\$ 48 million (Soko, 2006).

But these barriers are not only administrative in nature. The characteristics of supply also bring restrictions. Seasonality determines the intensity of flows, making it impossible to analyze them simply by price. Thus, seasonal availability means that unprocessed agricultural products often compete with produce from other countries, depending on whether they are in season, and one country can be the sole provider at a given time. This determines the availability of produce such as tomatoes, onions and citrus products. Supply is also restricted by weak finances and the inadequacy of modern methods of payment; lengthy delays affect financial transfers and hamper transactions.

Foreign exchange restrictions force ICBT operators to earn foreign currencies for informal imports/smuggled goods or the repatriation of income abroad. For instance, *chat* and livestock exports are encouraged by the Ethiopian government and bear no export duties or taxes, but traders still prefer, by far, to smuggle out their goods to

retain all the foreign exchange thus earned, according to interviews with customs officials.

In East Africa, government liberalization policies of the 1980s and 1990s to redirect ICBT to normal channels failed because of over-valued currencies, pan-territorial price quotas, high import tariffs to sustain public revenue, distorted credits, state trading companies, subsidies to stabilize domestic food prices and the failure of member states to implement COMESA trade liberalization agreements (Peberdy, 2006). Trade imbalances among the relatively strong economies of Nigeria, Ghana, Côte d'Ivoire, Senegal and other West African countries led to large losses caused by ICBT. Benin, for example, is estimated to have lost between 11,943,337,908 CFA and 24,174,175,643 CFA in fiscal resources, representing an average of 4 per cent of its national budget between 2000 and 2004, solely from the informal trade in petrol.

Upstream, production determines market supply to a certain extent. Funding African agriculture has put a major stranglehold on agricultural exports. Structural adjustment programmes have contributed to eliminating agricultural development banks and privatizing agricultural-sector instruments and funding mechanisms. Producers and traders in agricultural products are forced to turn to micro-financing institutions with high interest rates (Blein et al., 2008). Land policies also contribute to the situation. With the exception of Côte d'Ivoire, where a rural development plan has facilitated investments in the agricultural sector and assisted farmers, land tenure is a precarious affair in West Africa. In countries such as Benin, this creates food insecurity and underproduction, since growth production depends on the area of cultivated land. Thus, all reforms currently under way are complicated, attempting to combine customary rights with modern law.

In West Africa, cash crops lead developments in the informal trade sector. Apart from Nigeria, which focused on food products during the first Structural Adjustment Programme (SAP) in 1986, but which suffered from strategies adopted by its immediate neighbours based on massive imports and re-exports, sectors continue to be organized for exports of such products as cocoa, coffee, cotton and groundnuts.

On the demand side, the quality of a product determines buying habits, often to the neglect of price factors. A dip in a product's price, if it is deemed to be of poor quality, does not lead to increased demand. Thus, some traders adopt opportunistic behaviour and combine goods of poor quality with those of better quality. This is a regular practice in the trade of maize and vegetable oils.

In some areas, such as Benin, agricultural products are blocked from entering the market because associations of traders prevent their foreign counterparts from purchasing directly from producers or local processors. Restrictions and the ban on

livestock exports to Saudi Arabia have been frequent for veterinary reasons, which has depressed prices and caused pastoralists hardships, particularly during times of drought. They are sometimes forced to sell their livestock when weight and prices are low, in order to buy food. All this leads to deteriorating terms of trade (Little, 2001; Azez *et al.*, 2002).

Physical standards often are imposed that appear to intend to prevent trade through official or informal channels. A case in point is the introduction of packaging norms: bottles of oil with a capacity of a minimum of four litres in Nigeria; and materials for manufacturing products such as kitchen utensils in aluminium in Burkina Faso (Faivre-Dupaigre *et al.*, 2008). It has also been observed that government export efforts to benefit under the African Growth and Opportunity Act (AGOA) and Everything but Arms (EBA) tend to ignore the potential export trade with neighbouring African countries through ICBT.

### **5.10.3 Opportunities**

Despite these barriers and weaknesses, opportunities for informal trade are considerable and identical to those for formal trade. The size of regional markets is the most evident. For example, in the West Africa region there were 78 million consumers in 1960. By 2005 there were 265 million. Demographic estimates suggest 455 to 485 million by 2030. By then, 57 to 60 per cent of the population will be urban-based (Blein, 2008). This demographic shift, placing rural populations in the minority, will have a tremendous influence on the development of informal trade, because of the potential market for food supplies and distribution during economic crises (FAO, 2004).

The second opportunity is the adoption of Common External Tariffs (CET), building on the free trade zones already partially in place in some countries. ECOWAS data where, over the past 25 years, regional population has increased twofold from 132 million inhabitants in 1980 to 265 million in 2005, show that crop production has increased by 322 per cent in response to regional demand for food. Leguminous crop production has risen by 345 per cent, and large quantities are traded, especially cowpea, as are fruits and vegetables, which are up by 230 per cent (Blein, 2008). Animal production follows suit: egg production has risen 266 per cent, meat and chicken, 215 per cent, ruminants, 158 per cent, even though milk production with a 1.6 rate of increase shows a slight decline in indigenous supply (Blein, 2008). These trends will increase over the next 20 years, even without a corresponding increase in yields. Common agricultural policies and community regulations promoting the free movement of goods and persons indicate conditions propitious to improved mobilization and distribution of regional supply. This would have a positive effect

on intra-regional trade, particularly if trade policies are effectively implemented and especially when major infrastructure and communications products are completed.

#### 5.10.4 Threats

The informal sector's flexibility to adapt to economic crises makes it difficult to identify threats to the sector. However, two aspects could pose a threat to informal trade. First, bottlenecks caused by deteriorating trade exchange support systems, namely communications and transport infrastructure; and second, intense competition from counterfeit products from outside the region, which undermine local production and lead to the trade of imported products of dubious and dangerous quality. When infrastructure is limited and in a poor state of repair, the flow of products to urban centres is restricted. Thus, the supply of goods for trade may dry up. The emergence of oligopolies and trade cartels are encouraged by the narrowness of agricultural markets, a trend that may squeeze out the small farmers.

Institutional attempts to formalize trade through liberalization policies common in the 1980s and 1990s have not overcome the distortions created by overvalued currencies, price quotas and high import tariffs. Member state failures to implement community rules and regulations have meant that in the COMESA region, for example, small-scale informal trade operators have returned their licenses because customs duties, taxes and levies make them uncompetitive.

### 5.11 Recommendations for stimulating intra-African trade

Given these strengths, weaknesses, opportunities and threats, ARIA IV recommends four actions for intra-African trade: first, coherent trade policies should be adopted by the economic communities (ECOWAS, SADC, ECEAS/CEMAC and COMESA); second, regional products should be developed further; third, communications and market structures must be improved; and fourth, the grassroots actors must be involved in designing and implementing measures to ease trade flows at the domestic and regional levels.

African economic communities face the enormous difficulty of having no joint trade policies that can overcome the fragmentation caused by the multiplicity of trade, fiscal and monetary policies, which impede trade flows and marginalize some official trade into the informal sector. Achieving a customs union through adopting a CET that grants preferences to unprocessed and locally-manufactured products must be expedited. The Abuja Treaty articulates the path for increasing the official dimension of intra-African trade. We must insist on the need for CETs, the advantages and

disadvantages of their fiscal reforms having been well-documented in reports from WAMU, ECOWAS and COMESA. We reemphasize the need to reduce tariff and non-tariff barriers to trade; facilitate the physical movement of goods; and adapt fiscal record-keeping to the exigencies of informal trade.

### **5.11.1 Harmonizing trade policies**

Intra-African trade weaknesses cannot entirely be attributed to the absence of regulations or insufficient rules. Information asymmetries between those responsible for applying the law and those who must comply raise a host of many technical and administrative constraints referred to above. To solve the problem, we must design transparent fiscal rules accessible to trade operators; train them about the letter of the law and how to apply it; disseminate community texts and domestic rules pertaining to trade; promote advocacy and lobbying for the effective implementation of legislative texts and rules and regulations; set up electronic trade monitoring and information systems; and promote access to funding (USAID/Agribusiness and Trade Promotion (ATP), 2008).

### **5.11.2 Increasing regional market integration**

Beyond the considerations of shared trade policies, intra-regional and intra-African trade require more value-added for unprocessed products through stronger value chains. This can be achieved in production, processing and marketing. Then the rules and regulations and the operational provisions in the community texts relating to trade will clearly guide the formulation of joint specifications, product quality as well as global strategies for improved production. This will be achieved through standardizing processing, storage and transport of products and formulating the necessary specifications to guarantee the traceability of products.

Processing primary products also requires better quality controls and the right equipment to test quality and ensure standards are met. It also means developing local and regional markets, fostering a private-sector market in construction, for example. This further creates jobs, which benefits from three incentives: implementing a voluntarist agricultural policy, reforming the international rules of trade and promoting regional trade (Soulé, 2008).

### **5.11.3 Improving communications and market structures**

A major bottleneck to intra-African trade is the inadequacy of its communications infrastructure. Border areas often have a dense network of roads leading to periodic markets. These attest to the vitality of exchange and integration at the grassroots level.

An opportunity exists for states to adopt a voluntarist policy with respect to investing in infrastructure, including rural and feeder roads, which permit produce to be transported to markets, ports, roads and railway hubs.

The thorny problem of storage may be solved by a system of certified storehouses that conform with storage and conservation standards until market conditions favor the offload of stock. The producer receives a loan from a funding institution before storage and repays it later. An agent from the funding institution would be responsible for debt collection once the profitable sector had been found for selling the goods. Should the traders not be able to sell all their stock, the availability of storage facilities would help to reduce losses.

Technological advances are leading to a new understanding about the saying, “time is money,” which is changing trading habits. The mobile phone communicates trading information efficiently and is an essential tool. Regional telecommunications policies aim to expand coverage rather than ensuring concentric circles around urban centres. The present shortcomings in telephone use that shortchange rural areas are being corrected. Just as roads are a precursor to development, Global System for Mobile Communications (GSM) can improve trading efficiency. It is a powerful tool for family solidarity, early warning and strategic monitoring.

### **5.11.4 Participation of informal traders**

Trade barriers may be lifted if obstacles to supply are taken into account: the limits to the insertion of African products on the markets, equality of access to resources and services, the ability to negotiate among partners, access to credit and training in its use, and knowledge about standards on the part of all actors involved. An important measure would be to organize relationships between traders and producers to improve supply. Trade growth depends on growth in the production of goods. The promotion of incentive mechanisms could increase local production and solidify relations built on trust between traders and producers, based on rigorous and simple specifications suited to real production conditions. Production contracts binding some traders and producers of agricultural commodities attest to the feasibility of

modernizing these forms of coordination between production and commercialization. Promoting inter-professional confederations of the sectors for primary products in regional trade may lead to improved intra-African trader relations.

In the final analysis, involving actors in trade facilitation could improve relations between national public institutions and regional institutions on the one hand, and professional producer organizations of producers, processors and traders on the other; strengthen public-private partnerships, and ensure a correlation between security services, customs officials, export promotion agencies and decentralized funding institutions responsible for organizing market credit with the varied needs of actors and locally elected officials.

All trade-related public and private-sector services, including NGOs, have special skills to share with operators, thus intra-African trade is not only the business of central, national and community institutions but a shared concern. Regional confederations and networks of farmer and trading organizations could lead to a participatory agricultural policy, community trade that is better suited to minimizing conflicts and overcome the challenges to economic growth in Africa.

## 5.12 Conclusions and recommendations

African informal trade, irrespective of the region concerned, cannot continue to be perceived by the national and community institutions of ECOWAS, WAMU and COMESA, with particular reference to the economic and trade policies as defined by North (1990), as structural anomalies that hinder growth and weaken modern economies.

Whether it be cross-border or domestic, informal trade remains the mode of trade best suited, from the social efficiency perspective, to the distribution of goods to meet the diversity of the African consumer's demand. Despite its limits, informal trade overcomes the landlocked nature of economies and inadequate communications infrastructure; its gaps in the supply of public goods; contradictions in national and community rules and regulations; multiple economic crises; and the consequences of fratricidal wars, in order to supply the continent's diverse populations.

Can the present systems of basic commodity distribution to the most remote hamlets and along African borders function without informal trade? Seen from this perspective, the informal sector should not be considered as a virus attacking formal economic activity; rather, it forms a continuum unhampered by strict constraints, a response to formal trade's shortcomings. It breathes life into official trade, even if it sometimes benefits from unfair competition. It is a classic expression of the type



of socialization of exchange where accounting rules and the financial cost/benefit ratios do not always apply. And as a result, it succeeds in using resources somewhat inefficiently but satisfactorily.

Therefore, throughout Africa, the informal sector ensures the largest share of the collection and distribution of goods through the channels that traverse the continent in a dense network. This is the basis for the regional development of national territories and adds value to unprocessed products. Contrary to received wisdom, over the past few years West Africa shows real progress in agricultural production, which may be developed far faster than the population growth trends estimated at between 455 and 485 million inhabitants by 2030.

It has been demonstrated in the case study from the Horn of Africa and Ethiopia, in particular, how the operators of ICBT in East Africa, often unregistered and considered illegal, from the small importers and exporters of basic commodities to the big operators from central national markets contribute to food security and the stabilization of food prices, especially in times of fluctuating weather conditions. These operators face complex problems, including:

- The risk of having their goods and foreign currencies confiscated, if caught;
- Harassment by custom officials;
- Road blocks and lengthy delays unloading and loading goods;
- Long customs delays;
- Sexual harassment or searches;
- No accommodation;
- Forced payment of bribes to customs and border officers;
- No bank credit;
- Security risks from robbers and bandits, and the frequent conflicts and border closures; and
- The risk of animal diseases and livestock export bans.

In addition to these problems, unfavourable trade balances and unfair trade practices cause the neighbouring countries to be unwilling to cooperate and coordinate ICBT in the Horn of Africa.

Genuine ICBT operators are mostly small-scale enterprises or individuals. They are generally willing to be registered to operate cross-border trade through paying reasonable duties and taxes. However, they must often compete on unfavourable terms against the large-scale operators of ICBT, whose main objectives are to illegally export goods and livestock in large quantities and thus earn foreign exchange with which they can smuggle goods without paying duties and taxes. Policies and

administrative measures being implemented to control and stop illegal cross-border trade are less effective when it comes to the big operators, but seriously hurt genuine small-scale operators and deprive border communities of their livelihoods.

The common agricultural policies of WAMU, ECOWAS and COMESA, to mention but three RECs, possess instruments to improve supply. To reach the objectives stated in these policies, and those linked to the growth of intra-regional and intra-African growth in particular, the following measures must be taken:

- Customs duties and taxes on essential commodities must be lowered, and tariff and non-tariff barriers must be reduced through improved fiscal collection. This includes the collection of local development taxes, collection at road blocks, the confiscation of property and the harassment of cross-border traders, particularly women.
- Administrative and registration procedures must be improved, including providing licenses to genuine small-scale operators of cross-border trade. This includes disseminating the rules and regulations to border custom officials and operators. More effectively implementing economic community regulations on custom procedures would permit the eventual elimination of certain custom duties and taxes, as stipulated in the agreements.
- Value should be added to products through technical improvements and funding the value chain for high-potential products. Regular revisions and increased flexibility regarding lists of goods to be traded and liberalizing distances permitted for cross-border trade to be determined by economic factors rather than by administrative rules would enable traders to respond more rapidly to changing circumstances.
- Governance must be improved through adequate remuneration and strict disciplinary measures to reduce corruption of custom officers, local administrators and militia. Special attention should be paid to large operators of ICBT who often reside in capital cities and conduct such activities through local agents, brokers and partners. Random raids in the past have not proved successful, as corrupt officials have been able to quickly recoup their operation. New policies must include campaigns to increase awareness, provide incentives and involve them in future development prospects along with political and administrative commitments designed to stamp out illegal operators.
- Support for trade, notably communications infrastructure and storage facilities, must be improved. Infrastructure should be available for cross-border trade at key crossing points. This includes roads and transport facilities, holding grounds for livestock, communication on markets, storage and border posts. Banks at border areas should give loans, credit and foreign-exchange transaction services to cross-border traders.

- Professional and inter-professional organizations of the product value chains, public technical trade services, locally-elected officials, NGOs and public security services, including police and customs, should be involved in the agricultural, commercial and industrial policy processes.
- Trade flows should be monitored including the issue of cross-border trade, and added to the agenda in quarterly, semi-annual and annual bilateral meetings among countries. For example, there are regular bilateral meetings between Ethiopia and the Sudan, Ethiopia and Djibouti and Ethiopia and Kenya, but their agendas tend to be dominated by security issues rather than border trade, according to key informants. Attendance at such meetings should also include local border administrators and custom officials.
- Social and economic development should be promoted, particularly in remote and isolated border areas, and the distribution and marketing of locally produced goods to border areas facilitated to enable them compete at border areas.

In addition, certain research ideas must be explored in the area of developing intra-regional and intra-African trade to design more aggressive, functional policies than the present ones. Five such areas for research are the role of globalization in structuring informal African trade; the potential effects on informal trade of implementing a customs union; assessing the true impact of advocacy on increasing intra-community trade flows; evaluating the contribution of cross-border informal trade to improving the conditions of women, and, finally, since no enterprise or informal activity functions in isolation, assessing links between informal trade and formal businesses.

# Annex

## Annex 5.1

### HS 4 List of unprocessed products in informal West African trade

HS Code	Product
0101	Live horses, asses, mules and hinnies
0102	Live bovine animals
0103	Live swine
0104	Live sheep and goats
0105	Live poultry, "fowls of the species gallus domesticus", ducks, geese, turkeys and guinea fowls
0106	Live animals (excl. horses, asses, mules, hinnies, bovine animals, swine, sheep, goats, poultry, fish, crustaceans, mollusks and other aquatic invertebrates, and micro-organic cultures etc.)
0201	Meat of bovine animals, fresh or chilled
0203	Meat of swine, fresh, chilled or frozen
0204	meat of sheep or goats, fresh, chilled or frozen
0205	Meat of horses, asses, mules or hinnies, fresh, chilled or frozen
0206	Edible offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies, fresh, chilled or frozen
0302	Fish, fresh or chilled (excl. fish fillets and other fish meat of heading 0304)
0304	Fish fillets and other fish meat, whether or not minced, fresh, chilled or frozen
0305	Fish, fit for human consumption, dried, salted or in brine; smoked fish, fit for human consumption, whether cooked before or during the smoking process; flours, meals and pellets of fish, fit for human consumption
0306	Crustaceans, fit for human consumption, whether in shell or not, live, fresh, chilled, frozen, dried, salted or in brine, incl. crustaceans in shell cooked beforehand by steaming or by boiling in water; flours, meals and pellets of crustaceans, fit for human consumption
0307	mollusks, fit for human consumption, whether in shell or not, live, fresh, chilled, frozen, dried, salted or in brine, incl. aquatic invertebrates other than crustaceans and mollusks; flours, meals and pellets of aquatic invertebrates other than crustaceans
0701	Potatoes, fresh or chilled
0702	Tomatoes, fresh or chilled
0703	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled
0704	Cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas, fresh or chilled
0705	Lettuce "lactuca sativa" and chicory "cichorium spp.," fresh or chilled
0706	Carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, fresh or chilled
0707	Cucumbers and gherkins, fresh or chilled
0708	Leguminous vegetables, shelled or unshelled, fresh or chilled
0709	Other vegetables, fresh or chilled (excl. potatoes, tomatoes, alliaceous vegetables, edible brassicas, lettuce "lactuca sativa" and chicory "cichorium spp.," carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, cucumbers
0710	Vegetables, uncooked or cooked by steaming or boiling in water, frozen

HS Code	Product
0713	Dried leguminous vegetables, shelled, whether skinned or split
0714	Roots and tubers incl. manioc, arrowroot, salep, jerusalem artichokes, sweet potatoes and others with high starch or insulin content, fresh, chilled, frozen or dried, whether sliced or in the form of pellets; sago pith
0801	Coconuts, brazil nuts and cashews, fresh or dried, whether shelled or peeled
0802	Other nuts, fresh or dried, whether shelled or peeled (excl. coconuts, brazil nuts and cashews)
0803	Bananas, plantains, fresh or dried
0804	Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens, fresh or dried
0805	Citrus fruit, fresh or dried
0807	Melons, incl. watermelons, and papaws
0810	Fresh strawberries, raspberries, blackberries, black, white or red currants, gooseberries and other edible fruits (excl. nuts, bananas, dates, figs, pineapples, avocados, guavas, mangoes, mangosteens, papaws "papayas," citrus fruit, grapes, melons or apples)
1001	Wheat and meslin
1005	Maize or corn
1006	Rice
1007	Sorghum grain

**Source:** *Yéríma, ECOWAS customs tariffs and site observations.*

## Annex 5.2

### *The major artisanal products in West African informal trade*

HS Code	Product
1401	Vegetable materials used primarily for plaiting, e.g., bamboos, rattans, reeds, rushes, osier, raffia, cleaned, bleached or dyed cereal straw, and lime bark
1402	Vegetable materials used primarily for stuffing or padding, e.g., kapok, vegetable hair and eel-grass, whether put up as a layer, with or without supporting material
1403	Vegetable materials, such as broomcorn, piassava, brush-grass and thistle, used primarily in brooms or in brushes, whether in hanks or bundles
1404	Vegetable products n.e.s. for dyeing or tanning
4101	Raw hides and skins of bovine or equine animals, fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared, whether dehaired or split
4102	Raw skins of sheep or lambs, fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared, whether dehaired or split (excl. those with wool, fleeces of astrakhan, caracul, persian, broadtail)
4103	Other raw hides and skins, fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared, whether dehaired or split (excl. those of bovine animals, equine animals, sheep and lambs)
4104	Bovine or equine leather, dehaired (excl. chamois leather, patent leather, patent laminated leather and metallic leather)
4105	Sheep or lambskin leather, without wool (excl. chamois leather, patent leather, patent laminated leather and metallic leather)
4106	Goat or kidskin leather, dehaired (excl. chamois leather, patent leather, patent laminated leather and metallic leather)
4107	Leather of pigs, reptiles and other animals, dehaired, and leather of hairless animals (excl. leather of bovine and equine animals, sheep and lambs, goats and kids, chamois leather, patent leather and patent laminated leather and metallic leather)
4108	Chamois leather, incl. combination chamois leather (excl. glazed, tanned leather subsequently treated with formaldehyde and leather stuffed with oil only after tanning)
4109	Patent leather and patent laminated leather; metallic leather (excl. lacquered or metallic reconstituted leather)
4112	Leather further prepared after tanning or crusting incl. parchment-dressed leather of sheep or lambs, without wool, whether or not split (excl. chamois leather, patent leather and patent laminated leather and metallic leather)
4113	Leather further prepared after tanning or crusting incl. parchment-dressed leather of goats or kids, pigs, reptiles and other animals, without wool or hair, and leather of hairless animals, whether or not split
4114	Chamois leather, incl. combination chamois leather (excl. glacé-tanned leather subsequently treated with formaldehyde and leather stuffed with oil after tanning); patent leather and patent laminated leather; metallic leather
4115	Composition leather with a basis of leather or leather fibre, in slabs, sheets or strip, whether or not in rolls; parings and other waste of leather or of composition leather, not suitable for the manufacture of leather articles; leather dust, powder
4201	Saddlery and harness for any animal, incl. traces, leads, knee pads, muzzles, saddle cloths, saddlebags, dog coats and the like, of any material (excl. harnesses for children and adults, riding whips and other goods under heading 6602)
4202	Trunks, suitcases, vanity cases, executive bags, briefcases, spectacle cases, binocular bags, camera cases, musical instrument cases, gun-cases, holsters and similar; toilet-bags, rucksacks, handbags, school satchels, shopping-bags, wallets, purses, map case, cigarette-cases, tobacco cases

HS Code	Product
4203	Articles of clothing and accessories, of leather or composition leather (excl. footwear and headgear and parts thereof, and other goods such as shin-guards, fencing masks)
4204	Articles for technical use, of leather or composition leather
4205	Articles of leather or composition leather (excl. saddlery and harness bags; cases and similar containers; apparel and accessories; articles for technical uses; whips, riding-crops and similar under heading 6602; furniture; lighting appliances; toys)
4206	Articles of gut, goldbeater's skin, bladders or tendons (excl. silkworm gut, sterile catgut, sterile surgical suture material and strings for musical instruments)
9701	Paintings, e.g., oil paintings, watercolours and pastels and drawings executed entirely by hand (excl. technical drawings and the like under heading 4906, and handpainted or hand-decorated manufactured articles); collages and similarly decorative plaques
9702	Original engravings, prints and lithographs
9703	Original sculptures and statuary, in any material

**Source:** *Yérima, from ECOWAS customs tariffs and site visits.*

### Annex 5.3

#### *Non-exhaustive HS4 list of major products for re-export in West Africa*

HS Code	Product
0201	Meat of bovine animals, fresh or chilled
0202	Meat of bovine animals, frozen
0203	Meat of swine, fresh, chilled or frozen
0204	Meat of sheep or goats, fresh, chilled or frozen
0206	Edible offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies, fresh, chilled or frozen
0207	Meat and edible offal of fowl of the species gallus domesticus, ducks, geese, turkeys and guinea fowl, fresh chilled or frozen
0302	Fish, fresh or chilled (excl. fish fillets and other fish meat under heading 0304)
0401	Milk and cream, neither concentrated nor containing added sugar or other sweetening matter
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter
0403	Buttermilk, curdled milk and cream, yogurt, kefir and other fermented or acidified milk and cream, whether concentrated or flavoured or containing added sugar or other sweetening matter, fruits, nuts or cocoa
0405	Butter, incl. dehydrated butter and ghee, and other fats and oils derived from milk; dairy spreads
0406	Cheese and curd
0807	Melons, including watermelons, and papaws/papayas, fresh
0808	Apples, pears and quinces, fresh
1001	Wheat and meslin
1101	Wheat or meslin flour
1102	Cereal flours (excl. wheat or meslin)
1103	Cereal groats, meal and pellets
1507	Soya-bean oil and its fractions, whether or not refined (excl. chemically modified)
1508	Ground-nut oil and its fractions, whether or not refined, but not chemically modified
1509	Olive oil and its fractions obtained from the fruit of the olive tree solely by mechanical or other physical means under conditions that do not lead to deterioration of the oil, whether or not refined, but not chemically modified
1510	Other oils and their fractions, obtained solely from olives, whether or not refined, but not chemically modified, incl. blends of these oils or fractions with oils or fractions under heading 1509
1511	Palm oil and its fractions, whether or not refined (excl. chemically modified)
1512	Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified
1513	Coconut "copra," palm kernel or babassu oil and fractions thereof, whether or not refined, but not chemically modified
1516	Animal or vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, re-esterified or elaidinised, whether or not refined, but not further prepared
1517	Margarine, other edible mixtures or preparations of animal or vegetable fats or oils and edible fractions of different fats or oils (excl. fats, oils and their fractions, partly or wholly hydrogenated, inter-esterified, re-esterified or elaidinised)
1604	Prepared or preserved fish; caviar and caviar substitutes prepared from fish eggs



HS Code	Product
2009	Fruit juices, incl. grape must, and vegetable juices, unfermented, not containing added spirit, whether or not containing added sugar or other sweetening matter
2201	Waters, incl. natural or artificial mineral waters and aerated waters, not containing added sugar, other sweetening matter or flavoured; ice and snow
2203	Beer made from malt
2204	Wine of fresh grapes, incl. fortified wines; grape must, partly fermented and of an actual alcoholic strength of > 0,5% vol. or grape must with added alcohol of an actual alcoholic strength of > 0,5% vol.
2205	Vermouth and other wine of fresh grapes, flavoured with plants or aromatic substances
2206	Cider, perry, mead and other fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, n.e.s. (excl. beer, wine or fresh grapes, grape must, vermouth and other wine of fresh grapes flavoured with plants or aromatic substances)
2207	Undenatured ethyl alcohol of an alcoholic strength by volume of $\geq 80\%$ ; ethyl alcohol and other spirits, denatured, of any strength
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of $< 80\%$ ; spirits, liqueurs and other spirits (excl. compound alcoholic preparations of a kind used for the manufacture of beverages)
2209	Vinegar, fermented vinegar and substitutes for vinegar obtained from acetic acid
2401	unmanufactured tobacco; tobacco refuse
2402	Cigars, cheroots, cigarillos and cigarettes of tobacco or of tobacco substitutes
2403	manufactured tobacco and manufactured tobacco substitutes and "homogenized" or "reconstituted" tobacco, tobacco extracts and tobacco essences (excl. cigars, incl. cheroots, cigarillos and cigarettes)
4012	Retreaded or used pneumatic rubber tyres; solid or cushion tyres, interchangeable tyre treads and tyre flaps of rubber
4013	Rubber inner tubes
5208	Woven fabrics of cotton, containing $\geq 85\%$ cotton by weight and weighing $\leq 200$ g/m <sup>2</sup>
5209	Woven fabrics of cotton, containing $\geq 85\%$ cotton by weight and weighing $> 200$ g/m <sup>2</sup>
5210	Woven fabrics of cotton, containing predominantly, but $< 85\%$ cotton by weight, mixed principally or solely with man-made fibres and weighing $\leq 200$ g/m <sup>2</sup>
5211	woven fabrics of cotton, containing predominantly, but $< 85\%$ cotton by weight, mixed principally or solely with man-made fibres and weighing $> 200$ g/m <sup>2</sup>
5212	Woven fabrics of cotton, containing predominantly, but $< 85\%$ cotton by weight, other than those mixed principally or solely with man-made fibres
6211	Track suits, ski suits, swimwear and other garments n.e.s. (excl. knitted or crocheted)
6212	brassieres, girdles, corsets, braces, suspenders, garters and similar articles and parts thereof, of all types of textiles, whether or not elasticized, incl. knitted or crocheted (excl. belts and corselets made entirely of rubber)
6213	Handkerchiefs, of which no side exceeds 60 cm (excl. knitted or crocheted)
6214	Shawls, scarves, mufflers, mantillas, veils and similar articles (excl. knitted or crocheted)
6215	Ties, bow ties and cravats of textiles (excl. knitted or crocheted)
6216	Gloves, mittens and mitts, of all types of textile materials (excl. knitted or crocheted and for babies)
6217	Made up clothing accessories and parts of garments or clothing accessories, of all types of textile materials n.e.s. (excl. knitted or crocheted)
6301	Blankets and travelling rugs of all types of textile materials (excl. table covers, bedspreads and articles of bedding and similar furnishing under heading 9404)

HS Code	Product
6302	Bed linen, table linen, toilet linen and kitchen linen of all types of textile materials (excl. floor-cloths, polishing-cloths, dish-cloths and dusters)
6303	Curtains, including drapes, and interior blinds; curtain or bed valances of all types of textile materials (excl. awnings and sunblinds)
6304	Articles for interior furnishing of all types of textile materials (excl. blankets and travelling rugs, bed linen, table linen, toilet linen, kitchen linen, curtains, incl. drapes, interior blinds, curtain or bed valances, lampshades.
6305	Sacks and bags, of a kind used for the packing of goods, of all types of textile materials
6306	Tarpaulins, awnings and sunblinds; tents; sails for boats, sailboards or landcraft; camping goods of all types of textile materials (excl. flat protective coverings of light woven fabrics; shelter tents; rucksacks, knapsacks and similar containers
6307	Made up articles of textile materials, incl. dress patterns, n.e.s.
6308	Kits consisting of woven fabric and yarn, whether or not with accessories, for making up into rugs, tapestries, embroidered table cloths or serviettes, or similar textile articles, put up in packings for retail sale
6309	Used clothing and clothing accessories, blankets and travelling rugs, household linen and articles for interior furnishing, of all types of textile materials, including all types of footwear and headgear, showing signs of appreciable wear
8702	Motor vehicles for the transport of $\geq 10$ persons, incl. driver
8703	Motor cars and other motor vehicles principally designed for the transport of persons, incl. station wagons and racing cars (excl. motor vehicles under heading 8702)
8706	Chassis fitted with engines for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods
8707	Bodies, including cabs, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles

**Source:** *Yérima, from ECOWAS customs tariffs and site observations.*

## Annex 5.4

### List of pharmaceutical products traded in the informal sector

HS Code	Product
2935	Sulphonamides
2936	Provitamins and vitamins, natural or reproduced by synthesis, incl. natural concentrates and derivatives thereof used as vitamins, and intermixtures, whether or not in any solvent
2939	Vegetable alkaloids, natural or reproduced by synthesis, and their salts, ethers, esters and other derivatives
2941	Antibiotics
3003	Medicaments consisting of two or more constituents mixed for therapeutic or prophylactic uses, not in measured doses or for retail sale (excl. goods under headings 3002, 3005 or 3006)
3004	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses, in measured doses or for retail sale (excl. goods under headings 3002, 3005 or 3006)
3005	Wadding, gauze and bandages, e.g., dressings, adhesive plasters, poultices, impregnated or covered with pharmaceutical substances or for retail sale for medical, surgical, dental or veterinary purposes
3006	Pharmaceutical preparations and products
3006	Paracetamol tablets
3006	Quotrimo (Bactrim)
3006	Flagyl
3006	Chloranphenicol
3006	Prometadine
3006	Indocide
3006	Ibuprofen
3006	Nivaquine tablets
3006	Chloroquine
3006	Erythromycin
3006	Cypro
3006	Nivaquine syrup
3006	Chloroquine syrup
3006	Bactrim syrup
3006	Gripe water
3006	Paracetamol syrup
3006	Amoxicillin
3006	Quinine
3006	Maloxine
3006	Fansidar
3006	Combimal
3006	Aluminium Hydroxide
3006	Duofem (contraceptive)

HS Code	Product
3006	Gentamicin
3006	Tetracycline pomade
3006	Plastic wrapping
3006	Diclofen
3006	Bisalax
3006	Novalgin
3006	Chlorpheniramine Maleate
3006	Viagra
3006	Antibiotics not defined elsewhere
3006	Diazepam
3006	Febrilex
3006	CaC1000
3006	Mixagrip
3006	Vitamins
3006	Benzodiazepines
3006	Neuroleptics
3006	Sedatives

**Source:** Yérima, from ECOWAS customs tariffs and site observations.

## References

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# 6

## Trade Facilitation and Intra-African Trade

### 6.1 Introduction

In recent years, the volume of goods moving across borders and the value of international trade globally have increased exponentially. Yet African countries' trade with the rest of the world has declined from 10 per cent in 1950 to about 2.5 per cent in 2008. Trade within the African continent also has been meager. Recent data show that on average over the past decades, intra-African trade stands at about 10 to 12 per cent. Compared with other world regions, Africa's trade performance inside its borders needs substantial improvement.

Despite Africa's determination to dismantle trade restrictions to create a common market following the framework of regional and subregional agreements, there are numerous barriers to intraregional economic-community trade development. They are mostly the consequence of economic structures; institutional policies; inadequate infrastructure; weak financial and capital markets; and failure to implement trade protocols.

One reason for the low level of intra-African trade is that the economic structure of African countries is generally similar. Their economies face barriers because of the low capacity of the manufacturing sector, undiversified production and a lack of coordination and harmonization of production and marketing policies. Most of the continent's economies depend on very few primary agricultural and mining commodities for their exports, mainly importing manufactured goods.

Weak infrastructures and institutional policies are partly to blame. For instance, only 30 per cent of the entire African road network is paved, which contributes to the high cost of transportation on the continent. The railway network also is inadequate. By contrast, shipping a car from Japan to Abidjan costs US\$ 1,500, while shipping that same vehicle from Addis Ababa to Abidjan would cost US\$ 5,000.

The numerous roadblocks and checkpoints on some African highways delay the delivery of goods, raise transportation costs and limit the free movement of commodities, persons, and investments. Roadblocks cause some countries to lose substantial revenues through rent-seeking activities by corrupt government officials.

African customs administrations must improve their efficiency. Currently, most customs regulations add to Africa's trade barriers by requiring excessive documentation which, since there is no automation or ICTs, must be done manually. Furthermore, customs procedures are outdated and lack transparency, predictability and consistency. These delays and inefficiencies tend to raise transaction costs.

The underdevelopment of the payment and insurance systems also delays the flow of Africa's cross-border trade. Furthermore, foreign trade financing, export credit facilities and export insurance systems are not available in most African countries. Because monetary and financial regulations are not harmonized at the regional, sub-regional and national levels, there is no interconvertibility of African currencies. In terms of insurance, there is a gap between the needs of exporters and the services and products offered.

This chapter identifies challenges and notes the progress African countries, RECs and other groups have made to improve trade facilitation. It argues that a well planned and managed facilitation process enhances the efficiency of both the private and public sectors. It also argues that effective trade facilitation measures will enable traders to reduce costs, because there will be fewer delays in the movement of goods, faster customs clearance and a more transparent framework for competition. Governments will benefit from effective trade facilitation through improved economic performance, higher revenues, more efficient deployment of resources, more effective regulation and improved trader compliance with the rules.

This chapter also examines how facilitating trade will increase the efficiency of business and government. It will reduce the cost of trading by decreasing delays in the movement of goods, permitting faster customs clearance and a more transparent framework for competition. Governments will benefit from improved economic performance, higher revenue yields, more efficient deployment of resources, more effective regulation and improved trader compliance with the rules.

Some African countries, with the support of RECs, have undertaken a number of trade facilitation initiatives, with limited success. Factors hampering trade facilitation efforts on the continent include, among others, non-compliance or poor implementation of trade facilitation protocols, a lack of effective coordination among countries of RECs, and little cooperation among African countries to trade facilitation, which involves related sectors. Trading in Africa also incurs high transaction costs from delays at border crossings and ports and increasingly stringent international trade standards.

As the *Economic Report for Africa 2004* points out, to deepen its trade Africa must adopt a comprehensive and well-coordinated approach. Africa should improve its infrastructure; provide efficient and competitive roads, railways, ports and ICT;



remove illegal check points or reduce check points that constitute a de facto tax on trade; simplify and harmonize customs and border procedures; use new technology by customs agents; and strengthen regional trade facilitation initiatives.

## 6.2 An economic case for trade facilitation

### 6.2.1 The trade facilitation imperative

Efficient customs administration is crucial for businesses to compete effectively in international markets. Cross-border efficiency contributes to good economic performance through trade channels. Studies by the Economic Commission for Africa (ECA), Organization for Economic Cooperation and Development (OECD) and others show that the losses businesses and governments incur through delays at borders, lack of transparency and predictability, complicated documentation requirements and other outdated customs procedures are estimated to outweigh the gains from tariffs. Governments will profit from customs modernization because efficient customs operations have the potential not only to increase trade but to facilitate tax collection and therefore boost government revenues.

OECD (2005) argues that certain contributing factors put pressure on countries to increase capacity and improve their customs operations. First, due to recent trade liberalization and the integration of markets, along with fragmented value chains, international trade has grown rapidly and exceeds GDP growth. Some growth is attributed to increasing trade flows. However, unnecessary trade transaction costs (TTCs) are slowing these flows. Second, reductions in transportation costs and the development of complex logistics systems have led to leaner companies holding lower levels of stock. Lean production has consequently made companies depend on frequent delivery of small batches of intermediary inputs. Third, customs authorities are required by law in many countries to enforce certain security and import restrictions, in particular those concerning environmental, sanitary and phytosanitary matters. Rules of origin attached to preferential trading arrangements also impose new demands on customs officials. Fourth, there are significant inefficiencies related to weak customs practices and administrative capacity at borders, but poor infrastructure and capacity at seaports and airports sometimes present even more problems to traders. Inadequate road and transport infrastructure often add substantially to their costs.

***What is trade facilitation?*** Wilson, Mann, Woo, Assanie and Choi (2002) point out that there is no universal understanding of what trade facilitation is, perhaps reflecting differences in, as well as some evolution of, the views of what reforms

should be undertaken to reduce the cost of trading. According to the WTO, trade facilitation refers to “the simplification and harmonization of international trade procedures” covering the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.”<sup>1</sup> In plain terms, trade facilitation is the simplification of the trade relationship between partners. This trade interface is composed in a broad sense of compliance to government rules by traders; authorities’ enforcement of these rules (including taxes); the exchange of information; financing; insurance; ICT and legal services; transport; handling; measurement; and storage. This implies that intervention by governments in these aspects of trade interface affects the magnitude of trade transaction costs.

***Why does trade facilitation matter?*** It matters because global trade has grown rapidly in recent years due to the progressive reduction of tariffs and quotas from trade liberalization. More goods are crossing borders and having to comply with customs formalities, straining the resources of custom officials and other government officials. At the same time, businesses are becoming frustrated with rising trade transaction costs, including processing times at the borders and unnecessary waiting time.

OECD studies indicate that trade transaction costs are between 1 to 15 per cent of the value of trade transaction.<sup>2</sup> The costs are found to depend on the level of efficiency of a country’s customs administrations. The studies also find that the costs are significantly lower for developed countries where customs administrations operate efficiently and use modern equipment. In the case of African countries, costs remain high because of inefficient administrations, obsolete machinery and corrupt rent-seeking practices among customs officials.

The ECA (2004) finds that trade transaction costs generally include indirect costs that may be particularly difficult to express in monetary terms.<sup>3</sup> Long delays before customs inspection can result in lost business opportunities and lost revenue from the depreciation of perishable goods and raise inventory-holding costs. Other studies have examined the transportation and logistics networks of selected countries and find that the main problems for traders are related to the time, reliability and safety of logistics services.<sup>4</sup> Subramanian and Arnold (2001) observe that direct customs clearance procedures accounted for less than 0.5 per cent of cargo value, but border crossings were still a major cause of high trade-transaction costs and long delivery time. Customs clearance procedures caused unnecessary delays and indirect costs. Subramanian and Arnold (2001) also find that the costs for intermediate handling, including costs other than loading and unloading vessels, comprised 20 to 25 per

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1 See WTO website: [www.wto.org](http://www.wto.org) and follow prompts to the trade section.

2 See OECD, 2002 and 2003.

3 See ECA’s *Economic Report for Africa 2004*.

4 See Subramanian and Arnold (2001).

cent of total costs. Limitations of customs working hours, the lack of customs officers, the shortage of gates for receiving cargo and the transparency of procedures for inspection and valuation were some of the problems Subramanian and Arnold found. ECA (2004) also finds that customs efficiency often varies greatly between customs points in the same country and that the economic impact differs depending on product type. Agricultural produce was found to be very sensitive to the efficiency of the particular customs administration.

Competition and the changing business environment require efficient trade facilitation techniques because products need to be delivered quickly. In the current business environment, a manufacturer expects uninterrupted delivery and cannot afford to have his goods tied up at the border because of unnecessary or over-complicated customs procedures. Inefficient border procedures have increased trade transaction costs not only for governments and business, but also for taxpayers and consumers. Furthermore, globalization and international competition encourage international corporations to use a variety of locations for the manufacture and sourcing of components and final products. In addition, preferential trade agreements have introduced complex rules of origin into international trade. All of these fluid and dynamic circumstances advocate for the improvement of trade facilitation procedures.

A country's geographical location affects its competitiveness in the international trading system. Studies by Anderson and Wincoop (2003) demonstrate that country borders create costly obstacles to international trade. They show that trade flows between pairs of countries are proportional to their GDP and inversely proportional to the trade barriers between them. The study implies that trade transactions costs are influenced by, among other factors, natural barriers or geography. The components of trade-transaction costs affected by geography include transportation, storage, physical inspection and the presentation of documentation at border agencies. Moreover, international trade involves the transportation of goods across borders and transit through adjacent countries. This may require road and rail transporters to adapt to different local laws and standards. Different standards, such as varying maximum axle loads permissible for trucks or changing rail gauge width for trains, necessitates unloading and reloading of goods. Thus, complying with different regulations at each border post increases trading transaction costs.

Uncooperative border customs officials could also increase transaction costs. The situation is even worse in some African countries because of duplicating lengthy clearances on transit corridors. The cost of duplication could also be magnified by the number of other regulations, including entry visa requirements, technical and phytosanitary standards, security checks and tax levying. Traders may also have to produce paper documentation at border posts, storage in bonded warehouses and pass physical inspections.

The imperative for trade facilitation also arises from the fact that traders incur both direct border-related costs that are associated with the supply of information and documents to the relevant authority, and indirect costs, such as those arising from procedural delays, lost business opportunities and unpredictable regulations. OECD surveys show that these could be from 2 per cent to 15 per cent of the value of traded goods.<sup>5</sup> Inefficient border procedures also cost governments in terms of lost revenue, smuggling and difficulties in implementing trade policy. Enhancing the efficiency of border procedures has the potential of substantially increasing customs revenue, despite the reduction in duties brought by trade liberalization.

***How does one analyze trade transaction costs and their impact on trade?*** Trade transaction costs (TTCs) should be seen as equivalent to *ad valorem* tariffs. Hence, TTCs produce two principle effects on trade pertaining to price and efficiency. Price effects can either be direct, in the form of customs fees, port fees or rents to corrupt officials, or indirect, in the form of costs resulting from delays and unreliability of customs clearance. Such effects therefore raise the price of traded products above what they would otherwise be, with a generally dampening effect on the level of trade and potentially positive effect on domestic production.

On the other hand, efficiency effects arise from distortions in the allocation of resources in the economy as a result of high trade-transaction costs, which could potentially dampen FDI flows. The impact on FDI flows is somewhat inconclusive. This is because, as an OECD study (2005) explained, rising TTCs decrease efficiency-seeking FDI while at the same time increasing market-seeking FDI for tariff-jumping purposes in large markets. However, it has been observed that a large share of current FDI flows are aimed at establishing production capacity for export markets, and therefore rising TTCs are most likely to have a negative effect on FDI. Both price and efficiency effects generate welfare losses for consumers and producers in importing and exporting countries.

It is notable that the nature and magnitude of price and efficiency effects may differ depending on the products being traded. For example, delays at the border for highly perishable products could generate product losses or increased costs such as refrigeration, chemicals, etc. If the product has a limited shelf life, then prolonged stays at the border could push the product out of the market and hence the competitiveness of trading. In the case that the delay or actual costs of transporting trading goods cannot be anticipated, investors may find the market less attractive.

Policymakers should note that rising TTCs may not result in increased government revenue, because governments only benefit from the direct fees paid for border services. However, modernizing customs procedures does raise customs productivity while reducing smuggling and corruption. The effect of trade facilitation on govern-

5 See “The Costs and Benefits of Trade Facilitation” *OECD Policy Brief*, October 2005.

ment revenue will be positive if savings from increased customs productivity and revenue from an increased tax base exceeds the costs of the modernization programme and reductions in direct customs fees.

### **6.2.2 Economic gains from trade facilitation**

There are gains to be reaped from well-functioning trade facilitation measures. Government benefits will be substantial because efficient border procedures minimize rent-seeking behaviours of government officials and increase government revenue. Businesses engaged in trade also benefit because they can deliver their goods more quickly by staying competitive. And consumers gain because they are not paying the costs of border delays.

Studies indicate that even modest reductions in trade transaction costs, such as lengthy border procedures, translate significantly to increased trade. Improved trade facilitation benefits both rich and poor countries, although developing countries would show higher relative trade gains because of the relative inefficiency of their current systems and because agro-food and small and medium enterprise (SME) trade, which are most severely affected by inefficient procedures, are central to the economies of these countries. OECD (2005) estimates that lower trade-transactions costs will significantly increase a country's welfare. OECD research shows that developing countries stand to gain two-thirds of total world welfare benefits from trade facilitation. But if trade facilitation were to be undertaken by OECD countries alone, developing countries would stand to lose.

In many developing countries, clearance times for exports and imports considerably affect the competitiveness of national industry. African countries suffer substantial cost disadvantages in exporting to Europe and the United States compared to some Asian countries because of the delays and inefficiencies in African ports. OECD (2004) studies point out that labour cost competitiveness is important in the areas of labour-intensive production, but efficient customs procedures compensate for labour cost disadvantages. Therefore African countries must focus on enhancing their port infrastructure and develop reliable and competitive modes of transport and efficient customs procedures to attain a competitive edge in export markets. Cadot and Nasir (2001) find that a Malagasy garment exporter whose prospective gains from reducing port clearance time to one day would equal a labour cost savings of 20 to 30 per cent for producing a long-sleeved shirt. The World Bank has estimated that the average time required for customs clearance for sea cargo in Africa is 10.1 days, compared with 2.1 days in OECD countries.<sup>6</sup> Based on Hummels' (2001) estimates, the inefficiencies at African ports add additional costs of approximately

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<sup>6</sup> See KPMG 2004.

8.1 per cent of the total transaction value. Studies also show that average productivity could increase by 18 per cent if the number of days required to clear customs in Ethiopia were reduced by half. In Nigeria, customs inefficiencies are estimated to increase the cost of imports by approximately 45 per cent. The potential cost savings owing to cutting customs clearance times are small in developed countries. OECD (2005) studies show that the standard clearance time in 2000 in Canada was 0.75 hours; in Australia, 0.25 hours; in Spain, 4 hours; in Greece, 0.5 hours; and in France, 0.23 hours.

A number of studies have quantitatively tested the link between trade facilitation and trade flows.<sup>7</sup> They use economic models to estimate the effect on trade of increased efficiency in customs procedures and ports. Their findings, summarized in OECD (2005) are as follows:

- There is a positive link between trade facilitation and trade. Modest reductions in trade transaction costs significantly increase trade flows;
- Trade in both rich and poor countries stands to gain from improvements in trade facilitation. However, trade gains are higher in developing countries than in developed countries because of comparatively less efficient customs administrations and ports in developing countries;
- Countries that undertake trade facilitation reforms stand to gain substantially from more efficient customs procedures;
- The potential gain from increasing port efficiency is considerably greater than for increasing efficiency of customs procedures. Nevertheless, improved customs procedures significantly increase trade flows; and
- Inefficient movement of goods across borders seriously impedes trade and growth.

These results indicate that countries that have implemented trade facilitation reforms have realized increases in trade flows. Some quantitative exercises show that trade effects from trade facilitation can vary widely between product categories. Sectors that produce perishable goods or are constrained by seasonal factors are likely to be more sensitive to inefficient customs procedures. This includes textiles and clothing, where seasonality and the need for quick delivery heightens the value of efficient border procedures and access to transport networks. The World Bank (2003 and 2004) finds that improved border procedures and logistics systems have expanded new business opportunities for cut flowers in Kenya and mangoes in Mali.

Clarke (2005) also finds that manufacturing enterprises in some African countries are less inclined to export to countries with poor customs administrations and restrictive trade and customs regulations. The author observes that reducing trade and customs

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7 See OECD (2005) and Wilson et al., (2003 and 2004) for summary results of the studies.

regulations in the United Republic of Tanzania has led to increased exports as a share of production by approximately 4 per cent for an average enterprise. Wilson et al. (2003) also find that more efficient customs procedures increase trade flows by as much as 30 per cent in developing countries. The authors also find that improvements in port services translate into an average 64 per cent increase in trade flows, while the average customs-improvement effect is 12 per cent.

Trade facilitation can improve the flow of government revenues accruing from trade. A more efficient and reliable trade facilitation mechanism ensures that trade taxes or tariffs are collected efficiently and on time. Taxes on international trade and transactions comprise more than a third of government revenue of most African countries.<sup>8</sup> It is therefore in the interest of African countries to improve the efficiency of weak customs administrations to enhance the collection of revenue.

Traders benefit from reducing costs and delays at borders and increasing the predictability and transparency of customs-clearance procedures. One goal of African countries is to reduce customs clearance times and raise government revenue. African countries lose trade-tax revenues because of corrupt and incompetent customs officials or inadequate and outmoded customs procedures. Smuggling of trade goods is also a challenge for some because of porous borders and severe border barriers. Revenue loss from inefficient border procedures has been estimated to exceed 5 per cent of GDP in some cases. Customs modernization would significantly reduce informal trade flows, curtail smuggling and corruption and thereby increase the tax base.

Introducing effective trade facilitation reform programmes in Africa requires resources and commitment at all levels of government. While in some cases the costs of trade facilitation reform may exceed the benefits, ECA studies demonstrate that benefits to African countries in carrying out these reforms far exceeded the costs by a wide margin. As SWEPRO (2003) points out, “trade facilitation is not about impeding or diminishing individual government’s power and sovereign right to protect their border...[but rather]...a way of making the necessary work of customs and other authorities cheaper and more efficient.”

ECA, OECD and others’ studies show that successful trade facilitation reform programmes can yield impressive results in reduced customs clearance time and increased revenue.<sup>9</sup> The OECD (2005) summary of the studies shows that:

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8 OECD (2005) estimates that the percentage of total government revenue from trade taxes in Côte d’Ivoire, Lesotho and Madagascar are 41 per cent, 39 per cent and 36 per cent, respectively.

9 See ERA (2004), OECD (2005) and Lisinge (2004).

- Successful implementation of customs reform programmes can bring significant increases in customs revenue in countries with weak customs administrations;
- Even moderate modernization initiatives can bring quantifiable results on customs revenue;
- Some of the customs reform experiences show that customs revenue remained stable after significant cuts in tariffs;
- Financial results are not necessary immediate, since reform programmes are implemented over time; and
- Technical and financial assistance were crucial components in many of the reform programmes in developing countries. Public-private partnership also worked for some countries to address their customs issues.

Trade facilitation reforms also improve the flow of FDI. The manufacturing industry depends heavily on cheap, quick, transparent and predictable customs services. Hence countries could increase the flow of FDI if they adopt modern and efficient border procedures. Inefficient procedures lead to trade transactions costs, and thus foreign companies wishing to locate in Africa will include these costs in their cost/benefit calculations as they evaluate suitable locations. Inefficient border procedures can thus be regarded as a potentially high opportunity cost.

Radelet and Sachs (1998) demonstrate that countries with lower trade-transaction costs experienced higher economic and manufacturing export growth over the past three decades than those with higher costs. The results show that low direct and indirect trade transaction costs, including costs and risk associated with a country's border procedures, are key factors in FDI flows.

Dollar, Hallward-Driemeier and Mengistae (2003 and 2004) have examined the relationship between trade facilitation and FDI flows and find that low customs clearance times positively contribute to a country's FDI flows. Eifert and Ramachandran (2004) estimate that if the number of days required to clear customs were halved in Ethiopia, average firm-level productivity would increase by 18 per cent, thereby raising the likelihood of FDI.

The unreliability of the delivery process of traded goods forces companies to maintain higher levels of stock. Gausch and Kogan (2001) find inventory holdings in manufacturing to be 200 to 500 per cent higher in developing countries, such as those in Africa, than in the United States. The authors estimate that halving inventories could reduce unit production costs by 20 per cent. Better transport and logistics systems could not only lower the costs of delivery but would make the timing of delivery more reliable. A significant share of FDI in African countries goes into facilities that produce goods aimed at export markets.



The importance of customs administration to FDI decisions is not hypothetical. It also holds for domestic investment.<sup>10</sup> In many developing countries, where capital is scarce and capital costs are high, delays that tie up capital are particularly costly. The OECD (2005) reports that a survey conducted by the European Round Table of Industrialists (ERT) concerning their views on trade facilitation shows that more than one-fifth of its members had foregone or abandoned investment opportunities or business activities in developing countries because of inefficient border procedures. More than two-fifths had done so in transition economies, while no company had abandoned investment opportunities in the OECD area because of customs issues. Furthermore, four-fifths of the companies indicated that substantial improvements in trade facilitation in developing countries would make them more attractive to investments.

### 6.3 Facilitating trade in Africa

The trade performance of Africa, as noted, has been very poor. As Portugal-Perez and Wilson (2009) report, Africa's share of world exports has dropped by nearly two-thirds in the past three decades: from 2.9 per cent in 1976 to 0.9 per cent in 2006. The implication is that if Africa's share of world exports had remained constant since the mid-1970s, its export revenue would be approximately ten times larger than its current value.

The main reason for Africa's poor trade performance is the high cost of trade incurred in transporting and moving across borders. As the literature documents, high trade costs have a deleterious effect on a country's economic performance. Consumers in countries with relatively high trade costs experience lower consumer welfare through the higher price of imported goods.

Despite Africa's determination to dismantle trade restrictions to create a common market, barriers to intra-community trade development remain daunting. Weak infrastructure and institutional policies are partly responsible. For instance, only 30 per cent of the African road network is paved. The continental railway network is inadequate. These factors contribute to the high transportation costs on the continent. Furthermore, the many roadblocks and checkpoints on African highways hamper delivery of goods and raise transport costs, limiting the free movement of commodities, persons, inputs and investments.

African customs administrations are often inefficient. Customs regulations require excessive, and usually manual, documentation, since there is no automation and few ICTs in most customs offices.

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10 See Filmer (2003).

Payment and insurance systems also are underdeveloped. Foreign trade financing, export credit facilities and an export insurance system are unavailable in most African countries. Because monetary and financial regulations are not harmonized, African currencies are not convertible. In terms of insurance, there is a gap between the needs of exporters and the services and products offered.

Geography also affects the cost of intra-continental trade. Fifteen countries are landlocked and are inhabited by 40 per cent of the continent's population.<sup>11</sup> They depend on their neighbours to export goods to reach overseas markets. Given that the distance of a country from major world markets elevates trade costs above those closer to markets, landlocked countries in Africa face a significant disadvantage.

Portugal-Perez and Wilson (2009) and Lisinge (2004) demonstrate that these factors, combined with corruption, underdeveloped institutions, constraints on business competition and weak governance, drive up the cost of international trade and investment in Africa. This implies that Africa may not benefit from the continued lowering of tariffs and other trade barriers unless trade costs in the region are lowered. Moreover, as Portugal-Perez and Wilson (2009) and others have suggested, growth in exports can alleviate poverty. For example, farmers that grow high-yield export crops are, on average, better off than those engaging in subsistence farming. High trade costs prevent the full realization of gains from trade and can diminish the poverty reduction effect of export opportunities for African countries.

These sections analyze the factors responsible for the high cost of trade in Africa. According to Portugal-Perez and Wilson (2009), these costs could be classified into four groups: border-related costs, transport costs, costs related to behind-the-border barriers and the costs of compliance with rules of origin that are specific to preferential trade.

### **6.3.1 What are trade costs?**

The literature defines total trade costs as all costs incurred in transferring a final good to a final user, other than the cost of producing the good itself.<sup>12</sup> In general, exporters or importers incur trade costs at all stages of the processes involved in exporting and importing goods. As Portugal-Perez and Wilson (2009) explain, the costs begin to tally with obtaining information about market conditions in a foreign market and end with receipt of final payment for a product. It is standard practice that a firm seeking to expand from a domestic market into overseas markets faces costs associated with complying with standards and technical regulations that importing coun-

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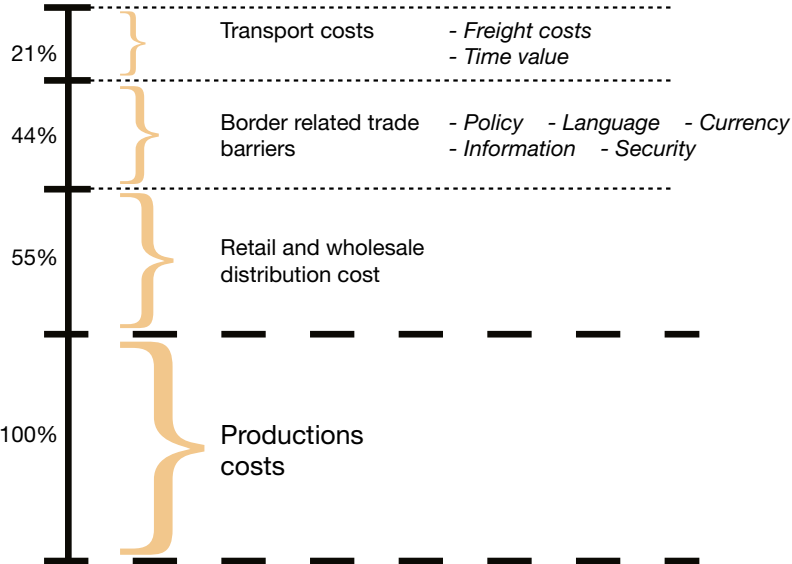
11 The landlocked countries are: Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, the Niger, Rwanda, Swaziland, Uganda, Zambia and Zimbabwe.

12 See Portugal-Perez and Wilson (2009).

tries impose. Since these costs are not incurred if the goods are sold exclusively on the domestic market, they should be classified as a trade cost. Another example from the same study applies to preferential trade agreements, because preferential access to partners' markets requires compliance with rules of origin. These rules may involve, for example, adjustments to the intermediate mix or production process that often involves additional costs for producers.

Anderson and Van Wincoop (2004) calculate that the average trade costs for industrialized countries are equivalent to an *ad valorem* term of 170 per cent. As figure 6.1 shows, the estimated trade costs represent the total for three components: a 21 per cent *ad valorem* equivalent for transportation costs, 44 per cent for border-related trade barriers and 55 per cent for retail and wholesale distribution costs.<sup>13</sup> It should be noted that trade costs vary in magnitude and pattern across countries and regions, as well as across sectors and goods. Anderson and Van Wincoop (2004) also note that in developed countries, the costs of trading a good, including international trade costs and domestic distribution costs, can be even higher than the cost of production.

**Figure 6.1**  
*Estimated trade cost in industrialized countries*



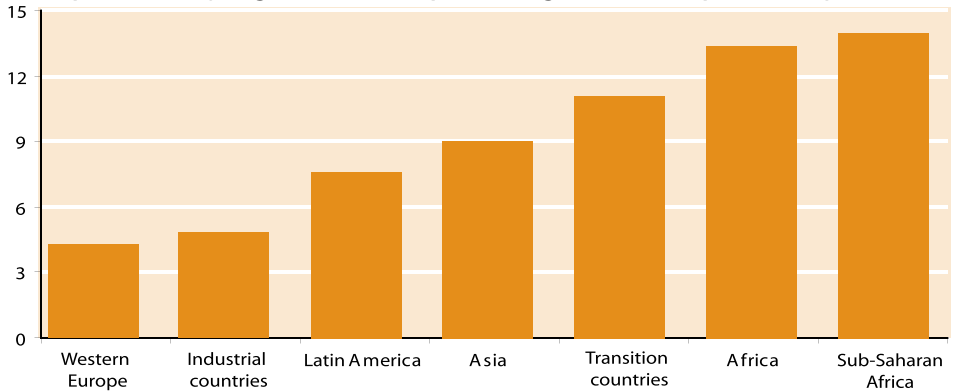
Note: The breakdown of costs is expressed in ad-valorem equivalent terms:  
 $1.7 = 1.21 * 1.44 * 1.55 - 1$ .

Source: Portugal-Perez and Wilson (2009).

13 The cost components are expressed in ad valorem equivalent terms:  $1.7 = 1.21 * 1.44 * 1.55 - 1$ .  
 The first two components account for total international trade costs that are about 74 per cent  
 ( $= 0.74 = 1.21 * 1.44 - 1$ ).

**Figure 6.2**

**Transport costs (freight costs as a percentage of total import value)**



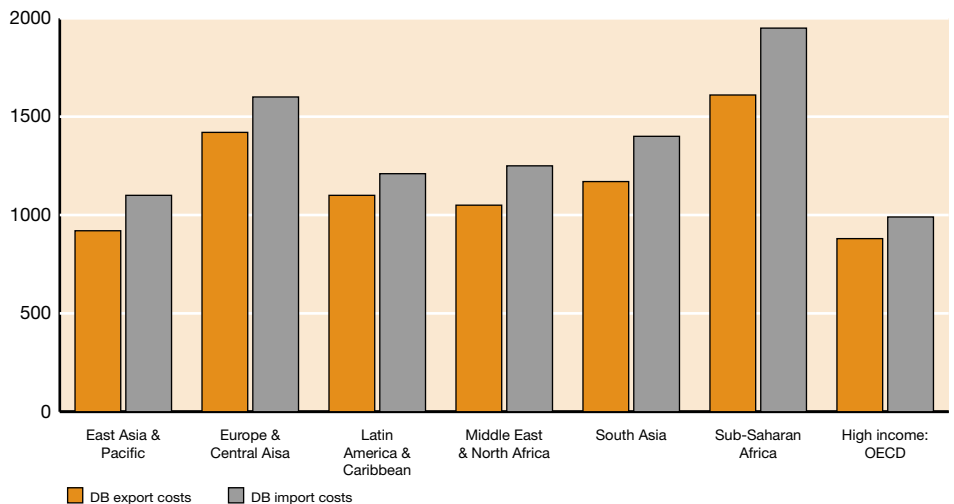
**Note:** The transport cost rate is the ratio of transport costs as a percentage of the value of imports.

**Source:** Calculations by ECA

ECA research indicates that the ratio of trade costs to production costs would be greater for African countries than for developed ones, because African producers face considerably higher transport costs and trade facilitation challenges than do developed countries.<sup>14</sup> Figure 6.2 shows that Africa in general, and sub-Saharan Africa in particular, have the highest cost rates in the world. This is further supported by the World Bank's (2008) *Doing Business Report*, which suggests that the trading costs for African countries are about twice as high as those in high-income OECD countries (see figure 6.3).

**Figure 6.3**

**Cost of export and import procedures in US dollars**



**Source:** Portugal-Perez and Wilson (2009).

<sup>14</sup> Hence, the estimates of Anderson and Van Wincoop (2004), as illustrated in Figure 6.1, are considered a benchmark for similar trade cost figures that can be estimated for African countries.

Figure 6.2 indicates that transport costs in Africa are about 2.5 times those of industrialized countries. Based on figure 6.1, drawn from the estimates of Anderson and Van Wincoop (2004), estimated average trade costs for African countries is equivalent to an *ad valorem* term of 425 per cent.

## 6.3.2 Why are trade costs higher?

### 6.3.2.1 The price of doing business in Africa

Trade costs are generally low for countries with conducive business climates. The World Bank's *Doing Business 2009 Report* indicates that although a number of African countries are reforming their investment codes to attract investments, the conditions for doing business in Africa need improvement. The report assesses regulations affecting ten stages of a business's life across 181 economies over time. The indicators measured are starting a business, dealing with construction permits, employing workers, registering property, acquiring credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

The global financial crisis that began in rich economies but led to a global economic downturn had a devastating effect on businesses around the world. Investors had difficulties accessing credit from financial institutions. Consequently, aggregate demand for goods and services contracted in domestic and international markets and as result global trade, including intra-African trade, fell sharply. Policymakers and governments, particularly the United States and Europe, used massive stimulus packages to stabilize the financial sector and restore confidence and trust to counter rising unemployment and provide safety nets, in an effort to mitigate the risk large increases in unemployment. All of these actions led to rising public debt because of tighter fiscal revenues.

**Table 6.1**  
*Ease of doing business aggregate rankings*

Country	World ranking	Africa ranking	Country	World ranking	Africa ranking
Singapore	1	-	-	-	-
Mauritius	24	1	Gabon	151	28
South Africa	32	2	Djibouti	153	29
Botswana	38	3	Comoros	155	30
Namibia	51	4	Sierra Leone	156	31
Tunisia	73	5	Liberia	157	32
Kenya	82	6	Zimbabwe	158	33
Ghana	87	7	Mauritania	160	34

Country	World ranking	Africa ranking	Country	World ranking	Africa ranking
Zambia	100	8	Côte d'Ivoire	161	35
Seychelles	104	9	Togo	163	36
Swaziland	108	10	Cameroon	164	37
Uganda	111	11	Mali	166	38
Egypt	114	12	Equatorial Guinea	167	39
Ethiopia	116	13	Angola	168	40
Nigeria	118	14	Benin	169	41
Lesotho	123	15	Guinea	171	42
Tanzania	127	16	Niger	172	43
Morocco	128	17	Eritrea	173	44
The Gambia	130	18	Chad	175	45
Algeria	132	19	São Tomé and Príncipe	176	46
Malawi	134	20	Burundi	177	47
Rwanda	139	21	Congo – Brazzaville	178	48
Mozambique	141	22	Guinea – Bissau	179	49
Cape Verde	143	23	Central African Republic	180	50
Madagascar	144	24	Democratic Republic of Congo	181	51
Sudan	147	25	Libya		
Burkina Faso	148	26	Somalia		
Senegal	149	27			

Source: *Doing Business 2009 Report*.

According to the *Doing Business Report*, on aggregate, it is easiest to conduct business in Mauritius and most difficult in the Democratic Republic of the Congo (table 6.1). As table 6.2 illustrates, it takes just six days for a business to be started up in Mauritius. With few exceptions, it takes more than three weeks to start a business in Africa (figure 6.3).

**Table 6.2**  
**Number of days to start a business**

Country	Number of days	Country	Number of days	Country	Number of days
New Zealand	1				
Mauritius	6	Uganda	25	Lesotho	40
Egypt	7	Mali	26	Guinea	41
Madagascar	7	Mozambique	26	Burundi	43
Senegal	8	The Gambia	27	Cape Verde	52
Tunisia	11	Liberia	27	Togo	53
Morocco	12	Tanzania	29	Gabon	58
Central African Republic	14	Kenya	30	Swaziland	61
Rwanda	14	Benin	31	Namibia	66
Burkina Faso	16	Nigeria	31	Angola	68

Country	Number of days	Country	Number of days	Country	Number of days
Ethiopia	16	Ghana	34	Chad	75
Sierra Leone	17	Cameroon	37	Botswana	78
Zambia	18	Congo (Brazzaville)	37	Eritrea	84
Mauritania	19	Djibouti	37	Zimbabwe	96
Niger	19	Seychelles	38	Equatorial Guinea	136
South Africa	22	Malawi	39	São Tomé and Príncipe	144
Comoros	23	Sudan	39	Congo (Kinshasa) (DRC)	155
Algeria	24	Côte d'Ivoire	40	Guinea – Bissau	233

**Source:** *Doing Business 2009 Report*

Despite the challenges, many African countries have begun reforms aimed at making it easier to do business. With the support of African RECs, most are strengthening property rights and improving the efficiency of commercial dispute resolution and bankruptcy procedures. African countries also are creating a transparent and efficient regulatory environment for businesses, making it easier for new firms to start and old ones to operate efficiently. African courts also are being strengthened to tighten bankruptcy procedures and ensure that assets can be reallocated quickly, preserving property rights and protecting investors.

The *Doing Business Report* cites Rwanda as leading the world in reforming their business environment. The report notes that Rwanda steadily updated its commercial laws and institutions since 2001. Rwanda also has introduced a new company law that simplified business start-up and strengthened minority shareholder protections. Entrepreneurs can now start a business quickly with few procedures. Rwanda also improved regulations to ease access to credit through two new laws. Its secured Transactions Act facilities for secured lending allow using a wider range of assets for collateral. The law also makes out-of-court enforcement of movable collateral available to secured creditors and gives them absolute priority under bankruptcy. Rwanda also has taken measures to accelerate trade and property registration. Border delays have been reduced thanks to longer operating hours and simpler documentation requirements. Reforms removed bottlenecks at the property registry and revenue authority, reducing the time required to register property by 255 days.

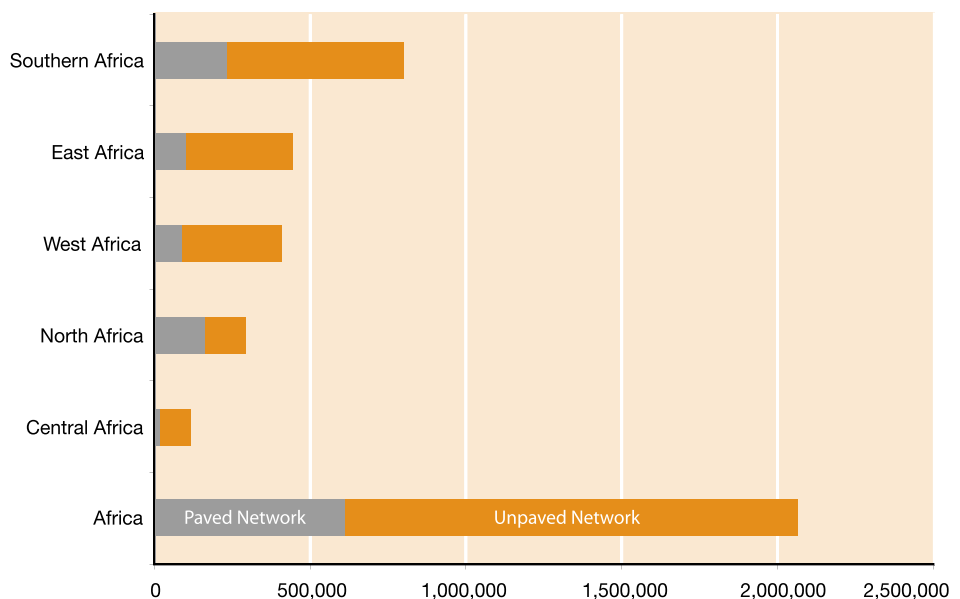
### **6.3.2.2 Poor road and rail transport infrastructure**

An efficient transportation infrastructure plays an indispensable role in facilitating trade. However, Africa's existing transport facilities are poor and badly integrated compared with world standards.

Road density and distribution and the percentage of its surfaced network are key indicators of development. Using these indicators, it can be demonstrated that the status of transport development in Africa varies not only within but among the continent's subregions. Currently, Africa's road network covers about 2,299,070 kilometres. This is 234,457 kilometres or 11.36 per cent longer than what was reported at the end of the second United Nations Transport and Communications Decade in Africa (UNTACDA II) in 2000. All the continent's subregions also have increased their road networks, although to varying degrees (World Fact Book, 2006). Between 2000 and 2006, the total road network in Central Africa increased from 115,667 to 186,475 kilometres, an increase of 61.2 per cent; that of East Africa increased from 445,018 to 476,558 kilometres, an increase of 7 per cent; North Africa's went from 292,790 to 347,451 kilometres, a nearly 19 per cent increase; southern Africa's increased from 801,751 to 853,676 kilometres, up 6.48 per cent; and West Africa's increased from 409,377 to 434,910 kilometres, up 6.24 per cent.

Nevertheless, conditions on most African roads remain deplorable, as most parts of the network remain unpaved. As figure 6.4 shows, of the total road network, only 580,066 kilometres or 22.7 per cent is paved, the remaining portion being made of either earth or gravel.

**Figure 6.4**  
*Proportion of paved to unpaved roads in Africa*



Source: Calculations by ECA

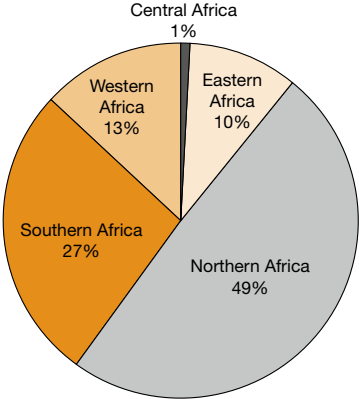
A look at the proportion of paved roads by subregion shows a huge diversity. As figure 6.5 depicts, northern Africa contains the highest share (49 per cent) of the



continent's paved roads, followed by southern Africa (27 per cent). The share of paved roads in the other subregions ranged from 1 to 13 per cent.

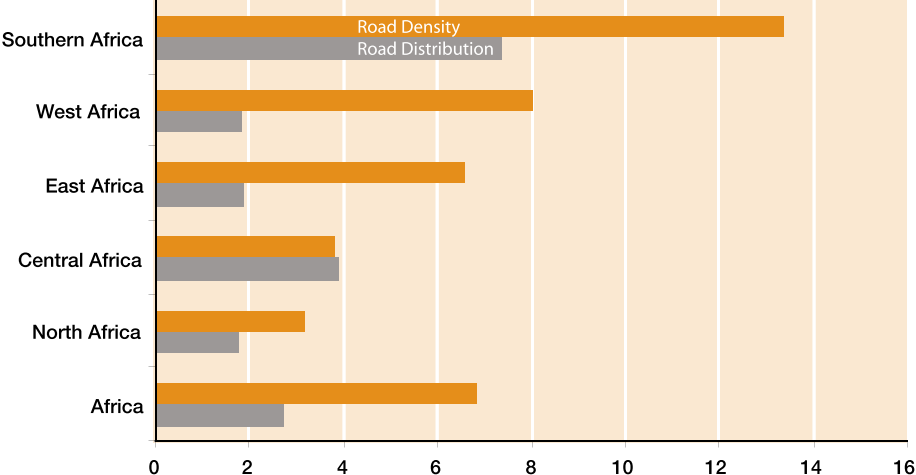
However, a different picture emerges when the subregions are compared according to their respective road densities (see figure 6.6). Southern Africa is observed to have the highest road density on the continent, followed by West Africa. Central Africa is estimated to have the lowest road density. Figure 6.6 shows that apart from southern Africa, all the subregions have road densities of less than 10 kilometres per 100 square kilometres.

**Figure 6.5**  
Share of paved roads in Africa, by subregion



Source: ECA estimates.

**Figure 6.6**  
Density and distribution of Africa's road network, by region and subregion



Note: The network density is in km per 100 sq km. The distribution is in km per 10,000 inhabitants  
Source: Calculations by ECA

Despite the challenges, there is some improvement. The continent and subregions have seen modest increases in road density between 2000 and 2006. The continental increase was about 0.77 per cent, while Central Africa, with an increase of 2.34 per cent, enjoyed the largest increase among the subregions.

Railways are the most cost-effective mode of transport for moving bulk cargo long distances over land. They are suited to container traffic between ports and capitals. The rail system has gained an advantage from recent economic and technological trends including higher energy prices, the growth of container stations and new increases in flows of bulk trade and traffic. However, African railways carry only 1 per cent of the global railway passenger traffic and 2 per cent of its goods. The poor interconnection of networks contributes to the higher cost of trade. The network is currently estimated to be 89,380 kilometres, and the density at 2.97 kilometres per 1,000 square kilometres. The network situation is as follows: North Africa, 19,931 kilometres; West Africa, 9,717 kilometres; Central Africa, 2,526 kilometres; East Africa, 19,293 kilometres; and Southern Africa, 38, 513 kilometres.<sup>15</sup>

Africa's railways network is complicated by a variety of gauges. In East Africa, the gauges used are 0.600 m, 0.950 m, 1.000 m and 1.067 m; Southern African countries use 0.600 m, 0.610 m, 0.762 m and 1.067 m; Central African countries use 1.067 m and 1.435 m gauges; Northern African countries use 0.600 m, 1.000 m, 1.055 m, 1.067 m, and 1.435 m gauges; while West African countries use 1.000 m, 1.067 m, and 1.435 m gauges.

Poor management, old and under-maintained track, rolling stock and other facilities have left railways in Africa in a dilapidated state. The only exceptions are the Tazara, the Trans-Gabonese, the Trans-Cameroonian and the mining railway lines that were built in the late 1970s. Furthermore, the poor maintenance of rail infrastructure and the paucity of available rolling stock have contributed to the deterioration of rail service quality. Railways also are facing competition from road transport over the long haulage distances in which they once enjoyed a comparative advantage. Railway companies have a history of being burdened by bureaucracy, over-staffing and low productivity.

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15 Seventeen African countries do not have railway lines, including the Central African Republic, Chad, Equatorial Guinea, São Tomé and Príncipe, Burundi, Comoros, Rwanda, Somalia, Seychelles, the Libyan Arab Jamahiriya, Lesotho, Mauritius, Cape Verde, The Gambia, Guinea-Bissau, the Niger and Sierra Leone (where railways are no longer in service).

### 6.3.2.3 *Poor port and maritime transport*

Seaports are critical outlets of international trade for both coastal and landlocked countries. Sea transport has a significant cost advantage over surface transport for dry and liquid bulk cargoes or containerized cargoes.

More than 90 per cent of the world's international trade transits through ports. Maritime transport is even more dominant in Africa, accounting for 92 to 97 per cent of Africa's international trade. However, poorly maintained port infrastructure and inefficient operations remain the continent's major trade bottlenecks.

With a total coastline of 30,725 kilometres, Africa has 90 major ports, accounting for more than 95 per cent of its international import and export trade, six of which are island countries and 15 are landlocked. Africa's major ports handle only 6 per cent of global traffic, of which only six ports—three in Egypt and three in South Africa—handle about 50 per cent of Africa's container traffic.

The *Africa Infrastructure Country Diagnostic*, in its study of 73 ports in sub-Saharan Africa, has identified port capacity limitations and lack of institutional reforms as two important constraints that must be addressed immediately for African ports to contribute to its international trade. It is estimated that Africa's average port productivity is about 30 per cent of the international norm. Inefficient port management and limited or poorly maintained equipment account for low productivity.

An important performance indicator of port operations is the dwell time for vessels. According to NEPAD-AU studies, the average dwell time in a number of major African ports is about 11 days, which is three times that of average dwell times in the ports of other developing regions. Douala in Central Africa, Dar es Salaam in Eastern Africa, Beira and Maputo in Southern Africa and Guinea in West Africa have the highest dwell times. Dwell times in each of the selected major ports of Africa are indicated in table 6.3.

**Table 6.3**  
*Dwell times in major African corridor ports*

Subregions/ports	Dwell-time (days)
Central Africa	
Douala	19
Gabon	15
Congo DRC	6
Eastern Africa	
Djibouti	10
Mombasa	12
Dar es Salaam	15
Southern Africa	
Durban	5
Beira	10
Maputo	10
Western Africa	
Banjul	5
Conakry	15
Dakar	9

**Source:** NEPAD-MLTSF study, 2004.

According to *UNCTAD's Maritime Review for 2006*, the volume of goods loaded and unloaded in African ports is estimated to be 860 million tonnes per year, resulting in about 2.1 per cent of the world's total. Similarly, container ships account for less than 2 per cent of the African merchant fleet, the majority being conventional cargo ships. The shipping lines that service long-distance sea routes consider most of Africa's coastal traffic as a mere subsidiary of their traditional overseas activities.

#### **6.3.2.4 Poor vehicle use and management**

Trade costs also are inflated in Africa by the inefficient use of vehicles and poor management of transport services. Road transport dominates motorized transport in Africa, accounting for 80 per cent of the goods and 90 per cent of the continent's passenger traffic. A 2006 NEPAD study indicated that there were about 20 million public and private road vehicles in Africa, of which Central Africa accounted for 2 per cent; Eastern Africa, 11 per cent; Northern Africa, 9 per cent; Southern Africa, 58 per cent; and West Africa, 21 per cent.

The average age of commercial buses and trucks is 20 years or older, compared with 8 to 12 years for developing countries and less than 10 years for industrialized countries. The combined effect of these poor conditions results in the low utilization

rate of 65,000 kilometres per year, compared with 100,000 kilometres in Asia and 250,000 kilometres in Europe.

The inefficient transport system is caused by the high cost of vehicles, the lack of information about demand, transport cartels, poor operating practices and vehicle maintenance and unnecessarily fast driving. These factors elevate a vehicle's operating costs and reduce its period of use. Transport operators usually transfer the burden of high vehicle operating costs to consumers by raising fares, which raises trade costs. Similarly, operators increase their fares to offset low revenues because of low vehicle utilization.

A study by Lisinge (2004) finds that vehicle operating costs in Africa are significantly higher than elsewhere in the world. Table 6.4 shows that the vehicle operating cost per kilometre for two-axle trucks in the United Republic of Tanzania is 50.1 US cents, substantially higher than the operating costs in Pakistan (21 cents) and Indonesia (19.7 cents). Higher fuel prices, maintenance costs, tire costs and overheads in the United Republic of Tanzania account for the wide margin of difference.

**Table 6.4**

*Estimated composition of operating costs for two-axle trucks (US cents per km)*

	Tanzania	Pakistan	Indonesia
Capital costs	10.6	1.8	2.7
Fuel	15.4	9.3	5.8
Crew	2.7	3.2	3.2
Oil	1.0	1.0	0.7
Maintenance	6.1	2.2	4.3
Tires	7.8	1.1	1.2
Overhead	6.5	2.4	1.8
Total	50.1	21.0	19.7

**Source:** Lisinge (2008).

Frequency of vehicle use is important in determining the burden of a vehicle's capital costs and interest repayments. There is a significant difference between use in Africa and Asia. ECA studies find that the average annual use of two- and three-axle trucks in sub-Saharan countries is about 50,000 kilometres, compared with 80,000 kilometres for Indonesia and 123,000 kilometres in Pakistan.

### **6.3.2.5 High transport cost**

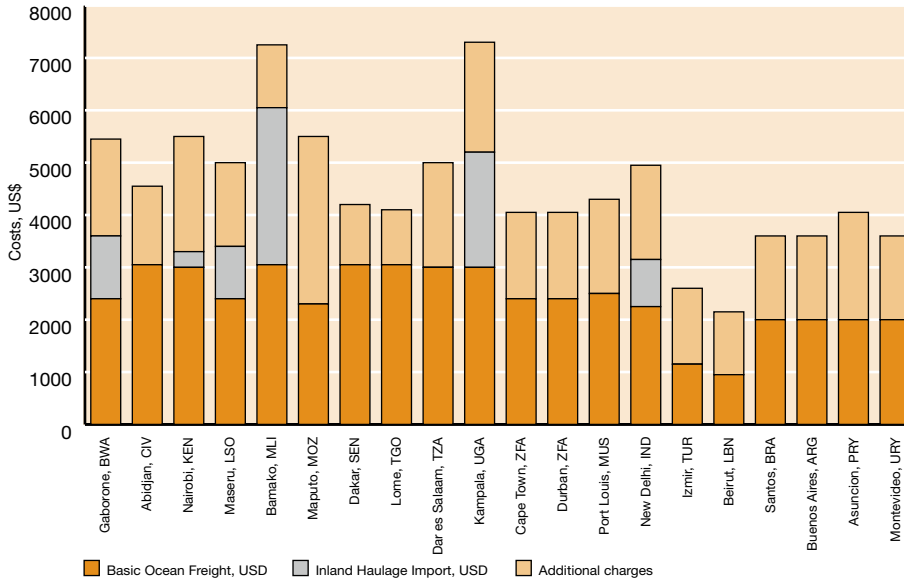
Transport cost is a key component in estimating trade costs. Each kilometre that a product travels requires fuel, labour and capital expenditure. Shipping costs from

African countries to major world markets are comparatively very high. Portugal-Perez and Wilson (2009) have researched the freight costs for a standard 40-foot container transporting textiles (see figures 6.7a and 6.7b). They find that, despite the distance an European port and Rotterdam, freight costs from an European city to Algeciras, Spain and Rotterdam, in the Netherlands, are comparable. Consider Santos and Dakar, the closest South American and African cities in their sample to Algeciras. Although the distance to Santos is about twice the distance to Dakar, Portugal-Perez and Wilson find the cost of ocean freight is lower from the Brazilian city.

The volume of trade is important in determining the costs of maritime transport. Larger trade flows are conducive to scale economies in shipping. Hummels (2006) demonstrates this by examining freight costs for large versus small exporters. He compares transport from Japan and Côte d'Ivoire. These countries are equidistant from the west and east coasts of the United States, respectively. Hummel finds the shipping costs from Côte d'Ivoire to be twice as high as shipping costs from Japan. This is true even after adjusting for differences in the commodity composition of trade. Hummels and Skiba (2004) also find that economies of scale matter in international trade. They estimate that doubling trade quantities leads to a 12 per cent reduction in shipping costs. Arvis, Raballand and Marteau (2007) argue that shipping lines tend to set higher tariffs in smaller ports with less traffic. Using an example for the exportation of fruits and vegetables from south Mauritania, Arvis et al. (2007) find that because of maritime transport price differentials, exports are processed in the Dakar port in Senegal, rather than in Nouakchott, despite the border crossing costs and longer distance to market for these products.

**Figure 6.7a**

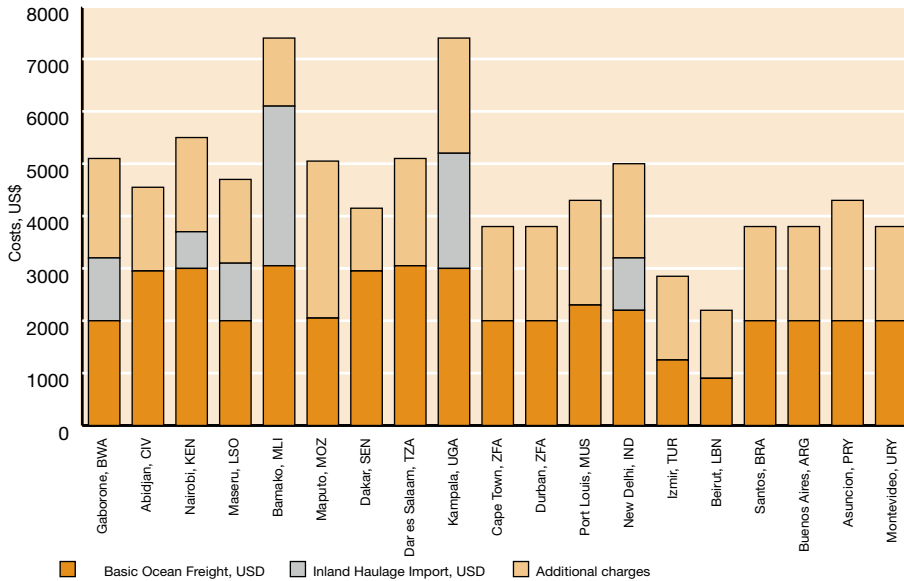
*Transport costs from selected cities to Rotterdam, The Netherlands*



Source: Portugal-Perez and Wilson (2009).

**Figure 6.7b**

*Transport costs from selected cities to Algeiras, Spain*



Source: Portugal-Perez and Wilson (2009).

Limao and Venables (2000) find that poor infrastructure contributes to high transport costs and blocks trade expansion. This conclusion is supported by Buys, Deich-

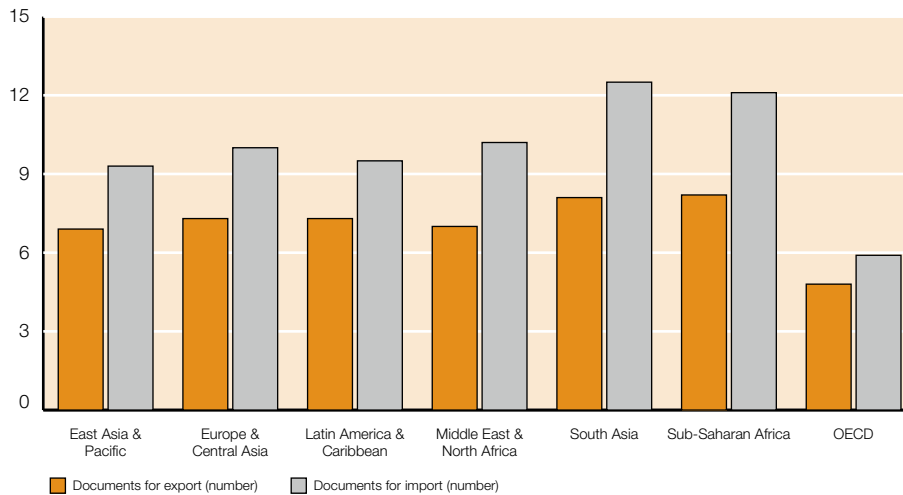
mann and Wheeler (2006), who examined the potential benefits of investing in upgrading and maintaining a trans-African highway network. This network would link 83 major cities across 100,000 kilometres, and the benefits are estimated to be enormous. Buys et al. estimate that intra-African trade would increase from US\$ 10 billion to about US\$ 30 billion per year when the trans-African highway is fully functional, while initial investments and annual maintenance costs would be relatively moderate over the course of the investment cycle. They suggest that upgrading the road from Bangui in the Central African Republic to Kisangani in Democratic Republic of the Congo is expected to increase the volume of trade by about 8 per cent.

As noted above, trade costs for landlocked countries in Africa are very high because of transport costs. To access overseas markets, Africa relies on the physical infrastructure, logistical capacity, administrative practices and political stability of transit countries. As for African landlocked countries, depending on a transit country implies higher transaction costs. Limao and Venables (2000) find that the median landlocked country's transport costs are about 46 per cent higher than those of a median coastal economy. They also find that distance explains only 10 per cent of the difference. They observe that poor road infrastructure accounts for 40 per cent of the transport costs in coastal countries and 60 per cent for landlocked countries, which is more relevant for African countries, where these costs seem particularly high because of location and poor infrastructure.

### ***6.3.2.6 Cumbersome customs procedures***

An efficient customs administration contributes significantly to reducing trade costs. Customs officials are responsible for implementing a country's trade policy at the border by levying tariff duties, verifying that imported goods conform to regulatory requirements and preventing the importation of prohibited or unsafe materials. Hence, unwarranted delays in customs clearance elevate trade costs, because firms could potentially lose contracts with importers, and they also add higher storage fees at the port of entry. Djankov, Freund and Pham (2009) estimate that each day of delay at customs is the equivalent of adding 85 kilometres between a country and its trading partners. Thus, keeping customs procedures as simple as possible saves time and money.



**Figure 6.8****Number of exports and imports procedures**

**Source:** Portugal-Perez and Wilson (2009).

A World Bank study reported in Portugal-Perez and Wilson (2009) shows that southern Asia has the highest number of export and import procedures, closely followed by Sub-Saharan Africa (see figure 6.8). The study examines reports of procedural requirements for exporting and importing a standardized cargo of goods by sea.

Lisinge (2004) argues that customs inefficiencies hinder the integration of developing countries into the global economy and potentially severely impairs import-export competitiveness and inflows of FDI. These inefficiencies include excessive documentation requirements; outdated procedures; insufficient automated systems; a lack of transparency, predictability or consistency in customs activities; and inadequate modernization of, and cooperation among, customs and other governmental agencies.

Surveys conducted for this report with border officials find that an average customs transaction in Africa involves 20 to 30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and the rekeying of 60 to 70 per cent of all data at least once. Moreover, most of the documentation requirements are not properly defined, and traders are not adequately informed on how to comply with them, which increases delays from errors in filling out the forms correctly. The problem worsens at borders, especially because border posts and customs offices, in most cases, are physically separated. There are effectively two complete sets of controls for each border post, each having a multitude of forms and documents to be completed and checked.

Most customs procedures are not automated. Paper documents are usually presented at the time of border crossing, and verification of the information submitted takes place at that time. Lisinge (2004) finds that African countries that use information technology at border crossings cut down delays and improve revenue collection.

Customs authorities in most African countries are opaque and unpredictable. Trade operators must spend extra time and money searching for information. Firms frequently have to pay for bribes, penalties and administrative or judicial appeals. Given that these expenses do not vary according to the value of the goods or the volume of sales, they increase the operational costs per unit and thus put African firms in a much weaker position than their international counterparts.

An ECA survey finds customs departments in Africa and related government agencies to be inefficiently structured. Most lack adequate physical infrastructure, training and education; have poor staff remuneration and lack coordination and cooperation between customs administrations and customs and tax administrations. In addition to the challenge of reducing corruption and bureaucracy, the current stringent security procedures introduced after 9/11 for goods flowing into developed economies pose new and serious challenges to African customs administrations.

**Table 6.5**  
*Delays at selected border posts in Southern Africa*

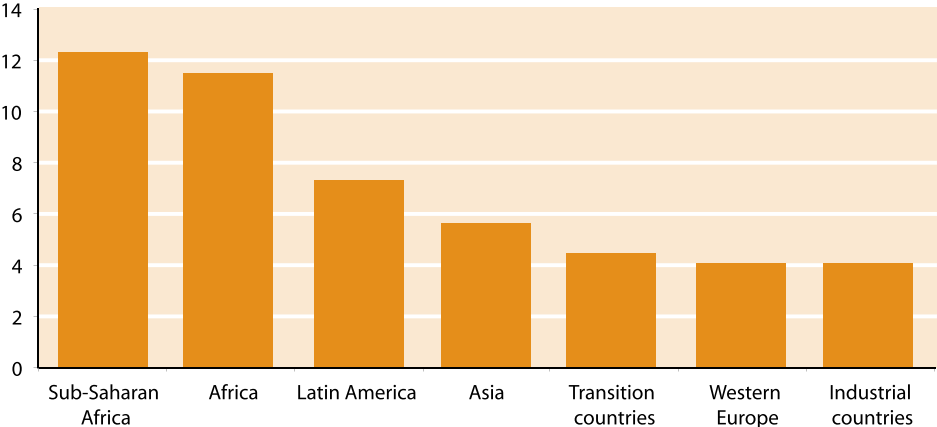
Corridor	Border post	Countries	Estimated border delay (hours)
Beira	Machipanda	Mozambique and Zimbabwe	24
	Zobue	Mozambique and Malawi	24
	Mutare	Mozambique and Zimbabwe	26
Maputo	Ressano Garcia	South Africa and Mozambique	6
	Namaacha	Swaziland and Mozambique	4
North-South	Beitbridge	South Africa and Zimbabwe	36
	Chirundu	Zimbabwe and Zambia	24
	Victoria falls	Zimbabwe and Zambia	36
	Martins Drift	South Africa and Botswana	6
Trans-Capriivi	Kazungula	Botswana and Zambia	21
Trans-Kalahari	Buitepos	Namibia and Botswana	6
	Pioneer Gate	Botswana and South Africa	4
Tanzam	Nakonde	Zambia and Tanzania	17

**Source:** Lisinge (2004).

Long delays at customs and border posts also raise the cost of trade in Africa. As table 6.5 shows, an enormous amount of time is wasted at border posts in some African countries. Traders have to wait at most border posts for more than 24 hours to cross. At both the South Africa–Zimbabwe border post at Beitbridge and the Zimbabwe–Zambia border post at Victoria Falls, the estimated wait time is around 36 hours.

In East Africa, long delays are recorded for transporting goods along the Djibouti–Ethiopia corridor. The process of clearing and transporting commercial goods in transit from the port of Djibouti to Addis Ababa often takes more than 20 days.

**Figure 6.9**  
*Comparative customs delays in days, by region and country*



Source: Lisinge (2004).

Lisinge (2004) finds that African customs delays are, on average, longer than those of the rest of the world: 12 days in countries south of the Sahara compared with 7 days in Latin America, 5.5 days in Central and East Asia, and slightly more than 4 days in Central and East Europe. These figures indicate that even if African firms produce goods at the same cost as those made in developed economies, the delays at the border crossings and consequently higher trade costs place them at a disadvantage.

**6.3.2.7 Roadblocks**

Adding to these difficulties are the frequent unwarranted road blocks on African highways, which cause delays and increase costs. In Cameroon, one could find 47 roadblocks between Douala and Bertoua, a distance of about 500 kilometres. As table 6.6 shows, nearly all ECOWAS member states have erected numerous checkpoints where drivers are subjected to unnecessary administrative harassments and extortions.

**Table 6.6**  
**Checkpoints on selected West African highways**

Highways	Distance (km)	Number of checkpoints	Checkpoints per 100 km
Tema-Ouagadougou	962	25	2.6
Ouagadougou-Bamako	910	19	2.09
Lomé-Ouagadougou	1036	23	2.22
Cotonou-Niamey	1036	34	3.28
Abidjan-Ouagadougou	1122	37	3.30
Niamey-Ouagadougou	529	20	3.78

**Source:** ECA.

An ECA survey indicates that payments at checkpoints include taxes, transit charges and bribes. Payments tend to depend on the type of vehicle, the type of goods transported and whether the transporter is a country national. Those engaged in rent-seeking activities may include the police, customs officers or *gendarmes*. While some of these checkpoints are legal, others are not. Some of the goods are diverted from their intended destinations. In some cases, containers are looted directly from the truck or train on which they are being transported.

The loss of time and increase in operating costs because of roadblocks are considerable. In theory, the trip from Bangui in the Central African Republic to Douala in Cameroon should take three days, but often takes between seven and ten. An enormous amount of time and money are wasted each year at checkpoints, resulting in a heavy loss of revenue.

### **6.3.2.8 Product standards and technical regulations**

International trading rules require that traded goods meet certain minimum standards and technical regulations. But these product standards and regulations can also affect trade costs, because meeting them requires additional costs to exporters who must alter their processes to adapt products to the importing country's regulations. The costs could increase if the exporter is dealing with multiple markets that have different standards and requirements. However, product standards and technical regulations in the importing country can reduce exporter's information costs if they convey valuable and clear information about consumer demands or industry needs in the importing country. In the absence of standards, such information would be costly for the exporting firm to collect. Accordingly, standardization in sectors where information costs are important could help reduce trade costs and promote trade.

Portugal-Perez and Wilson (2009) demonstrate that the net impact of product standards on trade depends on the relative magnitude of the effects. They review

the empirical literature and find that the evidence on the impact of standards is very limited. This is due primarily to the lack of reliable data and the challenge of constructing comprehensive indicators on standards in different sectors across countries. However, for example, Otsuki, Wilson and Sewadeh (2001) examine the impact of European aflatoxin standards on African groundnut exports and find that tightening standards and regulations by 10 per cent results in a drop in trade volume by about 11 per cent. Using data on WTO notifications of mandatory sanitary and phytosanitary measures and technical regulations to measure the impact of standards across many sectors, Disdier, Fontagne and Mimouni (2007) find that standards are associated with negative trade impacts, in particular for exports from developing countries to OECD countries.

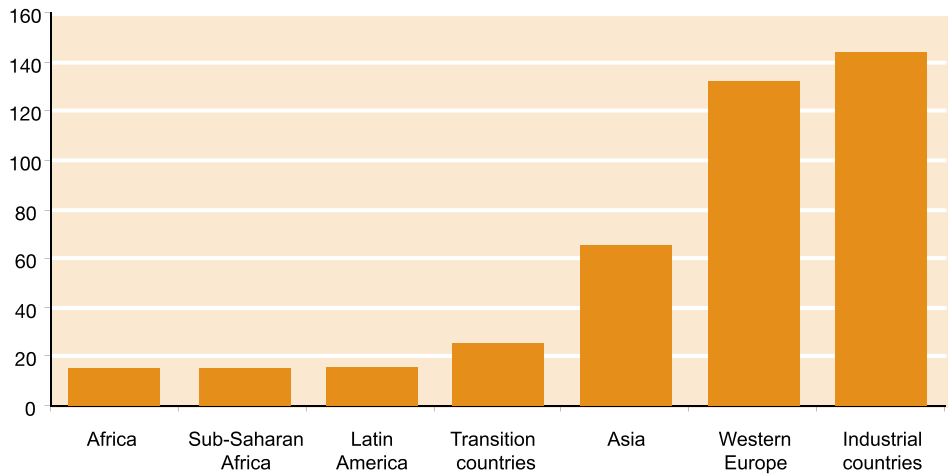
On the other hand, standards may have a positive net impact on trade. Moenius (2004) finds that country-specific standards tend to promote trade in the manufacturing sector. But the opposite result holds for homogeneous goods such as agricultural products. This could be consistent with the interpretation that higher information costs in manufactures can be surmounted by better standards.

The analysis presented here suggests that trade costs associated with standards can be reduced by a concerted effort to harmonize standards internationally. This can limit exporters' need to alter products to meet multiple standards for different markets. Czubala, Shepherd and Wilson (2007) examine the impact of EU standards on African textiles and clothing exports. By identifying standards aligned with those of the International Organization for Standardization (ISO) as a proxy for de facto international norms, the authors find evidence that non-harmonized standards reduce African exports. On the hand, Czubala et al. find that EU standards harmonized to ISO standards are less trade-restrictive. These results indicate that efforts to promote the export of African manufacturing goods must be complemented by measures to reduce the cost of product standards. African countries may have to consider harmonizing national standards with international norms through the WTO's Technical Barriers to Trade Agreement. Such a measure could potentially reap benefits for African exporters.

### **6.3.2.9 Information and communication costs**

Despite encouraging developments in some countries, Africa on the whole lags behind others in the use of modern information technology in domestic and international trade. Telecommunications services are inadequate, inefficient and very expensive. Mobile cellular phone use is limited, prohibitively expensive and non-existent in rural Africa. Moreover, as indicated in figure 6.10, Africa also has the lowest internet diffusion in the world

**Figure 6.10**  
*Internet diffusion worldwide (users per 1,000 population)*



**Source:** *World development indicators (2007).*

The lack of information and communication technologies (ICTs) at most African borders increases the cost of trade. Recent studies reveal the importance of ICTs in determining international trade costs. Limao and Venables (2000) examine their impact on bilateral trade by including a measure of telecommunications development (the number of mainlines) in their indices of infrastructure quality and find that infrastructure quality has a positive effect on trade. Francois and Manchin (2007) find similar results, but they broaden their measure of the quality of infrastructure to include the level of mobile telephone usage. These results support the view that communications costs are an important component of trade costs, and therefore, improvements to the quality infrastructure, including communications infrastructure quality, contribute to reducing trade costs and consequently increase trade.

The studies above show that expanded internet use lowers the costs of trading internationally. It is now much easier, and cheaper, to obtain information on foreign market conditions, product standards and consumer preferences on the internet. This should lower the costs of entering foreign markets and promote trade at the margin. Freund and Weinhold (2004) find that a 10 per cent increase in the number of a country's Web hosts is associated with an export gain of around 0.2 per cent.

Thanks to significant improvement in ICTs, a large portion of world trade is done via the internet or by e-commerce. However, Africa has yet to participate fully in the latter. ECA studies identified the following barriers to e-commerce on the continent:

- African infrastructure is not sufficiently e-commerce friendly. The physical infrastructure is inadequate, the electronic transaction infrastructure is deficient and the legal and regulatory framework is undeveloped.; and
- The African e-commerce environment is not supportive. The level of awareness of e-commerce is not high enough, African entrepreneurs need to be trained to use the internet for business, and African internet-support professionals need training.

Telecommunications in Africa are expensive but of poor quality. As a result, businesses are less competitive and lack current information on prices of goods, services and shipments. They also incur all the costs of the unnecessary delays at ports and border posts.

### ***6.3.2.10 Inadequate payment mechanisms***

The financial systems in most African countries lag substantially behind those in other regions of the world. They suffer from inefficient and cumbersome payment and credit arrangements, costly insurance and customs security fees and weak payments systems. These poor facilities impede trade within and outside the continent.

A variety of payment methods are used in international sales transactions, depending mainly on the relationship between seller and buyer. Based on their relationship and common understanding, an exporter and an importer may transact business on trust. The exporter, in this case, may periodically send invoices to the importer for settlement at a later agreed date. Payment may also be made by other methods, such as “cash with order,” in which an importer sends a cheque or a bank draft, or “documentary credit,” to an exporter before the goods are delivered. Both types of payments have to be supported by an efficient banking system, which needs improvement in Africa.

Lisinge (2004) finds that the documentary credit payment system is the most popular international system on the continent, but it is hampered by cumbersome and complex procedures. The system involves a series of checks in which the movement of goods from exporter to importer are closely monitored and payments go through only when the importer is in possession of the goods. The process is very time-consuming, requires documents to be physically transferred between different banking establishments in two different countries and is badly managed. Indeed, it has been reported that half of all requests for payment are rejected on the grounds of documentary inconsistencies. The system also is open to fraud.

Tamirisa (1999) finds that restrictions on the payment system, transfers (exchange controls) or capital account transactions are equivalent to non-tariff barriers and therefore increase trade costs. The impact of capital controls is stringent on develop-

ing countries, as they tend to make trade less competitive limit business opportunities for hedging foreign-exchange risks, financing trade and managing assets and liabilities. Exchange controls contribute to reducing trade by rationing the foreign exchange available for transactions.

African trade insurance fees are exceptionally high compared with those of other continents. This also contributes to the high cost of trade. On average, insurance fees equal about 2 per cent of the value of trade and represent approximately 15 per cent of total maritime charges. In Africa, where some countries experience political instability and poor infrastructure and great distances separate them from their international markets, high average insurance premiums are common.

#### ***6.3.2.11 Costs associated with preferential trade: rules of origin***

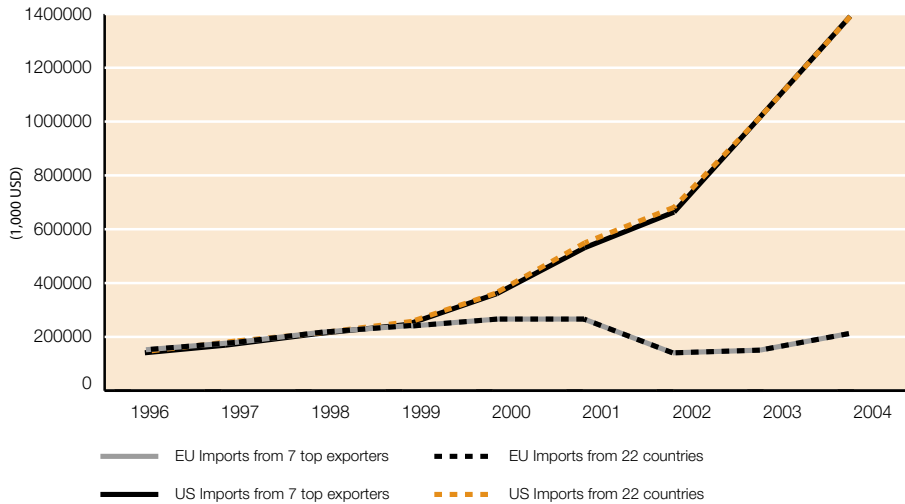
A number of African countries have trade agreements allowing them to export to African countries and developed countries on a preferential basis. To benefit from enhanced market access through a lower preferential tariff, countries would have to comply with rules of origin. The primary purpose of rules of origin in such agreements is to prevent trade deflection. This may occur if a beneficiary country, with most-favoured-nation tariff status, imports a product and re-exports it at a profit. However, partner countries could apply the rules to raise costs and restrict trade beyond what is necessary to prevent trade deflection. Cadot, de Melo and Portugal-Perez (2007) demonstrate that compliance costs could be between 5 and 8 per cent for preferences, which include African countries.

African countries enjoy asymmetric preferential trade status in the export of textiles. The textile sector is important for Africa, and it is eligible for trade preferences in the United States and the EU. The US provides an asymmetric preferential access for Africa's apparel to the US market under the African Growth and Opportunity Act (AGOA) while the EU's preferential regimes are under the Everything But Arms (EBA) and the Cotonou Agreement. These agreements differ, however, in their application of rules of origin. Under the EBA initiative and the Cotonou Agreement, African producers would be required to weave the cotton yarn into fabric and then make it up into apparel in the same country or in a country qualifying for cumulation. However, the AGOA grants a "Special Rule" (SR) to "lesser developed countries," allowing them the use of fabric from any origin to meet the criteria for preferences.



**Figure 6.11**

*Apparel exports of 22 countries benefiting from AGOA-SR by 2004<sup>16</sup>*



**Source:** Portugal-Perez and Wilson (2009).

Figure 6.11 shows a substantial increase in the value of apparel exports with AGOA's adoption in 2000. As Portugal-Perez and Wilson (2009) indicate, the AGOA's special regime offers a preference mix (tariff preferences and rules of origin) conducive to export growth to African countries than either the Cotonou Agreement or the EBA initiative. Comparing African apparel exports with the EU and the US provides an opportunity to analyze the effects of rules of origin on the uptake of trade preferences. De Melo and Portugal-Perez (2008) find evidence that relaxing rules of origin by allowing the use of fabric from any origin increased apparel exports by about 300 per cent for the top seven beneficiaries of AGOA's SR, while broadening the kinds of apparel exported by these countries.

Although these studies indicate that relaxing rules of origin will boost trade, arguments in favour of observing strict rules do exist. Portugal-Perez and Wilson (2009) indicate that proponents suggest that such strict rules are justified to support more processing in developing countries by encouraging integrated production within a country or within groups of countries through cumulation schemes. But as sound as this argument may be, rules of origin can have a negative effect, because they discourage developing country exports at both the intensive and extensive margin

<sup>16</sup> Note that the 22 African countries benefiting from AGOA-SR by 2004 and ACP are Benin, Botswana, Cameroon, Cape Verde, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mozambique, Namibia, the Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Swaziland, the United Republic of Tanzania, Uganda and Zambia. As Portugal-Perez (2008) points out, the top seven exporters are Botswana, Kenya, Lesotho, Madagascar, Namibia, Nigeria and Swaziland.

through product diversification. In sum, developing countries would benefit from relaxing the stringency of rules of origin requirements.

In their review of the literature, Cadot and de Melo (2008) show that recent research demonstrates the current system of trade preferences granted by developed countries to African countries is undermined by the current rules of origin. Rules of origin have a legitimate justification in preventing trade deflection, but the evidence shows that these rules have largely been captured by protectionist groups and hinder the integration of preference-receiving developing countries in the world economy. Portugal-Perez and Wilson call for simplification of rules to reduce compliance costs. The reform should include harmonizing rules of origin for a single good in preferential agreements into one. The WTO could facilitate this process across preferential trade agreements.

## **6.4. Regional initiatives**

Africa's RECs increasingly regard measures to facilitate trade as essential to assist their member countries and the continent expand trade and benefit from globalization. To this end, RECs are pursuing programmes meant to simplify and harmonize trade procedures required for the movement of goods in their subregions. These procedures are constantly being expanded to include technical barriers to trade (TBT), competition policy, government procurement and general transparency. This section covers some of the efforts RECs and corridor management organizations are taking to improve trade facilitation on the continent.

### **6.4.1 Trade in SADC**

SADC launched its Free Trade Area (FTA) in 2008, which involves the elimination of tariffs and non-tariff barriers. Its agenda aims at gradual implementation of an FTA with 85 per cent liberalization by 2009 and 100 per cent by 2012. SADC's integration agenda includes plans to adopt a customs union by 2010, which includes establishing a common external tariff (CET) and harmonizing customs union-related trade policies and customs management. SADC also plans to attain a common market by 2015 and a monetary union by 2018.

SADC trade facilitation initiatives are driven by the goal of transforming the region as the first choice for investment in the continent. To achieve the goal, SADC sets benchmarks for itself following international trade conventions and standards and is guided by regional expectations. Trade facilitation activities in SADC involve both "hard" and "soft" issues. The soft issues include:

- Simplifying and harmonizing overly complex customs clearance procedures;
- Granting freedom of transit to traverse member States;
- Minimizing or eliminating potential non-tariff barriers;
- Building capacity; and
- Using information technology as a strategic resource.

The SADC Model Customs Act is the framework member states use for harmonizing customs laws. Through it SADC developed and adopted a common tariff nomenclature in August 2005, which member States use for goods flowing through the zone. To strengthen trade facilitation, SADC has harmonized customs declaration forms from its member States with a Customs Single Administrative document. It also has a regional transit management system based on the single customs declaration and single transit bond guarantee. SADC also is developing a Web-based NTB monitoring and elimination system as well as customs information technology system connectivity and data interchange.

To strengthen its trade facilitation initiatives, SADC supports its member countries with capacity-building and information-management programmes, including one designed to develop regional customs training modules for customs officials. The training modules are meant to standardize training curricula and improve the technical capacity of customs administrations in the member countries. These efforts have trained senior customs officials, educated key stakeholders, including the private sector, and engaged the media in publicizing SADC trade programmes.

To diminish waiting time at the borders, SADC has adopted initiatives to establish regional “one-stop border posts.” In collaboration with COMESA, it recently inaugurated a single post at Chirundu, along the border between Zambia and Zimbabwe. Other single border posts are planned for the towns of Russono Garcia-Libombo; Beitbridge; Nakonde/Tunduma; Kasumbalesa; Kazungula; the Forbes/Machipanda border and the border of Namibia/Angola.

Despite SADC’s tremendous progress, it still faces a number of challenges, including:

- The slow implementation of agreed instruments/positions/protocols by member States;
- Parallel programmes due to the overlapping membership of member States in other RECs and the divergence of national programmes from regional programmes;
- Varying customs IT systems;
- The resurgence of non-tariff barriers;

- Poor roads and railway infrastructure;
- Border posts unable to cope with increased traffic;
- Expensive wide area network (WAN) infrastructure;
- Member States' limited financial and physical resources to implement programmes; and
- Inadequate industrialization.

SADC has taken initiatives to address these issues, and is using the framework of the COMESA-EAC-SADC tripartite arrangements to support its efforts.

### **6.4.2 Trade in COMESA**

COMESA has introduced comprehensive trade facilitation programmes, which not only seek to remove tariff and non-tariff barriers but also take many steps to simplify trade and lower the cost of doing business. By doing so, COMESA aims to promote competitiveness in regional and global markets and has taken a number of important steps:

- Harmonized road traffic charges were introduced in 1991 and implemented in at least 15 of the member States;
- Harmonized axle load limits are operational in 16 countries.;
- Carrier license and transit plates have been required in most member countries since 1998.;
- Road transit custom declaration documents have been operating since 1986.;
- An advanced cargo information system was developed, which tracks the movement of cargo and transport equipment through ports, railways, roads and lakes.;
- A vehicle insurance scheme /plan was developed known as a yellow-card scheme, that covers third-party liability and medical expenses and is operational in 12 countries.;
- A customs-bond guarantee scheme/plan was developed to eliminate unnecessary administrative and financial costs associated with national customs-bond guarantees for transit traffic.;
- An automated system for customs data and management (ASYCUDA) was put in place which records manifests, customs declarations, customs accounting procedures, examination controls, warehousing, import and export licenses and permits and foreign trade processing procedures. It also clears goods through customs faster and generates accurate, reliable and timely trade and customs revenue statistics.;

- A uniform system of classification of goods was developed.;
- Common statistical rules and regulations were adopted, which ensure systematic comprehensive collection, compilation, analysis and production of foreign trade statistics. EUROTRACE uses foreign trade statistics generated by ASYCUDA for these purposes;
- Trade documents and procedures were simplified and harmonized. The COMESA customs declaration document is used for clearance of exports, imports, transit and warehousing, replacing all declaration forms being used by member States.;
- Common competition rules were established and technical norms and certification procedures were harmonized;
- Trade information services are being established to facilitate trade through computerized databases, directories, inquiries and monthly bulletins. Its capacity is being expanded and its services consolidated for regional networking.;
- Trade support services have been developed to strengthen business organizations such as the Eastern and Southern African Business Organization, chambers of commerce and other trade promotion and business advisory groups.

COMESA also has taken steps to remove NTBs. It is difficult to verify the level of performance of the REC countries in the removal of these barriers because they cover a wide range of trade-retarding policies and activities, most of which are not directly measurable. Such NTBs include deliberate stalling in issuing customs clearance papers by rent-seeking customs personnel, the mounting of unofficial, hence illegal, road blocks at which cross-border traders are harassed. One reason for the difficulty in capturing this performance is that, unlike tariffs, data on NTBs are often not comprehensively published, even at the national level.

ECA research finds that despite efforts to have them removed, a number of NTBs continue to affect trade flows in COMESA.<sup>17</sup> This implies that there is still much for the secretariat to do to enforce country compliance with the COMESA trade protocol (and important GATT rule) on intra-COMESA trade liberalization. NTBs identified in Kenya, Uganda, the United Republic of Tanzania and Zambia are listed in table 6.6. With the launch of its customs union in 2009, the COMESA Secretariat is doubling its efforts to remove all NTBs.

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17 See *ARIA I* and Lisinge (2006).

**Table 6.6**  
**COMESA: Reduction of NTBs, performance indicator**

	NTB Elimination
Target	Quantitative restriction (QRs), import/export licensing, foreign-exchange licensing, import source stipulation, import prohibition, import deposit, charge on foreign exchange
Djibouti	Claimed to have eliminated all target NTBs
Ethiopia	Claimed to have eliminated all NTBs
Kenya	Kenya study noted existence of (QRs), import bans, charges, cumbersome duty drawback, roadblocks, personnel integrity and administrative charges.
Sudan	Claimed to have eliminated all NTBs; COMESA undertaking study.
Uganda	Existence of some level of border charges, physical, technical and immigration restrictions as well as those related to national policies and laws remains.
Zambia	Existence of some level of restrictions related to national policies, road access and inspection delays remains.

### 6.4.3 Trade in the EAC

With the exception of the United Republic of Tanzania, the EAC's five member countries also belong to COMESA. Hence, EAC applies many of COMESA's trade facilitation and promotion measures. EAC also has developed a protocol for cooperation on standardization, quality assurance, metrology and testing. It supplements COMESA's measures with a regional database of trade and investment opportunities, laying the groundwork for a regional investment promotion centre.

EAC also has developed a comprehensive plan to strengthen the role of the private sector and associated bodies such as the East African Business Council. A central aspect of this plan involves adopting a common competition policy to promote investment and community development. The collective regulatory framework will also cover harmonized principles to govern incentives and promote domestic and foreign investment.

## 6.5 Cooperation among the RECs

Given their overlapping memberships, COMESA, SADC and the EAC established a task force in 2001 to devise programmes to harmonize the three REC's trade-related initiatives.

The task force's activities include streamlining trade and transport instruments through harmonizing road user charges; creating a regional third-party vehicle insurance plan; agreeing on axle loads and vehicle dimensions; preventing vehicle over-

load; controlling the transport of hazardous substances; creating a single customs document for third-party insurance and coordinating regional carrier's licenses and customs bond guarantee systems. The RECs also are cooperating on rules of origin; customs valuation; customs declaration documents; customs best practices, FTA tariff elimination timeframes; common tariff nomenclature; non-tariff barriers and sanitary and phytosanitary measures, among other measures.

This work was initiated during the tri-partite summit decision of the three RECs in Kampala, Uganda. The next sections review some of the task force's programmes.

### **6.5.1 Rules of origin**

Although the rules of origin are similar between COMESA and EAC, SADC uses different criteria. Nevertheless the rules are being streamlined. The RECs have agreed to:

- Commission a joint study on rules of origin focusing on the objectives of origin-conferring criteria;
- Harmonize documentation and procedures relating to the administration of rules of origin; and
- Review cumulation provisions to enable sourcing of materials among the three RECs and use the negotiations on the EPA with EU to harmonize rules of origin.

### **6.5.2 Customs declaration documents**

Differences still exist among the three RECs' customs declaration documents, with COMESA and SADC using their own respective documents and the EAC using the SADC. COMESA is currently revising the CD under the ASYCUDA project, taking into account the SADC CD. The SADC CD has been rolled out, as most SADC member States have now adopted ASYCUDA++. The EAC has harmonized all customs documentation under the Customs Management Act, although Uganda and the United Republic of Tanzania are using ASYCUDA++ and Kenya is using SIMBA. There is agreement to streamline and harmonize the individual REC's single customs documents into a common document.

### **6.5.3 Common tariff nomenclature**

Each REC has adopted the HS2007 classification at eight-digits for the customs nomenclature. Some COMESA member States have migrated to HS2007. COMESA also is revising its categorization to include the Broad Economic Categorization but will maintain the 4-band structure of the CET. Some SADC states have migrated to

HS2007 and a blueprint for categorization was ready for consideration by member States. EAC adopted HS2002 at the eight-digit level and migrated to HS2007 in July 2007. Clearly, the three organizations should harmonize their nomenclatures and use the same templates to categorize products.

#### **6.5.4 Non-tariff barriers (NTBs)**

NTBs continue to impede trade in all three zones, and the entire sub-region needs collaborative mechanisms that will eliminate such barriers to trade. Some measures are being put in place. COMESA is establishing a Web-based NTB reporting-and-monitoring mechanism and has a dedicated NTB focal point at the Secretariat. COMESA has introduced a NTB to deter member States from imposing NTBs. SADC has completed the NTB update and developed a draft action plan to eliminate NTBs. EAC Article 13 of the Customs Union Protocol prohibits the imposition of NTBs. The EAC Secretariat and the private sector have developed a monitoring mechanism that establishes one regional and several national monitoring committees.

#### **6.5.5 Sanitary and phytosanitary (SPS) measures**

Each of the RECs has initiatives on SPS. With the support of the African Development Bank, COMESA has developed the Agricultural Marketing Promotion and Regional Integration (AMPRIP) programme, which trains SPS experts, establishes regional reference laboratories and develops an SPS protocol for the region. SADC has developed a draft annex on SPS to the trade protocol. The EAC has developed SPS procedures for key agricultural products and is working with the United Nations Industrial Development Organization (UNIDO) to raise the capacity of EAC exporters into major export markets of interest. Collaboration is required to set up reference laboratories, develop a common database on diseases, pests and other SPS issues and to develop an early-warning system to monitor and control pests and diseases.

#### **6.5.6 Standards**

The three RECs are working separately to develop standards. COMESA has 300 harmonized standards and is working on technical regulations. With member States, they also are developing a regional certification plan intended to recognize national standards. SADC has 63 regionally harmonized standards, while the EAC has 670 regionally harmonized standards. The EAC enacted a Standards, Quality, Metrology and Testing (SQMT) Act in 2006. It is developing regulations and establishing an institutional framework to implement the Act.



To avoid duplicating efforts and optimize their resources, the three RECs should work with national standards groups of member States to develop a regional framework for co-operation and convene a joint meeting of SQAM/SQMT experts to develop harmonization programmes.

### **6.5.7 Road user charges**

In adopting the user pays principle, the three RECs agreed to harmonize a road user charges framework based on existing practices. The framework will consolidate charges and develop a constitution for a regional cross-boarder road user charges collection association (RUCC); develop detailed implementation plans per country; deposit and transmit copies of the instrument of ratification; and implement rationalized charges.

### **6.5.8 Regional third-party vehicle insurance plan (yellow card)**

In Southern Africa, there are three different systems of payment for third-party motor vehicle insurance: fuel levy, cash payment and the yellow card. SADC is conducting a study to design an interfaced third-party insurance plan, taking into account the success of COMESA's yellow card plan, which had extra-territorial provisions. The task force nominated the SADC to take the lead in harmonizing the schemes.

### **6.5.9 Harmonized axle loads and vehicle dimensions**

Discrepancies exist in the RECs axle load limits and vehicle dimensions at both national and sub-regional levels, due partly to different design pavement standards. Initiatives are already under way in SADC to address this issue, reach consensus and define common standards for the three RECs.

### **6.5.10 Vehicle overload control**

The three RECs have realized the need to accelerate the implementation of the overload control programme along the corridor. This will be undertaken through the development of guidelines which are based on streamlining existing protocols; worldwide experiences and best practices; and prevailing best practice in Eastern and Southern Africa. Guidelines on procurement, installation, operation and management of weigh bridges also have been developed. Training programmes are at both national and sub-regional levels are expected to be organized to ensure effective dis-

semination of the guidelines. SADC, COMESA and UNECA are the lead committees to execute this programme.

### **6.5.11 One-stop border posts**

The three RECs have launched the Chirundu and Malaba border posts. Following the successful launch of the one at Chirundu, the three RECs are attempting to create a one-stop border post concept for the entire region.

## **6.6 Conclusion**

This chapter has demonstrated that high trade costs prevent the full realization of gains to be made from expanding global trade opportunities. Africa's high trade transaction costs have put the continent at a disadvantage with respect to the rest of the world in taking part in global trade. Decisive action is needed to lower trade costs and facilitate trade in Africa.

The present chapter also has shown that high trade costs affect Africa's level of poverty because of their negative impact on trade. Farmers who can better support high-yield export crops are on average better off than subsistence farmers. High trade costs in Africa prevent farmers from producing major export crops. That is why the suggestion by Portugal-Perez and Wilson (2009) that policies are needed to reduce trade costs and encourage marketing activities in rural areas is on point. Such policies can be useful to facilitate exports and reduce poverty. These could include expanding road networks, access to marketing information, and measures to promote the development of market arrangements.

In the literature there is ample evidence that improved trade facilitation can:

- Significantly lower trade costs and reduce time;
- Increase the volume of trade imports and exports even more than might be gained directly from trade policy reform;
- Allow for increases in government revenue and collection efficiency; and
- Contribute to welfare improvements and economic growth.

These benefits, of course, have to be weighed against the cost of implementing the improvements required to achieve the appropriate level of reform. Here too there is empirical and case study evidence that the benefits are likely to exceed the costs (although financially constrained developing countries may still require aid and external assistance to meet these costs).

Facilitating trade in Africa is relevant to regional integration for a number of reasons. First, reducing the costs of trade will stimulate increased trade, particularly among landlocked countries. Second, it supports regional integration, because many of the measures relate to cross-border procedures. Third, measures related to customs procedures tend to increase the efficiency of revenue collection and are therefore typically associated with increases in revenue.

There are also important benefits to be had from the clearance of imported goods through customs, borders and ports in less time and at lower cost, and export producers also gain from having access to cheaper and more timely imported intermediate and capital goods. Furthermore, for landlocked countries (or small islands whose trade may be shipped through a larger neighbour), the cheaper and more rapid transit of goods through adjacent countries will stimulate exports. Such benefits are more likely to be achieved at a relatively lower cost if trade facilitation measures are incorporated into regional agreements.

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# The Development of Trade Transit Corridors in Africa's Landlocked Countries

## 7.1 Introduction

Africa comprises 15 landlocked countries that face very specific challenges. Botswana, Burkina Faso, Burundi, Chad, Central African Republic, Ethiopia, Lesotho, Malawi, Mali, the Niger, Rwanda, Swaziland, Uganda, Zambia and Zimbabwe all lack maritime access and, are isolated from the world markets and suffer high transit costs, which seriously constrain their overall socioeconomic development.

Landlocked developing countries are among the poorest of the developing countries. Moreover, out of 30 of the world's landlocked developing countries, 16 are classified as the least developed. ECA research finds that, on average, transport costs for these countries are as high as 77 per cent of the value of exports. With the exception of Botswana, Uganda and Swaziland (which are middle-income countries), the countries listed above are classified as least-developed countries (LDC).

Remoteness from major world markets is the principal reason why many African landlocked developing countries have been unsuccessful in mitigating the consequences of their geographical handicap. Compared with those in Africa, landlocked developed countries of Europe are surrounded by economically developed markets, and their maritime trade accounts for a relatively small part of their external trade. They export mainly high-value-added products, and their distance from seaports is relatively short. Landlocked African countries depend heavily on the goodwill of neighbouring countries to fully engage in international maritime trade. Additional border crossings and long distances from their markets substantially increase the cost of transport.

Most African landlocked countries have neighbours that are themselves developing countries, with similar economic structures and limited resources. The recorded trade among these countries is insignificant. In most cases, the transport infrastructure in developing transit countries is weak and offers no advantage to their landlocked neighbours.

Policymakers of landlocked countries should be concerned about the impact of their countries' geographical locations on international trade for several reasons. ECA research indicates that distance to maritime posts is correlated to transport costs.

High costs erode their competitive edge and trade volume. The trade-reducing effect is strongest for transport-intensive activities that depend on exports or imported intermediate goods for production. According to ECA estimates landlocked developing countries spend almost two times more of their export earnings on transport and insurance services, on average, than developing countries, and three times more than developed economies.

The high transport costs that landlocked developing countries face are far more restrictive barriers to trade than tariffs. ECA and other studies show that tariffs for Canada, the EU, Japan and the US range between 3 per cent and 7 per cent on goods originating in most landlocked developing countries. Furthermore, these countries, on average, pay almost three times more for transport services than those tariffs.

Compared with their coastal neighbours, landlocked countries also are hampered by isolation from major markets and the coast, poor infrastructure and inadequate policies, legal instruments or institutions.

Although the international community has begun to address these developmental challenges, the income gap between rich and poor countries, instead of decreasing, has actually widened. Apart from those in Europe, most landlocked countries are not wealthy. Many of the poorest nations in the world, including those in Africa, are landlocked, and their plight requires urgent attention.

Although being landlocked is a major obstacle, it is not destiny. There are practical solutions to many of these problems, including comprehensive approaches to transit corridors, regional integration efforts, legal and regulatory reforms and institutional and administrative overhauls. The need for cooperation among African landlocked and transit countries has always been addressed at the continental, sub-regional and national levels. Many landlocked countries have entered into bilateral agreements with their coastal neighbours to facilitate the movement of goods and persons. Unfortunately, these agreements have yet to be implemented.

Thus, the United Nations has embarked on the Almaty Programme of Action to address the special needs of landlocked countries, under the *Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries*.

Geography is only one part of the story. In international trade, wide-ranging multi-lateral and regional trade agreements (in economic regions, customs areas, free trade areas or developing trade regions) stipulate the steady lowering of tariffs and removal of non-tariff barriers (NTBs). The international exchange of goods and services and the integration of production and distribution modes through the development of corridors is more frequently encouraged and therefore, it becomes important to improve transport of goods within, across and through countries' sovereign terri-



tories. It is not so much granting countries access to world markets, but delivering goods without delays and increased costs that is the problem.

## 7.2 The United Nations Almaty Programme of Action<sup>1</sup>

To address the constraints landlocked countries face, an international ministerial conference of landlocked and transit developing countries was held in Almaty, Kazakhstan, from 25 to 29 August 2003. It was the first meeting of the international community to mobilize international support and address the specific needs of landlocked countries. At its conclusion, the conference adopted the Almaty Ministerial Declaration and the *Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries Within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries*.

The Almaty Programme of Action, as it is referred to, is designed to develop efficient transport systems among landlocked and transit developing countries. The programme intends to:

- Secure access to and from the sea by all means of transport for landlocked developing countries according to applicable rules of international laws;
- Reduce costs and improve services to increase the comprehensiveness of exports;
- Reduce the delivered costs of imports;
- Address delays and uncertainties on trade routes;
- Develop adequate national networks;
- Reduce loss, damage and deterioration en route;
- Open the way for export expansion; and
- Improve the safety of road transport and security of people along the corridors.

To reach these objectives, the programme highlighted five priority areas for landlocked and transit countries to address:

- a) *Transit policy and regulatory frameworks*: Landlocked and transit countries should review their regulatory frameworks and establish regional corridors;

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<sup>1</sup> This section drawn from the report of United Nations Office of High Representative for Least Developed, landlocked and Small Inland Countries (UN-OHRLS) consultant, Ernest Mbuli: *A Review of the Implementation of the Almaty Programme of Action as Contribution to its Midterm Review*, June 2008.

- b) *Infrastructure development*: Landlocked countries should develop rail, road, air and pipeline infrastructure projects;
- c) *Trade and transport facilitation*: Landlocked countries should implement the international conventions and instruments, including those of the WTO, that facilitate transit trade;
- d) *Development assistance*: The international community should provide technical support, encourage FDI and increase official development assistance; and
- e) *Implementation and review*: All parties should improve their monitoring of the implementation of transit instruments and conduct a comprehensive review in due course.

The Almaty Programme emphasizes that efficient transport systems can be strengthened through strong partnerships among landlocked and coastal developing countries and their partners, including partnerships between public and private sectors. In the process, the international community, including financial and development institutions and donor countries, must provide financial and technical support to landlocked and transit countries.

The programme also stresses that the efficiency of transport systems will depend on the promotion of an administrative, legal and macroeconomic environment in both landlocked and transit developing countries to draw up effective policies and mobilize resources. An effective strategy to improve transport systems must be developed at the regional, subregional and bilateral levels to provide significant economies of scale and transport safety. This cooperation is in the mutual interest of both landlocked and transit developing countries.

Although the Almaty Programme does not include quantified, time-bound development targets, it does set benchmarks to determine whether progress is being made. These include:

- Establishing or strengthening partnerships between landlocked and transit countries and their development partners at national, bilateral, subregional, regional and global levels, dedicated to promoting efficient transit systems;
- Establishing or strengthening partnerships between public and private sectors for the same purpose;
- Promoting a supportive administrative, legal and macro-economic environment in landlocked and transit countries at the national and subregional level to set policy and mobilize resources;
- Establishing mechanisms to ensure that the interests of landlocked and transit countries are fully addressed when establishing transit transport systems and transport corridors;

- Establishing or strengthening mechanisms for economic cooperation and integration that protect the interests of all members; and
- Ensuring the financial and technical support of the international community, including financial and development institutions and donor countries.

In June 2008, African landlocked and transit countries met in Addis Ababa, Ethiopia, to conduct a midterm review of the implementation of the Almaty Programme. The objectives were to assess progress and determine what should be done to galvanize global partnerships and further the programme's goals.

A review of the continent's *fundamental transit policy issues* (Priority 1) indicates that technical issues relating to interstate transit facilitation are being addressed at the regional level. African RECs, notably, COMESA, EAC, ECCAS, SADC, ECOWAS, UEMOA, CEMAC and IGAD, continue to play an important role in promoting transport cooperation in Africa. They are designing and implementing the following instruments: coordinated axle load limits; carrier license and transit plates; harmonized road transit charges; regional customs bond; road customs transit declaration documents; third-party insurance plans; interstate road convention; conventions relating to customs transit; and ICT initiatives. Progress is slow in some areas but impressive in others.

An integrated transport network is necessary for Africa's inter- and intra-continental trade. However, in assessing Priority 2, *infrastructure development and maintenance*, it's clear that inadequate infrastructure remains a major obstacle to establishing an efficient transport system between landlocked and transit countries. The existing infrastructure is fast deteriorating. The trans-African highway (TAH), the main regional transport network on the continent, continues to have numerous missing links.

The establishment of road funds in several African countries has increased efforts to maintain existing road infrastructure. Efforts have increased to raise awareness of the importance of railways and inland waterways as cheaper alternatives to road transport. For example, the Central African region, which has the weakest infrastructure network on the continent, is scaling up the development of its inland waterways through the creation of CICOS. Indeed, inland waterways are part of a comprehensive transport master plan ECCAS has developed for the subregion, with the technical assistance of ECA.

Continental rail systems are being strengthened, although their density remains low. For instance, Namibia is in the process of constructing a new railway line of about 310 km that extends to its border with Angola. Some progress also has been made in infrastructure development in West Africa. Burkina Faso has constructed a number of dry ports. One was constructed in collaboration with Côte d'Ivoire and will also

serve neighbouring Niger. Another proposed dry port by Burkina Faso would link the country to the seaports of Tema and Takoradi in Ghana by rail. In Ethiopia, the construction of a dry port on the gateway to Djibouti is under way.

With respect to Priority 3, **international trade and trade facilitation**, several African landlocked countries have developed bilateral agreements with coastal neighbours to improve the latter. They are also using opportunities within their multilateral agreements to enhance these efforts. A number of infrastructure improvements have been completed or are planned to link the landlocked countries to coastal outlets. In this context, some countries endowed with important natural resource reserves are exploring ways to exploit these resources by improving infrastructure and upgrading their railway systems.

The review also shows that through existing corridor management mechanisms or under the auspices of the RECs, African nations are attempting to implement certain trade facilitation measures. These measures include adherence to axle load limits, establishment of one-stop border posts, simplification and harmonization of transit charges, customs documentation, procedures and nomenclatures, removal of roadblocks, establishment of cargo tracking systems, and other measures to reduce transit delays. Similarly, they are establishing surveillance and monitoring mechanisms to observe and reduce rent-seeking and other unacceptable practices along transit routes.

In spite of these efforts, the many checkpoints, overloading and insufficient security along some transit corridors remain causes for concern. Some countries fail to implement transit agreements, which further hampers regional integration efforts.

The review of Priority 4, **international support measures**, revealed that the construction and maintenance of efficient transport systems require intensive infusions of capital. This would mobilize resources on an international scale; provide financial and technical assistance to landlocked and transit countries; promote private-sector participation in improving infrastructure; and target capacity-building activities. The Programme for Infrastructure Development for Africa (PIDA), the Infrastructure Consortium for Africa (ICA), the EU-Africa Infrastructure and Energy Partnership, the Africa-India Partnership and the Africa-China Partnership, among other initiatives, provide a platform to accelerate resource mobilization for financing infrastructure projects on the continent.<sup>2</sup>

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2 The Almaty Programme of Action requires assessing the implementation and review (Priority 5) of the programme. Accordingly, the 63rd session of the United Nations General Assembly held a midterm review of the plan in October 2008 in New York. Preparatory meetings took place on transit transport infrastructure development in Ouagadougou, Burkina Faso from 18 to 20 June 2007; International Trade and Trade Facilitation meetings were held in Ulaanbaatar, Mongolia from 28-31 August 2007; the Asia/Europe Regional Review was held from 22-24 April 2008; the African Review took place from 17-20 June 2008; and the Latin American Regional Review took place 30 June 2008[did it?].

The review of the implementation of the Almaty Programme of Action in Africa reveals that a concerted effort is required for the action plan to be implemented successfully. The following measures should be taken:

- The UN and the AU should strengthen their advocacy of the Almaty Programme of Action. They should sensitize all relevant government ministries and authorities at the highest levels. The private sector and civil society should also be engaged.;
- Member States should nominate national focal points for the Almaty Programme of Action.;
- Member States should engage the private sector in formulating and implementing trade and transport facilitation programmes, including the Almaty Programme.;
- The United Nations system and donor community should help strengthen the private sector's role in implementing the Almaty Programme.;
- A regional approach to addressing transport problems in Africa should be encouraged, with RECs playing an important role.;
- African countries should develop more economical modes of transport such as railways and inland waterways.

### 7.3 Developing trade transit corridors<sup>3</sup>

To address the special needs of the African landlocked nations, certain trade and transport transit corridors have been established—routes linking several economic centres, countries and ports. These corridors, networks of transport facilities and infrastructure, have been established either through existing routes that are accepted by custom authorities, RECs protocols or protocols involving concerned landlocked and transit countries. A corridor's function is to promote internal and external trade using efficient transport and logistics services. By designating a network of routes with a seaport as a starting or terminal point, corridors also focus attention on improving not only routes but also the quality of transport and other logistic services therein, where quality is defined in terms of transit time and the cost to ship goods along the corridor. Hence, a corridor's reliability is measured in terms of transit time and flexibility and the diversity of services offered on multimodal routes. The list of the main corridors in Africa, which is not exhaustive, is presented in table 7.1.

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3 This section draws on *Institutional Arrangements for Transport Corridor Management in Sub-Saharan Africa*, Sub-Saharan Africa Transport Policy Program (SSATP) Working Paper No. 86 and presentations given to the *Joint UNECA-WBCG Workshop and Study Tour on Trade Facilitation: Promotion of Intra-African Trade*, Walvis Bay, Namibia, from 24 – 26 February 2009.

**Table 7.1**  
**Main corridors in Africa**

Corridor	Distances	Remarks
Dakar – Mali	1,250 km	Rail
Abidjan – Burkina Faso – Mali	1,200 km	Multimodal options to Ouagadougou, then road
Tema/Takoradi – Burkina Faso – Mali	1,100 km to Ouagadougou	Road
Lome – Burkina Faso – Niger/Mali	200 km	Road
Cotonou – Niger – Burkina Faso – Mali	1,000 km up to Niger	Multimodal options
Lagos – Niger	1,500 km	Road
Douala – Central African Republic – Chad	1,800 km	Multimodal
Pointe Noire – Central African Republic – Chad	1,800 km	Rail/river
Lobito – DRC – Zambia	1,300 km	Not currently used
Walvis Bay – Zambia-DRC (Trans – Caprivi)	2,100 km to Lusaka	Road
Walvis Bay – Botswana – South Africa (Trans – Kalahari)	1,800 km	Road
Durban – Zimbabwe – Zambia –DRC (North – South Corridor)	2,500 km to DRC	Multimodal options available
Maputo – South Africa	600 km	Multimodal options available
Beira – Zimbabwe – Zambia – DRC		Multimodal options available
Dar es Salaam – Rwanda – Burundi – Uganda – DRC (Central Corridor)	1,400 km to Kigali, 1,600 km to Kampala	Multimodal options available
Mombasa – Rwanda – DRC (Northern Corridor)	1,200 km to Kampala, 2,000 km to Bujumbura	Multimodal options available
Berbera – Ethiopia	850 km	Road
Djibouti – Ethiopia	900 km	Multimodal options available
Assab – Ethiopia	900 km	Not currently used
Massawa – Ethiopia		Not currently used
Lagos – Niger – Mali and Lagos – Chad as part of the CLRT	8,000 km	Multimodal options available

**Source:** ECA (Africa Action Plan ECA/TRIC/Transport/05/03/ACPL, 2003).

The ECA has been promoting corridors as a mechanism for addressing border delays, a proliferation of road checkpoints and other practices that increase costs and impede trade. To increase the efficiency and cost-effectiveness of the main transport corridors to landlocked countries, the ECA also has developed mechanisms to monitor the performance of corridors and eliminate physical and non-tariff barriers.

To coordinate the complex transport logistics and challenges, corridor management institutions are being established in Africa through agreements signed by all participating countries and private-sector stakeholders. These institutions oversee all aspects of the transport of goods throughout a given corridor. A review of selected African corridor management arrangements are discussed below.

### **7.3.1 Northern corridor**

The northern corridor was created to link the landlocked countries of Burundi, Democratic Republic of the Congo, Rwanda and Uganda to the Kenyan seaport of Mombassa. The corridor also serves northern Tanzania, southern Sudan and Ethiopia. It is governed by a multilateral agreement, the Northern Corridor Transit Agreement (NCTA), signed by Burundi, Kenya, Rwanda and Uganda in 1985 and by the Democratic Republic of the Congo in 1987.<sup>4</sup>

The agreement promotes the efficient surface movement of goods among the partner States. Its main objectives are to:

- Promote the efficient use of the northern corridor for the transport of goods between landlocked member States and seaports;;
- Grant member States a right of transit through their respective territories; and
- Ensure the smooth transportation of goods, avoiding unnecessary delays; minimize customs duties and taxes; and simplify and harmonize documentation and procedures.

Under the NCTA, the corridor is managed by the Northern Corridor Transit Transport Coordination Authority (NCTTCA), which ensures:

- the smooth and safe passage of cargo along the corridor;
- low transportation costs;
- simplified cargo clearance procedures and customs documentation;
- harmonized transport policies;
- trade facilitation among member States and with the rest of the world; and
- that major transport service providers (including ports, railways and truckers) provide cost-effective services.

The NCTTCA's governing structure comprises an authority, executive board and the secretariat. The authority, responsible for the policy direction of the

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<sup>4</sup> Before the NCTA, the corridor was used by the landlocked countries based on bilateral agreement between countries.

NCTTCA, is made up of a council of ministers responsible for transportation in the member States.

The executive board is an intergovernmental committee comprising chief executives of ministries responsible for transport in the member States. The board assists the authority in formulating strategies for transport and trade facilitation, infrastructure development, and harmonization of national and regional policies. The chairpersons of the authority and the executive board rotate among member States.

The secretariat, located in Mombasa and headed by an executive secretary, is responsible for coordinating the implementation of the NCTA and any other decisions or resolutions made by the authority and executive board.

The NCTTCA budget is self-financed by member States according to the following formula: Burundi, 10 per cent; Democratic Republic of the Congo, 20 per cent; Kenya, 30 per cent; Rwanda, 15 per cent; and Uganda, 25 per cent. Member States contribute either directly or by a tonnage levy. The levy is collected at the port of entry at Mombasa. In the case of non-member States (the United Republic of Tanzania, the Sudan and Ethiopia) using the corridor, the secretariat proposes a levy to the Kenya government and the Kenya Ports Authority. Although not ideal, this funding mechanism has ensured the viability of the NCTTCA.

### **7.3.2 Central corridor**

The central corridor is made up of a multimodal transport network comprising the Port of Dar es Salaam; the 1,254 km Dar es Salaam–Kigoma railway line; the water transport on Lake Tanganyika to Bujumbura and DRC; and the road network linking Dar es Salaam through Dodoma, Singida, Nzega and Lushunga to Rwanda and Burundi. The corridor is governed by a multilateral agreement, the Central Corridor Transit Transport Facilitation Agency (CCTTFA), which was signed by Burundi, Democratic Republic of the Congo, Rwanda, the United Republic of Tanzania and Uganda in 2006. The main objectives of the CCTTFA are to:

- Ensure that the central corridor is efficient and cost-effective;
- Market the corridor with a view to increase its utilization;
- Support infrastructure planning and operations along the corridor through proactive collection, processing and dissemination of traffic data, analysis of competitive corridors and business information;
- Promote sustainable maintenance of infrastructure;
- Improve customs transit procedures and the implementation of joint customs controls and juxtaposed customs offices at land borders and seaports.



The governing structure of the CCTTFA is made up of the following organs: an interstate council of ministers; an executive board; a stakeholder's consultative committee and a permanent secretariat. The inter-state council of ministers is the highest authority and is responsible for coordinating CCTTFA's policy issues. It also facilitates and effects harmonization of policies agreed to by member States.

The executive board comprises the permanent secretaries of the ministries responsible for transport in each of the member countries and a representative from the private sector of each country. The private sector representatives are elected by the industry, the transport operators and the chambers of commerce. The board is charged with formulating the CCTTFA's general principles and policies. It also appoints its senior technical staff.

The stakeholders consultative committee includes representatives of key stakeholders from the transport industry in corridor countries. These stakeholders (public and private) include government departments dealing with transport matters, customs, port authorities, port operators, terminal operators, shippers/manufacturers associations, shipping agencies associations, railway operators, railway holding companies, freight forwarding companies, road transport operators and marine (lake) transport operators. The committee is responsible for:

- Developing and implementing strategies to provide efficient transportation along the corridor;
- Developing performance targets for the corridor and monitoring its utilization and performance;
- Developing and implementing strategies to market the corridor; and
- Establishing a stakeholders representative group to oversee its affairs between meetings.<sup>5</sup>

The CCTTFA secretariat, which is headed by an executive secretary and based in Dar es Salaam, is responsible for coordinating the implementation of decisions and resolutions resolved by the CCTTFA's governing bodies. The African Development Bank provided the secretariat with a start-up grant of US\$ 1.8 million over three years, starting from January 2007. The secretariat is developing its own self-financing mechanism.

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5 The group comprises 15 stakeholders nominated by the consultative committee, with three from each corridor state. The group coordinates corridor strategies and performs actions necessary to implement the committee's work programme and recommends actions to the committee that will benefit the corridor.

### 7.3.3 Dar es Salaam corridor

The Dar es Salaam corridor connects the port of Dar es Salaam in the United Republic of Tanzania to Lusaka in Zambia and Lilongwe in Malawi. It is made up of a multimodal network of the port of Dar es Salaam, the TAZARA railway line and the TANZAM highway.

The Dar es Salaam corridor coordinating committee has its own constitution and is made up of key stakeholders from the three participating countries, Malawi, the United Republic of Tanzania and Zambia. Like the other corridor committees, this one was established to promote efficient and competitive trade logistics along the corridor for Malawi and Zambia. The committee includes representatives from the ministries of transport, users and providers of transport services and the private sector from each of the three countries involved. The committee acts as a forum for the main users of the corridor to find solutions to the challenges faced on the corridor.<sup>6</sup>

The governance structure is composed of the coordinating, executive and national corridor committees. The corridor coordinating committee ensures that the corridor is efficient and cost effective and has two working groups, one for transport and the other for customs. Members are appointed from the coordinating committee.

The executive committee consists of a chair, a vice-chair of the corridor coordinating committee and at least three but not more than five members nominated by the corridor committee. This committee implements decisions taken by the corridor coordinating committee.

Each of the three partner nations has established national corridor committees, which give national support to the corridor activities. The national committees are composed of member States' representatives on the coordinating committee. The ministries responsible for transport and the chambers of commerce provide leadership in each of the countries. However, as expected, in the United Republic of Tanzania, the Tanzania Ports Authority (TPA) plays an important role.

A corridor secretariat, to be based in Dar es Salaam, has yet to be established. In the interim, TPA provides part-time secretariat services. The absence of a full-time secretariat impinges on the smooth implementation of the committee's activities. There is no self-financing mechanism at the moment. However, the USAID Southern Africa trade hub has been funding some of the corridor's activities, and the committee is considering various financing options.

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<sup>6</sup> The management of the Dar es Salaam corridor began in the 1960s, to oversee the export of metals from Zambia.

### 7.3.4 Walvis Bay corridor

The Walvis Bay corridor links the landlocked nations of Botswana, Zambia and Zimbabwe to the Walvis Bay Port in Namibia and to markets in the hinterland of the DRC and South Africa (the Gauteng region). The Corridor is therefore made up of three trade-and-transit corridors linking the Port of Walvis Bay to neighbouring countries: The Trans-Kalahari corridor (TKC); Trans-Caprivi corridor (TCC); and Trans-Cunene corridor (TCuC).

The TKC is a network of highways connecting Walvis Bay to Johannesburg and Pretoria through Botswana. The TCC is a network that starts off the Trans-Kalahari highway at Karibib, traversing northeast through Grootfontein to the Angolan border at Rundu, and then eastwards through the Caprivi to Katima Mulilo, where a bridge has been constructed to cross the Zambezi River from Zambia into DRC. The TCuC extends from Otavi to Lubango in Angola via Oshikango in Namibia. The three corridors are partially supported in the Namibian territory by the Namibian rail network.

The secretariat of the Walvis Bay Corridor is the Walvis Bay Corridor Group (WBCG), which was established in 2000 as a public-private partnership to coordinate and integrate the various stakeholders along the Walvis Bay corridor. The WBCG is a non-profit association governed by a board of directors. Its main function is to increase the utilization of the Walvis Bay corridor and maximize the flow of traffic along corridor routes. The WBCG expects to:

- Engage in marketing activities focusing on business development and attracting business from traditional routes;
- Facilitate the provision of relevant enabling frameworks; and
- Leading in capacity -building exercises in the transport and transport corridor sector. The anticipated results are to the benefit of Corridor stakeholders and the SADC region.

The WBCG is made up of representatives of the ministry of works, transport and communication, the Namibia department of customs, the ministry of finance, the offshore development company (investment centre) of the ministry of trade and industry, the Namibian Ports Authority, TransNamib Holdings Ltd., the municipality of Walvis Bay and a number of private sector groups, including the Namibian Association of Freight Forwarders, the Namibian Road Carriers Association and the Walvis Bay Port Users Association.

The WBCG secretariat, based in Windhoek, concentrates on business development, transit facilitation, infrastructure development, capacity-building and support programmes for the members, such as those in the area of HIV/AIDS.

To effectively address the challenges of the Walvis Bay corridor, a Trans-Kalahari corridor management committee (TKCMC) has been established to facilitate institutional cooperation among Namibia, Botswana and South Africa, the three countries using the Trans-Kalahari corridor. This cooperative arrangement was formalized in 2003 with a tri-lateral agreement signed by the governments of Botswana, Namibia and South Africa. Under the agreement, there is a memorandum of understanding (MoU) that gives legal status to TKCMC. The secretariat of the TKCMC is the WBCG.<sup>7</sup>

The TKCMC is composed of representatives of transport operators, infrastructure and transport authorities, port and customs authorities, freight forwarders and of all business and agencies interested in the corridor from the partner countries. Its role is to:

- Simplify and harmonize customs procedures, adopt a common transit procedure and promote the establishment of joint customs-border posts;
- Ensure that revenue accruing from levies to road users is used for the maintenance and operation of roads.;
- Adopt and implement harmonized standards for vehicle quality, including road-worthiness, road signage and axle loads.;
- Promote traffic safety by encouraging law enforcement and training and testing of drivers in partner countries.

The MoU establishing the TKCMC calls for the establishment of an operations committee and working groups. The committee is made up of the chair and vice chair of the TKCMC and four to five representatives from the private and public sectors. Committee functions and activities are directed by the TKCMC.

Partner countries also have established national corridor committees to ensure that TKCMC programmes and decisions are implemented and monitored at the national levels. The national corridor committees are coordinated by one representative from the government and the private sector and work closely with the WBCG secretariat and government bodies to push for implementation of the TKCMC programmes.

The WBCG secretariat is financed through contributions from Walvis Bay port operators and NAMPORT, the port authority. In the case of the TKCMC, funding is done through equal contributions by the signatory states. However, the TKCMC

<sup>7</sup> A similar corridor management committee is being considered by the WCGB for the Trans-Caprivi Corridor (Walvis Bay–Ndola–Lubumbashi corridor committee) and the Trans–Cunene corridor.

is considering replacing the current financing arrangements with a tonnage levy system to charge users of the corridor.

### 7.3.5 Maputo Corridor

The Maputo development corridor (MDC) was established in 1996. It links the Port of Maputo in Mozambique to Gauteng, the industrial heartland of South Africa. MDC, which is one of the successful examples of the NEPAD Spatial Development Initiatives (SDI), is a multimodal transport system comprising a toll road, a railway line and a gas pipeline. The corridor was initially managed by the Maputo Corridor Company (MCC). However, in 2004, due to its ineffectiveness, the MCC was replaced by the Maputo Corridor Logistics Initiative (MCLI). The MCLI was established as a public–private sector partnership to create greater awareness on and improved use of the corridor. Through a MoU, the South African Department of Transport (DOT) provides support to the MCLI. The membership of the MCLI is drawn from stakeholders across South Africa, Mozambique and Swaziland.

To create a favourable climate for investment along the Maputo corridor, the MCLI's objectives are:

- To strengthen partnership with the private sector, the infrastructure network along the corridor, including road and rail links between South Africa and Maputo and the border post between the two neighbours and Maputo Port;
- To increase investments along the corridor;
- To increase social development and employment opportunities along the corridor and its surrounding areas;
- To coordinate the views of the investors, service providers and users to promote development and change to make the MDC the first choice for the Maputo corridor importers and exporters alike; and
- To inform the market about the corridor and promote the strategic benefits and opportunities it offers.

The MCLI's key areas of focus were identified early on: lack of sufficient rail capacity and border-post constraints, especially the extension of the commercial cargo clearing time to eventually a 24-hour one-stop border post. The MCLI plans to:

- Coordinate initiatives and engage the relevant authorities in planning service and infrastructure improvements;
- Organize events, fact-finding missions, forums and meetings;
- Communicate progress and developments through electronic newsletters and the media;

- Promote positive attitudes and perceptions towards the MDC and the logistical benefits it offers;
- Connect users with service providers and provide information on all aspects of how to use and benefit from the corridor; and
- Develop a Web site, giving exposure to MCLI members and providing a platform for all public communication.

The MCLI's governing structure is a board of directors and an executive committee. The board comprises nine executive directors and seven non-executive directors, representing the private sector, businesses, investment agencies and key stakeholders from the partner nations. The board's main functions are to provide policy direction and monitor the MCLI's operating structure, finances and administration. The executive committee, which comprises four members from the board, is largely responsible for the financial management of the company and directing and monitoring the chief executive officer.

The MCLI's efforts have led to improved operational efficiencies at border posts by governments of partner countries to extend commercial cargo clearing hours. It is also recommending a one-stop border post to facilitate the efficient flow of goods and people. The MCLI is also pushing for an increase in the capacity and efficiency of the operation of rail along the corridor and improvements in shipping operations.

The MCLI is funded through an annual membership fee paid by partner countries. In addition, the South African National DOT makes financial contributions. However, in some cases the activities are funded through the imposition of fees.

### **7.3.6 Abidjan–Lagos corridor**

This corridor connects five countries—Côte d'Ivoire, Ghana, Togo, Benin and Nigeria—through the port cities of Abidjan, Accra, Lome, Cotonou and Lagos, and is therefore one of the busiest corridors in West Africa. However, its purpose is geared more towards the minimization of the transmission of HIV/AIDS among truck drivers, sex workers and communities along transport corridors than trade facilitation and development. This is important, because the transmission of disease is high along transport corridors. Hence, such interventions often require a regional approach.

The corridor was created in 2002 with a grant from the World Bank to the five countries as a joint HIV/AIDS project. The project has the following five components:

- Developing a framework for the coordinated implementation of HIV/AIDS policies in the corridor countries;

- Carrying out HIV/AIDS prevention programmes;
- Providing improved care and support services;
- Building capacity of the key service providers; and
- Addressing constraints to the smooth and timely flows of passengers and freight traffic in the corridor.

This corridor, which takes a regional approach to addressing communicable diseases such as HIV/AIDS, has the following governance structure: a governing body; an executive secretariat; a management consulting firm; an intercountry advisory committee; a sub-project technical evaluation team; and community-based border HIV/AIDS committees.

The governing body was established by a declaration by the partner countries' five heads of State. Hence, its membership is composed of nominated representatives of all five countries, nominated by the highest political offices of the member countries. The body is responsible for formulating and implementing multi-country HIV/AIDS strategies and programmes along the corridor.

The corridor's operations are run by an executive secretariat headed by an executive secretary. The secretariat is responsible for overall coordination and management; the preparation of quarterly progress reports; the coordination of appraisals and approval of subprojects; and project monitoring and evaluations. The executive secretary, who is responsible for the daily coordination and facilitation of the project, reports to the president of the governing body. The secretariat is manned by a small staff made up of a transport specialist, an office assistant and a professional translator for the two official languages (French and English). Financial management and procurement contract reviews, for which the secretariat is also responsible, are handled by a management consulting firm. This firm is responsible for the financial management and disbursement of IDA funds; procurement management; monitoring and evaluation; and participation in appraisal of community subprojects. The secretariat may also create a subprojects technical evaluation team to review and approve subprojects submitted to the executive secretariat. The team can invite any technical experts that may be required for it to function effectively, depending on the nature of projects under review.

The inter-country advisory committee, which reports to the governing body, includes members selected by the five countries. It is established by the governing body. Members belong to the public and private sectors; about half of the members are private sector. The committee is responsible for providing technical and policy advice to the governing body; reviewing progress reports; and identifying implementation issues and recommending solutions.

The community-based border HIV/AIDS committees draw their membership from local civil society and the public sector. They have been formed at border areas along the corridor to coordinate the local response to HIV/AIDS. The Abidjan-Lagos corridor organization (ALCO), based in Benin, also uses several intermediary civil society organizations to establish community-based border HIV/AIDS committees and gives the communities support in subproject planning and implementation.

The Abidjan-Lagos HIV/AIDS project was initially funded by the World Bank through grants to the partner countries. Bilateral and multilateral development agencies are expected to continue to finance HIV/AIDS activities along the corridor beyond the project's four-year implementation period. Member countries, who also made financial contributions to cover portions of the operating and overhead costs, are exploring alternative funding formulas after the World Bank funding is exhausted.

A number of corridors have been identified by RECs but they are not currently operational. For example, in December 2009 the West African Economic and Monetary Union (UEMOA) adopted a decision on the creation and management of a number of corridors in their sub-region. Similarly, COMESA, EAC and SADC, with the support of development partners, have launched the North-South corridor (see box 7.1).

### **Box 7.1** ***North-South Corridor***

The North-South Corridor Programme is an initiative undertaken by the three RECs of Eastern and Southern Africa (COMESA, EAC and SADC) to facilitate cross-border trade between the different member States. This project represents the first major project under the newly formed tripartite task force and another step towards the constitution of the great free trade area, which will include 26 countries members.

This corridor, which traverses eight countries of these subregions, covers two existing corridors, Durban corridor and Dar es Salaam corridor, which link the port of Durban and others in Southern Africa to the East African port of Dar es Salaam.

The North-South Corridor Conference held in Lusaka, Zambia, on 6 and 7 April 2009 and attended by several heads of state, highlighted the need to improve trade conditions along this corridor. The financial support of US\$ 1.2 billion has been pledged by donors for the improvement of the road, rail and port infrastructure.

The North-South Corridor Programme is intended to upgrade and maintain roads, establish a system to control axle loads more efficiently, reduce border post delays and rehabilitate rail tracks along the corridor. It will also improve the power supply and transmission in the region and establish links between Southern and East African power pool member countries.

This programme, which has a holistic and subregional approach, is a method to facilitate cross-border trade, reduce transport delays and costs, promote transit and transport regulations and help landlocked access international markets more easily. It is also intended to promote public- and private-sector investment. When implemented, it will give to operators multiple choices of road and rail networks.



The following outcomes are expected:

A reduction of transport costs and transit times for traffic between Dar es Salaam and Lusaka of about 25 per cent;

A 10 per cent reduction in the travel time by road between Lusaka and Durban;

Approximately a 20 per cent reduction in the transit times at the Chirundu border post between Zambia and Zimbabwe; and

The reduction of transit costs and times for traffic between East Africa and Southern Africa and an increase in hydroelectric supply in the region.

### 7.3.8 Measuring a corridor's performance

The previous sections argue that corridor efficiency is critical to the competitiveness of the African economies, particularly to those of countries that are landlocked. The question, then, is how one determines a corridor's efficiency and performance. What performance indicators should be used?

Performance indicators are generally considered extremely important for guiding the secretariats in their planning. Appropriate indicators can support, guide and justify their decisions. They also contribute to good governance, accountability and transparency, which are important ingredients to success. Indicators therefore must be measurable, efficient, able to be forecast and easy to understand.

Stakeholders participate in the establishment of corridor management groups largely to reap potential benefits. The objective of establishing the corridor structures is to enhance their operational efficiency and reduce the cost of doing business. Consequently, corridors enhance the facilitation of trade, which in turn contributes to economic efficiency of the participating countries.

As argued above, corridors involve stakeholders who are interested in different performance factors. Each stakeholder measures the performance of a corridor by the use of the corridor he or she is able to reduce cost and make profits. The main stakeholders of a corridor are the shippers, transporters, clearing agents, customs authorities, port and road authorities and the general population. The primary objectives and expectations of each category of stakeholders are summarized in table 7.2, below.

**Table 7.2**  
**Corridor stakeholders and expectations**

Stakeholder	Expectations
Shippers	Minimum time used to move goods from origin to destination and at minimum cost Reduced shipping costs Safe and secured transportation and handling process
Transporters	Reduced turnaround time Minimized opportunity cost arising from physical and non-physical barriers Improved infrastructure
Clearing & forwarding agencies	Reduced operating costs Increased volumes of cargo handled Fast clearance process Reduced cross-border charges Harmonized documentation
Customs authorities	Increased customs duty revenues Harmonized customs documents Improved automation Reduced rent-seeking activities
Port authorities	Increased port revenues Improved cargo handling Modernized port equipment Increased port utilization Enhanced port competitiveness
Road authorities	Asset preservation through axle-load control Infrastructure cost recovery Improved road maintenance Improved road safety
Security services	Zero-tolerance for movement of illegal consignments Zero-tolerance for criminal activities Reduced rent-seeking activities Improved management of the movement of plants and animals
Service providers	Increased traffic flows and customers
Consumers	Reduction in cost of goods High-quality goods
Health authorities	Control and management of diseases and infections associated with mobile populations (HIV/AIDS, sexually transmitted infections and others)
RECs, IGOs, member States and partners	Increased trade-led economic growth Strengthened regional integration Reduced poverty levels Enhanced trade facilitation

**Source:** ECA and Institutional Arrangements for Transport Corridor Management in Sub-Saharan Africa, Sub-Saharan Africa Transport Policy Programme (SSATP) Working Paper No. 86.

The performance of corridors is assessed at three levels: infrastructure, the quality of services and the shipment of goods. The assessment of infrastructure involves the quality, physical capacity and levels of utilization of the infrastructure. It is particularly useful when considering investment to increase the capacity of corridor-system

components. Delays and the cost of transport services are the major considerations when considering the quality of services provided along a corridor.

The quality of services are very important in assessing the performance and effectiveness of corridor groups. Measurement indicators include time and cost. Performance can be improved by reducing these factors at specific points or along given links within the corridor. A corridor's reliability, which is measured in terms of variation in transit time for a specific combination of services and between given points, is also a performance indicator. The greater the variation, the harder it is to predict transit times and for users to coordinate related functions. Thus, some of the key performance indicators for corridors include traffic volumes; transport cost; turnaround time for trucks and wagons; port dwell time; border-post transit times; and variation in all the above times.

### **7.3.9 Corridor review results**

Some lessons that have emerged from this review of corridor management arrangements are as follows:

- Corridors are important for addressing the special needs of landlocked countries.;
- Corridor management arrangements are designed to advocate modernization of border agencies, equipment, operations and in particular, customs administrations and infrastructure development;
- Corridors focus on efficiency and trade facilitation through measures such as institutional reform, simplifying procedures, building capacity and mobilizing investment to upgrade information technology and border-crossing facilities.;
- All stakeholders, private and public, involved in the facilitation of trade must be encouraged to participate in corridor development.;
- Corridor secretariats may form working groups comprising all stakeholders to meet on an ad-hoc basis to address specific issues and should cease to exist once the objectives have been met.;
- Corridor issues should be addressed through the interactions between private and public groups.;
- Ownership and power sharing should take place through a legal framework of organizational design and operating procedures.;
- A corridor's organizational structure should ensure full public-private interactions at all levels.;

- Most existing corridors have been created with donor funding and their financial sustainability remains a challenge. It is therefore important that alternative sources of funding are sought.

As observed, the management of a corridor has three tiers. The institutional hierarchy should be made up of a group of stakeholders, a core group and a secretariat. The stakeholder group comprises representatives of customs, immigration, transport and logistics operators, rail and road agencies, port authorities, transport regulation and road safety agencies, ministries of health for each State and regional institutions.

The second tier, or core group, should consist of an executive group comprising members nominated to represent specific constituencies. The core group should establish working groups to address specific issues. A secretariat, which is the main coordinating and technical body, should be created to support the stakeholder group and the core group.

The longevity of all corridors depends on the sustainability of the funding of the corridor institution. Funding arrangements for existing corridor groups include membership fees, government contributions, traffic-based usage fees and donor support. A traffic-based usage fee arrangement is the most appropriate funding mechanism. It is important that the initial operation of the corridor begin with membership contributions or donor funding. Once the institution is up and running, a sustainable funding mechanism should be applied.

A legal instrument should back the funding mechanism of a corridor institution. Once established, the group institution could develop an action plan and deliver results enabling it to introduce a usage-based funding mechanism such as a tonnage levy. A usage fee would keep pressure on the core group and the secretariat to deliver tangible benefits for corridor stakeholders to justify its funding.

## 7.4 Conclusions and recommendations

In this chapter we have demonstrated that geography is not destiny. It has been argued that being landlocked influences economic, infrastructure and political decisions. But being geographically isolated should not be an excuse for poor economic, social and political development. Remote island countries like Australia and New Zealand have become successful traders, and European landlocked countries such as Switzerland have coped with and indeed learned to exploit their geographical “handicap”.

The constraints landlocked countries face can be addressed, in the long run, with the right mix of country- or region-specific policies, including sound macroeconomic and trade policies such as reducing red tape in freight operations and speeding up customs clearance procedures. As discussed, governments must also create an environment to facilitate trade. Knowledge and information concerning these issues must be shared among landlocked and transit countries and the private operators.

Because landlocked countries act as transit countries for their neighbours, they must mobilize enough resources to support a transit infrastructure. Being a transit country potentially opens up new opportunities for them. The development of a modern up-to-date service infrastructure for transiting cars, trucks, trains, airplanes or ships adds value to the process. Being a transit country also creates jobs and a logistics economy, with distribution centres, warehouses and technical and processing facilities.

Although landlocked countries in Europe face similar constraints, the challenges posed to African countries are more formidable. The Almaty Programme of Action was established specifically to address these exceptional needs. The following section provides suggestions for tackling the challenges.

#### **7.4.1 Trade policy reforms**

Landlocked countries must focus on the composition and direction of their foreign trade. In developing export-driven sectors, they should be mindful of transportation costs if they are distant from major markets and have little access to the sea via viable transit routes. Reliability and speedy response are the required assets for export-oriented growth.

Landlocked countries should consider developing sectors that are either high-value or high-value-added and depend less on expensive imports. They should also consider developing a high-level logistics industry that could provide services to transiting operators, which in turn could increase the value to transit operations and help new sectors to flourish.

Landlocked and transit countries should develop coherent and comprehensive transport policies to support the transit corridors required to facilitate trade. The countries should redouble their efforts to tear down all non-physical barriers to ensure that their goods reach regional and world markets.

### **7.4.2 Reducing costs**

Landlocked countries should apply measures to avoid complicated and lengthy customs clearance procedures, poorly coordinated control services, high fees, red tape, inadequate capacities, poor infrastructure and poor packaging or loading technologies. Such measures would reduce the costs of shipping, freight handling, transit and customs. These are under the control of policymakers in a landlocked country. Governments should create a climate of confidence, stability and security by eradicating corruption, fraud and other rent-seeking activities to reduce trade costs. In addition, governments of landlocked and transit countries should reform regulations and procedures to meet regional or international standards and adhere to and implement the international conventions on trade and transit facilitation.

Improved technologies reduce port and customs delays, which reduces shipping costs. Moreover, containerization and the resulting ease of moving goods from ships to trucks or trains also helps reduce port costs and lead time in countries with such facilities. Landlocked and transit countries should be encouraged to use ICT and better port infrastructure to avoid shipping delays.

### **7.4.3 Infrastructure development**

Landlocked and transit countries must build new roads and railway lines and upgrade the infrastructure of their ports. Policymakers should ensure that regular maintenance of infrastructure takes place, and that transport supply capacities are improved. This would strengthen facility management systems through information technology at the ports and upgrading of railway lines, rolling stock, ships, trucks and ports and handling facilities.

Developing proper infrastructure requires substantial financial resources, which are usually obtained from bilateral or multilateral donor agencies. But such resources are limited, time-bound and insufficient to finance infrastructure development over the long term. Thus, countries must find alternative financing mechanisms to support such development. Such alternatives could include vehicle charges, road taxes, petrol taxes and road charges. Receipts of these charges must go directly towards road construction and maintenance—and not towards administrative overhead. Pooling regional funds from public and private sources could also be considered to support infrastructure development.

#### **7.4.4 Regional and subregional coordination**

Landlocked countries must establish strong bilateral and multilateral agreements with their neighbouring countries. They can implement these agreements by ingesting trade-transit corridor management structures. Their special needs can be addressed through regional and international cooperation. Consultations or alliances with neighbouring landlocked or transit countries can help to share experiences, economize on costs and increase bargaining powers. International infrastructure or transport agreements contribute to facilitating transit procedures.

#### **7.4.5 Institutional framework and capacity-building**

Landlocked and transit countries must reform their public administrations to improve the performance of agencies involved in trade facilitation, developing, in particular, the single-window concept and streamlining one-stop-shops for import and export clearance. The entire institutional framework of stakeholders should be strengthened. Regional harmonized transit procedures should be established and implemented and trade facilitation measures put in place. Facilitating trade in landlocked countries would require institutional capacity-building, educating governmental staff private operators and eliciting the participation of the business community. Furthermore, certain institutional and organizational structures have to be in place to enforce regulations, agreements and conventions.

#### **7.4.6 Public-private cooperation and partnerships**

The private sector must be encouraged to participate in managing corridor and other trade facilitation bodies. Given that external bilateral or multilateral resources are limited, the private sector should be urged to invest in the development of infrastructure and in facility management. A fruitful dialogue between private-sector representatives and policymakers will better define the market's real needs and encourage viable and sustainable solutions. Private operators may also be better equipped to manage facilities that are still State-owned and can play a substantial role in financing projects or in entering concession agreements.

The public sector still has a role to play in any PPP arrangement and it acts as a supervisory body over all trade facilitation projects. It must also provide an adequate and coherent framework policy to upgrade the professional skills of the private sector in landlocked and transit countries. Thus, both private-sector and public-sector groups have important roles to play in addressing the special needs of landlocked countries.





# Payments Systems and Intra-African Trade

## 8

### 8.1 Introduction

A key challenge to intra-African trade is the facilitation of payments. By comparison with international practices, African payment systems are often inefficient in terms of cost, time, convenience, adaptability and finality. An international fund transfer via electronic networks that takes just minutes to go around the globe can take two weeks to arrive at the cross-border beneficiary in some African countries because of geographical handicaps, and a check can take more than a month to clear in sub-Saharan Africa. Forty per cent of Africa comprises island or landlocked economies.

Most African economies are cash-based, rendering their payment systems costly and inefficient. Finality of payment is not always guaranteed because of potential counterfeits and the lack of financial discipline when checks or other paper-based means of payment are used. Most African payments systems are small, fragmented and lack competition, adding to inefficiencies, high payments costs and exorbitant bank charges. The situation hurts the ability of African enterprises, especially SMEs, to trade efficiently, while many also are forced to make informal arrangements to effect payment transactions. To overcome such constraints, African countries have pursued economic, financial and monetary integration since the 1960s, extending their payments system services across borders and making them increasingly regional.

### 8.2 The role of payments systems

Payment systems reduce the cost and delays of exchanging goods and services and the disadvantages of holding cash (such as the risk of theft, counterfeit currency and lost interest); therefore, they support the growth of transactions. In Africa, as elsewhere in the world, the development of payments systems is closely associated with the movement of goods, services, capital and people.

### 8.2.1 Promoting trade and regional integration

Efficient regional payments systems promote and support regional flows by increasing speed and convenience, reducing cost, lowering payment risks and ensuring a high degree of finality. Developing the payments systems also helps to make them dynamic and adaptable to the changing environment.

The efficiency of a payments system, therefore, directly affects the efficiency of the circulation of goods and services and the pace of economic expansion. Measures to promote their modernization would also “facilitate the formation of adequate regional trade of goods and services, enhance competition, and thereby efficiency and productivity; and facilitate the effective and efficient flow of goods” and services in the RECs and the continent. They would help integrate the African countries’ financial systems and capital markets, both regionally and among global financial markets. The subsequent opening up of the regional payments systems that facilitate cross-border trade, intra-regional trade in particular and spreading of regional payments services would also result in improved efficiencies, the diversification of payments services, increased competition and cost reductions.

Regional payments system development can improve national processes in small countries that cannot afford their own national systems. The regional system can be used to process, clear and settle national transactions, provided it supports the national currency and oversight rules are put at the disposal of the central bank. The eventual establishment of a regional or continental single currency payments system will eliminate exchange risk and enhance the continent’s intraregional trade and investments.

### 8.2.2 Indirect benefits for trade promotion

Besides directly facilitating trade and regional integration, strengthening the payments system has other benefits that could also help indirectly to promote intra-regional trade, and these include:

- ***Facilitating sound monetary policy and liquidity management.*** Money outside the banks cannot be subjected to regulatory and operational procedures, and the ability of monetary policy to achieve set objectives is limited by the volume of currency outside the banking system. The formal payments system facilitates execution of monetary policy and management of financial conditions. From a macroeconomic perspective, an automated large-value interbank payments system facilitates establishing short-term money markets that reflect national/zone-wide monetary conditions at a particular time. Such markets provide more accurate information about the

current state of those monetary conditions, including those pertaining to trade credits.;

- ***Enhancing monetary and financial sector integration.*** Expanding the use of the formal payments system make it easier to pursue open economic and trade policies, since domestic and international payments would flow more seamlessly. In a globalizing world, capital and investment move freely and beneficially, and the gains of intra-regional trade and economic integration would be more pronounced. One important benefit of strengthening the payments system is that it would link the regional centers of commerce and finance and facilitate same-day settlements. Its infrastructure would help introduce a monetary union. It provides mechanisms through which common central banks can implement common monetary policies. ;
- ***Expediting customs processing and government transactions.*** An efficient formal payments systems also expedites trade by improving the timeliness and transparency of customs processes and government revenue collection.; and
- ***Supporting foreign exchange trading.*** Efficient national payments and settlement systems play a key role in the day-to-day operations of the foreign-exchange market, which involves payments for currency exchanges across international borders.

## 8.3 Payments system development in Africa

### 8.3.1 The context of reforms

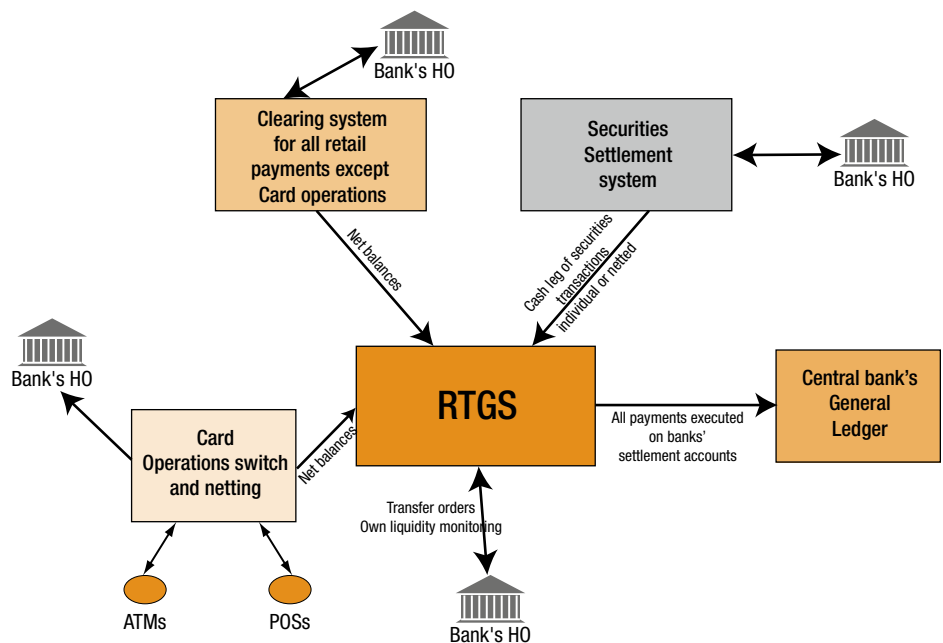
The safety and efficiency of payments systems are relevant to market participants and public officials in view of their important roles in trade and resource flows and in financial sector management and development. Every central bank, therefore, pays close attention to their efficient functioning and is anxious to avoid risks. African countries must be capable of handling the growing volume of national and cross-border financial transactions. By the late 1980s, the need to tackle the inefficiencies in the payments system, while also taking advantage of the technological advances, had become obvious.

### 8.3.2 The organization of payments systems and scope of reforms

African countries have implemented broad reforms to upgrade their payments systems since the early 1990s. The most important of these involves automated systems, which are composed of several modules (figure 8.1), including:

- The real-time gross settlement (RTGS) or wholesale payments systems, which are its main arteries and usually dedicated to large value, systemically important and urgent payments. Interrupting wholesale payments threaten a payments gridlock that could have serious consequences for the real economy. This threat underscored the urgency for reforming the wholesale payments systems. It came as little surprise, therefore, that early efforts of the payments systems modernization focused on wholesale systems.;
- The clearing systems for retail payments, characterized by a large volume of low-value transactions that need not be settled individually but rather on net basis between participants.;

**Figure 8.1**  
The most common architecture for national payments systems



- The card switch, which handles card payment operations. It conveys payment authorization requests emanating from ATMs and POSs (merchant terminals) to a cardholder's banks information system and processes the transactions once they are authorized and executed
- Finally, the delivery-versus-payment (DvP), which is designed for government and stock-market securities transactions. Ideally the DvP interacts with the settlement system to pay the cash leg of the transaction concurrently with the security transaction, thus ensuring its finality.

### Box 8.1

#### *Ten core principles for payment systems*

1. The system should have a well-founded legal basis under all relevant jurisdictions.
2. The system's rules and procedures should enable participants to have a clear understanding of its impact on each financial risk incurred through participation in it.
3. The system should have clearly defined procedures for managing credit and liquidity risks, specifying the respective responsibilities of the system operator and the participants and providing appropriate incentives to manage and contain those risks.
4. The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum by the end of the day.
5. A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single obligation.
6. Assets used for settlement should be a claim on the central bank: where other assets are used, they should carry little or no credit risk and little or no liquidity risk.
7. The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.
8. The system should provide a means of making payments, which is practical for its users and efficient for the economy.
9. The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.
10. The system's governance arrangements should be effective, accountable and transparent.

**Source:** Basel, Switzerland, 2001. "Systemically important system"

However, the payments systems include not just the automated system, but also such soft infrastructure as the payment instruments used to effect the transactions; the financial institutions that provide payment accounts, instruments and services to consumers; the market arrangements for producing, pricing, delivering and acquir-

ing the various payment instruments and services; the laws, standards, rules and procedures for regulating the process, systems and markets; and the risk system for monitoring and managing the risks, which would help to enhance the efficiency, security and transparency of the system and ensure that it functions in accordance with internationally accepted principles (see box 8.1).<sup>1</sup>

### **8.3.3 Reforming the national payments systems**

Since the early 1990s several African countries have implemented broad range of reforms to upgrade their payments systems. These reforms have aimed at, from the supply side, reducing settlement risk; enhancing public confidence in the national payments systems; promoting economic efficiency; and enabling the introduction of new payment instruments. From the demand or users' side, the payments system reforms have been popular because they could enhance access to cost-effective instruments and minimize risks associated with counterfeiting and fraud.

The payments systems reform projects have included, among others:

- Reforms of the legal framework for payments and securities settlements;
- Ensuring that the systemically important payments systems comply with international principles by launching modern RTGS systems;
- Coordinating the integration of sound and efficient securities settlement systems, the Central Securities Depository, with the new RTGS systems operated by the African national central banks;
- Introducing the automated retail payments clearing system for retail payments, the exchange media, which has the most visible bearing on average-size trade and everyday transactions; and
- Establishing effective payments system oversight functions.

### **8.3.4 Developing the regional payment systems**

Over the past 20 years, accelerated regional integration and technological innovation have dramatically altered the context in which national payments systems operate. Rapid integration has linked RECs and put increasing demand on their member countries' national payments systems to extend services across borders and facilitate regional trade. Also, the mass use of broadband internet and mobile technology has given some RECs the chance to provide retail payments services across borders. To facilitate cross-country exchanges among RECs and to exploit cost economies asso-

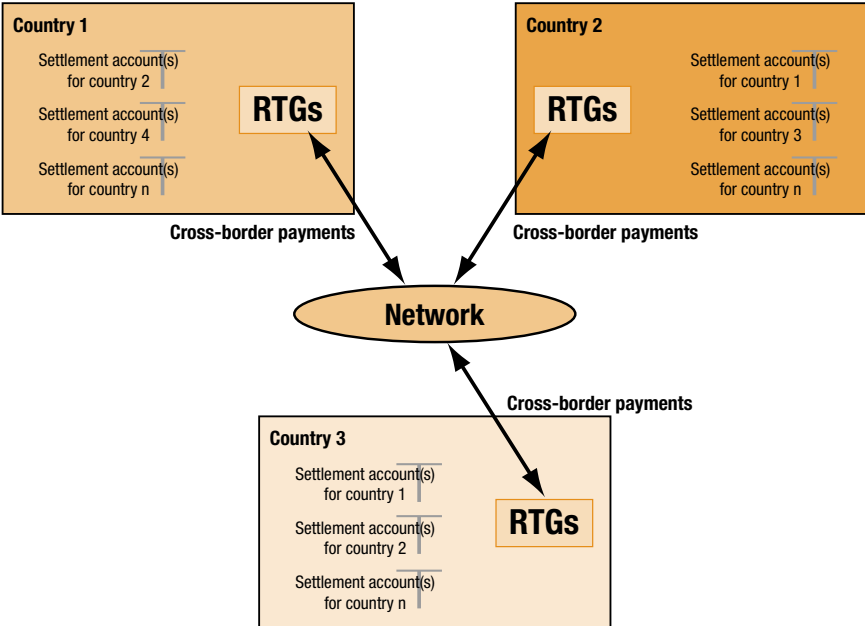
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1 Basel Core Principles for Systemically Important Payment Systems, Basel, Switzerland, 2001. "Systemically important system" is defined as one in which, if the system were insufficiently protected against risk, its disruption could trigger or transmit further disruptions among participants (i.e., cause systemic disruption in a wider financial area).

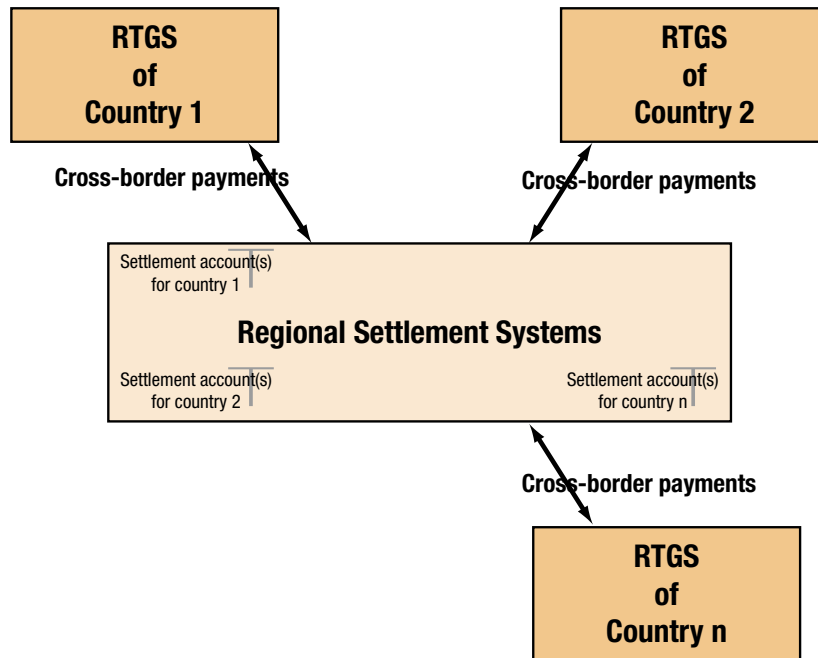
ciated with sharing infrastructure investments, a number of RECs and their institutions, including AMU, SADC, COMESA, WAEMU, CEMAC and WAMZ have implemented or planned to establish regional payments system arrangements.

Regional payments systems are developed either by linking various national payments systems in a network (figure 8.2a) or by setting up specific clearing and settlement systems dedicated to cross-border transactions as a separate process from domestic transactions (see figure 8.2b).

**Figures 8.2a and 8.2b**  
*The architecture of regional payments systems*  
**8.2a**



### 8.2b



The WAEMU and CEMAC, economic and monetary unions with a single currency, have adopted an integrated regional system using the same structure for national and cross-country payments. The others are free-trade areas without a uniform currency, oriented towards establishing a link and mutual accounts among their RTGS systems. In both cases, a singular advantage of establishing regional agreements and payments systems is the economy that trade partners would achieve through these systems, compared with the practice of using correspondent banking to settle payments related to cross-country trade. Using regional payments systems, netting the obligations of each country towards the other is possible, which reduces the need for liquidity. Each REC's efforts are described below.

#### *WAEMU*

The payments systems reform in WAEMU was initiated by the Central Bank of West African States (BCEAO). Previously, cash payments, high-cost transactions and legislation unsuited to payments system development had predominated. The reform rests on three pillars, namely, the establishment of an RTGS for systemically important payment, known as Automated Transfer and Settlement System within the WAEMU (STAR-UEMOA); the operationalization of an automated multilateral clearing system known as Automated Interbank Clearing System within the WAEMU (SICA-UEMOA); and the development of a regional interbank card-based payments system, to be established by the banking system at the instigation



of the BCEAO. Finally, the Payment Incidents Centre (*Centrale des Incidents des Paiements* or CIP) which was established by the BCEAO as a tool to ensure payment system safety, is undergoing change with the implementation of a new computer application. This new mechanism should help restore public confidence in the currency and ensure an environment favourable to sound trade transactions. According to World Bank sources, the WAEMU regional payments project has achieved its primary objective: STAR, SICA and CTMI are operational as designed; the speed of cross-border transactions has increased, transaction fees paid by end-users for low-value transactions has declined by 25 per cent, while the number of available automatic teller machines (ATMs) or point of sale (POS) outlets and the number of card transactions also are expected to increase by at least 10 per cent per annum once the MONETIQUE system is operational.

### **CEMAC**

The six member countries of CEMAC, Cameroon, Central African Republic, Republic of the Congo, Equatorial Guinea, Gabon and Chad, use the same currency and are fully integrated in terms of monetary policy, laws and trade rules. None had an automated payment system when BEAC, the Central Bank, conducted a comprehensive study to determine the strategy of the regional payment system and designed its modules. To comply with international norms and standards governing payments systems, in 2003 the BEAC launched a project to reform the payments and settlement system in CEMAC countries. The project is intended to render the regional and national payments systems more effective and secure by fostering the dissemination and use of modern payment instruments. Its objective is to increase the average bank use rate, which is approximately 3 per cent at present, to 10 per cent by 2012, and to offer legal incentives to use scriptural means of payment.

The project is based on the introduction and development of a broad-based inter-banking system through the harmonization of payment and settlement instruments and the standardization of formats for information and data exchange between the various participants. Its structure revolves around the following elements: an RTGS system at the regional level (SYGMA) equivalent to the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) system; The Central African Teleclearing System, or SYSTAC, for mass payments at the country level; an interbank electronic banking system (SMI), which will be managed by the banking community under two structures set up on an ad-hoc basis (the Central African Electronic Banking Authority [OMAC] and the Central African Electronic Banking Company [SMAC]); and a risk-management and payment default system with the regional information system, the Payment Incidents Centre (CIP, above), devoted to preventing, processing and penalizing payment defaults for cheques, payment cards, commercial instruments and drawings.

The new payment system is not yet fully introduced throughout the region. The SYGMA and SYSTAC components are operational throughout CEMAC, but the CIP component has been shelved since December 2006. A plan is scheduled to improve the performance of the central SYGMA and SYSTAC systems by improving the performance of the payments infrastructure, enhancing the capacity of the VSAT and the performance of the platforms, and increasing the level of competence of the payments system users in the BEAC and in the commercial banks.

### **COMESA**

COMESA has adopted a phased monetary harmonization programme designed to establish a monetary union and has also launched a free trade area (FTA). To facilitate regional trade, COMESA launched its payment system reform initiative, the COMPASS Initiative, in 1999, making it the first REC to implement a separate payment system dedicated to cross-country transactions. The COMPASS Initiative is intended to increase speed, lower transaction costs and reduce risks associated with currency convertibility in an effort to promote intra-regional trade. The system is designed to welcome the participation of other African banks as well as European and Asian banks in countries that have commercial exchanges with COMESA members. To achieve an effective FTA and customs union and to reduce costs of cross-border financial transactions, COMESA has transformed its COMPASS Initiative into a regional payment system initiative (REPSS), linking members' national payments systems. Unlike the EU's TARGET system, the REPSS is a netting system that may be operationally easier and cheaper to set up, but that lacks some of the safety and finality features of an RTGS system. If, as hoped, the REPSS is cheaper to use than correspondence banking, it should attract a larger volume of smaller transactions (including cash-and-carry), while helping to level the playing field for smaller banks.

The REPSS, which became operational in 2009, is designed to provide a single gateway for central banks in the region to effect payment and settlement of trades. It is a complete, real-time, online system with an open, published interface based on the Society for Worldwide Interbank Financial Telecommunication (SWIFT) standards. The COMESA clearinghouse acts as the agent of the central banks, while bilateral limits are set by each central bank at the clearinghouse. Bilateral agreements between central banks are formulated to further ensure that settlement is a successful event each day. Central banks in all COMESA member States are expected to facilitate payments for goods and services of respective traders by transferring payments under the new system. The connections through central banks will avoid the payment chains that can sometimes occur in correspondent bank arrangements. The system will operate through the infrastructure of each country's central bank and commercial banking payments system. Each country, however, will need to pass adequate

legislation. A trust fund should also be established to ensure daily settlements in the event that one or more of the participating banks is unable to settle.

REPSS is anticipated to reduce the cost of settlement transactions; reduce liquidity requirements to secure settlement; lower exposure to foreign counter-parties; keep foreign-correspondent banking charges down, along with transactional and operational costs. These benefits could immediately be passed on to traders and other stakeholders and give everyone the needed comfort to expand their trade within the region.

The chief difficulties hindering the use and expansion of the system are:

- Political risk in some of the member countries;
- Insufficiencies in the REPSS conceptual model, which have been observed by some member countries' central banks (the most important of which is that banks bear the exchange-rate risk, as settlement takes place one day later than clearing);
- A common fund, needed to ensure settlement in case the position of one of the central banks is short, has yet to be designed and implemented;
- No other telecommunications network exists to connect to the system but the SWIFT network, which is secure and high-performing, but expensive;
- Unequal readiness of the countries;
- The low volume of intra-regional trade, which does not allow the system to become as cost-effective as it could be (present transaction costs are deemed high by member countries).
- Liquidity problems may occur in the early operations of REPSS, possibly requiring the COMESA clearinghouse to be assisted by its development partners;
- Legal problems may arise if importers fail to pay exporters under letters of credit terms, an issue needs to define the party liable to pay on behalf of importers; and
- Identification of the party bearing the foreign-exchange risk (Central Banks or commercial banks) must be identified.

## *EAC*

The EAC is planning to have a single currency by 2012. It has designed a regional payment system, EAPS, based on a link between the RTGSs of all member countries, the main operating rules of which are as follows:

- Each central bank has a settlement account with the others, in their currency;
- Each bank opens a settlement account for each commercial bank in each of the region's currencies dedicated to cross-border payments (i.e., each commercial bank has a settlement account in its own currency plus four others);
- Settlement is based on a credit push by the banks and operates in gross mode (no netting);
- Commercial banks willing to settle payments for their customers buy currency from a counterpart in the country where the payment is to be received;
- The selling bank's account in its national RTGS is debited, and the central bank's account of the buyer's country in the same RTGS is credited;
- This RTGS communicates to the buyer's RTGS, which debits the central bank's account in this currency and credits the buyer's;
- When the buying bank sends the payment, its settlement account in this currency is debited/credited that of the Central bank, and so on. Issuer of the payment sends a payment order in his national RTGS, indicating the currency and the destination country.

The advantage of the EAC's solution is that a transaction's settlement takes place on the same day that funds have been transferred to the settlement accounts, which means that no exchange rate risk is inherent. On the other hand, central banks do not bear any risk, even if a participant fails. The payment would simply be rejected.

EAC regional authorities face a significant obstacle in implementing EAPS because national payment systems of member States are not equally sophisticated. Kenya, Uganda and the United Republic of Tanzania have successfully implemented the national RTGS and are currently integrating it with that of other countries, but Rwanda and Burundi are less advanced. And even though EAC's solution is cheaper than building a dedicated system to regional transactions, the low level of regional trade may have a negative impact on the cost of unitary transactions. Moreover, the effort required by commercial banks to manage multiple settlement accounts may make it difficult to use the system. Settlement based on credit-push, liquidity management also is burdensome.

### *AMU*

The idea of establishing a regional payments system that would allow AMU's member States to settle payments via the domestic central banks in convertible cur-

rency was first considered in 1992 but never made operational. The States never ratified it. Nevertheless, ongoing efforts to upgrade national payments systems provide an opportunity to push for harmonization in the region (IMF, 2007). Work is under way to simplify this system and make it more attractive to the UMA countries. As a result of payments system reform, AMU countries, to differing degrees, have improved their national payments system's legal and regulatory frameworks, settlement efficiency and institutional capacities, and have privatized State banks and enhanced competition in the payment sector.

However, much remains to be done. According to an IMF study on financial sector reforms and prospects for financial integration in Maghreb countries, payments systems in AMU are still predominantly cash-based. "In most countries, manual procedures and paper-based cheques mar the systems, contributing to the slow-down of financial flows and, thus, increasing intermediation costs. Clearance of checks may take from six days up to several weeks for inter-regional transactions. In some countries, informal channels of payment are ubiquitous, and the juridical and technical frameworks are inadequate to sustain a modern payment system" (IMF, 2007).

At regional level, AMU is further confronted by other challenges:

- Inadequate support to regional payments system development from the political authorities;
- Little motivation to implement a regional payments system, likely because the foreign trade of member countries is mainly with Europe and Asia;
- Differing oversight regulations of national payments systems;
- No reference currency;
- Member countries' national payment systems coping with different stages of development;
- Tight foreign-exchange controls;
- The high cost of trade financing;
- Difficulties related to standardizing account numbering (which could be solved by adopting the International Bank Account Number (IBAN) and exchange formats; and
- An incomplete roadmap of the regional payment system.

While the AMU regional payments system would require considerable resources to develop, it also holds great potential for furthering financial integration in the region.

## **SADC**

The SADC payments system project was launched in 1996 under the assistance of the World Bank to help SADC member States define domestic strategies and a development plan and to define a coordinated regional approach to cross-border payment, taking into consideration the implications for trade, central-bank policy and foreign-exchange control. Based on the premise that a sound and robust domestic system is a prerequisite for a cross-border payment strategy and regional payments system, the SADC project was structured to ensure that each SADC country has an efficient and effective payment system that could be linked with those of other SADC member States.

One of the main obstacles to implementing the plan is that each of the national payment systems of the 15 SADC countries<sup>2</sup> has reached differing stages of development. At present only two countries, Zambia and the United Republic of Tanzania, have implemented the SADC regional payments system. This is based on the principle of central banks of member States opening settlement accounts in the high-value payments system of each of the other member States, which will be used to settle cross-border payment transactions. Currently, project implementation is focusing on further refining the process of collecting and publishing payments system-related statistical data; refining the regulatory diagnostic templates and conducting focused interviews with member countries; developing a proposal for a cross-border payments settlement system based on a single currency; and following up on possible opportunities for funding the single currency project.

SADC also is promoting mobile-payment arrangements. Commercial banks use mobile technology to enable the un-banked to access the banking infrastructure. It allows the un-banked to open accounts from remote areas as long as they have access to a mobile phone network. Mobile technology-related products offered by banks are cheaper than the usual banking products.

## **WAMZ**

The West African Monetary Zone (WAMZ) was formally launched by the heads of State and government of The Gambia, Ghana, Guinea, Nigeria and Sierra Leone in December 2000 to establish a common central bank and introduce a single currency. The monetary union was to commence in January 2003 after a convergence process. However, the launch has suffered two postponements following the inadequate status of macroeconomic convergence. After it was postponed on December

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2 SADC membership includes Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

1, 2009, the WAMZ authorities adopted an expanded work programme and action plan for its delivery under the Banjul Declaration of May 2005.

The WAMZ regional payment and settlement system is one of the pillars of the 2005 Banjul Declaration. The main components of this payments system reform project include an RTGS system; an automated clearing house (ACH); automated cheque processing (ACP); a scriptless securities settlement system; a banking application; telecommunications and energy upgrades; the strengthening of payment institutions and capacity-building; and consolidating the legal basis of the regional payments system.

The WAMI's recent report on the WAMZ regional payments system's progress indicated that significant progress has been made towards developing of a regional payments system, including the adoption of a common system by all WAMZ member countries, a common cheque standard, common ACP system and the adoption of a legal framework.

However, the WAMZ member States have payments systems at various levels of development. Ghana and Nigeria have largely automated their payment systems, particularly the RTGS system, which is essential for cross-border funds transfers and an efficient banking system liquidity management; but the systems in the Gambia, Guinea and Sierra Leone are still manual and therefore cannot participate in a cross-border payments and settlement system. The respective RTGS systems, ACH and ATMS/national switches would, therefore, remain stand-alone systems until about 2013. Uncertainty remains concerning when a functional large value payments system can be established in the zone before the launch of the monetary union.

## Box 8.2

### *The emergence and challenge of mobile remittance service*

The provision of mobile remittance services is a key growth area in payments systems. Remittances have grown rapidly in recent years, reflecting the growth in migration. Even at the height of the recent global crisis, remittances remained crucial. The global impact of the economic downturn meant that the support payments that migrant workers sent home to their families became even more important.

While the provision of remittance services was once the sole preserve of money-transfer operators such as Western Union and Moneygram, it has become a competitive concern with the entry of financial institutions, which are identifying remittances as a way to reach “un-banked,” or “under-banked” consumers. It is unsurprising, then, that mobile remittances are one of the key growth areas in remittances.

One of the earliest mobile remittance services was M-Pesa (M for mobile, pesa in Swahili for money), a mobile phone-based money-transfer service established in October 2005 by Vodafone affiliate Safaricom in Kenya. The service was aimed at mobile customers who do not have bank accounts. The intent of M-Pesa was to create a service to allow microfinance borrowers to conveniently receive and repay loans using the network of Safaricom airtime resellers. This would enable microfinance institutions (MFIs) to offer more competitive loan rates to their users, with the reduced cost of dealing in cash. Users of the service would be able to track their finances more easily. But when the service was trialed, customers adopted the service for a variety of alternative uses, and M-Pesa was refocused and launched with a different proposition: sending remittances home across the country and making payments. The continuing success of M-Pesa has been due to the creation of a highly popular, affordable payment service with only the limited involvement of a bank.

This idea is fast spreading across Africa and even globally. At the same time the M-Pesa service went live, Vodafone and Citi’s global transaction services announced a worldwide mobile financial remittance venture, which builds on the M-Pesa service. Under the venture, a mobile-based international money transfer service will be developed that will target the global remittance market worldwide.

However, the international remittance market is by no means homogeneous. Conditions vary from country to country and corridor to corridor. A protocol must be developed that will enable money to be sent across different networks seamlessly to make remittance services truly international, rather than just a series of “closed loop” services. Another challenge is to make mobile remittance services fully interoperable with other payments applications. This would tackle the problem of getting cash out of the mobile device and place less of a burden on the receiving side to deal with cash.

### **8.3.5 The impact of payment system reforms**

Since the 1990s, Africa has made progress in promoting payments system development, principally at the national levels but, to some extent, at the regional levels. The national payments systems reforms have produced positive developments. By January 1 2008, 1,004 users in 52 African countries were connected to SWIFT and



enjoying the benefits of instantaneous and secure global reach. “The last few years have seen these countries upgrade their connection to SWIFT by introducing RTGS systems on to SWIFT. Today, more than two-thirds of African countries either have or are putting RTGS systems in place, making their payment systems safer, stronger, and more secure.”<sup>3</sup>

Moreover, the advent of automated clearinghouses in Africa has paved the way for such systems as direct deposits and direct payments, which increases the convenience and speed of payments. These reforms and advances in new payments technology have led to new products such as mobile banking and mobile money transfers in some countries. These developments have been supported by revisions to the legal and regulatory frameworks and better supervision, which has ensured that regional payment systems have become more practical and safer over the past decade and meet international best practices.

Despite these achievements, African payments systems often remain inefficient in terms of supervision, cost and time, compared with international practices. Despite the connection to SWIFT, wholesale systems are uncompetitive and therefore more costly and slower than in other developing countries. Insufficient infrastructure (including too-few POS terminals) and few access channels to initiate and deliver cashless payments remain a problem in many African countries. In some cases, particularly in landlocked African countries, the limited interoperability of these various subsystems exacerbates this problem.<sup>4</sup> A recent assessment of the payment systems in Africa (Vinod, 2008), concludes that most African national payments systems are weak in technical infrastructure. The review found that, with a few exceptions, most sub-Saharan African payment markets need to be improved in terms of implementing a secure domestic system/network, upgrading their electronic payments or clearing infrastructure and addressing operational, systemic and liquidity risks for participants, while other countries should improve their legal and regulatory framework.

Regarding regional payments systems, much remains to be done in Africa. While some RECs adopted this approach in the 1990s, implementation has been slow. In 2009, in many areas regional payments systems were still at a rudimentary implementation stage. Moreover, about a third of African countries had still not been connected to the RTGS payment system, and at present they create serious weak links in international payments processes, delaying payments by up to a month in some

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<sup>3</sup> [http://www.swift.com/about\\_swift/press\\_room/swift\\_news\\_archive](http://www.swift.com/about_swift/press_room/swift_news_archive).

<sup>4</sup> For example, according to World Bank statistics on ATMs per 1,000 sq km in 100 countries, the density in Africa ranges from less than 0.1 in Madagascar, the United Republic of Tanzania and Zambia to 6.5 in South Africa, compared with 2,642 sets of ATMs per 1,000 sq km in Singapore. The comparison on bank-branch coverage, deposit-account holdings and other payment-access indicators are equally poor.

cases.<sup>5</sup> Besides, due to lack of contingency arrangements, too-strict access policy and poor governance, even some of the RTGS-based systems perform below expectations.

The gap in payments-system performance in Africa can be highlighted in a peer group comparison of Africa, Asia, Middle East and Central Europe. On average, cross-border transfers cost several times higher in Africa than in Asia, the Middle East or Central Europe (see table 8.1).

**Table 8.1**  
*Cross-border fees for some African, Asian and Central European countries*

First Quarter 2009					
Average total cost					
Sending country	Receiving country	Fee (US\$)	Exchange-rate spread (US\$)	Per cent (%)	Total (= Fees +2*spread) USD (\$)
Malaysia	Indonesia	5.6	4.98	7.78	15.56
Russia	Central Europe	5.06	0.00	2.53	5.06
Singapore	Asia	9.22	1.75	6.36	12.73
South Africa	Swaziland	23.61	0	11.8	23.61
	Lesotho	24.46	0	12.23	24.46
	Zimbabwe	25.62	0	12.81	25.62
	Angola	25.62	1.58	14.39	28.79
	Botswana	26.3	5.84	18.99	37.99
	Mozambique	26.21	6.77	19.88	39.76
	Malawi	25.62	7.77	20.58	41.16
	Zambia	24.8	12.51	24.91	49.81

**Source:** World Bank.

Financial traffic on SWIFT (SWIFT, 2008) reveals that, with few exceptions, African countries rank close to the bottom in terms of member banks, institutions connected, financial messages sent and received (including payment, treasury, trade and financial copy messages) and annual growth rates. In the 129 countries across Europe, Africa, Middle East, Asia and the Pacific region, about 2.4 billion payment-related messages were sent and received via SWIFT in 2007. Africa's share was only 0.0046 per cent of the region and 50 per cent lower than Italy's. Besides, 209 banks in 40 African countries are SWIFT members, but this is fewer than the number of banks in Italy and Russia.

5 In 12 African countries, mostly landlocked or fragile, (Burundi, Burkina Faso, Central African Republic, Comoros, DR of the Congo, Eritrea, The Gambia, Guinea, Guinea-Bissau, Liberia, the Niger and São Tome & Príncipe), banks are not connected to SWIFT through the RTGS.

The small size, fragmentation and lack of competition in the African payments systems also result in inefficiencies, high costs and exorbitant bank charges, which hurt the competitiveness of African enterprises, especially the SMEs, in the global market. Therefore, while regional integration has provided the impetus for payments system reforms, especially at the regional level, the results have not been evident (see table 8.2). It is not clear whether regions that have implemented reforms in these systems, such as CEMAC, are enjoying a trend increase in intraregional trade, or such trade is rising higher than that of groups such as GEPGL or the Mano River Union (MRU), which are not implementing a regional payments projects.

**Table 8.2**

*Trends in intra-regional exports of selected regions (shown as per cent of total exports)*

	1990	1995	1999	2000	2001	2002	2003	2004	2005
CEMAC	2.3	2.1	1.7	1.1	1.4	1.5	1.4	1.3	0.9
CEPGL	0.5	0.5	0.8	0.8	0.8	0.9	1.2	1.2	1.3
COMESA	6.6	7.7	7.4	6.1	7.9	7.4	7.4	6.8	5.9
CBI	10.3	11.9	12.1	11.8	11.5	14.5	13	13.8	14
EAC	13.4	17.4	14.4	20.5	21.4	19.3	18.2	16.6	15
EACCAS	1.4	1.5	1.3	1.1	1.3	1.1	1	0.9	0.6
ECOWAS	7.9	9	10.4	7.9	8.5	10.9	8.6	9.4	9.5
IOC	4.1	6	4.8	4.4	5.6	4.3	6.2	4.3	4.6
MRU	0	0.1	0.4	0.4	0.3	0.2	0.3	0.3	0.3
SADC	17	31.6	11.9	9.3	8.6	9.5	9.8	9.5	7.7

*Source: World Bank.*

The benefits of regional payments system modernization do not, therefore, appear at once, and their significance will depend on a critical mass of countries undertaking the regional payments system initiatives. The payments infrastructure reforms must be supported by policy and institutional reforms as well as trade facilitation measures that enhance stability of regional payment systems, help reduce costs of cross-border payment services and encourage the use of payments systems.

## 8.4 Agenda for action

Payments systems reform is still a work in progress. It must continue if Africa ever hopes to modernize and take advantage of international developments in such systems or to cope with the increasing demands of globalization. The impetus for further reform, therefore, depends on certain key developments, including:

- The renewed focus on regional integration, which is pressuring some African countries to extend national payment services across borders and thus encourage and facilitate intra-REC trade;
- The continuous wave of technological innovations that demands constant adaptation, especially of the electronic payment system;
- The ever-present and growing risks presented by the payments systems, especially the fraud and operational risks, that continue to test their vulnerabilities;
- Globalization pressures that demand greater levels of standardization to improve the international flow of information and funds; and
- Changes in international operation and regulatory standards in response to emerging market demands and risks, that African countries should build their capacity to implement.

An agenda for further reforms, which should take into consideration the pressures of reform and respond to the remaining and emerging weaknesses in the payments systems, should be implemented at both national and regional levels.

### 8.4.1 At the national level

Payments reforms should continue to tackle the payments infrastructure as well as the soft issues of regulatory reforms and institutional capacity-building, including:

#### *Improving payments system infrastructure and access*

- Encourage standardization and automation for mass application in order to create economies of scale and enhance efficiency, reliability and predictability in the payments systems processes
- Encourage interoperability<sup>6</sup> among payment network arrangements.<sup>7</sup> Enhancing interoperability among competing network arrangements<sup>8</sup> or their consolidation into single systems also can enhance scale economies and help reduce user costs. In Africa, more active support from national governments to promote retail payments service market development could help to activate interoperable networks and diminish infrastructure segmentation. African national central banks might consider establishing a working

6 A situation in which payment instruments belonging to a given plan may be used in systems installed by other plans. Interoperability requires technical compatibility among systems, but can only take effect where commercial agreements have been concluded between the plans concerned.

7 Includes all the procedures, conventions, regulations and contracts governing the payments service relationships and transactions between the service providers and users.

8 Includes all the processes and arrangements related to the functioning of a network (such as those related to hours, fees, sanctions, delivery of items and formats).

group or forum with representatives from all stakeholders' groups to help drive the process.<sup>9</sup> Adequate resources should be budgeted and allocated to the issue of standardization, seeking both sector and cross-industry cooperation. They could collaborate with other authorities to promote interoperability and foster their public-policy objectives. This could include setting a tight deadline for the interoperability of networks and for creating a unified retail clearinghouse. National authorities would intervene to ensure that perceived costs of its regulation by financial institutions not be passed on unfairly to final consumers.;

- Promote competition. The extent to which accessibility and affordability of payment services can be expanded is, in part, a function not only of the level of cooperation but also of competition in the payments system. One of the key constraints in payments services development in Africa is high transaction cost and lack of effective competition. Transaction costs can be mitigated by loosening market-entry controls and allowing private-sector providers to enter payments services markets to enhance economies of scale, scope and network externalities. To increase efficiency, African governments should also liberalize payments services markets and encourage private-sector participation, at least, in the retail and sub-wholesale payments service markets.

### *Enhancing risk-management and regulatory and market reforms*

- Manage risk. As the infrastructures for retail payment, securities settlement and large-value payments systems develop on the continent, the major financial institutions participate in all of them. Settlement in one system can, therefore, affect the safety and efficiency of settlement in all. The institutions typically coordinate and integrate the settlement processes in the core infrastructures to better manage liquidity and settlement risks, which can further increase system interdependency. Although coordinated settlement processes for these systems can improve overall cost-efficiency in inter-banking transfers and achieve settlement finality in central bank money, the potential cross-system risks of greater coordination and integration—the legal, operational, financial and systemic risks—need to be monitored and well-managed.;

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<sup>9</sup> Measures to increase interoperability may include adopting common standards for instruments, communication and transmission security for all networks providing interoperable services; facilitating interconnectivity among proprietary network arrangements, notably ATM and EFTPOS networks; and adopting common equipment and IT technology (e.g., hardware and switch) and software standards to allow interoperability at point of sale (e.g., ATMs, card readers, internet connectors) among competing networks.

- Regulate and supervise the payments system. To make their payments systems efficient, African national central banks need, first of all, to ensure that their banks and other similar financial institutions have direct or at least effective indirect access to any clearing and settlement facilities provided by the central bank, and then to take responsibility for applying the Basel Core Principles on Systemically Important Payment Systems. To maintain national payment systems free of systemic risk, national authorities should clearly define the payments system objectives and disclose major policies publicly; ensure that the system's operations comply with the core principles; and cooperate with relevant foreign authorities to ensure that the regulation and supervision of every entity they do not fully control also complies with the core principles.;
- Provide liquidity. After safety, the efficiency of a nation's payment system is the primary concern of African national central banks. To maintain the efficient operation of payments systems, African central banks must provide adequate liquidity to payments systems participants at reasonable prices, particularly to help withstand external shocks. The effective daily functioning of every RTGS payments system depends critically on the adequacy of the liquidity—the immediately usable balances on an account with the settlement authority—available that day to each of its members to fund its payment obligations and those of its customers. The normal operation of RTGS-based payments systems depends on the ability and the willingness of central banks to extend intra-day credit to participants. In RECs, central bank intra-day and overnight lending policies and practices should be harmonized and rationalized. National authorities should also support the development of the inter-bank market, which facilitates efficient and timely payment settlement among member banks and can lower each individual member bank's need for central banks' funds.;
- Support securities market development. Countries should support linkage of their wholesale payments systems not only to inter-bank markets but also to securities markets. They are mutually dependent. To achieve delivery versus payment, settlement of the securities leg in the securities settlement system is conditional on settlement of the cash leg, normally in a large-value payments system. Similarly, credit extensions in large-value payments systems often depend on collateral, normally through a securities settlement system. Thus the interaction between these arrangements must be cost-efficient, reliable and secure; and
- Strengthening the legal framework for settlement of payment obligations: The legal basis is of special importance. A fundamental requirement for a stable and well-governed payments system is that it should operate in a well-defined legal environment, setting out the rights and obligations of

each party involved in transmitting a payment through the system, under normal as well as adverse circumstances. This requires transparency in the application of rules and regulations by the system's operators, and consistency in their legal enforcement. The legal environment needs to cover payment instruments as well. Laws related to settlement must be improved to ensure payment finality and irrevocability, except under clear and specified exceptional circumstances, and to protect the risk-free settlement facility at the central bank from being frozen or attached by creditors of institutions holding the settlement accounts.

### **8.4.2 At the regional level**

Constructing an integrated payments services market in Africa requires not only that national authorities drive the development of their domestic payments services market, but also that continental authorities give practical guidance and regional authorities coordinate national initiatives and finance the missing pieces. Since the goal of regional economic and financial integration is to establish an African Economic and Monetary Union, the vision for payments system integration in Africa should be that of an integrated, cost-effective, easily accessible and risk-free system. The various RECs should implement appropriate programs to help achieve this vision.

#### ***Multi-currency systems***

The various initiatives to develop regional payments arrangements, including those of COMESA, EAC, SADC and WAMI, should continue to address the obstacles identified through the evaluation of their performance. They may need to take advantage of national progress and also address regional issues such as improving oversight of the regional payments system; improving efficiency of cross-border remittances and securities systems; strengthening the implementation capacity of member central banks and extending special support to fragile states; updating cross-border payment statistics; and mobilizing funding from internal and external sources, including from the private sector.

#### ***In common currency systems***

With all modules of the regional payments system successfully implemented, the WAEMU and CEMAC should accelerate their efforts to better improve the performance and security of the payment system, enforcing oversight of the payment system and putting in place a guarantee fund for the clearing system. They should encourage banks that have not yet joined the regional card community to do so and

launch awareness campaigns to increase the use of the payment instruments. The stability of their payments systems would benefit from strengthening their financial sector.

## 8.5 Key elements to support progress

### 8.5.1 Improving financial infrastructure

Enhanced competition in payments service markets tends to result in greater risk, due to a deficiency of information and moral hazard. To reduce these risks, the financial infrastructure, which comprises financial regulation, banking supervision, financial standards, legal frameworks and credit information, should be strengthened at national and regional levels. Efficient payments systems regulation and supervision are necessary to achieve and maintain stability. Rigorous standards for financial reporting improve the self-discipline of payment-management institutions and instill confidence in national and regional payments system development. Transparency is another key to maintaining the stability of such operations in Africa. In addition to harmonizing accounting standards and introducing international auditing standards, a credit registration bureau can play an important role in enhancing transparency, which definitely contributes to the stability of payments systems.

### 8.5.2 Sensitizing banks and other stakeholders

Regional payments systems development and payments services' liberalization present opportunities and challenges. Owing to the relatively low level of knowledge on the relevant regional issues, RECs should implement programmes to sensitize the major stakeholders, in particular, banks and the political authorities, to these issues.

### 8.5.3 Enhancing dialogue and strengthening partnerships

Regional payments systems development is a long, demanding process, whose sustainability depends on excellent communication and strengthened partnership among the key players, including market regulators, such as regional and national central banks; consumers, retail groups, private- and public-sector cash-management associations and their major participants; key service providers, such as banking, securities, funds-management and payment associations and their principal industry participants; and financial infrastructure organizations such as payment transac-



tion, clearing and settlement network operators and securities exchanges, broker associations and settlement system operators. Such partnerships improve participation in the design and implementation of payments systems, including the setting of an acceptable balance between cooperation and competition within the industry groups, and between the industry and consumer groups.

#### **8.5.4 Institutional strengthening and capacity building**

To ensure sound payments systems development in Africa, RECs and their member countries should strengthen their related capacities. Capacity-building of skilled and knowledgeable human resources is as critical as the development of the physical infrastructure. African central banks need to lead this process, sharing their knowledge and expertise about the emerging trends and issues on national and regional payments systems development and on ensuring system efficiency and security.

#### **8.5.5 Mobilization of resources**

The most pressing issue is resource mobilization. The development and integration of African payments services should, of course, be driven by Africans. However, they need to be assisted with unconditional ODAs and packaged institutional strengthening and capacity capacity-building in the short term. But international aid cannot substitute for countries' efforts to achieve their internal development objectives. African countries also need to pool their respective budgetary resources and governments must encourage participation of the private sector in financing modernization and integration.

### **8.6 Conclusion**

Many of the recommendations in this chapter already have been integrated into the payments systems strategies of most RECs and their member countries. The problem, however, is that they may have been formulated with insufficient attention to the dynamic interaction between their development and economic integration. Most of these options will be implemented over the long term or are contingent on complementary adjustments in other member countries, regions or the international economic system. The implementation of regional programmes can be phased, beginning with strengthening the national payments systems. National payments reforms, to be implemented over the next five years, would pave the way for the more systematic implementation of regional payments programmes in the medium term.

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# Infrastructure and Intra-African Trade

## 9.1 Introduction

### 9.1.1 The impact of infrastructure on economic development

Infrastructure affects economic development in terms of both intermediate and final products. With respect to intermediate products or goods, sound infrastructure facilitates the mobility of the means of production (labour, goods and finance), thus improving productivity and reducing cost, which are key factors in competitiveness. Infrastructure also increases the flow of information, opening new opportunities and reducing asymmetries and other market imperfections. In terms of final products or goods, the consumption of infrastructure services improves easy access to energy for industries and domestic use; safe transportation; reliable communication; clean water and sanitation.

A symbiosis exists between infrastructure and economic growth. Good infrastructure spurs growth; conversely, increased growth results in a demand for more infrastructure (Eustace and Fay, 2007). Transportation systems move goods and people to facilitate production and trade; communications systems move information and finance across borders for production and trade; and energy is required in the production and transportation of labour and goods to production and trade points. These elements of infrastructure are foundational to the cost of trade, the global competitiveness of each country and its development prospects.

Efficient transport, communications, energy infrastructure and related services are important for trade and the pursuit of the continent's development goals. On the other hand, inadequate infrastructure and services result in increased production and transaction costs, which reduce competitiveness and make it more difficult to achieve overall development goals. According to some estimates, a 1 per cent increase in infrastructure stock adds 1 per cent to a nation's GDP growth. Similarly, doubling the annual growth rate of telephone connections from 5 per cent to 10 per cent (rates that have been observed in East Asia) can translate into an increase of 0.4 points in the growth rate. Furthermore, increasing the per-capita growth of

electricity consumption from 2 per cent (observed in Africa) to 6 per cent (observed in East Asia) would lead to a 0.5-point increase in economic growth (Ndulu, 2007). Based on data observed between 1960 and 2000, it is estimated that the growth rates of various Latin American countries could have been 1.5 (Costa Rica) to 5.8 points (Bolivia) higher, compared with the known rates for these countries, if the latter had had infrastructure that was comparable, quantitatively and qualitatively, to that of South Korea. (Caldron and Sirven).<sup>1</sup>

Africa's inadequate infrastructure is widely recognized (ADB, ECA, 2006).

- Thirty per cent of the population has access to electricity, compared with rates at 70 per cent to 90 per cent in other major geographical zones of the developing world (Asia, Central America, the Caribbean, the Middle East and Latin America). Africa, with 13 per cent of the world's population, consumes only 3 per cent of the world's commercial energy, although its share of the world's energy production is 7 per cent;
- Sixty-five per cent of the population has access to safe water and sanitation, compared with rates of 80 per cent to 90 per cent in other developing countries;
- Africa has a telecommunications penetration rate of about 3 per cent, compared with an average of 40 per cent in other parts of the world, and it has a very low penetration rate for broadband services;
- Africa's road access rate is 34 per cent compared with 50 per cent in other geographical zones. Roads are the dominant mode of transportation, accounting for more than 90 per cent of passenger and freight transport in Africa, compared with around 50 per cent of freight in Europe;
- The continent's rail network coverage is sparse, with low interconnectivity;
- African maritime ports and inland waterways are not exploited for travel; and
- Continental transport costs are among the highest in the world, with those of landlocked countries accounting for up to 70 per cent of the value of exports.

The above are averages with wide variations among regions. A better interconnected Africa, internally and with the rest of the world, would create larger markets and facilitate the achievement of the millennium development goals (MDGs) and other internationally agreed upon benchmarks. In this respect, African countries aspire to have a well-developed and coordinated, efficient and safe infrastructure. To achieve this, its countries have attempted a coherent programme of activities in energy,

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<sup>1</sup> Caldéron and Sirven's analysis on the same sample of countries shows that income disparities would also have been reduced if the countries had better infrastructure.

transport and communications as well as water and sanitation, in accordance with priorities established in the New Partnership for Africa's Development (NEPAD) and the mandates of the African Union (AU) and the Regional Economic Communities (RECs) and their relevant technical sector organizations.

### **9.1.2 Infrastructure and trade costs**

A measure of the efficiency and effectiveness of trade is the cost of doing business. Trade involves transport and other costs, which may account for a sizable proportion of the cost of goods sold. It is not uncommon for transport to account for 20 per cent or more of a product's total cost. Other expenses, including those covering bureaucracy and red tape, compound transport costs.

According to some analyses, the relatively low level of African trade flows is largely due to poor infrastructure, with the elasticity of trade flows with respect to transport costs estimated to be minus-three (-3) (Limao and Venables, 2001). This is supported by the findings of Longo and Sekkat (2001) that a 1 per cent increase in the stock of transportation and telecommunication infrastructure in the exporting country boosts its exports to other African countries by about 3 per cent.

A recent study by Limao and Venables (2001) finds that the median transport costs for a landlocked country are about 46 per cent higher than the equivalent costs in a median coastal economy, with distance accounting for only 10 per cent of the difference. Poor road infrastructure is responsible for 40 per cent of the transport costs in coastal countries and 60 per cent in landlocked countries. For landlocked countries in particular, transport costs largely accounted for the relatively low average import share in GDP (11 per cent), compared with a 28 per cent average for coastal economies.

Transport costs in Africa are recorded to be the highest in the world. The continent's freight costs, as a percentage of the total value of imports, were about 13 per cent in 2000, compared with 8.8 per cent for all developing countries and 5.2 per cent for developed countries (UNCTAD, 2002). The freight costs differ from region to region in Africa, with Eastern and Southern Africa experiencing higher costs compared with other regions. Similarly, Ackah and Morrissey (2005) note that transport costs constitute about 15 per cent (about 20 per cent for landlocked countries) of unit value of African exports, which is considerably higher than regions such as Asia (about 8 per cent) and Western Europe (about 5 per cent).

Deficiencies in telecommunications services—another aspect of trade infrastructure—also tend to isolate African states from one another. For example, it is much easier for businessmen in Africa to communicate with their counterparts in Europe

and North America than with their fellow businessmen on the continent (Yeboah, 1993). Thus, intra-Africa trade is further constrained by the absence of market information. While standard trade theory assumes that information about the availability of the products in the foreign countries, their characteristics or prices is accurate and free, in Africa, where communication links among countries are few and indirect, relevant market information may be expensive to obtain for both importers and exporters (Yeboah, 1993).

The absence of Information and Communication technology (ICT) at most African borders adds to the high cost of trade. Recent studies reveal the importance of modern ICTs as determinants of international trade costs. Limao and Venables (2000) examine the impact of ICTs on bilateral trade by including a measure of telecommunications development (the number of main lines) in their indices of infrastructure quality, and find that the latter has a positive impact on trade. François and Manchin (2007) find similar results, except they broaden their measure of infrastructure quality to include the degree of mobile telephone use. These results support the view that communications costs are important components of trade costs. Therefore improvements to infrastructure, including communications, reduce trade costs and consequently increase trade.

These studies also demonstrate that expanded use of the internet lowers the cost of trading internationally. It is now much easier—and cheaper—to obtain information on foreign market conditions, product standards and consumer preferences through the internet. This should lower the cost of entering foreign markets and promote trade at the margin. Freund and Weinhold (2004) find that a 10 per cent increase in the number of a country's Web hosts is associated with an export gain of around 0.2 per cent.

The various regional integration programmes in Africa attempt to increase trade among countries through trade liberalization. However, in many cases, formal trade liberalization has not been successful partly because some fundamental aspects of trade logistics, such as infrastructure, have been limited. The gravity model used to analyze the constraints to African trade (chapter 10) shows that both the quality of road infrastructure and the availability of telecommunications are statistically significant determinants of increased trade. Poor infrastructure, or its complete absence, makes trade physically difficult, if not impossible, independent of the trade regime.

In the energy sector, a recent study undertaken as part of the Africa Infrastructure Country Diagnostics<sup>2</sup> project demonstrates the potential for increased electricity trade and its benefits. Trade necessitates additional investments in cross-border

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2 The Africa Infrastructure Country Diagnostic (AICD) is designed to provide baseline data on infrastructure services in Africa that form a more solid empirical foundation for prioritizing investments and designing policy reforms in these sectors. The World Bank is implementing it on behalf



transmission links but allows countries to save by tapping lower cost sources of generation. In this sense it is possible to calculate the gains from trade as the rate of return on the additional cross-border investments.

The armed conflicts and general instability in many parts of Africa, notably the Great Lakes and Mano River regions, not only destroy existing infrastructure but also prevent their development, thus adding to the constraints on the affected countries. The net impact on trade is that the prices of infrastructure services in Africa are high by global standards, as table 9.1, below, illustrates.

**Table 9.1**  
*Relative prices of infrastructure services*

Unit cost (US\$)	Sub-Saharan Africa	Other developing regions
Power tariff (kWh)	0.2-0.46	0.05-0.1
Road freight (ton/km)	0.86-6.56	0.03-0.6
Mobile telephone (month)	2.6-21.0	9.9
International telephone (Three-minute call to US)	0.44-12.5	2.0
Internet dial-up service (month)	6.7-148.0	11.0

**Source:** *Africa Infrastructure Diagnostic: Final Synopsis, World Bank, 2008.*

As a result, larger African countries with poor and expensive logistics services, particularly those in sub-Saharan Africa, are among the least competitive in the world. Infrastructure appears to be a major determinant of their global competitiveness. The global competitiveness indices (GCIs) for sub-Saharan Africa, as calculated by the World Economic Forum, are consistently lower than those of other regions of the developing world (table 9.2). Poor infrastructure appears to account for the relatively low competitiveness of most African countries (table 9.3). Botswana, Egypt, Gambia, Mauritius, Namibia, South Africa and Tunisia have the top-ranked infrastructures in Africa.

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of a steering committee that represents the AU, NEPAD, Africa's RECs, the ADB, and major infrastructure donors.

**Table 9.2**  
Global competitiveness index (GCI) of Africa<sup>3</sup>

	GCI		Sub-Indices					
	2007	2009	Basic Condition		Efficiency		Innovation	
			2007	2009	2007	2009	2007	2009
Sub-Saharan	3.3	3.5	3.6	3.7	3.1	3.4	3.1	3.2
North Africa	4.1	4.0	4.7	4.5	3.6	3.6	3.6	3.5
Brazil	4.1	4.1	4.2	4.0	4.0	4.3	4.1	4.0
China	4.3	4.7	4.8	5.0	3.7	4.4	3.6	4.2
India	4.5	4.3	4.6	4.2	4.3	4.5	4.6	4.3
Russia	4.1	4.3	4.5	4.5	4.0	4.3	3.6	3.6
Latin America & Caribbean	4.1	3.9	4.4	4.2	3.8	3.8	3.8	3.4
Southeast Asia	4.3	4.5	4.5	4.8	4.0	4.3	3.9	3.9

**Source:** The Africa Competitiveness Report 2007, World Economic Forum, 2007.  
The Africa Competitiveness Report 2009, World Economic Forum, 2009.

**Table 9.3**  
Infrastructure and other basic conditions

	Basic Conditions		Sub-Indices							
	2007	2009	Institutions		Infrastructure		Macro-Economy		Health Primary Educ.	
			2007	2009	2007	2009	2007	2009	2007	2009
Sub-Saharan	3.6	3.7	3.6	3.7	2.5	2.8	4.0	4.4	4.0	3.9
North Africa	4.7	4.5	4.1	4.2	3.5	3.4	4.6	5.1	6.4	5.3
Brazil	4.2	4.0	3.6	3.6	3.3	3.2	3.4	3.9	6.5	5.3
China	4.8	5.0	3.5	4.2	3.6	4.2	5.7	5.9	6.4	5.7
India	4.6	4.2	3.7	4.2	3.5	3.4	4.1	4.3	5.9	5.0
Russia	4.5	4.5	3.1	3.3	3.6	3.7	5.0	5.6	6.3	5.6
Latin America & Caribbean	4.4	4.2	3.7	3.6	3.3	3.2	4.2	4.7	6.5	5.4
Southeast Asia	4.5	4.8	4.1	4.3	3.1	4.0	4.6	5.3	6.3	5.5

**Source:** The Africa Competitiveness Report 2007, World Economic Forum, 2007.  
The Africa Competitiveness Report 2009, World Economic Forum, 2009.

<sup>3</sup> The global competitiveness index calculated by the World Economic Forum is constructed on the basis of indices concerning three groups of factors: basic conditions (institutions, infrastructure, macro-economy, health and primary education); efficiency enhancers (secondary and higher education, market efficiency, technological readiness); and innovation (business sophistication and innovation).

### 9.1.3 Continental infrastructure development initiatives

African governments have acknowledged since early 1970s that accessible and efficient infrastructure is essential to achieve regional integration for sustained economic development. Many initiatives were developed between 1980 and 2000, including the special programme of the United Nations Transport and Communications Decade in Africa (UNTACDA). These were supplemented by the sub-Saharan Africa Transport Policy Programme (SSATP) for the development of the key sectors. Both the Lagos Plan of Action (1980) and the Abuja Treaty (1991) emphasized infrastructure development, and NEPAD (2001) maintains this as a priority. A short-term action plan (STAP) was defined and institutional mechanisms put in place to facilitate project implementation of NEPAD projects, including the Infrastructure Consortium for Africa (ICA) and the NEPAD Infrastructure Project Preparation facility (IPPF).

Infrastructure development continues to rank high among the AU's priorities, which is currently working on Programme for Infrastructure Development in Africa (PIDA). PIDA's objectives are to help African leaders establish a strategic framework for creating regional and continental infrastructure based on a development vision, strategic objectives and sector policies; establish the programme's priorities and phases; and prepare an implementation strategy and process including, in particular, a prioritized action plan with short-term, medium-term and long-term goals.

The Summit of the African Heads of State and the AU consequently dedicated its Twelfth and Fourteenth Sessions in 2009 and 2010 to the themes of infrastructure development in Africa, focusing respectively on transport and energy, and information and communications technologies (ICT). This reflects their continued concern that critical physical infrastructure and services remain inadequate and constitute a serious impediment to Africa's development and the achievement of MDGs. The 2009 session adopted a Declaration on Transport and Energy Infrastructure Development in Africa to guide infrastructure development, while an action plan for implementation was agreed upon at the 2010 session.

### 9.1.4 Scope and methodology

This chapter assesses the state of transport, communications and energy infrastructure, as well as the regulatory environment, and their impact on intra-African trade. The transport sector covers the status of infrastructure links (roads, railways, inland waterways and ports in relation to container traffic and air transport). The review covers ICT services. The energy sector analysis will address both the supply and trading aspects of electricity, oil, gas, nuclear, new and renewable sources energy. It will also address regional cooperation in "energy pooling" for promoting cross-border

energy trade, including the interconnection of electricity grids and oil and natural gas pipelines. Given the theme of intra-African trade, the international aspects are referred to only for comparison purposes. Financing infrastructure development will also be considered.

The report is based on the review of existing information at the three regional institutions (AfDB, AUC and ECA) and on relevant international organizations and information from the RECs. The impact on trade and relevant recommendations for the development of each sector are presented in last section on conclusions and recommendations.

## 9.2 Transport sector

An effective and efficient transport system possesses physically integrated networks; integrated intermodal operability; a smooth service provider-user interface; joint planning and development of transport facilities and systems; harmonized standards; cross-border investments; and it accedes to relevant international treaties and conventions.

Aside from some parts of Northern and Southern Africa, transport infrastructure on the continent is inadequate and low quality on the one hand, and inefficient and expensive on the other. The missing links in the transport networks have been destroyed or could not be developed because of armed conflicts and political instability, especially in and around the Great Lakes and Manu River regions.

### 9.2.1 Roads and road transport

Transportation by road is the most dominant mode, accounting for between 80-90 per cent of all freight and passenger movements among economic production areas and internal and international markets. Issues concerning roads sub-sector were comprehensively considered by the First Conference of African Union Ministers Responsible for Road Transport in 2007 under the theme, “For a Reliable, Safe and Affordable Road Transport for the Economic Development and Physical Integration of Africa.” The ministers adopted the Durban Declaration and Plan of Action for the development of road transport, which agreed to take specific actions to improve accessibility, quality and safety.

### 9.2.1.1 Road networks

The development of road infrastructure may be measured in terms of total length in kilometres (km), density (km/1,000km), distribution (km/1,000 population) and quality (per cent paved). The status of road development in Africa is summarized in table 9.4. The total length of classified road networks is estimated to be about 2.3 million km, of which only 20 per cent are paved; the remainder of the roads are made of either gravel or earth. The road density averages about 7.6 km per 100 sq. km, or 2.6 km per 10,000 inhabitants. This translates into a road access rate of 34 per cent, compared with 50 per cent for other geographical regions. These conditions are generally judged inadequate for social and economic development (AfDB, UNECA, 2006).

**Table 9.4**  
**Regional distribution of road networks**

Region	Length (km)		% Change 2000-2006	Density 2006 (km/100 sq km)
	2000	2006		
Central	115,667	186,475	61.2	3.5
Eastern	445,018	476,558	7.1	6.5
North	292,790	347,451	18.7	3.0
Southern	801,751	853,676	6.5	13.5
West	409,377	434,910	6.2	8.0
Total	2,064,603	2,299,160	11.4	7.6

*Source: World Fact Book 2006; ECA calculations.*

### 9.2.1.2 Trans-African highways (TAH)

The TAH network was defined in early 1970s as a network of good all-weather, highways linking Africa's capitals and major economic production areas to promote integration of African peoples and economies. Nine highways have been designated in a grid of six mainly east-west routes and three mainly north-south routes. An additional east-west corridor is under consideration to link Djibouti to Libreville. Furthermore, the two North-South routes, Tripoli-Windhoek (TAH4) and Cairo-Gaborone (TAH5) have both been extended to Cape Town in order to reintegrate South Africa into the continental system. The extension raises the total network to 57,300 km from the initial 54,100 km. According to a study conducted in 2003 by UNECA and ADB, up to 25 per cent of the network had still not been built to appropriate standards within and between some countries—the so-called “missing links,” defined as sections of unpaved, non-all weather roads.

**Table 9.5**  
**Regional distribution of TAH network**

Region	Total TAH network (km)	Paved sections (km)	Per cent of missing links
Northern Africa	13,292	13,195	1%
Eastern Africa	9,932	8,201	17%
Southern Africa	7,988	6,817	15%
Central Africa	11,246	3,891	65%
Western Africa	11,662	10,581	9%
Total Africa	54,120	42,665	21%

Source: AFDB.

**Table 9.6**  
**Status of TAH**

Route	Length (km)	Current Status
TAH1: Cairo–Dakar	8,636	Substantially complete. Major sections in Tunisia, Algeria and Morocco under development into motorways. Missing link is a short desert track around Morocco-Mauritania border.
TAH2: Algiers–Lagos (Trans-Sahara Highway)	4,504	Substantially complete; 200 km desert track in Niger. Usage restricted by border and security controls.
TAH3: Tripoli–Windhoek–Cape Town	10,808	Alignment to be extended to Cape Town. Paved national roads in Libya, Cameroon, Angola, Namibia and South Africa constitute part of the TAH3. Missing links in Chad, CAR, Congo Republic and DRC, including the missing bridge over Congo River between Congo Republic and DRC.
TAH4: Cairo–Gaborone–Cape Town	10,228	Alignment to be extended to Cape Town. The Southern portion is complete: from Cape Town to Kenya. The missing link in Tanzania through Dodoma in central Tanzania is gravel standard, but the paved TanZam Highway from Dar es Salaam provides an alternative route. The earth road in Kenya to Ethiopian border is under construction. Crossing Egypt-Sudan border by road has been prohibited for a number of years; a vehicle ferry on lake Nasser is used instead.
TAH5: Dakar–Ndjamena (Trans-Sahel Highway)	4,496	100 per cent complete in West Africa from Dakar to Fotokol (4,460 km). An alternative shorter route between Senegal and is under construction.
TAH6: Ndjamena–Djibouti	4,219	Contiguous with TAH5. Mostly earth road between Chad and Sudan.
TAH7: Dakar–Lagos (Trans-West Africa Coastal Highway)	4,560	About 80 per cent complete (100 per cent paved in Nigeria, Benin, Togo, Ghana, Côte d'Ivoire, Senegal). Missing links (765 km) in Liberia, Sierra Leone, Guinea, Guinea Bissau. Conditions of highway vary: 9 per cent good; 59 per cent fair; 32 per cent poor.
TAH8: Lagos–Mombasa	6,259	Eastern half (Kenya-Uganda), locally known as TAH is complete; alternative route through Kigali and Bukavu provides link to Kisangani; western portion in CAR, Cameroon and Nigeria mostly complete. Missing link in DRC and parts of CAR mostly due to insecurity and conflict.
TAH9: Beira–Lobito Highway	3,523	Substantially complete. Western portions through Angola and DRC require reconstruction following damage during the war. Alternative east-west links already exist from Maputo to Walvis Bay (Trans-Kalahari Highway).

### 9.2.1.3 Institutional framework

The RECs are responsible for developing and maintaining the major roads in their respective regions, including the relevant TAH sections. The status in each of the regions is as follows:

- ECOWAS drives the development of and maintenance of TAH5 and TAH7;
- TAH3, TAH6, TAH8 and TAH9 are the main corridors of the Consensual Transport Master Plan of Central Africa, and ECCAS has initiated actions to construct cross-border missing links along TAH3 and TAH5, particularly the railroad bridge between Brazzaville and Kinshasa;
- SADC has an extensive network of road projects and trade corridors in Southern Africa. TAH9 and the southern ends of TAH3 and TAH4 use regional highways developed in SADC; and
- COMESA covers the north and middle of TAH4 and the eastern part of TAH8.

**Figure 9.1**  
**Trans-African Highway network**



Source: Rexperry sydney

## 9.2.2 Rail transport

### 9.2.2.1 Railway systems in Africa

Africa's railway network comprises about 89,000 km for an area of about 29.6 million sq km, representing a density of about 2.5 km/1,000 sq km. This compares with 40km/1,000 sq km in Europe. In Africa the network consists mostly of single lines penetrating inland from the coastal seaports with few interconnections except in South Africa. The average technical speeds of African railways are about 30 to 35 km/hr; commercial speeds are even lower.

**Table 9.7**  
*Railway network and comparative densities*

Region	Total network (route km)	Density (km/1000 km <sup>2</sup> )
North Africa	16,012	2.3
Eastern Africa	9,341	2.2
Southern Africa	33,291	5.6
Central Africa	6,414	1.2
Western Africa	9,715	1.9
Africa Total	74,773	2.5
AICD low-income countries (20)		2.3
All AICD countries (24)		3.4
South Asia	-	18.8
World average	-	23.1
High-income countries	-	46.2

**Source:** 2005 World Development Indicators (2006) and World Bank Research Paper No. 3643 (2005); AICD Improving Connectivity: Investing in Transport Infrastructure in sub-Saharan Africa (2008).

Up to 14 mainland countries do not have railway lines or parts of international lines. The national rail networks in sub-Saharan Africa are predominantly independent of each other, except the Eastern and Southern African rail systems, which are interconnected. Other African interconnected systems are those of Burkina Faso – Côte d'Ivoire, Senegal – Mali and Ethiopia – Djibouti.

Most countries operate their own networks, but 74 per cent of Uganda's network is out of operation, as is 69 per cent of Angola's and 23 per cent of Benin's. Poor track conditions limit speed and thus rolling stock productivity. Most bridges are in poor condition, and rail network telecommunication and signaling equipment is largely obsolete.

The Trans-Maghreb Railway systems in North Africa are relatively advanced. Morocco is upgrading its Tangier – Rabat – Agadir – Laayoune network to a high-speed electric system (TGV). Algeria and Tunisia are upgrading their railway to standard-gauge electric systems and also considering introducing TGVs. The Libyan



Arab Jamahiriya is undertaking an ambitious programme to construct a modern coastal rail line from its border with Tunisia up to its border with Egypt. The rail lines also extend to the interior of each country. Light metro trains operate in Tunis, while constructions are under way for similar urban light rail systems in Rabat and Algiers. Cairo operates an underground metro system.

### 9.2.2.2 *Technical characteristics*

The rail infrastructure in Sub-Saharan Africa is old and technically outdated:

- Nine different gauges are used, out of which three are most commonly used: 1.067m gauge (61.3 per cent), 1.000m gauge (19.2 per cent), and 1.435m (Standard/European) gauge (14.5 per cent);
- Two brake systems are predominant—vacuum and compressed air systems, with the vacuum brake system in West, Central and Eastern Africa; and the compressed-air brake system in the electrified networks in Northern and some Southern African railways;
- Only about 6,500 km of African rail systems are electrified (Egypt, Algeria and Morocco in North Africa, and South Africa and Zimbabwe in the south); the rest use diesel-electric traction;
- Most railways are old and light, with axle-load capacity between 25-36 kg/m, and generally laid unwelded; and
- The signaling and telecommunications equipment is obsolete and unreliable.

These infrastructure characteristics constitute major constraints to the performance and reliability of the rail networks. They also delay the introduction and use of modern and high-performance equipment in the rail systems. The fact that the networks are not interconnected further compounds the problem.

Freight accounts for about 75 per cent of rail traffic in Africa. Outbound traffic is mostly to the coast and carries high-volume, low-unit-value commodities: crops, logs and mineral products. Inbound traffic is usually lighter and more diverse. Traffic densities are low and have declined over time, with the exception of the South African, Gabonese and Mauritanian mineral export lines. Strong competition exists between road and rail, with parallel rail and road routes, and many railways have lost much of their general freight traffic and bulk traffic to road haulage in all countries. This shift to road has been accentuated by failures to enforce road vehicle loading restrictions and the limited track-cost recovery from trucking.

The cost of upgrading African rail systems to international standards would be very high (World Bank, AICD, 2008). For instance, the sum of the five-year investment

programmes in the first nine concessions awarded amounted to more than \$750 million, about 50 per cent of which was for track rehabilitation. While some of that expenditure has occurred, most remains to be financed.

It is therefore encouraging to note recent signs of Africa's realization that rail transport is important. African ministers responsible for the rail system held a conference in 2006 in Brazzaville, Republic of the Congo to address the theme of improving rail transport to support African integration. The conference adopted the Brazzaville Declaration and Plan of Action on African Railways. This was endorsed by the Twelfth Session of the AU Summit in Addis Ababa, which specified several new projects for interconnecting African railways networks as follows (AUC, 2009):

- Djibouti – Libreville Corridor (rail and road). AUC initiative. Feasibility study supported by AfDB;
- Dar es Salaam – Isaka – Kigali – Bujumbura Extension. An initiative of Tanzania, Rwanda and Burundi, it extends 691 km and is estimated to cost US\$ 4 billion. Supported by AfDB;
- Uganda – Rwanda – DRC – Sudan interconnection;
- Africarail project in West Africa linking Benin, Togo, Burkina Faso, the Niger and Chad. ECOWAS-supported project formulated under PPP with Africarail (1,070 km.);
- Libya: Construction of 2,000-km lines parallel to the Mediterranean between Ras Ejder and the Tunisian border; from Sirte to Messap towards the Egyptian border (1,000 km); and Sirte to Sebha and branching out to Tarot (170 km). The project includes an extension to Chad through the Niger to develop a north-south transit corridor connecting Sebha (Libya) to Ndjamena (Chad);

In Southern Africa, rehabilitating existing lines and completing missing links as follows:

- CFM-South – Rehabilitation of the Maputo – Resano – Garcia Railway, which is part of the Maputo Development Corridor; Goba – Swaziland; and Limpopo Line to Zimbabwe;
- Trans-Kalahari Railway: Feasibility study to be carried out to link Gobabis to Lobatse to extend and connect the Walvis Bay – Gobabis line in Namibia to Lobatse, Botswana and onward links to Spoornet, South Africa;
- Trans-Namibian Railway between Walvis Bay and Tsumeb in the Trans-Caprivi Corridor. Linked by road to Zambia Railway System in Livingstone. Programme to upgrade track from 30 kg to 48 kg;

- Namibian Railway: Between Walvis Bay to Oshikango in northern Namibia near Angola (300 km). Angola will extend its railways from Lubango south to Namibia border; and
- TAZARA Railway linking Dar es Salaam and Kapiri Mposhi in Zambia. The rolling stock needs modernization.

### 9.2.3 Maritime ports

Maritime ports play a vital role in developing world trade and commerce, since more than 90 per cent of the world's and about 95 per cent of Africa's international trade passes through ports. There are approximately 80 ports on the continent, the majority of which are small by world standards, and few are capable of handling the largest ships.

In terms of regional integration, the ports in sub-Saharan Africa anchor the transport corridors, which radiate to the interior and the 15 landlocked countries, while the ports in North Africa serve their specific countries. To better analyze port traffic, the freight may be classified in two categories, according to the technology of packaging: container and general cargo.

#### 9.2.3.1. *Container traffic*

Container traffic has increased significantly in Africa since 1995, reflecting trends around the world. According to the AICD study of African ports in 2008, container traffic increased twofold, between 1995 and 2005 (Ocean Shipping Consultants, 2008). The strongest growth was in Central and West Africa ports, followed by East Africa and Southern Africa. This confirms data in an earlier study on Gaps Analysis (AfDB, 2007). The modern liner system of shipping is increasingly designed for container cargo as part of modern logistics management methods, which promise efficient commodity import and export. This form of shipping holds great potential for improving both interregional trade and Africa's connection to the global economy. The main container ports are as shown in annex 9.1.

In sub-Saharan Africa, with the exception of South Africa, a significant level of container loading and unloading (stripping) takes place in areas close to the port. This is because the road and rail systems to the interior are generally in poor condition and do not effectively support container transport, so, the volume of container traffic moving to the interior is less than it should be. Moreover, container stripping at the port generates its own problems. It reduces port capacity and contributes to congestion. Transport corridors should be designed to facilitate container transportation.

The imbalance in international trade also has a significant effect on the development of container transit traffic. Most global container trade is imbalanced, but Africa suffers from this problem more than most regions. Specifically, the 2005 split between empty and loaded exported TEU was 80 to 20 for sub-Saharan Africa, compared with ratios of 40 to 60 for Asia (AICD, World Bank, 2008).

The regional characteristics of Africa's major ports can be summarized as follows:

- **North African** ports, the Mediterranean coast, with each country operating several ports. These are generally more modern and larger than ports in Sub-Saharan Africa but do not serve the landlocked African countries. Damietta, in Egypt, is the largest container terminal in the region. New container terminals are under development at DjenDjen (Algeria), Enfidah (Tunisia) and Tangier (Morocco);
- In **Eastern Africa**, Mombasa and Dar es Salaam are natural transshipment points and, while both ports have pursued transshipment, both face severe capacity constraints in the short term, which is likely to curtail their transshipment activities. Djibouti, on the other hand, may soon provide a solution to transshipment along the East African coast, with DP World scheduled to introduce a new container terminal facility there intended to increase capacity for East Africa and the Indian Ocean;
- In **Southern Africa**, Durban is the major container transshipment centre, but it, too, is struggling to keep pace with demand. There are plans to bring in major new elements to increase capacity; for example, the new Pier One; and
- On the **West African** coast, Abidjan was successful as a major container transshipment centre, but it has declined in recent years due to domestic instability. The major carriers engaged in West African container trade, the Maersk Line and its affiliate Safmarine, now use the port of Malaga, Spain, as their hub.

### 9.2.3.2 *General cargo traffic*

The corresponding general cargo traffic growth between 1995 and 2005 has proceeded at a healthy rate as well. The pace of growth in general cargo traffic in Africa is higher than in other regions of the world. The container system has not yet fully penetrated all African general cargo sectors due to insufficient infrastructure and facilities. Doubtless there are large volumes of general cargo that are more suited for transport by container, but it is difficult to access these in an economically efficient way.

### **9.2.3.3 Port infrastructure development**

The global standard is that optimal port operating capacity is 80 per cent, beyond which additional capacity is required. The ports of Dar es Salaam, Douala, Luanda, Mombasa and Port Sudan face capacity constraints for general cargo traffic. Similarly, the ports of Cotonou, Dar es Salaam, Durban, Luanda, Mombasa and Tema appear to face capacity constraints for container traffic. Pressure on capacity for container cargo is higher, with demand substantially exceeding 100 per cent of capacity in a number of cases. Consequently, many ports around the continent are already undertaking expansion programmes.

### **9.2.3.4 Performance**

In addition to the number of containers moved per hour, port performance can also be measured by the vehicle dwell time at the ports. In general, the port dwell time in Africa is high, and hourly performance of containers is also relatively high. The accepted international target dwell time is seven days or less. The latest available data from recent NEPAD-AU studies show an average dwell time in African ports is about 11 days.

The use of specialized equipment improves container handling performance. For instance, ports with crane equipment achieve 14 moves per hour, compared with only eight moves per hour in ports that continue to rely on ships' gear. Recent UNCTAD studies on port performance indicate that some African ports have improved their productivity to about 15 moves per hour over a period of two to three years.

### **9.2.3.5 Institutional framework**

The major ports operate on several management models, including management concession, service port, landlord port or intermediate model. The three regional ports associations in Africa<sup>4</sup> have cooperated among themselves on common issues of interest for years. This has recently culminated in the formation of the Pan-African Association for Port Cooperation (PAPC), established in June 2001 in Alexandria, Egypt to help harmonize the activities of existing port management associations in Africa.

Note: \*NB: Handling rates reported are per hour, per item of equipment for container gantries and mobile cranes and overall for per hour for ships' crane

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4 The three subregional Port associations are: Port Management Association of Eastern and Southern Africa (PMAESA); Port Management Association of West and Central Africa (PMAWACA); and Port Management Association of North Africa (PMANA).

## 9.2.4 Inland waterways transport

Rivers and lakes can provide an inexpensive, energy-efficient and environmentally friendly form of transport. But these inland waterways remain the weakest link in the transport system, despite their excellent possibilities for penetrating the continent's landlocked countries. The chief waterways are limited to five rivers, namely the Nile, Congo, Niger, Senegal and Zambezi; and three lakes: Victoria, Tanganyika and Malawi. Twenty-nine African countries, more than 50 per cent of the continent's States, contain one form of navigable waterway or another. But Africa's access to its waterways has been hampered by political and social upheaval.

The status of transportation activities and navigability of these main inland waterways is as follows:

- **Nile:** It is the longest river in Africa and the second-longest in the world (6,695 km), but its navigability has been limited to the lower Nile since ancient times;
- **Congo:** It is the second-longest river in Africa (4,375 km). With its tributary, the Oubangui, the Congo River system forms 1,200 km of navigable waterway between Bangui and Brazzaville/Kinshasa. The transport fleet serving the Congo–Oubangui–Sangha river systems (CICOS) is estimated at 10,000 units. The boats transport merchandise such as logs, petroleum, containers and other agricultural products. Most of the river boats are owned by the private sector. Transport in the upper reaches is often disrupted by the prevailing regional instability. The International Commission of the Congo–Oubangui–Sangha Basin (CICOS) was established in 2007 to improve the physical and regulatory services for navigation in the basin;
- **Niger:** The third-longest river in Africa (4,183 km), it runs in a crescent through Guinea, Mali, the Niger to the border with Benin, and then through Nigeria, flowing in a wide arc and discharging into the Atlantic Ocean in the Gulf of Guinea. Several projects are currently under way to improve navigation, including port construction and dredging;
- **Senegal:** The river is 1,790 km long with important tributaries of the Faleme, Karakor and the Gorgol rivers. It is navigable year-round from the Atlantic Ocean to Podor, Senegal, and to Kayes, Mali, during rainy seasons. In 1972 Mali, Mauritania and Senegal founded the Organization for the Development of Senegal River (OMVS) to manage the river basin, which Guinea joined in 2005;
- **Zambezi:** Transportation on the 2,600-km Zambezi has been taking place for centuries, by ferries on the river's tributaries and on lakes Kariba and Cahora Bassa, which feed into the river. The lower Zambezi is navigable for

570 km and is an important artery for the transportation of coal and molasses on barges. Navigation studies are being considered for the Shire River, which joins the Zambezi as it flows out of Lake Malawi;

- Lake Victoria: This is Africa's largest lake, with an area of 69,000 km<sup>2</sup>. It is fully navigable and offers passenger and ferry services between the riparian states of Uganda, Kenya and the United Republic of Tanzania. There are about ten ferries and a number of open-decked cargo boats and passenger ships. Uganda railways used to operate two big ferries, which transport about 400,000 tons of imports annually through the Port Bell, Uganda and Kisumu, Kenya route, and 250,000 tons through Port Bell to Mwanza, the United Republic of Tanzania route. Passenger ships transport about 6,000 passengers daily between the lakeshore ports. Navigational aids have been nonfunctional for a long time and this has led to an increase in fatal accidents on the lake; and
- Lake Tanganyika: This is the second-largest lake in Africa, with an area of 36,000 km<sup>2</sup>. It is available for services connecting the Democratic Republic of the Congo, the United Republic of Tanzania, Burundi and Zambia.
- Lake Malawi: The third-largest lake in Africa is navigable between Malawi, Mozambique and the United Republic of Tanzania. Lake operations are akin to those found on lakes Victoria and Tanganyika.

The major constraints to transport on these waterways include insufficient communications and SAR systems, which result in poor safety and security; inadequate infrastructure at terminals including access roads and storage facilities; seasonal blockages caused by water weeds that clog inland waterway routes and terminals; and the absence of a modern fleet to provide reliable transport services.

## 9.2.5 Air transport

### 9.2.5.1 *Air traffic and major carriers*

Africa's share in global air transport remains modest at about 5.2 per cent of the passenger traffic and approximately 3.6 per cent of freight traffic in 2004. During the same year, the sector generated 470,000 employment opportunities on the continent, resulting in an income estimated at US\$ 11.3 billion (1.7 per cent share of the African GDP).

Following a significant global decline in 2001, Africa's air transport industry grew at about 6 per cent per year between 2001 and 2007 to roughly 123 million seats. The aggregated figures show growth in all types of scheduled air travel, including inter-continental traffic, international traffic within Africa and domestic travel (Bofinger, 2008).

Intercontinental traffic in sub-Saharan Africa depends on the three major hubs of Johannesburg, Nairobi and Addis Ababa. It has grown at an annual average rate of 6.2 per cent between 2001 and 2007. North African intercontinental traffic grew at 8.3 per cent during the same period, with the most dominant hubs being Casablanca, Tunis and Cairo.

**Table 9.8**  
**Air traffic**

	North	East	West	Centre	South	Africa	Global	Africa share
Passengers (1000)	44,442	10,655	12,046	4,178	33,746	105,067	1,988,328	5.3%
Percentage by region	42.3%	10.1%	11.5%	4.0%	32.1%			
Freight (tonnage)	323,922	357,898	143,969	214,438	352,471	1,392,698	38,926,634	3.6%
Percentage by region	23.3%	25.7%	10.3%	15.4%	25.3%			
Departures	533,192	359,219	273,589	167,769	801,638	2,135,407	24,995,883	8.5%
Percentage by region	25.0%	16.8%	12.8%	7.9%	37.5%			

**Source:** ACI & ICAO, 2004.

International traffic in sub-Saharan Africa grew slightly more rapidly, at an average rate of 6.5 per cent between 2001 and 2007, with traffic between the region and North Africa growing at 25 per cent per year. The national airlines operating in the three major hubs in sub-Saharan Africa, namely South African Airways, Kenya Airways and Ethiopian Airlines, provide 33 per cent, 70 per cent and 83 per cent, respectively, of the international traffic through their hubs. Both Kenya Airways and Ethiopian Airlines are active in developing new routes on which they are the sole carrier, while most of the South African Airways international routes have more than one carrier in competition.

North African international travel showed some of the most significant gains of more than 9.5 per cent per annum between 2001 and 2007. The major carriers in the region are Egypt Air, Afriqiyah Airways, Tunis Air and Royal Air Maroc. The weekly frequency of flights of the major carriers by country destinations in 2008 are summarized in table 9.9 below.



**Table 9.9**  
**Seven major African airline destinations, 2008**

Airline	Operating hub	Country destinations	Weekly departures
Ethiopian Airlines	Addis Ababa	26	183
Royal Air Maroc	Casablanca	20	85
Kenya Airways	Nairobi	17	99
South African Airways	Johannesburg	14	86
Afriqiyah Airways	Tripoli	13	35
Egypt Air	Cairo	12	68
Tunis Air	Tunis	8	36

**Source:** ECA 2008.

Domestic sub-Saharan African traffic grew at the fastest rate of all sub-Saharan African traffic, by more than 12 per cent per year between 2001 and 2007. Domestic air transport varies from country to country and depends on factors including topology, income per capita and the types of services available. For example, Ethiopia, home to one of the most important airlines in Africa, has little domestic air transport. On the other hand, Nigeria has experienced nearly 67 per cent annual growth in domestic traffic. North African domestic traffic declined by nearly 4 per cent during this period. With some notable exceptions, domestic travel in most countries is serviced by the country's flag carrier and features high market concentration.

### 9.2.5.2 Air transport infrastructure

Infrastructure is not the most critical factor. At present, 280 airports receive regularly scheduled services, and this number is stable, with enough runways to handle traffic in the near future, better scheduling, and modest investment in parallel taxiways and some terminal facilities. The safety problem has more to do with pilot capability and safety administration than with unsafe aircraft, although air-traffic-control facilities are poor.

Similarly, runway capacity in Africa is not a limiting factor. Medium-size turbo-prop aircraft such as the ATR72, used to serve small cities, require runways of at least 1,500 metres, while larger aircraft, such as the Boeing 737 or Airbus 320 that serve larger cities, need runways of at least 3,000 metres. The table below summarizes the supply and quality of runways in selected African countries.

**Table 9.10**  
*Runway quality in selected African countries*

Rating	North Africa		Sub-Saharan Africa	
	Airports	%	Airports	%
Excellent	28	60%	31	18%
Very Good	17	36%	50	29%
Fair	2	4%	46	27%
Marginal			10	6%
Poor			36	21%
Totals	47	100%	173	100%

*Source: AICD 2007.*

Air navigation services and air-traffic control throughout sub-Saharan Africa are spotty and concentrated in a few centres. South Africa and Kenya have several radar installations and are able to monitor traffic. Ethiopia, with the third-most important airport in sub-Saharan Africa, has no air-traffic surveillance facility. The most important airports feature instrument landing systems and basic traditional navigational aids. Away from these centres, navigational aids and communication stations are rare to nonexistent. African airspace and airports may not need radio-based navigation and surveillance infrastructure such as VOR or radar technology, but they will require investments in less costly, satellite-based replacements such as GNSS approaches and ADS-B surveillance technologies.

### **9.2.5.3 Institutional aspects**

A number of countries have structured airport infrastructure development, management and operations into separate entities or parastatals with autonomous management structures. This approach has been productive and efficient where the practice is fully implemented as in Kenya, where the Kenya Airport Authorities has been established to manage the country's public airports.

Private-sector participation in airports is limited, though some interesting examples, such as the airports company in South Africa, do exist. In most cases, private-sector involvement has been limited to some concessions and management contracts, usually involving small investments.

### **9.2.5.4 Implementation of the Yamoussoukro Decision**

Through the combined efforts of the ECA, AU, African Civil Aviation Commission (AFCAC), the African Airlines Association (AFRAA) and the RECs, African countries are implementing appropriate air transport liberalization policies since adopting, in 1999, the Yamoussoukro Declaration for the liberalization of access to air

transport markets in Africa. The subsequent Yamoussoukro Decision provided the framework for its implementation. The decision takes precedence over all bilateral and multilateral air-transport agreements, which were inconsistent with it. It seeks to gradually eliminate non-physical barriers to intra-African air transport and restrictions linked to granting traffic rights, particularly the fifth-freedom traffic right; aircraft capacity of African airlines; tariff regulations; the designation of operating instruments; and the operation of cargo flights. Its full implementation, however, still remains a challenge to most countries.

The decision's impact is best measured in the amount of high-level traffic between countries (freedom level 5 or above in the plan) as table 9.11 illustrates. The percentage of international flights conducted by carriers that are not part of either country being served is highest in countries in which the implementation score is highest. Except for the Arab Maghreb Union, which is not a party to the decision, all countries have shown an increased market proportion of these airlines between 2004 and 2007.

**Table 9.11**

*Percentage of flights between country pairs by airlines that are not based in either country of the pair*

	AMU	BAG	CEMAC	COMESA	EAC	SADC	WAEMU
Seats 2001	7.6%	45.3%	38.0%	25.4%	33.0%	18.7%	47.7%
Seats 2004	8.3%	36.3%	11.8%	9.9%	12.2%	2.3%	43.7%
Seats 2007	4.1%	43.3%	28.5%	14.1%	16.4%	5.7%	43.8%
YD Score	1	4	5	3	3	2	5

**Note:** YD = Yamoussoukro Decision of 1999. AMU = Arab Maghreb Union; BAG = Banjul Accord Group; CEMAC = Economic and Monetary Community of Central Africa; COMESA = Common Market of Eastern and Southern Africa; EAC = East African Community; SADC = Southern Africa Development Community; WAEMU = West African Economic and Monetary Union.

A recent NEPAD survey on the decision has analyzed the status of implementation at regional levels as follows:

- **North Africa:** Neither a liberalization agreement nor any agreement in conformity with the decision has been concluded between the countries. However, a draft convention to liberalize air transport is being prepared;
- **West Africa:** The eight UEMOA member States and members of the Banjul Accord Group (BAG) have fully complied with the decision;
- **Central Africa:** Only the member States of CEMAC and BAG are in conformity with the decision; and
- **Eastern and Southern Africa:** COMESA, EAC and SADC jointly adopted the COMESA–EAC–SADC Competition Regulations on Air Transport Services liberalization, Provisions and Procedures for the implementation of

the common regulations in 2008. A joint competition authority (JCA) was established in 2008 to oversee the air transport liberalization process.

## 9.3 Information and communication technologies (ICT) sector

### 9.3.1 Overview of ICT development in Africa

*“We have said it time and again: The role of ICT in national, regional and continental development, and, specifically, in wealth creation, employment generation and poverty reduction cannot be overemphasized. Disease, illiteracy, poverty and other ills are real social challenges that must be addressed if we are to attain a good quality of life. Fortunately, ICTs present themselves as key, potent tools that can be used to address a number of these challenges.”* - Speech by His Excellency, Mr. Paul Kagame, President of the Republic of Rwanda, at the official opening of the Regional ICT Investment Summit in Kigali, Rwanda, 4-6 May 2006.

ICT incorporates technologies for creating multimedia information content (sound, images, text and data) on the one hand, and communication technologies used for broadcasting and telecommunication on the other. The information technology (IT) component is computer-driven and supports different stages of creation, processing, storage and delivery of content. The communication technology (CT) aspect is the means of transporting to and receiving the above information in the form of broadcasting or telecommunications. When properly connected through an agreed set of protocols, all of these operate in a global network called the internet.

In 1996 African countries adopted the African Information Society Initiative (AISI) as a framework for building Africa’s information and communication infrastructure to foster development. Accordingly, the RECs have either already developed their regional e-strategies or are formulating them to build an ICT infrastructure, strengthen capacity and facilitate regional economic integration and trade.

Africa still lags behind the rest of the world in terms of ICT access, especially in investment-intensive infrastructure, such as main, or fixed, telephone lines and fixed broadband. However, the rapid growth in mobile cellular technology and public internet access has significantly expanded access, thanks to increased private-sector participation.

**Table 9.12**  
Main ICT indicators in 2006

Region	Main tel lines		Mobile cellular		Internet		Broadband subscribers	
	Mil (penetration)	Per cent share	Mil (penetration)	% share	Subscribers/100 Population	Users/100 Population	No. Mil	% Share
Africa	28.5 (3.1)	2	205.0 (22.2)	7.4	1.3	4.8	1	0.4
Asia	611.1 (15.7)	48	1151.5 (29.65)		4.8	11.6	104	37
Oceania	12.0 (36.6)	1	24.1 (72.6)		29.3	57.2	4.5	2
Europe	325.0 (39.9)	26	325020 (99.3)		15.2	35.7	89	32
Americas	292.5 (32.5)	23	611,107.5 (62.3)	561.1	11.4	37.0	80	29
World	1270 (19.4)	100	2744.2 (41.9)	100	6.7	17.4	281	100

Source: ITU.

**Fixed-line telephones.** Africa experienced strong growth in its number of main telephone lines, averaging 6 per cent between 2001 and 2006, bested only by Asia, at about 10 per cent. Most of Africa's telephone lines are concentrated in six of its 54 economies; Algeria, Egypt, Morocco, Nigeria, South Africa and Tunisia account for almost 80 per cent. Moreover, most of the main telephone lines are located in urban areas.

**Mobile cellular telephones.** The African mobile cellular market has been growing rapidly. In 2006 it added 55 million subscribers, reaching 198 million, which constituted about 7 per cent of the global total of nearly 2.7 billion. This followed an average growth rate of 46 per cent between 2001 and 2005. The mobile market is still far from reaching saturation, and the boom will likely continue, while the trend in several countries in the world is slowing because the markets are nearly saturated, especially in Europe and the Americas.

**Internet services.** There were an estimated 44 million internet users on the continent in 2006, with over half of them located in North and South Africa. However, 20 countries did not have direct terrestrial access to global networks and relied on satellite networks. As a result, Africa has some of the highest costs of internet services in the world, with average subscription prices equivalent to US\$ 50 per month, close to 70 per cent of the average per capita income. Affordability, lack of fixed-line infrastructure and poor ICT literacy are the chief reasons for the low levels of internet use in Africa. Infrastructure constraints, including low internet bandwidth, unreliable electricity, outdated end-user technology and the limited number of inter-

net exchange points (IXPs), account for the low quality of service. Only 18 African countries had IXPs by 2007, compared with hundreds of Asian countries.

**Rural access.** While teledensity remains low, especially in sub-Saharan Africa, it is particularly limited in rural areas. WSIS set a target to connect all villages by 2015. Although many African countries have some form of universal service connecting rural areas, for the most part they have not proven successful.

**Broadband.** Similarly, the number of broadband subscribers in Africa is relatively small. By the end of 2006, out of a total of 281 million broadband subscribers worldwide, Africa's share was one million, less than 0.4 per cent. By contrast, broadband access has spread rapidly in Asia, with 104 million subscribers to high-speed internet access, followed by Europe and the Americas, with 89 and 80 million subscribers, respectively.

**Fixed broadband.** In 2006 a total of 28,177 Mbps bandwidth was available to at least 25 African countries, although nearly 16 countries still relied on a single 10Mbps international internet connection. There were 1.1 million customers in 2006, compared with 280 million subscribers worldwide. Again, gaps among the African regions are marked: 75.5 per cent in four Northern African countries. Expanding access to broadband services would give Africa a chance to benefit from full participation in global ICT development.

**Wireless broadband.** Since Africa lacks sufficient fixed-line infrastructure, wireless access could bridge the digital divide. Broadband wireless access is defined as instantaneous bandwidth greater than 1 MHz, supporting data rates greater than 1.5Mbit/s. Broadband wireless access could be deployed for wireless metro access, last-mile/first-mile and large area coverage.

### **9.3.2 ICT infrastructure challenges in Africa: missing links**

The ITU estimates that around 92,000 km of optical fibre link, including 25,000 km of international submarine cable routes, are required to bridge regional and international broadband gaps. This would require an investment of US\$ 1 billion for an international submarine fibre network, and more than US\$ 1.6 billion for regional links.

The undersea cables that currently provide broadband services to Africa include South Atlantic (SAT-3) and West African Submarine Cable (WASC), which link with SAFE to provide links to the Far East through South Africa. Northern Africa is connected to the global network on SEA-ME-WE submarine cable network, landing in Djibouti.

Currently 85 per cent of international bandwidth traffic in Africa is directed via Europe to its final destinations. Access to the global backbone is vital for the development of this region, and, according to a study by the NEPAD e-Africa Commission in 2004, Africa will require an additional 52,040 km of infrastructure for total connectivity: 15,950 km in Central Africa, 2,200 km in Northern Africa, 19,330 km in Western Africa and 145,060 km in Eastern and Southern Africa.

**Table 9.13**  
**Infrastructure development**

Level	Connected to submarine cable	Coastal countries not linked to submarine cable	Landlocked countries
Countries	Algeria, Angola, Benin, Cameroon, Cape Verde, Côte d'Ivoire, Djibouti, Egypt, Gabon, Ghana, Libya, Mauritius, Morocco, Nigeria, Senegal, South Africa and Tunisia Others connected through transit – Botswana, Lesotho, Namibia, Swaziland	Equatorial Guinea, Eritrea, Gambia, Guinea, Guinea-Bissau, Liberia, Madagascar, Mauritania, Sierra Leone, Sudan, Somalia, Kenya, Tanzania, Mozambique, Seychelles, Comoros and Togo, DRC, Congo, São Tomé & Príncipe	Botswana, Burundi, Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, Swaziland, Uganda, Zambia, Zimbabwe

**Source:** ADB ICT Strategy 2008.

Because it is imperative to link the east coast of Africa, the East African Submarine Cable System (EASSy) is being developed and is expected to be operational by 2010. Several other undersea cable projects will provide fibre-optic links to the African eastern seaboard, notably SEACOM, which became operational in mid-2009. Additional capacity is being developed on the west coast, notably Main One and GLO-1, both part of GLOBACOM in Nigeria, linking Lagos to the United Kingdom. The new high-capacity submarine fibre-optic cables could significantly reduce both the wholesale and retail prices of internet access, as evidenced by the already declining bandwidth prices of the West African Cable and SAT3.

These submarine cable networks are complemented by terrestrial and satellite networks that connect landlocked areas. The major broadband initiatives include COMTEL, EAC Broadband ICT Infrastructure Network (EAC-BIN), SATA Backhaul Links, Central African Broadband Network (CAB), INTELCOM (ECOWAS), North African Loop and RASCOM.

The Connect Africa Summit in Kigali in 2007 set the following goals for ICT development in Africa:

### Box 9.1

#### *Goals of the Connect Africa Summit (Kigali, 2007)*

Goal 1: Interconnect all African capitals and major cities with ICT broadband infrastructure and strengthen connectivity to the rest of the world by 2012.

Goal 2: Connect African villages to broadband ICT services by 2015 and implement shared access initiatives such as community telecentres and village phones.

Goal 3: Adopt key regulatory measures that promote affordable, widespread access to a full range of broadband ICT services, including technology and service-neutral licensing/authorization practices, allocating spectrum for multiple, competitive broadband wireless service providers, creating national internet exchange points (IXPs) and implementing competition in the provision of international internet connectivity.

Goal 4: Support the development of a critical mass of ICT skills required by the knowledge economy, notably by establishing a network of ICT centres of excellence in each African sub-region and ICT capacity-building and training centres in each country, to achieve a broad network of interlinked physical and virtual centres, while ensuring coordination between academia and industry by 2015.

Goal 5: Adopt a national e-strategy, including a cyber-security framework, and deploy at least one flagship e-government service as well as e-education, e-commerce and e-health services using accessible technologies in each country in Africa by 2012, with the aim of making multiple e-government and other e-services widely available by 2015.

### 9.3.3 ICT applications

The improved infrastructure will allow for greater e-applications, such as e-government, e-commerce, e-banking, e-health and e-schools, among others. Many programmes already have been instituted in various countries. One aspect, which is being pursued at the regional level in the framework of NEPAD, is the e-schools programme.

### Box 9.2

#### *NEPAD e-schools initiative*

NEPAD's e-schools programme is being implemented by the NEPAD e-Africa Commission, which was launched in 2003 as the NEPAD ICT Task Team responsible for developing NEPAD ICT programme and implementing related projects. The objective of the e-schools programme is to impart ICT skills to young Africans in primary and secondary schools and to harness ICT to improve, enrich and expand education in Africa. The programme will do so by equipping all schools with ICT infrastructure that will use ICT to connect all schools in Africa to the NEPAD e-schools network and the internet.

In collaboration with major private-sector ICT companies led by Cisco, Hewlett Packard, Microsoft and Oracle, e-Africa Commission has initiated the e-schools project to connect all primary and secondary schools in Africa (estimated at 600,000) to the e-schools network by 2010. Demonstration projects already have been initiated in selected schools in 17 countries: Algeria, Burkina Faso, Cameroon, Egypt, Gabon, Ghana, Kenya, Lesotho, Mali, Mauritius, Mozambique, Nigeria, Republic of the Congo, Rwanda, Senegal, South Africa and Uganda.

*Source: NEPAD e-Africa Commission.*



### 9.3.4 ICT regulatory framework

To strengthen their capacity to regulate this fast-moving sector, African regulators have formed regional and continental associations as forums for sharing experiences. These include the African Communication Regulation Authorities Network (ACRAN), the Association of Regulators for Information and Communication Services of Eastern and Southern Africa (ARICEA), Communications Regulators Association of Southern Africa (CRASA) and West African Telecommunications Regulators Association (WATRA). These groups are supported by the African Telecommunications Union (ATU) and the International Telecommunication Union (ITU).

## 9.4 Energy sector

### 9.4.1 Status of energy development in Africa

The continent is rich in exploitable energy resources to meet its needs (hydropower, coal, gas, oil, uranium, both new and renewable resources). North and West Africa own the bulk of the oil and gas reserves, while Southern Africa holds most of the coal deposits. Vast hydropower potential, located throughout the interior of the continent, forms part of an extensive source of renewable energy. The region possesses some of the largest watercourses in the world—the Nile, the Congo, the Niger, Senegal, Volta, Orange and Zambezi river systems. In addition, geothermal resources can be found in the Red Sea Valley and the Rift Valley, and solar energy could be particularly useful in areas far from national grids. Through cooperation and regional integration, the huge energy resources can be developed to deliver affordable energy for the benefit of the whole continent.

However, most of these resources remain unexploited, despite various initiatives and investments. The situation must be reversed by harnessing the resources economically to provide affordable energy to the population and economic sectors. The quality of life improves with commercially available energy, which increases economic activity and industrial development. Inadequate energy constrains development and spells inadequate electricity, inadequate illumination, fewer labour-saving appliances and limited communication and the reduced possibility for commercial enterprise.

### 9.4.2 Non-renewable sources of energy (coal, oil and gas)

Africa is an important and growing net producer and exporter of oil, natural gas and coal. The oil exports originate mainly in the countries of Nigeria, Algeria, the Libyan Arab Jamahiriya, Angola, Egypt, the Sudan, Equatorial Guinea, Gabon, Republic of the Congo, Chad and Cameroon. Natural gas exports originate mainly in Algeria, Egypt, Nigeria and the Libyan Arab Jamahiriya.

Paradoxically, intra-African trade in oil and gas is limited. Most non-oil producing countries import oil from markets outside the continent. Since the volumes involved are relatively small, the cost of procuring oil at the individual country level is high. Thus, many countries expend, on average, more than half of their export earnings on oil.

Such problems only further constrain the economic development of these countries. Regional cooperation would provide a practical approach to reducing the cost of oil imports in African countries and at the same time enhance intra-African trade in energy commodity resources. To this end, African ministers responsible for hydrocarbons have called for designating regional storage and distribution facilities to reduce inefficiencies in petroleum product procurement and distribution. To support this strategy, it has been proposed that an African Petroleum Fund (APF) be established to mitigate the effects of increased oil prices on African economies. Several actions are proposed: to establish a strategic framework for cooperation in regional oil procurement, the utilization of refineries, storage and distribution facilities; to create a framework for infrastructure development to capture and distribute the flared gas to African countries and export; to expedite the development of gas and oil pipelines; and to establish the African Petroleum Fund.

Several gas and oil pipelines are currently under development to further intra-African trade in energy. The major ones are:

- West African Gas Pipeline (WAGP), 678 km to supply gas from Nigeria to Benin, Togo and Ghana;
- Trans-Saharan Gas Pipeline (TSGP), 4,128 km to export dry natural gas from Nigeria to the European market through the Niger and Algeria;
- Tanzania–Zambia Oil Pipeline (TAZAMA), 1,710 km, connecting Dar es Salaam Port to the Zambian Indeni Oil Refinery at Ndola. The pipeline has been in operation since 1980s;
- Kenya–Uganda Oil Pipeline,– a 352 km extension into Uganda of the existing Mombasa–Eldoret, Kenya pipeline;
- Mozambique–South Africa Gas Pipeline, part of the Maputo Development Corridor, operating since the 1990s; and

- Tunisia–Libya Gas Pipeline, chiefly for the export of gas to Europe.

### 9.4.3 Electric power

#### 9.4.3.1. Production and consumption

Africa's electric power sector has low-generation capacity, low connection rates, high tariff rates and poor reliability because of its underdeveloped infrastructure. The installed generation capacity of the 48 sub-Saharan countries was 68GW in 2005 (comparable to that of Spain), with 40GW in South Africa alone (EAI, 2005). Consequently, few of the region's countries can exploit economies of scale in generation: 33 of 48 sub-Saharan countries have national power systems of less than 500MW, and 11 of less than 100MW. Only about 20 per cent of the sub-Saharan African population has access to electricity, with the exceptions of Ghana, South Africa and Zimbabwe, and the island countries of Mauritius and Seychelles, which exceed a 40 per cent access rate. Access is also concentrated in urban areas. Comparable access rates in other developing regions show South Asia at 50 per cent and more than 80 per cent in Latin America. Since 1990 East Asia, Latin America and the Middle East have all added at least 20 percentage points to their electrification rates. On the other hand, access rates in sub-Saharan Africa declined, as population growth and household formation outstrip the new connections. If current trends continue, fewer than 40 per cent of African countries will reach universal access to electricity by 2050 (Barnejee, et al., 2008).

Annual per capita consumption of energy in Africa averaged 618 kilowatt hours (kwh) in 2005, ranging from a high of 5,000 kwh in South Africa to a low of 10 kwh in Chad. This reflects the continent's low access rate. Sub-Saharan Africa is the only region in the world where per capita consumption is actually falling (World Bank, 2005).

**Table 9.14**  
*Electrification rates in Africa 2005*

Region	Electrification Rate Range (per cent)	Annual per capita power consumption (KWH)
North	27 - 99	952
South	7 - 70	1767
West	4 - 40	155
Central	3 - 35	151
East	5 - 25	65

Source: UPDEA (2006).

In 2005, the continent generated 75 per cent of its electricity from **fossil thermal** energy, followed by **hydropower** at 15 per cent. **Nuclear power** and **new and renewable sources** are still in their infancy, with South Africa being the major operator of nuclear power plants in the region. The growing demands for power supplies, global warming and increased safety of new nuclear technology are pushing other countries on the continent to consider using this technology for future power generation. These include Egypt, Algeria and Nigeria, which have embarked on studies investigating possible use of nuclear energy.

Africa's **geothermal** potential is estimated to be 14,000 MW. At present, the exploitation of geothermal resources is mainly in Kenya, with 127 MW installed capacity, generating about 17 per cent of the national power supply. Ethiopia has installed capacity of 7 MW. The two countries with significant power generation from wind farms are Egypt (375 MW) and Morocco (240 MW), while wind farms are under construction in Tunisia (120 MW) and South Africa (120 MW).

**Solar energy** is most commonly used for water pumping, heating and drying. Electric power generation from solar sources using photo-voltaic cells is still limited to small-scale applications because of the technologies' high cost. However, Egypt and Morocco are developing two solar-thermal power plants of 150 MW and 30 MW generation capacities, respectively.

#### ***9.4.3.2. Cost and reliability of supply***

The average operating cost of predominantly thermal power systems in 2005 was \$0.20/KWH, considerably more expensive than the cost of hydro-based systems. Countries with small national power systems (of less than 200 MW installed capacity) face an additional operating cost of as much as US\$ 0.15/KWH, relative to countries with large national power systems (above 500 MW installed capacity). The cost for landlocked countries is generally higher, due to the additional cost of importing fossil fuels. Costs and prices have since risen sharply, reflecting higher global oil prices and tightening supplies (AICD/World Bank, 2008).

World Bank Enterprise Surveys show that most African businesses suffer frequent power outages. In Senegal, this occurs about 25 days each year; in the United Republic of Tanzania, 63 days; and in Burundi, 144 days. To cope, many businesses invest in back-up generators, which represent a significant proportion of total installed power capacity; as much as 50 per cent in Democratic Republic of the Congo, Equatorial Guinea and Mauritania, and a slightly lower average of 17 per cent in West Africa. Southern Africa's figure is much lower, but it is likely to increase as the region deals with more shortages (Foster and Steinbuks 2008).

Many African countries have responded to the power crisis by installing emergency power generators to support the national grid. By contrast to traditional power generation projects, this capacity can be installed in a few weeks, providing a rapid response to pressing shortages. The cost of generation from such small diesel units, however, is relatively high, and when added to high petroleum prices could exert enormous financial pressures on oil-importing countries.

#### **9.4.3.3. Institutional framework**

The current level and pattern of supply and demand for electricity provides excellent opportunities for promoting intra-African trade: uneven regional endowments of energy resources, low access, high prices, low capacity and poor reliability. African countries have different endowments of natural resources. Some have abundant hydropower resources such as coal, oil or natural gas, while others are without domestic energy resources and depend on imported oil and gas fuel to generate power. In view of the relatively high costs of fossil fuels for thermal generation, the AU has adopted the development of hydro-power generation to expand regional trade in power that would lower the costs of generating power, reduce carbon emissions from generating plants and insulate countries from the high price of fossil fuels.

Expanded regional trade would also encourage investments that might not otherwise be made. As a strategy to increase private-sector participation, the power sector has been “un-bundled”—that is, vertically disaggregated into three subsectors: generation, transmission and distribution. This should open up opportunities for initiatives such as regional transmission lines, private-sector participation, enhanced competitiveness and reduced costs.

African countries have correspondingly set up mechanisms to exploit these opportunities by promoting cooperation in this sector at regional, interregional and continental levels. The AU established the Conference of Ministers of Electric Energy (2006) as the organ for continental policy coordination in developing energy resources, especially hydroelectric power, as a major option for renewable energy to ensure sustainable development, regional integration, energy security and to lessen poverty. Power pools have been established in the five African regions to manage these integrated power systems. To this end, the ministers adopted a declaration committing to support the integrated development of the continent’s hydropower potential in the framework of NEPAD, and established a coordination commission overseeing major integrating hydropower projects. AFREC would provide the secretariat for this commission.

A power pool is a group of organizations that operate their power systems jointly for mutual benefit. The advantages of operating a power pool include reaping econo-

mies of scale; increasing system reliability and security of supply; generation mix and optimizing resources; reducing planning and operating reserves; rationalizing investments; increasing the volume of electricity trade; seasonal and load diversity; and energy cost differentials. Power pools are centralized electricity markets. This strategy is in line with NEPAD objectives for regional integration.

***Southern Africa Power Pool (SAPP).*** The power generation is mostly thermal (74 per cent coal, 2 per cent gas), followed by hydro (20 per cent) and nuclear (4 per cent). The generation mix helps to mitigate the effects of drought. As of April 2008, SAPP had an installed capacity of 55,032 MW, implying a deficit of about 8,000 MW. SAPP has made significant progress in developing agreements around transmission and has also developed a short-term energy market that enables daily internet trading. One of the aims of the Regional Electricity Regulators Association is to harmonize regulatory regimes in the region, and it has already developed agreements on the basic principles of regulations.

***West African Power Pool (WAPP).*** The current level of supply meets only 54 per cent of estimated demand in the region. Nigeria is by far the largest supplier and consumer of electricity in the region, accounting for more than 80 per cent of supply and 50 per cent of demand. Currently Nigeria supplies power to Benin, the Niger and Togo. WAPP has consequently embarked on three major power-generation projects, which could add a total of 1,000 MW capacity in the region: Maria Gleta (400 MW), Aboaddze (400 MW) and OMVS (140 MW). These will be supported by the appropriate interconnecting transmission lines.

***Central African Power Pool (CAPP/PEAC).*** This region has a huge hydroelectric potential (150 GW), with about 70 per cent located in DRC alone, in particular at Inga (44 GW). The current installed capacity stands at slightly under 5 GW, with slightly over half located in DRC. There are plans to construct the Grand Inga dam, which will have a total capacity of 40 GW. The Inga currently supplies electricity to SAPP and projects are already under way for interconnection with WAPP and EAPP, and eventually to COMELEC through the Sudan and Egypt, and possibly to Europe. It is envisaged to be the greatest integrator power project of the continent.

***East African Power Pool (EAPP).*** This region is endowed with hydropower potential in DRC, Ethiopia and Uganda; oil and gas in Egypt, the Sudan and the United Republic of Tanzania; and geothermal resources in the Rift Valley regions in Kenya, Ethiopia and Djibouti. Resource-sharing in the Nile basin is coordinated by the Nile Basin Initiative (NBI), an intergovernmental organization involving all the Nile Basin's riparian States. Its objective is to foster sustainable socio-economic development through the equitable use of the basin's common resources.

*Comité Maghrébin de l'Électricité (COMELEC)*. This is the equivalent of a power pool for the Arab Maghreb Union (UMA) of North African countries (Algeria, the United Republic of Tanzania, Mauritania, Morocco and Tunisia), in addition to Egypt. The total installed capacity in COMELEC member countries was 21,773 MW. Thermal generation counts for 90 per cent of the total, hydropower 9 per cent and renewable energy 1 per cent. The North Africa countries do not face energy crisis and COMELEC exports part of the available power to Europe.

Recognizing this, the First Conference of African Ministers Responsible for Electrical Energy, held in Addis Ababa, Ethiopia, on 20-24 March 2006, adopted a declaration committing to support the integrated development of the continent's hydropower potential. To this end, under the framework of NEPAD, the ministers decided to establish a coordination commission for the development of major integrating hydropower projects. AFREC would provide the secretariat for this commission.

## 9.5 Utility regulation in Africa

### 9.5.1 The role of regulation

The purpose of building infrastructures for transport, energy, communication, water and sanitation is to provide services to the public for economic and social development. Regulatory regimes are therefore essential to ensure that service providers meet the service requirements on the one hand, while receiving appropriate compensation to ensure continued operations on the other. Effective regulation has become all the more necessary with the increased number of service providers and the associated competition for markets.

Regulation plays two important roles in ensuring quality and coverage of services available to citizens: by protecting consumer interests and encouraging efficiency by watching for possible misuse of monopoly power or other forms of market failure; and by influencing the opportunities, risks and incentives faced by service providers, thus determining the volume and composition of investment, the required level of consumer tariffs and the responsiveness of firms to consumers. Reconciling the interests of consumers and operators is not easy, particularly in complex infrastructure sectors that involve large investments with long pay-back periods, and where tariffs and other dimensions of service are often politically determined.

Over the years, with increased private-sector participation and increased competition in service provision, countries around the world have experimented with vari-

ous approaches to regulation and have discovered many weaknesses in approaches to regulation through state ownership or through discretionary political control. There is now a consensus that the utility regulation should, at a minimum, rely on competition rather than regulation wherever feasible; have regulatory rules that are specified in laws, licenses or other instruments to reduce investor uncertainty and that are designed to create incentives for efficiency; and have regulatory rules that are administered transparently by a specialist body operating at arm's length from the service provider and political authorities.

Some of the challenges African regulators face include protection against undue political interference; avoidance of regulatory capture by utilities, investors or consumer groups; the lack of capacity of regulatory bodies; lack of experience; and a lack of predictability of regulatory decisions and their impact on business environment, which would foster private sector investment.

While regulation is exercised at the national level, there is an obvious need for harmonization at the regional and continental levels. Thus the five major regions of Africa have established various sector associations for regulation of infrastructure services. The African Forum for Utility Regulators (AFUR) was established at the continental level as a forum for all utility regulators under the auspices of NEPAD.

### **9.5.2 Regional regulatory frameworks**

The RECs have taken steps to harmonize infrastructure policies and regulation to facilitate regional integration of African markets. Their respective treaties provide for the development of regional infrastructures and the harmonization of policies and regulatory frameworks. They have set up the respective organs for regulating the sectors, in particular energy and communication.

AFUR is a voluntary organization of more than 30 African utility regulators with a mission to develop effective utility regulation across all sectors, including telecommunications, energy, water, sanitation, transportation and other infrastructure sectors where regulation is necessary. Its objectives are to harmonize regulatory policies and legislation and promote autonomous utility regulation and good governance. The formation of AFUR was motivated by the strategic framework of NEPAD to drive reform in support of Africa's infrastructure development.

Using regulatory peer review is also to be considered. Peer learning can be a powerful tool to strengthen institutions and regulate effectively.



**Table 9.15****African regional regulatory bodies**

REC	TELECOM/ICT	ENERGY
COMESA/IGAD/EAC	ARICEA: Association of Regulators for Information and Communication Services of Eastern and Southern Africa	EAPP: Eastern Africa Power Pool RAERESA: Regional Association of Energy Regulators for Eastern and Southern Africa
SADC	CRASA: Communications Regulatory Authorities of Southern Africa	RERA: Regional Electricity Regulators Association SAPP: Southern African Power Pool
ECOWAS/UEMOA	WATRA: West African Telecommunications Regulators Association	WAPP: West African Power Pool
ECCAS/CEMAC		CAPP: Central Africa Power Pool
UMA		COMELEC: Comité Maghrebin d'Electricité
CONTINENTAL	ACRAN: African Communication Regulation Authorities Network  ATU: African Telecommunications Union	UPDEA: Union of Producers, Conveyors and Distributors of Electrical Energy in Africa

Source: AFUR.

## 9.6 Financing Africa's infrastructure

### 9.6.1 Financing requirements

Africa's demand for transport and energy infrastructure and services are enormous. The public sector alone cannot meet the requirement for several reasons: budgetary constraints reduce public outlays for investment; recent experience with debt problems have spurred African governments to reduce public spending; and Overseas Development Assistance (ODA), traditionally a major contributor to public-sector investment, has declined significantly. In its report in 2005, the Commission for Africa<sup>5</sup> estimated the continent needed at least US\$ 20 billion a year investment in infrastructure development until 2015 for it to effectively integrate with the global economy. This estimate was based on World Bank calculations that infrastructure investments in sub-Saharan Africa should exceed 5 per cent of GDP in order to achieve the MDGs, and an additional 4 per cent of GDP should be added for operations and maintenance to ensure sustainability of infrastructure investment (AICD, 2008). However, this estimate was nearly doubled by the later AICD study in 2008 to around US\$ 40 billion per year, with maintenance and operations costing a fur-

5 Our Common Interest - Report of the Commission on Africa (2005, Chapter 7, para. 67).

ther similar amount per year, for a total estimate of US\$ 80 to 90 billion per year. The bulk would go to the energy and transport sectors, which account, respectively, for US\$ 23 billion and US\$ 11 billion in capital investment, and US\$ 19 billion and US\$ 11 billion in operating and maintenance expenditures.

**Table 9.16**

**Annual infrastructure financing needs in sub-Saharan Africa, 2005-2015 (US\$ billions)**

SECTOR	CAPITAL	OPERATING	TOTAL
Transport	10.7	9.6	20.3
ICT	0.8	1.1	1.9
Energy	23.2	19.4	42.6
Irrigation	4.1	0.8	4.9
WSS	2.7	7.3	10.0
Total	41.5	38.2	79.7

*Source: ICA Annual Report 2007; AICD Synopsis, 2009.*

These are still relatively modest amounts compared with similar investments in some key emerging world economies. For instance, in 2007 Brazil launched a four-year plan, worth US\$ 300 billion, to modernize roads, power plants and ports. India plans to spend around US\$ 500 billion over the next five years (ICA, 2008).

### 9.6.2 Sources of finance

There are five main sources of infrastructure finance in Africa: public budget; official development assistance (ODA) from OECD partners on a bilateral basis; loans (concessional and non-concessional) and grants from international and regional financial institutions (World Bank, AfDB, and others); official loans from non-OECD financiers (including the EXIM banks of China and India); and the private sector. The relative importance of the different sources of finance varies according to the infrastructure sector in question. For instance, private finance is geared to the ICT sector while public budgets, supplemented by ODA, are the main sources of funding for transport and water. The power sector draws primarily on public budgets and on non-OECD finance, with only a relatively small share coming from ODA or private finance.

Following the launch of the Africa Action Plan in support of NEPAD by the G8 Summit in Kananaskis, Canada, in 2002, the Commission for Africa report released at the 2005 G8 Gleneagles Summit specifically recommended the scaling up of critical infrastructure investments to raise productivity, support trade and thereby sustain growth and reduce poverty on the continent (Commission for Africa, 2005).

The G8 set up the Infrastructure Consortium for Africa (ICA) to broker a strategic partnership among development partners and stakeholders to facilitate the development of infrastructure in Africa.

### Box 9.3

#### *Infrastructure Consortium for Africa: ICA*

ICA was launched at the G8 Gleneagles Summit in 2005.

Membership: G8, World Bank Group, African Development Bank Group, European Commission, European Investment Bank, Development Bank of Southern Africa.

Secretariat: African Development Bank.

Mission: Help improve the lives and economic well-being of millions of Africans by scaling up investments for infrastructure development from both public and private sources.

Objectives:

- To increase the level of finance going to sustainable infrastructure in Africa from public, private and public-private sources;
- To facilitate greater cooperation among members of the ICA and other important sources of finance, e.g., China, India and the Arab Funds;
- To highlight and help remove policy and technical barriers to progress; and
- To increase knowledge of the sector through monitoring and reporting on key trends and developments.

Since its establishment, ICA members have steadily increased their commitments to Africa, reaching US\$ 12 billion in 2007 and a similar level in 2008. Most of the commitment is directed to sub-Saharan Africa, where the infrastructure needs are greatest. While the commitments are encouraging, implementation has been slow due to countries' inadequate capacities to push projects to the stage of financing. The NEPAD Infrastructure Project Preparation Facility (IPPF) was therefore established in 2005 to help these countries push commitments into actual financing.

**Table 9.17**

*ICA commitments to infrastructure projects in 2007 regional distribution (US\$ millions)*

Region	North Africa	SSA (Less SA)	South Africa	Total
Bilateral	684	2,661	218	3,742
Multilateral	1,554	6,790	502	8,846
Total	2,238	9,451	720	12,588

Source: ICA Annual Report 2007.

Other significant ODA commitments included the Africa-EU Energy Partnership (2007) on energy access, energy security and climate change, and the EU–Africa Partnership Infrastructure Trust Fund (2007) to support regional development in four priority areas: transport, energy, water and information technology and telecommunication networks.

Africa has traditionally depended on ODA to meet its infrastructure needs. But a growing share of the region’s infrastructure finance is now coming from non-traditional sources and could be considered complementary to support from ICA members. Leading this trend are non-OECD financiers, chiefly China, India and the Arab Fund. While the Arab Fund has operated in Africa for decades, China and India began to step up their involvement only in the early 2000s.

**Table 9.18**  
**Commitments by coordination group members in 2007**

Sources	Total US\$ Million
Kuwait Fund for Arab Economic Development	873.9
Saudi Fund for Development	114.6
Abu Dhabi Fund for Development	50.0
Arab Bank for Economic Development in Africa	134.5
OPEC Fund for International Development	279.5
Arab Fund for Economic and Social Development	483.3
Islamic Development Bank	739.1
Total	2,675

*Source: ICA Annual Report 2007.*

**Box 9.4**  
**NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF)**

**Objective:** The NEPAD-IPPF is a project and programme preparation facility to assist African countries, RECs and related institutions to prepare high-quality and viable regional infrastructure projects and programmes. The fund is hosted by the AfDB with financial contributions from Canada, Denmark, Germany, Norway, the UK and the AfDB.

**Approvals:** In 2008, the fund screened 15 new funding requests and approved 12 of these for a total commitment of US\$ 8.8 million. The average commitment per project was about US\$ 0.7 million. The fund now has a portfolio of 29 effective projects worth about US\$ 17.9 million in commitments for preparatory works. These projects are expected to generate more than US\$ 5 billion in investments.

**Achievements:** To date, three projects have been prepared and are being implemented: Benin-Togo-Ghana Electricity Interconnection; East African Submarine Cable System; and Kenya-Uganda Oil Pipeline. Six further projects are about to enter the implementation phase: OMVG Energy Interconnection Project; Gambia Bridge; Ethiopia-Kenya Power Interconnection; Kariba North Bank Extension Hydropower Project; Ithezi Thezi Hydropower Project; and Burundi-Rwanda Road Project.

Most governments in sub-Saharan Africa spend 5 to 10 per cent of their GDP each year on infrastructure, with transport and energy sectors absorbing about 80 per cent of this in low-income countries. The heavy spending on energy is a response to the power crisis on the continent. Within NEPAD, significant progress has been made on bridging the financing gap. As recently as 2002, external finance for African infrastructure amounted to no more than US\$ 4 billion per year. In 2007, however, African countries spent more than US\$ 40 billion on infrastructure. Despite this effort however, the total expenditure covers barely half of the estimated requirements, as shown in table 9.19 (AICD, 2009).

**Table 9.19**  
*Infrastructure expenditures in Sub-Saharan Africa (2007)*

Sector	Operations & management	Capital Expenditure					Total	Total expenditure
		Public sector	ODA	Non-OECD	PPI	Total		
ICT	4.6	1.7	0.1	0.5	3.1	5.4	10.0	
Power	7.0	2.7	0.8	2.2	1.1	6.8	13.8	
Transport	8.8	5.5	1.7	1.1	0.6	8.9	17.7	
WSS	3.1	1.4	1.1	0.4	0.0	2.8	5.9	
Total	23.5	11.2	3.7	4.2	4.8	23.9	47.4	

*Source: AICD Final Report, 2009.*

Private sector investment in infrastructure in Africa is skewed towards ICT and, to some extent, the energy sector. In the transport sector, there is a gradual increase in the number of toll-road projects, but these are limited to South Africa. Railways, port and airport concessions are also on the rise. The World Bank estimated the level of private-sector investment in African infrastructure at US\$ 21.9 billion in 2006 and 2007 (ICA/ADB, 2008). Public private partnerships (PPPs) are increasingly regarded as essential institutional mechanisms to design, build, operate and finance infrastructure facilities, and several governments are setting up specialist units to promote the use of PPPs in infrastructure development. However, compared with China and India, Africa is relatively late in benefiting from this because of its lack of capacity to develop and implement projects.

A recent study has shown that in developing countries, rates of return on infrastructure are higher than for capital investments. These findings imply that developing countries have underinvested in infrastructure (compared with developed countries). The relative underdevelopment of infrastructure on most of the continent provides significant opportunities for private investment.

In 2007, Nigeria launched the Africa Finance Corporation (AFC), which is expected to play an important role as a private sector-led investment bank and development finance institution promoting private-sector investment in power, transport and telecommunications infrastructure projects. Similarly, the Pan-African Infrastructure

Development Fund (PAIDF) was endorsed by the AU Summit in July 2007 as an initiative to tap resources from potential shareholders including public and private pension funds and asset management firms. By September 2008 PAIDF had raised US\$ 625 million of an initial target of US\$ 1 billion.

**Table 9.20**  
*Investment value of PPI projects, 2000 – 2006*

Year	Energy	ICT	Transport	Water & Sanitation	Total
2000	450	4,111	623	31	5,215
2001	2,080	3,841	858	3	6,782
2002	514	3,606	78		4,197
2003	1,657	4,722	280	9	8,888
2004	56	8,354	650		9,060
2005	1,759	8,750	2,563	510	1,3581
2006	2,936	14,366	4,691		21,893

*Source: ICA Annual Report 2007/ World Bank Private Participation in Infrastructure Project Database.*

Several initiatives have been taken to set up regional development funds to finance, among others, infrastructure projects to augment investment and financing from sources outside the region. To this end, SADC has established a Project Preparation and Development Fund, managed by DBSA. Similarly, COMESA is seeking to establish a COMESA Infrastructure Fund for trade-related infrastructure projects. These regional funds would complement funding from the continental infrastructure funds that have already been established and from the regional development banks and international financial institutions such as the African Development Bank and the World Bank.

The AfDB also has set up the Initiative for Risk Mitigation in Africa (IRMA) to provide investors in infrastructure with evaluation and brokerage services. This complements already existing risk-mitigation mechanisms such as MIGA of the World Bank Group.

## 9.7 Conclusions and recommendations

Infrastructure is a necessary condition for trade and a society's overall economic and social development. Infrastructure provides the physical links between the various countries and forms a major component of the costs of trade, the global competitiveness of every country and thus its development prospects.

Africa comprises an enormous land mass and 53 countries with diverse economies. Many have small economies, land size and populations, and up to 15 are landlocked,

an economic geography that presents significant challenges. Regional integration therefore is admittedly the best strategy to provide larger and more competitive markets, and thus enhance Africa's development. Integrating physical infrastructure is a necessary though insufficient condition for achieving deeper regional integration and increased trade among African countries.

The infrastructure sector accounts for a large share of the recent growth of Africa's economies, but the continent's infrastructure lags behind those of other developing regions. To increase Africa's infrastructure networks to a reasonable level within the next ten years, it is estimated that an investment of about US\$ 80 to 90 billion would be required each year, split between new construction and rehabilitation on the one hand, and maintenance on the other. Africa spends about US\$ 40 billion each year on infrastructure, which is about half the required amount. Efficiency gains could raise an additional US\$ 20 billion, leaving an annual funding gap of about US\$20 billion.

African leaders know that the current condition of infrastructure development on the continent impedes trade not only in Africa, but globally. The level of interregional connectivity is low, despite technological advances in this sector. AU Heads of State and Governments have reaffirmed the high priority accorded to infrastructure and launched the Plan for Infrastructure Development in Africa (PIDA) for its accelerated development. This is a follow-up to previous programmes under NEPAD-STAP and UNTACDA I and II.

This section concentrates on assessing the state of transport, communications and energy infrastructure and the regulatory environment, and highlights their impact on intra-African trade. Issues of financing its development and the relevant policy implications and responses are also considered. Key messages and recommendations for the way forward for each sector are presented below.

## **9.7.1 Roads**

### **9.7.1.1 *Impact on intra-African trade***

Given that road transport is the dominant mode of transportation in Africa, its development is critical. A study by Buys, Deichmann and Wheeler (2006) which examined the potential trade benefits of investing in upgrading and maintaining a trans-African highway network, estimates that intra-African trade would increase from US\$ 10 billion to about US\$ 30 billion per year when the Trans-African Highway is fully functional, while initial investments and annual maintenance costs would be relatively moderate over the course of the investment cycle. For instance, it estimates that an upgrade of the road from Bangui in the Central African Republic

to Kisangani in the Democratic Republic of the Congo would increase the volume of trade by about 8 per cent. Of course, this presupposes the end of the region's lack of security and stability.

#### **9.7.1.2 *Next steps***

Despite increasing traffic volumes, many road networks are in poor condition. Rehabilitation and construction of new roads are essential to provide sufficient, safe and efficient transportation for passenger and freight traffic. This will require innovative financing and management, combining public-sector financing and private-investment and operations, including establishing a roads fund for maintenance.

The Durban Declaration and Plan of Action (AU, 2007) provides a clear roadmap for the development of an efficient, affordable and safe road transport system. The AU Summit in 2009 endorsed these and identified specific actions to establish a legal framework for monitoring compliance in implementing the programme of action. Its main obligations are to adopt the TAH network as a coordinated plan for the development of highway routes of internal importance; bring the network into conformity with TAH classification and design standards; and place TAH route signs on all routes. An intergovernmental agreement on TAH must be developed and ratified and an appropriate institutional framework established as the next step to implementation. The experience of the development of the Asian Highway Network, which met a similar challenge in Africa but has a longer history, provides a useful framework in this regard (ESCAP, 2008). AUC as the lead institution in continental development provides a forum to negotiate any revisions of routes and to discuss progress in development policies and issues relating to TAH infrastructure development.

### **9.7.2 Railways**

#### **9.7.2.1 *Impact on Intra-African Trade***

The share of rail freight in intra-African trade is insignificant—the continent's rail systems are largely disconnected, with most of them radiating from the interior to the sea ports for external trade. The advantage of rail transport over roads has been highlighted by recent economic and technological trends, including higher energy prices, containerization and increases in the flow of bulk traffic. As a result, the policies of the past two decades, which focused only on road transport development in Africa, are being revisited.



### ***9.7.2.2 Next steps***

Future development in this sector would relieve demand on the road transport system and reduce the cost of surface transport. However, it would require bold political decisions by Africa's leaders, who are leading NEPAD's implementation. The AU Summit in 2009, which focused on infrastructure development in Africa, added impetus to the need to integrate Africa's railways by constructing several key interconnections (AUC, 2009). Further required actions include rehabilitation, interconnection, upgrading and extending railways for transporting bulk freight; developing systematic programmes to replace old locomotives, wagons and communication systems; initiating market-driven and customer-responsive services to attract customers; increasing the role of the private sector; developing competition rules for intermodal transport to gain efficiency in cargo handling; and constructing railway interconnections where feasible.

## **9.7.3 Maritime ports**

### ***9.7.3.1 Impact on intra-African trade***

Although the ports anchor Africa's imports and exports to the international markets, there is little coastal shipping in Africa. As a result, the impact of maritime ports on intra-African trade is indirect.

### ***9.7.3.2 Next steps***

Africa is still at an early stage in developing its capacity and infrastructure for effective container handling. Considerable potential exists for traffic volumes to increase, thus exerting greater demand for container ports in the region in the near future. Port productivity is generally low. The recent establishment of inland container depots (ICDs) as inland port terminals in coastal or landlocked countries or in distant seaports has made significant impact on container traffic. More ICDs therefore should be developed and the multi-modal interface between the seaports and inland transport systems should be improved to reduce vehicle turnaround and ships' dwell time.

The first AU Conference of Ministers Responsible for Maritime Transport, held in Abuja, Nigeria, in 2007 examined the role of maritime transport in the development of Africa. It adopted the Abuja Declaration for effective revitalization of maritime transport in Africa as a key component of an African socio-economic development policy (AUC, 2007). The next step would be to ensure the implementation of the accompanying plan of action on maritime transport in Africa.

## 9.7.4 Inland waterways

### 9.7.4.1 *Impact on intra-African trade*

The current levels of trade on Africa's inland waterways are far below their potential and have little impact on intra-African trade.

### 9.7.4.2 *Next steps*

This is the only mode of transport that has not benefited from AU policy guidelines, partly because no international organization, except IMO, deals directly with such problems. The matter should be raised in future AU meetings of ministers responsible for transport development in the region.

Programmes have been initiated by organizations and institutions over the past decade to improve inland water transportation, most notably the various river and lake basin organizations. Each of the large lakes and rivers has set up an intergovernmental basin commission to manage water resources, including their use for transportation. The commissions' effectiveness varies, however, due to their relative capacities. These initiatives would represent a new awareness of the possibilities offered by inland waterways in opening up rural access.

## 9.7.5 Air transport

### 9.7.5.1 *Impact on intra-African trade*

Air freight plays an increasing role in the competitiveness of goods in world markets for high-value, time-sensitive cargo such as horticultural products. It is particularly important for sparsely populated and landlocked countries and for the future of the region's tourism potential. In a rapidly urbanizing region with underdeveloped road networks, civil aviation is also important in maintaining connections between cities.

Air transport is second only to road transport in African trade. It is estimated to account for about 5 per cent of all trade, but this is mostly international trade outside Africa. Although statistics on intra-African air freight are not readily available, the patterns of flights suggest that where such trade exists, it is mainly carried out by the regional airlines.

With respect to passenger traffic, Kenya Airways and Ethiopian Airlines continental flights provide connections between Africa and the Middle and Far East countries. These are anecdotal observations based on the proportion of passengers who travel through the Nairobi and Addis Ababa hubs to and from Central, Western and Southern Africa. South African Airways, on the other hand, chiefly serves destinations within Africa.

The regional airlines in West and Central Africa support trade in the two regions, but most of this would be classified as informal trade in that it is carried out by small businesses that fly with merchandise on board the same plane. Some merchandise is not recorded as official trade.

The cost of air travel within Africa is generally high, in part due to the relatively short distances (AICD, 2008) and the lack of low-cost carriers.

#### **9.7.5.2 *Next steps***

A full implementation of the Yamoussoukro Decision should take place. In addition, all international safety guidelines and standards should be implemented; international airports should be upgraded, including landing strips, aeronautical equipment and airport services facilities; old aircraft should be replaced; ICT use should be increased to facilitate and lower air-transport operation costs; and competition rules and the protection increased. Capacity-building must take place to improve safety by strengthening pilot capability and safety administration.

### **9.7.6 Information and communications technology (ICT)**

#### **9.7.6.1 *Impact on intra-African trade***

Advances in ICT over the past decade have dramatically improved Africa's participation in the global economy. Its impact permeates all social and economic activities in the information society, where access to information and knowledge is a prerequisite for development (WISS, 2005). ICT provides good prospects for Africa to harness technology, build efficiency, lower costs of production and marketing, develop comparative advantages in other sectors, expand international demand for goods and services, create primary and secondary sources of employment, generate knowledge, and propel research and development.

ICT also plays a critical role in promoting trade through various business applications. These include e-commerce; finance, budget and account management; effi-

cient management of transport and logistics services; facilitating customs operations; improving standards and certification; and strengthening regional integration. For instance, e-banking underpins the efficient transfer of payments and effective management of liquidity. Locally promising steps already have emerged for money transfers using mobile networks.

#### **9.7.6.2 *Next steps***

Achieving universal access to ICT is one of Africa's major challenges. Wireless and mobile technologies look promising, especially with regard to achieving universal access. In line with the NEPAD strategy, the short-term objectives should be to complete the regional and national lines to provide broadband infrastructure and improve policy and regulatory frameworks to attract private investment. The medium-term objective should be to stimulate demand for ICT networks and services by promoting applications (e-commerce, e-banking, e-government, e-schools, and e-health). The goals of the Connect Africa Summit (Kigali, 2007) provide suitable guidance.

### **9.7.7 Energy**

#### **9.7.7.1 *Impact on intra-African trade***

Energy contributes to intra-African trade on three levels. First, by adding to the production process for goods and services, including powering factories; by providing light and heat; and by supporting the functioning of society. The second aspect is by fueling the transport and communications systems that facilitate trade. Finally, energy resources as commodities also form a major component of trade. As a result, the energy sector is increasingly considered a major factor for regional cooperation and integration in Africa in terms of energy commodity (coal, oil, gas) and electrical power.

#### **9.7.7.2 *Next steps***

The integrated development of electricity generation resources and sharing through regional power pooling would promote the development of the continent's energy resources. Initially the focus will be on finishing power system interconnections at the regional level in the short- to medium-term. This will be followed by completing the regional interconnections in the long-term, thus strengthening the link to Europe and the Middle East.

Energy supply and end-use efficiencies still constitute only two-thirds to one-half of what would be considered best practice in the developed world. Therefore, the

energy policies must put a greater emphasis on end-use efficiency, the use of renewable resources of energy, where available, and the use of clean technologies, where the incremental cost of such technology will not result in an excessive increase in the cost of energy. Cooperation with developed countries and international institutions regarding energy efficiency will assist African countries develop capabilities and expertise for implementing sustainable least-cost energy development. AFREC should collect and disseminate good practices on energy efficiency and reliable supply. Furthermore, the ministers' declaration included a decision to establish an African electricity fund to finance rural electrification. An appropriate institutional framework will be needed for developing regional treaties in power-trading, harmonizing and enforcing regional regulation, facilitating private-sector investment and developing capacity in power-system operation, maintenance and energy-trading.

In many countries rural electrification by means of grids and the intervention of electricity utilities is not the best or fastest means of providing the largest number of households with electricity. It is clear that non-renewable sources of energy technologies must play an increasingly important role in the 21<sup>st</sup> century in fully harnessing Africa's extensive NRSE potential, and providing clean, affordable and reliable energy is a necessity for sustainable development. Through regional cooperation in the production of cheap energy, cross-border electrification and manufacturing equipment, the cost of supply would be reduced, resulting in the delivery of affordable modern energy to rural communities.

In the gas sector, the West African Gas Pipeline (WAGP) supplying gas from Nigeria to Benin, Togo and Ghana should be extended to cover other countries in the region. Similarly, the Trans-Saharan Gas Pipeline (TSGP) between Nigeria and Algeria would interconnect the North and South gas networks and thus enable Nigeria to export its natural gas to the European market through Algeria and also serve countries enroute.

Due to the high cost of procuring oil at the individual country level, cooperation is necessary among African countries to integrate procurement and the use of refineries to reduce the cost of oil imports.

### **9.7.8 Finance**

There has been a significant increase in resources for investment and operations of infrastructure in Africa since 2005, when ICA was established. Private-sector investment has especially been significant, amounting to about US\$ 20 billion (50 per cent) of commitments in 2007, but mostly concentrated in North Africa and South Africa. PPP arrangements have also increased. However, the global financial crisis which began in 2007 has had serious implications for Africa's infrastructure. Glo-

bally, the level of investment in new projects in 2008 declined by about 40 per cent since 2007 (ICA, 2008). The impact of this crisis on Africa will slow private capital flows into infrastructure development.

Africa already spends US\$ 40 to US\$ 45 billion on average each year on its infrastructure needs. It is estimated that an additional US\$ 15 to US\$ 20 billion could be captured by staunching losses and improving efficiency (AICD, 2009). But there would still remain a funding gap of more than US\$ 30 billion a year.

Africa's response to the crisis will vary from country to country and from sector to sector. A possible response would be to accelerate intraregional trade and therefore investment. Another would be to reduce the cost of doing business by improving the investment climate and strengthening local and regional financial markets. Pension funds, for example, can provide additional long-term capital for domestic investment. Finally, the region could benefit from the vast potential of sovereign wealth funds and the emerging infrastructure bonds and funds.

In order to develop infrastructure for effective intra-African and global trade and sustainable development, African countries agreed to, among others, the following strategy (AUC, 2009):

- Deepening regional capital markets to more effectively mobilize local savings and regional financial integration;
- Improving access to long-term financing by setting up special investment instruments, such as infrastructure bonds, to harness resources for infrastructure investments;
- Strengthening PPP arrangements by involving the private sector not only in project financing and implementation, but also as stakeholders in policy formulation and enforcing rules and regulations;
- Continuing to take action to improve the investment climate in African countries for increased private-sector participation by setting up legal, regulatory and institutional reforms; and
- Undertaking aggressive promotion of Africa as an investment destination, since achieving the right investment climate alone may not necessarily result in increased inflow of investment.

### **9.7.9 Institutional issues**

The absence of finance may be considered the major constraint in the development of regional infrastructure services in Africa. This is justified in light of the enormous requirements cited above. Nevertheless, this is not the only issue. There are other

equally important impediments both at the macro- or policy-level and micro- or technical level. Policy-level constraints include the absence of or slow implementation of regional agreements at the national level; a weak regulatory environment; and weak governance. Technical impediments include a poor capacity for planning, project identification, preparation, contract bidding and implementation; corruption in tendering and implementing projects, as evidenced by wide cost variations between countries with similar topography and the lack of technical expertise. Actions to remedy some of these issues outlined below.

***Compliance with intergovernmental agreements.*** Since the development of regional infrastructure requires cooperation and coordination among the concerned member states, a mechanism must be put in place to ensure compliance. For instance, the various AU declarations can only take effect if and when translated into binding intergovernmental agreements to be signed, ratified and implemented by each participating member State. And, to ensure implementation, a monitoring and reporting system must be established, including an agreed timeframe and corrective measures. Special funds could be established to assist special needs of some member States (such as post-conflict or fragile states) to implement agreed programmes. The completion of TAH missing links is a good example of this need. This is a test of political will.

***Master plans for regional infrastructure development.*** Master plans are required at the continental (NEPAD/AU), regional (REC) and country levels to facilitate full regional integration, the free movement of people and intra-African trade. PIDA should provide the overall umbrella under which regional and national master plans would be drawn.

***Interregional coordination and cooperation.*** While the RECs form the basic blocs for regional integration, cooperation among the various RECs in infrastructure development provides the ideal basis for achieving continental integration. The cooperation among COMESA, EAC and SADC under the framework of the Tripartite Agreement of 2008 is an excellent pilot. Similarly, the interconnectors among the power pools also facilitate regional integration. Countries must consider the benefit realized through integrated regional resource development in their national infrastructure planning and generate cooperative projects. Investment under PPP and financial support from international development partners would require countries to lead with commitments of counterpart funds.

***Prioritization of projects.*** Given the enormity of Africa's infrastructure needs, projects must be prioritized for implementation. The AU Summit decisions in February 2009 committed countries to implement 15 priority infrastructure projects in energy and transport. One possible approach is for a regional agreement to complete one key project within a given period (say, five years) after which an assess-

ment is made and another key project selected for the following period. Appropriate timelines must be established for agreed action plans to ensure steady progress in implementation. A regular investor forum could be organized around specific regional infrastructure development programmes similar to the North-South Corridor Summit of 2009 held in Lusaka, Zambia.

***Project preparation, development and packaging.*** A key bottleneck to the development of infrastructure projects has emerged as the lack of properly prepared projects that could be marketed for financing and development through PPP or the private sector. As a result it has become necessary to intensify the process of project preparation, development and packaging and feasibility studies to transform them into bankable projects for investment. The progress achieved within a short time following the establishment of NEPAD-IPPF for projects in NEPAD-STAP has demonstrated the effectiveness of such project-preparation facilities.

***Institutional development.*** To accelerate infrastructure development, a comprehensive programme of institutional development and capacity-building at the level of member States, RECs and implementing agencies is required to enable and draw investment. Despite extensive efforts, institutional reform is still not completely achieved in Africa (AICD, 2009). Private-sector participation has been effective in improving service quality and efficiency in some (but not all) areas of infrastructure. Since public provision remains dominant, governance reform in State-owned enterprises deserves attention, with an emphasis on strengthening incentives and accountability. Developing regulatory agencies in Africa also has been challenging, and results are not yet in.



# Annex

## Annex 9.1

### Top African container ports – 2004

Port	Countries Served	Number of berths	Performance (containers/hr)	2004 TEUs (000)	Growth (per cent)
Alexandria	Egypt	-	-	1418	32
Casablanca	Morocco	-	-	492	10
Port Sudan	Sudan	-	-	206	31
Djibouti	Djibouti, Ethiopia	15	28	159	(35)
Mombasa	Kenya, Uganda, Rwanda, Burundi, DRC	15	20	404	22
Dar es Salaam	Tanzania, Rwanda, Burundi, Uganda, DRC, Zambia	7	15	260	27
Durban	South Africa, Zimbabwe, Botswana, Zambia, DRC	-	85	1717	14
Port Elizabeth	South Africa	-	-	323	18
East London	South Africa	-	-	60	7
Cape Town	South Africa	-	-	570	7
Luanda	Angola, DRC, Zambia	-	-	235	12
Lagos	Nigeria	-	-	444	(7)
Lome	Togo, Burkina Faso, Niger, Mali	8	13	185	11
Tema	Ghana, Burkina Faso, Niger, Mali	12	17	340	(3)
Abidjan	Côte d'Ivoire, Burkina Faso, Niger, Mali	34	17	670	16
Dakar	Senegal, Mali	34	20	331	18

**Source:** AICD Ports Database, 2008.

## Annex 9.2

### Container-handling systems at major ports in the region

Port	Average moves per hour*	Handling system employed	Dwell Time (Days)
Douala	20	Container gantries	19
Dar es Salaam	20+	Container gantries	15
Abidjan	20+	Container gantries	-
Djibouti	17	Container gantries	10
Durban	15	Container gantries	5
Tema	14	Container gantries	-
Elizabeth	13.3	Container gantries	-
Cape Town	12	Container gantries	-
Apapa	12	Container gantries	-
Mombasa	10	Container gantries	12
Maputo	10	Container gantries	10
Dakar	10	Ships' gear	9
Beira	9	Container gantries	10
Port Sudan	8	Container gantries	-
Walvis Bay	8	Ships' gear	-
East London	8	Ships' gear	-
Luanda	8	Ships' gear/mobile cranes	-
Matadi	7	Ships' gear	6
Pointe Noire	7	Ships' gear	-

**Source:** NEPAD-MLTSF, 2004. *Source:* AICD Ports Database, 2008.

## Annex 9.3

### Membership of AFUR, by country

Country	Regulatory Agency	Year Est.	Sector
Algeria	CREG – Commission de Régulation de l'Electricité et du Gaz (Electricity and Gas Regulatory Commission)	2002	Electricity and Gas
Benin (Observer)	OPT – Office of Posts and Telecommunications		Telecom
Cameroon	ARSEL – Agence de Regulation du Secteur de l'Electricite' (Electricity Sector Regulatory Agency)	1998	Electricity
Cameroon (Observer)	ART– Agence de Regulation des Telecommunications		Telecom
Côte d'Ivoire	ANARE – National Authority for Regulation of Electricity Sector	1998	Electricity
Ethiopia (Observer)	EEA - Ethiopian Electricity Agency		Electricity
Gabon (Observer)	ART – Agence de Regulations des Telecommunications		
The Gambia	PURA – The Gambia Public Utilities Regulatory Authority		General
Ghana	PURC – Public Utilities Regulatory Commission	1997	General
Ghana	NCA – National Communications Authority		Telecom
Ghana	ECG – Energy Commission of Ghana		Energy
Kenya	ERC/ERB – Energy Regulatory Commission/ Electricity Regulatory Board		Energy/ Electricity
Kenya	WRSB – Water Services Regulatory Board		Water
Lesotho	LEA – Lesotho Electricity Authority	2002	Electricity
Madagascar (Observer)	OMERT - Office Malagasy d'Etudes et de Regulation		General
Mali	CREE – Electricity and Water Regulatory Commission		Electricity
Malawi	MERA – Malawi Energy Regulatory Authority		Energy
Mauritania	ARE – Autorité de Régulation		General
Mozambique	CRA - Water Regulatory Council		Water
Namibia	ECB – Electricity Control Board		Electricity
Niger	ARM – L'Autorité de Régulation Multisectorielle (Multi-sectoral Regulatory Authority)	1999	General: water, energy, telecommunications, and transport
Nigeria	NERC – Nigerian Electricity Regulatory Commission		Electricity
Senegal	CRSE – Commission de Régulation du Secteur de L'Electricité		Electricity

Country	Regulatory Agency	Year Est.	Sector
South Africa	NERSA – National Energy Regulator of South Africa		Energy
South Africa	DWAF – Department of Water Affairs and Forestry		Water
South Africa	ICASA – Independent Communications Authority of South Africa		Telecom
South Africa (Observer)	CC – Competition Commission		General
Sudan (Observer)	ERA – Electricity Regulatory Authority		Electricity
Tanzania	EWURA – Energy and Water Utilities Regulatory Authority		Energy & Water
Togo	ARSE – Autorité de Réglementation du Secteur de l'Electricité		Electricity
Togo	Ministère de l'Equipement, des Transports et des Postes et Télécommunications		Transport
Togo	Autorité de Réglementation des Secteurs de Postes et de Télécommunications		Telecom
Uganda	ERA – Electricity Regulatory Authority		Electricity
Zambia	ERB - Energy Regulation Board	1995, Amended in 2003	Energy
Zambia	CAZ – Communications Authority of Zambia		Telecom
Zambia	NWASCO -- National Water and Sanitation Council		Water
Zimbabwe	ZERC – Zimbabwe Electricity Regulation Commission		Electricity

**Source:** AFUR.

## Annex 9.4

### Airport Facilities in 24 AICD Countries in cities with population of at least 50,000

Country	Short runways Less than 1,500 metres	Medium runways From 1,500 to 3,000 metres	Long runways More than 3,000 metres
Benin	0	1	0
Burkina Faso	0	0	1
Cameroon	2	1	0
Cape Verde Islands	0	1	1
Chad	0	2	3
DRC	4	9	2
Côte D'Ivoire	0	0	1
Ethiopia	1	3	1
Ghana	0	2	1
Kenya	6	4	3
Lesotho	3	0	1
Madagascar	4	4	1
Malawi	2	1	0
Mozambique	4	9	1
Namibia	1	7	2
Niger	0	0	1
Nigeria	10	6	7
Rwanda	0	0	1
Senegal	0	5	2
South Africa	31	37	2
Sudan	2	5	3
Tanzania	4	2	3
Uganda	0	1	1
Zambia	2	3	1

Source: AICD.

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# Supply-and-Demand Constraints to Intra-Africa Trade

## 10.1 Introduction

This chapter deals with Africa's potential for intraregional trade and the major constraints to that potential. It also addresses the role of regional integration in the process. The latter is one of the most important vehicles to enhance intra-Africa trade which, in turn, is a key to the betterment of the continent's populations.

There are a number of regional economic communities (RECs) in Africa. Each African country belongs to at least one. In addition to politically-motivated divisions, this proliferation of RECs partly indicates that the issue of regional integration is important for African countries (Alemayehu and Haile, 2008). This is not surprising, given that about 40 per cent of the population and one-third of the economies in the continent are trapped in landlocked countries whose trade and development depend on events beyond their own borders. In addition, most countries in Africa are small and their economic feasibility is limited. The continent has several RECs whose missions overlap, and for the most part, RECs have yet to achieve the most important objectives they were set up to accomplish: to enhance economic integration and uplift the living standard of their population. One major instrument to achieve this is intra-Africa trade. Although Africa's share of world trade is less than 2 per cent, that small amount constitutes more than half the GDP of each African country, hence its importance. Intra-African trade has the potential to raise the level of prosperity of the African population by fostering regional economic development (see Longo and Sekkat, 2001).

RECs have the potential to contribute to the growth of intraregional trade, enhance the bargaining power in trade negotiations and help ensure policy credibility. Their welfare effect, if managed carefully, is unequivocally positive. Regionalism, combined with good policies (sound macroeconomic management, fewer political tensions and better physical infrastructure) could lead to welfare gains. On top of pure economic arguments for African RECs, their interplay with politics and policies may turn integration into an efficient solution to intra-Africa trade and related developmental endeavors (see Longo and Sekkat, 2001; Alemayehu and Haile, 2008). On theoretical grounds, Venables (1999) argues that South-South regional integration

schemes are likely to lead to income divergence among member countries. This does not, however, override the theoretical welfare gain of such schemes as established in the theoretical works of Kemp (1964) and Kemp and Wan (1987).

The African continent has been trading in large volumes with the outside world, mostly the developed world, since the turn of the 20th century (Alemayehu, 2002). However, formal intra-Africa trade has remained at a low level compared with the continent's trade with the outside world, constituting no more than 10 per cent of the total annual trade of each REC on the average (Oramah and Abou-Lehaf, 1998; Alemayehu and Haile, 2008). The pattern of African exports continues to be influenced by the continent's historical links with the outside world. More than 80 per cent of exports are destined for markets beyond Africa, with the EU and the US accounting for more than 50 per cent of this total. Disaggregating African trade shows that none of the RECs has been successful in elevating intra-REC trade beyond a small portion of total African trade (see table 10.1).

As chapter 4 demonstrated, the level of intra-Africa trade remains low even though it has recently shown some improvement. It was only 2.72 per cent in the year 2000, but it increased to 4.31 per cent in 2006. Moreover, African RECs do not supply more than 10 per cent of their exports or imports to the African market; the rest are directed to Europe, North America and Asia.

**Table 10.1**  
*Level of intra-African trade and total African trade between 2000 and 2006*

	2000	2001	2002	2003	2004	2005	2006
Bilateral Trade among African Countries (in Tr.) [1]	16.4	16.3	18.4	21.8	27.6	32.6	46.7
GDP of the Trading African Countries (in Tr.) [2]	603	579	577	691	822	965	1,080
Bilateral Trade/GDP ([1]/[2])	2.72%	2.82%	3.20%	3.16%	3.35%	3.38%	4.31%

*Source: UN COMTRADE (Accessed January 2009).*

Given the weak intraregional trade performance of the African RECs to date, the questions “is there a potential for intra-Africa trade?” and “what are the major constraints to intra-Africa trade?” are timely and important. The rest of this chapter addresses these issues and is organized as follows. The next, section two, will address the question of “is there a potential for intra-Africa trade?” Once potential intra-Africa trade across countries and potential African suppliers for African markets are identified, the relative comparative advantage of these countries is examined to investigate the challenge of realizing the identified potential. This is done by examining the structure of demand and supply of African exports as well as the comparative advantage of African countries in export supply. This is followed by section three

where the major constraints to supply are examined in detail with the aim of coming up with policy direction for enhancing intra-Africa trade. Section four concludes the chapter.

## 10.2 Is there a potential for intra-Africa trade? A gravity model approach

The role of RECs in fostering intra-Africa trade is a contested issue. It is argued that in spite of the proliferation of RECs, they have not demonstrably expanded intra-regional trade and most of them have achieved very little (Ndulo, 1992; Foroutan and Pritchett, 1993; Alemayehu and Hail, 2008). Intra-African trade, for instance, in the Arab Maghreb Union (UMA), the Economic and Monetary Community of Central Africa (CEMAC) and the Common Market for Eastern and Southern Africa (COMESA) constitutes not more than 5 to 10 per cent of the total trade of each REC.

A number of studies have been carried out to assess the potential and performance of RECs in Africa using the popular gravity model. Although their results vary slightly, the findings and conclusions are similar. They all conclude that the experience of regional integration in Africa has been disappointing in achieving two of the main objectives of increasing intraregional trade and fostering policy coordination (Alemayehu and Haile, 2008; Longo and Sekkat, 2000; Yeats, 1999; Lyakurwa et al., 1993; OECD, 1993; Foroutan and Pritchett, 1993; Elbadawi 1997; Lyakurwa 1997; World Bank, 1989). Notwithstanding positive development in some of the African RECs, the weak intraregional trade flows and their lack of progress, in spite of many treaties, warrant further exploration.

Should the weak performance of regional integration in Africa be attributed solely to its lack of implementation? Or should it be attributed to some inherent characteristics of African economies, which led Foroutan and Pritchett (1993) to conclude that even in the absence of trade restrictions, the scope for trading among African countries is “intrinsicly” modest? This would mean that there is no potential for intra-Africa trade. If this is the case, does this necessitate a new approach to regional integration? More important, what are the reasons for such poor performance?

Thus, the findings in the literature yield two important questions: first, is there a potential for intra-Africa trade? And second, if there is one, what are the constraints that prevent African countries from exploiting this potential? If there are none, what are the reasons?

According to UNCTAD (2005), intraregional trade in UMA, for instance, is particularly low, despite the diversified manufactured exports of some of its members (e.g., Morocco and Tunisia) compared with the rest of the RECs. In 2005, Western Europe accounted for two-thirds of total UMA exports: not only most of the fuel exports (mainly from Algeria and the Libyan Arab Jamahiriya) went to that market, but also 80 per cent of the manufactures exported by Morocco and Tunisia followed suit (UNCTAD, 2005).

Cassim (2001) also has examined the determinants of intraregional trade in Southern African countries using a gravity model. What his gravity model suggests is that a programme of intraregional trade liberalization could engender further trade potential. This, however, depends not only on tariff liberalization but also on the overall reduction in trade costs. In Cassim's study, trade in Southern Africa decrease from US\$ 2,314 million of actual value to US\$ 775 million of estimation from the gravity model. This represents a reduction in trade of more than 50 per cent, but increased significantly for non-Southern African Customs Union (SACU) SADC countries' exports to South Africa (Cassim, 2001). This empirical result shows that intraregional trade in SADC is not low by international standards. In fact, it actually exceeds its potential. When compared with such regions as SACU, actual South African exports are greater than the estimated potential exports. However, the model indicates low trade volumes for other, especially non-SACU, countries in the SADC region, implying the potential for non-SACU countries to their scope and their exports to South Africa and vice versa.

In an earlier study, Foroutan and Pritchett (1993) compared actual trade with what a traditional gravity model would predict. Employing the model for 19 sub-Saharan countries, Foroutan and Pritchett (1993) predicted the level of intra-Africa trade that should occur based on their mutual proximity, the relative size of their economies and other economic characteristics. According to this study, the actual sub-Saharan African share of imports plus exports was an average (median) of 8.1 per cent (4.5 per cent) while the gravity model predicts a slightly lower, not higher, mean (median) of 7.5 per cent (4.5 per cent), implying that the actual level of intra-Africa trade is higher than expected.

In the light of the mixed results yielded from earlier studies, this chapter reexamines the issue using recent data between 2000 and 2006 and a wider sample of African countries. The specification of the gravity model used, its expected signs, country coverage and the data used for its estimation are described in annex 10.1. The estimated coefficients of this gravity model are used to simulate the potential for intra-Africa trade. The result of this exercise for West and Central Africa and East and Southern Africa are briefly described below.

## 10.2.1 West and Central Africa

The gravity model specified in annex 10.1 is estimated using West and Central African countries as reporting countries and their major trading partners (both in Africa and the rest of the world). An attempt is made to cover all countries if the required data is available (see annex 10.1.1 for the sample of the countries used in estimating the model). The result of the gravity model is given as table 10.2a below.

**Table 10.2a**

*West & Central Africa: A gravity model 2000-2006*

*Dependant variable is log of bilateral trade (West & Central Africa: Partners World).*

	Tobit Equation		
	Coefficients	T-value	
Ln (Area <sub>i</sub> )	-0.25	-5.2	*
Ln (Area <sub>j</sub> )	-0.07	-0.8	
Ln (GDP <sub>i</sub> )	0.69	11.2	*
Ln (GDP <sub>j</sub> )	0.17	1.7	***
Ln (Dist)	-0.73	-5.7	*
Ln (Mobile <sub>i</sub> )	0.13	1.2	
Ln (Road <sub>i</sub> )	0.14	1.9	**
Landlocked	-0.62	-2.6	*
Shared border	1.17	2.7	*
Ln (FDI <sub>i</sub> )	0.30	3.6	*
Ln (Dif_Percapita)	-0.21	-3.5	*
Ln(Tax <sub>i</sub> _Intnl <sub>j</sub> )	-0.04	-1.8	**
Language_offical	0.37	2.2	*
Constant	-15.00	-7.7	*
Pseudo R-Square		0.0553	
No of observation		2382	
Log Likelihood	-5563.02		

*\*, \*\*, \*\*\* Significant at 1, 5 and 10 per cent, respectively.*

The data show that most of the traditional variables have the expected sign and also are statistically significant. As all variables, except dummy variables, are in logarithms, the coefficients are elasticities. Infrastructure indicators used in the model also are found to have the expected positive sign (and in the case of share of paved road it is found to have statistically significant coefficient). Similar results are found for FDI. The difference in per capita income between West African countries and their trading partners is found to negatively affect bilateral trade, as can be expected, since it shows a difference in the pattern of demand (what is called “the Linder effect”). Note that access to the foreign market, whose proxy is tax on international trade by a partner country, negatively affects bilateral trade of West African countries.

Using the results in table 10.2a, a simulation exercise is conducted to examine the potential or theoretical level of intra-Africa trade for each West African country, given the parameters of the model reported in that table. This is then compared with the actual trade of each West African country to countries in the region (as the ratio of that country's total trade with all its major trading partners, both in West Africa and the rest of the world). The result of this exercise is given in table 10.2b.

**Table 10.2b**

*The potential for intra-Africa trade in West and Central Africa  
(Ratio of actual to potential ratio of regional exports to total exports, in per cent for each country.)*

Exports of each country to 21 West and Central African countries (per cent of total exports of that country to all countries in model)			
Exporting West & Central African countries in model	Model simulation (potential, per cent) [A]	Actual (per cent) [B]	Actual to potential ratio (per cent) [A/B]
Benin	39.2	22.2	56.8
Burkina Faso	44.2	21.9	49.6
Cameroon	16.7	8.8	52.7
Cape Verde	9.4	0.3	3.5
Chad	21.3	0.7	3.1
Comoros	4.9	0.1	1.7
Congo	56.8	3.1	5.4
Congo (DRC)	60.0	1.5	2.5
Côte d'Ivoire	89.1	98.4	110.4
Gabon	23.3	1.9	8.0
Gambia	30.8	8.5	27.5
Ghana	37.5	10.2	27.2
Guinea	39.3	8.0	20.4
Guinea-Bissau	32.1	2.0	6.1
Liberia	26.2	1.8	6.7
Mali	43.4	6.6	15.1
Niger	34.3	30.7	89.5
Nigeria	26.2	8.6	32.9
São Tomé and Príncipe	19.0	46.5	244.9
Senegal	7.2	1.2	16.9
Sierra Leone	18.5	4.3	23.0
Togo	46.7	67.4	144.3
Average (simple)	33.0	16.1	43.1 (33.5*)
Average (trade-weighted)			36.4

\* Excluding São Tomé and Príncipe.



The result in the last column of table 10.2b, shows that except for São Tomé and Príncipe and Côte d'Ivoire, actual trade among most countries in the region is well below the potential given by the gravity model, which itself is the result of their proximity, level of income and related cultural affinities. On average, the countries in the region are trading only 43 per cent (36.4 per cent, using trade weighted average) of their potential trade in the region. There is also variation in potential across countries. Whereas some countries, such as the Niger, are near their potential (90 per cent), the majority are found to have actual trade well below the average actual to potential ratio.

## 10.2.2 Eastern and Southern Africa

A similar gravity model (as specified in annex 10.1), to that of Western and Central African countries is also estimated for Eastern and Southern Africa. The result of this model is shown in table 10.3a.

**Table 10.3a**

*Eastern and Southern Africa: A gravity model 2000-2006*  
*Dependant variable is log of bilateral trade (East & Southern Africa: Partners World).*

Tobit Equation			
	Coefficients	t-value	
Ln(Areaj)	-0.17	-3.3	*
Ln(Areai)	0.15	1.0	
Ln(GDPj)	0.72	11.6	*
Ln(GDPi)	0.37	2.5	*
Ln(Dist)	-0.98	-6.2	*
Ln (Mobilei)	0.30	2.0	**
Ln(Roadi.)	0.32	2.0	**
Land Locked	0.19	0.8	
Border Share	1.50	3.0	*
Ln(FDIi)	-0.22	-2.1	**
Ln(Dif_Percapita)	0.04	0.6	
Ln(Taxe_Intnlj)	-0.03	-1.2	
Language official	0.25	1.4	
Constant	-15.38	-5.8	*
Pseudo R-Square		0.0608	
No of Observation		906	
Log Likelihood	-2027.19		

\*, \*\*, \*\*\* Significant at 1, 5 and 10 %, respectively.

The data show that most of the traditional variables have the expected signs and are also statistically significant. In addition, infrastructure indicators have the expected sign, which are statistically significant. The only unexpected sign is for FDI, which

is negative (this may theoretically be plausible if the FDI in the region is market-seeking, as opposed to the resource-seeking type observed in the West and Central African model). The difference in per capita income is not statistically significant for this region. Similarly, access to the foreign market, whose proxy is tax on international trade by a partner country—and being landlocked—are not found to be statistically significant, even though they have the right signs.

With the results from table 10.3a, a similar simulation exercise to that of table 10.2b is conducted. The result from the model is then compared with the actual trade of each country in the region. The result of this exercise is given in table 10.3b. The data show that, except for Djibouti, which is trading heavily with Ethiopia, and Mauritius, and trading heavily with Madagascar and South Africa, most countries' actual trade is well below the potential given by the gravity model. On average these countries are trading about 75 per cent (40 per cent, using the trade-weighted average) of their potential trade in the region. This would drop to about 49 per cent if Mauritius and Djibouti were excluded from the sample. The data also show that South Africa has nearly reached its potential level (95 per cent) in terms of trade with countries in the region.

**Table 10.3b**

***Actual and potential trade in East and Southern Africa: Model simulation results***

***(Ratio of actual to potential ratio of regional exports to total exports, in per cent for each country.)***

Exports to the sample Eastern and Southern Africa countries (% of total country's exports to all sample countries in the model)			
Exporting Country	Model simulation (potential, per cent) [A]	Actual (per cent) [B]	Actual to potential ratio (per cent) [A/B]
Angola	10.9	2.1	19.1
Burundi	22.9	13.7	59.9
Djibouti	25.4	90.4	356.0
Ethiopia	24.6	6.0	24.5
Madagascar	15.9	7.8	49.4
Malawi	28.8	25.0	87.0
Mauritius	13.9	23.8	171.1
Mozambique	60.6	23.2	38.3
Rwanda	41.5	5.6	13.6
Seychelles	11.5	4.9	42.3
South Africa	8.5	8.1	95.0
Sudan	8.0	1.0	12.0
Tanzania	33.7	20.3	60.1

Exports to the sample Eastern and Southern Africa countries (% of total country's exports to all sample countries in the model)			
Exporting Country	Model simulation (potential, per cent) [A]	Actual (per cent) [B]	Actual to potential ratio (per cent) [A/B]
Uganda	34.1	28.2	82.6
Zambia	11.2	2.7	24.0
Average(Simple)	23.4	17.5	75.7
Average (Weighted)			40.2

*The ratio for Djibouti is excluding Ethiopia, its major trading partner. Similarly the figure for Mauritius excludes Madagascar and South Africa, its major trading partners.*

*\*\* Simple average excluding Mauritius and Djibouti*

The result from the two exercises in this section shows that there is a larger potential for trade among African countries, given the indicators of potential trade in the gravity model: proximity, cultural affinity and income. This potential is also found to vary with countries and regions; the West and Central African region, for instance, having relatively more potential than that of East and Southern African countries.

Although the gravity model suggests great potential for intra-Africa trade, it does not guarantee that it can easily be realized. What the model suggests is that, given geographic proximity, cultural affinity and the size of the economy, as depicted by GDP, the level of intra-Africa trade could be larger than it is now. However, since the model is based on the proximity variables noted above and uses aggregated exports without any attention to the structure of the supply of exports from the exporting country and the demand for these exports in the other importing country, by commodity, it is only a necessary—but not sufficient—condition for intra-Africa trade. The sufficient condition is that what is supplied by one of the African countries, by commodity category, needs to be demanded by the African partner country. This requires examining the pattern of demand and supply, by commodity, among these countries. Moreover, even if one finds complementarities between African countries' exports and imports, it is imperative to examine the comparative advantage of the potentially exporting African countries in replacing the current trading partners of the potentially importing African countries, which are the OECD countries. The next section discusses these two issues.

### 10.2.3 The structure of African exports and imports by commodity

Using disaggregated commodities from the UNCOMTRADE data base, this section examines the structure of the demand for and supply of exports in Africa by computing the trade similarity index for all continental countries.

Trade similarity or trade intensity indices are generally defined as the ratio of the share of a given country's exports to a partner to the share of the partner's similar index in the global imports of that commodity. For sub-Saharan African countries between the years 1989 and 1995, such indices indicate that the level of African intraregional trade is not lower than what should be expected (Yeats, 2004). Similarly, Oramah and Abou-Lehaf (1998) computed two different measures of import-export similarity indices, which are based on van Beers and Linnemann's (1988) approach using the 1993 intra-African trade data. Based on the static results of the two import-export similarity indices they used, a gravity equation was estimated including these indices as explanatory variables to elicit their relevance in explaining actual trade flows. Their study also computed a trade potential indicator that shows the relative strength of each African country in exporting to other African countries. Those results indicate that potential for improving intra-Africa trade, relying on the 1993 commodity composition, is modest, with only a few countries having export structures comparable to the import demands of other African countries. When these measures of absolute trade potential were weighted by the economic size of trading partners using the relationship obtained from estimated gravity equations, it was found that the countries standing to gain most from greater efforts to advance intra-Africa trade are Comoros, South Africa, Egypt, the Sudan, the Congo, Côte d'Ivoire, Gabon, Algeria and Cameroon. Those that may not gain as much are Burundi, Namibia, Guinea and Ethiopia, due to the poor correspondence of their exports to the imports of economically strong African economies. However, the distributions of gains are likely to be normally distributed without great extremes (Oramah and Abou-Lehaf, 1998). This relies on 15-year-old data. Updating the data for 2007 and expanding the scope of coverage to all African countries offers empirical evidence about the current potential for intra-Africa trade. Such an exercise is important to evaluate the feasibility of exploiting the potential for intra-Africa trade, which was identified in the previous section.

The export similarity index approach originally developed by van Beers and Linnemann (1988) and used successfully by Oramah and Abou-Lehaf (1998) is employed for the analysis in this section (annex 10.2 explains the methodology). The import-export correspondence index, COS, in this chapter, varies between zero (no correspondence between the export of country *i* and the import of country *j*) and one (perfect similarity). COS is the cosine of the angle between the vectors of country *i* exports and the vector of country *j* imports in an *n*-dimensional commodity space. Using the top five import and export commodities of all African countries, for which there is data for the years 2004 to 2007, a COS measure is computed for all African countries. This index may be interpreted as a variable reflecting the expected intensity of bilateral trade flows from exporting country *i* to importing country *j*. The similarity of exports and imports of all classes of commodities is, however, a determinant of trade intensity between two countries.

The term “intensity” is used in van Beers and Linnemann’s (1988) interpretation to indicate that in the analysis abstracts from the economic size of trade partners as reflected in the total volume or value of their exports and imports, the latter are seen as scale factors with which the intensity must be multiplied to arrive at observed or potential trade flow magnitudes. Finally, other factors such as infrastructure, non-tariff barriers, political factors favouring or obstructing trade such as boycotts, and the relative competitive position of exports determine the level of bilateral trade between a pair of countries. Among all these factors, the role of the degree of similarity in their trade structure is a limited yet important one: without any commodity correspondence, no trade will take place, and with perfect correspondence trade possibilities abound (van Beers and Linnemann, 1988).

Table 10.4a shows estimated results of a trade similarity profile of African countries using the export similarity index, COS. (Details of the commodities by value for selected African countries with the potential to supply the rest of African countries are given in annex 10.1). Several points should be noted concerning the estimation techniques used to generate these results. First, in computing the similarity measures using data aggregated under the Standard International Trade Classification (SITC) format, no information is required about the individual elements of the trade matrix at the commodity class level, that is, about  $E_{ijk}$  ( $-M_{ijk}$ ). Only total exports of country  $i$  in commodity class  $k$  ( $E$ ) and total imports of country  $j$  in commodity class  $k$  ( $M$ ) are needed to compute the values of the measures. Van Beers and Linnemann (1988) observe that the implication is that the measures indicate a trade *potential* or *expected intensity* of trade, between a pair of countries. Thus, a non-zero value of  $COS_{ij}$ , does not necessarily imply that in actual fact country  $i$  does export to country  $j$ . The estimated export-import similarity measure can be interpreted as reflecting the expected *intensity* of a bilateral trade flow from exporting country  $i$  to importing country  $j$ . Second, usually a country with a COS measure equal to or greater than 0.4 would be considered to have a reasonably matching import structure with the exporting country of reference (Beers and Linnemann, 1988; Oramah and Abou-Lehaf, 1998). With this caveat, a summary of the results of the import similarity index using the top five export and import commodities for each African country and in terms of the three-digit SITC classification are given in table 10.4a.

**Table 10.4a****Import-export similarity index for Africa using the van Beers and Linnemann approach (COS measure)**

Reporting Country	Greater than 50 per cent	45 to 50 per cent	40 to 50 per cent	35 to 40 per cent	Less than 25 per cent
South Africa	Zimbabwe Botswana Mauritania Burundi Ethiopia Kenya	Nigeria Swaziland Burkina Faso Rwanda Niger Tanzania Tunisia Zambia	Gabon Gambia Malawi Mauritius São Tomé and Príncipe Senegal Sudan Uganda	Benin Mozambique Ghana Sierra Leone Togo	Eritrea Lesotho Comoros Libya (Seychelles, 30-35 per cent)
Nigeria	Benin, Botswana Burkina Faso, Cameroon, Burundi, Cape Verde, Côte d'Ivoire The Gambia, Guinea, Madagascar, Mali, Mauritania, Mauritius, Malawi, Morocco, Mozambique, Niger, São Tomé and Príncipe, Senegal, Sey- chelles, Sierra Leone, Swaziland, Togo, Tunisia, Uganda, Tanzania, Zimbabwe	CAR Namibia	Zambia Rwanda		Ghana Libya Comoros Gabon Eritrea Lesotho Sudan
Egypt	Benin, Burkina Faso, Cameroon, Burundi, Botswana, Cape Verde, Côte d'Ivoire Gambia, Guinea, Madagascar, Mali, Mauritania, Mauritius, Mo- zambique, Morocco, São Tomé and Príncipe, Senegal, Sierra Leone, Swaziland, South Africa, Togo, Tanzania,	CAR			
Ethiopia					All*
Algeria	Benin, Burkina Faso, Botswana, Cameroon, Cape Verde, Burundi, Egypt, Côte d'Ivoire, Ethiopia, Gambia, Guinea, Kenya, Mada- gascar, Mali, Malawi, Mauritania, Mauritius, Mozambique, Morocco, Niger, Nigeria, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, South Africa, Swa- ziland, Tanzania, Togo, Tunisia, Uganda, Zimbabwe	CAR Namibia	Rwanda Zambia		Sudan Libya Lesotho, Ghana Gabon Eritrea Comoros
Cameroon	Benin, Botswana, Burkina Faso, Burundi, Cape Verde, Côte d'Ivoire, Gambia, Guinea, Mada- gascar, Mali, Malawi, Mauritius, Morocco, South Africa, Kenya, Egypt, Ethiopia, Nigeria	CAR			Algeria Comoros Eritrea Gabon Ghana Lesotho Libya
Cape Verde	Cameroon, Nigeria, Ethiopia, Egypt, Kenya, South Africa				Algeria

Reporting Country	Greater than 50 per cent	45 to 50 per cent	40 to 50 per cent	35 to 40 per cent	Less than 25 per cent
Benin					Cameroon South Africa Algeria Kenya Egypt Ethiopia Nigeria
Botswana					Cameroon South Africa Algeria Kenya Egypt Ethiopia Nigeria
Ghana					Cameroon South Africa Algeria Kenya Egypt Ethiopia Nigeria

**Source:** Computation based on UNCOMTRADE data base of the year 2007 for most countries.

**Note:** To compute the import-export similarity index among African countries, we used the year 2007 data for most countries. But for those that have not reported to the UN, the recent data are used while omitting countries that have no reports after 2000 (such as Somalia and Angola).

Table 10.4a shows that the exports of countries like South Africa, Nigeria, Algeria, Egypt and Cameroon fit with the imports of most African countries, though the exports of the latter group of countries don't match with the imports of the former. This indicates that these countries have the potential to export to the trading partners listed from column two on (the best case being columns two and three), although the existing trade structure does not entail the reciprocity of the potential importing countries. This may imply a lack of adequate incentive from the importers' side to engage in trade with the potential exports. Alternatively, there may be other trade constraints that have hampered two-way trade among this group of countries.

In table 10.4a, Algeria, Nigeria and Cameroon in particular have a high import-export similarity index with most African countries because of their major export commodity, which comprises mineral fuels, mineral oils and related products—the major export commodities of almost all African countries. South Africa and Egypt, on the other hand, are capable of exporting processed or manufactured commodities that are demanded by the rest of Africa. Table 10.4a also presents a sample of the majority of countries in the continent such as Benin, Ethiopia, the Niger and Zambia, which have export commodities such as cotton, edible fruit and nuts; the peel of citrus fruit or melons, coffee, tea and spices, oil seeds and oleaginous fruits, for which there is little or no demand in Africa.

We can infer from the export-import similarity index in this table that few countries have the potential to supply the exports that the majority of countries demand. These are Egypt, South Africa, Cameroon, Nigeria and Algeria, the latter three

mainly because of fuel-related products. In fact, as table 10.4b shows below, and Annex 10.1 in greater detail, the composition of export commodities from the top suppliers is not well diversified and is limited in matching the demand of most African countries (whose import structure is also shown in annex 10.1). South African exports, for instance, are dominated by minerals and precious metals, followed by iron and steel and manufactured products, while Egypt's are dominated by mineral fuels and to some degree manufactured goods (table 10.4b). From this analysis it is not difficult to conclude that the potential for intra-Africa trade, which seems great using the gravity model, is modest at best. This finding has relevance for policies concerning the importance of trade diversification and competitiveness.

**Table 10.4b**

**Structure of exports and imports in top five product categories by two major potential suppliers (Egypt and South Africa) to other African countries. South Africa: Top Five Imports and Exports of 2007 (UNComtrade).**

Code	IMPORTS: Description	Trade Value
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	\$14,847,297,868
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	\$12,791,743,414
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	\$7,991,367,265
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	\$7,663,554,256
99	Commodities not specified according to kind	\$5,812,637,622
	Other commodities	\$30,765,986,779
Code	EXPORTS: Description	Trade Value
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewelry; coins	\$13,065,273,622
72	Iron and steel	\$7,495,582,335
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	\$6,778,513,096
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	\$5,876,854,782
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	\$5,048,987,580
	Other commodities	\$25,761,396,949



Egypt: Top Five Import and Exports, 2007 (UNComtrade)		
Code	IMPORTS: Description	Trade Value
99	Commodities not specified according to kind	\$4,102,237,514
27	Mineral fuels, oils, distillation products, etc.	\$3,971,427,394
10	Cereals	\$2,532,829,136
84	Nuclear reactors, boilers, machinery, etc	\$2,344,176,890
85	Electrical, electronic equipment	\$1,568,192,402
	Other commodities	\$12,409,982,426
Code	EXPORTS: Description	Trade Value
27	Mineral fuels, oils, distillation products, etc.	\$8,454,614,264
99	Commodities not specified according to kind	\$2,630,764,735
72	Iron and steel	\$735,009,780
39	Plastics and articles thereof	\$429,428,189
10	Cereals	\$404,784,316
	Other commodities	\$3,446,039,104

**Source:** UNComtrade, accessed February, 2009 (see also Annex 10.1 for details).

## 10.2.4 Comparative advantage of African export suppliers

Although section 10.2.3 points out the limited potential for intra-Africa trade identified in section 10.2.2, it has also shown that some African countries have, at least, the potential to supply exports to other countries on the continent. The most important question, then, is whether these potential suppliers are actually capable of competitively supplying other African countries that import from non-African suppliers, as the trade similarity and gravity model suggests. Specifically, are these countries competitive enough to replace traditional African trading partners such as those nations belonging to the Organization for Economic Cooperation and Development (OECD) and emerging Asian countries such as China?

Empirical studies addressing similar questions for other developing countries are not encouraging. Van Beers and Linnemann (1988) used a wide range of data from developing (including Africa) and developed countries (OECD countries) to examine this issue. They found that none of the exporters from the less developed countries included in their sample are competent enough to replace the exporters from the more developed countries. The dependence of developing countries on developed exporters for manufactured products lies at the heart of the issue of raising South-South trade, as van Beers and Linneman (1988) note. The picture has not changed fundamentally some two decades after that study. The World Bank (1991), for instance, argued that African countries have similar production and exports profiles and therefore have little or nothing to exchange. Other studies (Achy, 2006; Weeks and Subasat, 1998; Roelofsen, 1989; ECA, 1988) argue that intraAfrican

trade potentials are enormous. Consequently, those studies have sought further trade liberalization and speedier economic integration efforts for African economies. For instance, Achy's 2006 gravity model-based study for the Northern African countries revealed that, compared with the international trend, actual North African intraregional trade is ten times lower than its potential (Achy, 2006). The same study indicated that a strong correlation exists between the complementarities index of trade and the intraregional trade rate. A sufficient condition for the assertion of the latter group of studies is to examine the relative competitive position of African suppliers to supply other African countries that are importing from non-African suppliers.

In table 10.5, the relative value of the revealed comparative advantage indices of manufactured exports of some African countries with the potential to supply other African countries (South Africa, Egypt, Cameroon, Nigeria, Algeria and Kenya) with the current major African suppliers (Western Europe, the United States, Japan and emerging China and India) is computed and reported. Other indicators of these two groups' competitiveness also is given in table 10.6. The revealed comparative advantage is based on Balassa's (1965) approximation using post-trade data that manifests both post-trade relative prices and prevailing factor and product market distortions (box 10.1).

### Box 10.1

#### *Revealed Comparative Advantage Computation*

According to Balassa (1965, 1979; see also Mahmood, 2001), comparative advantage is revealed in relatively high shares of export markets. However, to evaluate what is low, Balassa (1965, 1979) called for these shares to be compared with some average. Defined as such, the revealed comparative advantage index (RCAI) compares a country's world export share of the commodity in question with the total world export share of the total exports of the country in question. If a country's share of world exports of a particular commodity is greater than the country's share of world exports of all commodities, the RCAI will be greater than one, indicating that this country has RCA in that product. (see for example, Lutz, 1987; Rana, 1990; Dowling and Cheang, 2000; Mahmood, 2001; Alemayehu and Atenafu, 2008). Formally, the RCA index could be given by (see Kwan, 2002; Alemayehu, 2009):

$$RCA = \frac{\left( \frac{X_j}{X_w} \right)}{\left( \frac{X_i}{X_c} \right)}$$

Where: RCA, X, ,i, j and w refer to "revealed comparative advantage," exports, product, country and world, respectively. RCA >1 implies having "revealed comparative advantage."

Table 10.5 provides the revealed comparative advantage of potential African suppliers and the current suppliers of exports to Africa. As can be read from the table the African suppliers, RCA is less than half the level registered for OECD countries as well as China and India. In Africa, South Africa, followed by Egypt and Kenya, are relatively in good shape in terms of RCA, none of them have a comparative advantage with any of the current manufacture suppliers to African countries. Table 10.5 further demonstrates how challenging it is to exploit the potential for intra-Africa trade suggested by the gravity model result in sections 10.2.1 and 10.2.2.

**Table 10.5**  
*Revealed comparative advantage for potential African suppliers*

	2002	2003	2004	2005	Average (2002-2005)
Algeria	0.04	0.03	0.03	0.03	0.03
Cameroon	0.09	0.09	0.07	0.04	0.07
Egypt, Arab Rep.	0.46	0.41	0.40	0.41	0.42
Kenya	0.31	0.32	0.28	0.28	0.30
Nigeria	0.06	0.03	0.03	0.03	0.04
South Africa	0.81	0.76	0.75	0.75	0.77
China	1.16	1.19	1.20	1.22	1.19
India	0.97	1.00	0.95	0.93	0.97
Japan	1.20	1.22	1.22	1.22	1.21
Korea, Rep.	1.19	1.21	1.21	1.20	1.20
Germany	1.14	1.11	1.13	1.10	1.12
Italy	1.14	1.13	1.15	1.13	1.14
Netherlands	0.90	0.92	0.91	0.90	0.91
France	1.08	1.08	1.08	1.06	1.08
United Kingdom	1.08	1.08	1.00	1.02	1.05
United States	1.07	1.07	1.08	1.08	1.08
High-income OECD	1.05	1.05	1.05	1.04	1.05
Sub-Saharan Africa	0.48	0.43	0.43	0.44	0.45

**Source:** Computations based on WDI, World Bank (2008).

In addition to the RCA shown above, table 10.6 offers related indicators of competitiveness between potential African suppliers and current OECD export suppliers to the continent. The consumer price index (CPI) ratio, as an indicator of general prices, is used for this purpose. As this table shows, in all African countries identified as potential suppliers, their domestic price is larger than the domestic price of Africa's current export suppliers, or trading partners. The African potential suppliers do not fare better either in the relative level of their real effective exchange rate,

export unit price, or in the composition of their exports with these countries. This again shows how limited the potential for intra-Africa trade is.

**Table 10.6**  
*Comparative advantage indicators of African potential versus current suppliers*

Potential suppliers	CPI ratio of African potential suppliers with*			Real effective exchange rate index of African potential suppliers		High-technology exports (% of manufactured exports)**	Export unit price ratios of African potential suppliers		
	With OECD	With China	With India	With OECD	With China		With OECD	With China	With India
Algeria	1.02	1.06	0.95	0.89	0.93	1.82	1.25	1.29	1.24
Egypt	1.01	1.11	0.99	nd!	nd!	0.62	1.12	1.15	1.11
Cameroon	1.01	1.05	0.94	1.06	1.11	1.39	1.16	1.20	1.15
Kenya	1.14	1.19	1.06	nd!	nd!	5.20	nd	nd!	nd!
Nigeria	1.52	1.55	1.39	1.10	1.15	0.87	1.19	1.22	1.17
South Africa	1.10	1.16	1.04	0.93	0.98	5.66	1.36	1.40	1.34

**Source:** Based on World Development Indicators (World Bank, 2008).

**Note:** There are no data for OECD as a group in WDI, except for the first column, CPI. Thus, a simple average value of Italy, Japan, Korea, Netherlands, Sweden, United Kingdom, United States and France for the year 2001-2005 is used to represent Africa's major OECD trading partners.

\*\* The comparable figure for OECD, China and India are 22, 24 and 4.7 per cent, respectively.

This analysis shows that given geographic proximity, economic size and cultural affinity, African countries have a great potential to increase intra-Africa trade, but its realization is constrained by the lack of diversification and competitive position of potential African export suppliers. This makes the short-run potential of intra-Africa trade very modest.

This does not mean, however, that there is no future for intra-Africa trade. Its realization will require addressing head-on the present constraints to export supply and diversification. These are the two chief obstructions to intra-Africa trade and regional integration. This, in turn, requires unpacking what is behind supply constraint, competitiveness and the record of poor diversification in the continent. The first step towards fixing this is to identify the constraints and begin to address them. Section 10.3 is devoted to that issue.

## 10.3 Export supply constraints and lack of diversification as a challenge to intra-Africa trade

The previous analyses argue that intra-African trade owes its current modesty to a lack of diversification and competitiveness. The latter issue being determined by supply-side constraints preventing trade facilitations and infrastructure that makes intra-Africa trade feasible. This section will concentrate on the factors behind these constraints to suggest policies for future action. In sub-section 10.3.1, the major constraints to intra-Africa trade (and also to regional integration) are examined. These problems are:

- The nature of African economies and lack of progress in regional integration;
- The absence or poor condition of trade-related infrastructure (including trade logistics);
- Macro-policy-related problems, such as the lack of macroeconomic coordination, including the multiplicity and inconvertibility of currencies; and
- Supply-side measures: Export promotion, inefficient customs administration, international payment mechanism and related trade facilities.

The section attempts to address these issues using secondary data and a gravity model for all African countries. The gravity model shows the major determinants of trade in Africa that include the role of RECs. Section 10.3.2 will attempt to render concrete the results obtained in 10.3.1 using primary data from five countries on constraints to supplying exports to Africa. This information is based on ongoing AERC<sup>1</sup> research.

### 10.3.1 Export supply constraints

The degree of similarity between the commodity composition of exports and imports is only one of the factors that determines the intensity of trade between a pair of trade partners. Even if we have good trade similarity indices across Africa, actual trade might be beneath its potential, as we have seen in the previous section, owing to other factors, including the following four major supply-side constraints, briefly outlined below.

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<sup>1</sup> We are grateful to AERC, Executive Director Professor W. Lykura, Research Director Professor Olu Ajakiye and Project Coordinator of Export Supply Constraint, Professor Ademoal Oyjide for allowing us to use this information (part of AERC's mission of informing policy-making through research).

### ***10.3.1.1 The nature of African economies and lack of progress in regional economic integration***

Most African markets are small, which has a direct bearing on their trade volume. Such economies are not competitive because of diseconomies of small scale and high transaction costs. These countries cannot generate enough exports of high enough quality, nor can they attract significant foreign investment. Active engagement in the global economy could help them overcome minor internal markets constraints; however, exporting at world prices is challenging. A small economy can address the scale problem by buying inputs from international efficient producers and export at world prices. Nevertheless, trade could still be costly. Small consignment size, small-scale infrastructure and a lack of competition, given that these countries' costs of trade may be inflated, makes the cost of their goods and services higher than the world minima (Njinkeu and Fosso, 2006). The situation is aggravated by severe competition from other relatively developed countries and emerging economies such as China and India. This is a challenge to most African countries. One option to address this problem is to pursue regional integration vigorously. This is becoming difficult, however, owing to the structure of production and trade in African countries, as we have seen in previous sections.

The relatively small weight of intraregional trade in Africa, despite the existence of several (and frequently overlapping) RECs, is due largely to their structure of production and the composition of exports. Many countries still specialize in a few primary commodities, while most of their imports consist of manufactures, thus the potential for intraregional trade is limited because of this lack of diversification and competitiveness. We have given the evidence for this in the previous section. (See also UNCTAD, 2007; Limao and Venables, 2000). For instance, the low level of intraregional trade in ECOWAS, according to Shams (2003), is explained by the high dependence of most member countries on exports of primary commodities and by a trade liberalization scheme that has strict rules of origin. Access to the regional market is especially difficult for those firms and sectors in their early stages of development, given the low degree of internal integration. Such firms have to rely on imported inputs, and the content of domestic value added in their products is often too small to satisfy the rules of origin. In early 2000, only 17 manufacturing firms in the region were able to comply with these rules (Shams, 2003).

Progress in regional integration, which would have been an invaluable instrument to expand intra-Africa trade, is limited by governments' unwillingness to surrender the sovereignty of their macroeconomic policymaking power to a regional authority, face potential consumption costs from importing goods from a high-cost member country, accept unequal distribution of gains and losses that may follow an integration agreement—at least in the short run, or discontinue existing economic ties with

non-members (Johnson, 1995; Alemayehu and Haile, 2008). Although it is difficult to establish whether intra-Africa trade improves progress in the RECs or the other way around, the two could be re-enforcing each other in bringing progress to the region. However, both remain at low levels of development.

### ***10.3.1.2 The poor condition of trade-related infrastructure***

In many cases, formal trade liberalization is unsuccessful partly because fundamental aspects of trade logistics, such as infrastructure, were compromised. According to Longo and Sekkat (2001) a 1 per cent increase in the stock for transportation and telecommunication infrastructure in the exporting country boosts its exports to other African countries by about 3 per cent (Longo and Sekkat, 2001). Poor infrastructure, or its complete absence, makes trade physically difficult, if not impossible, independently of the trade regime. Table 10.7 below shows, for instance, that the length of paved roads as per cent of total roads in Africa is about five times less than that of high income OECD countries (and nearly two-thirds of the OECD level in North Africa). The telephone coverage is much worse for North and sub-Saharan Africa compared with that of OECD level, as shown in the second column of table 10.7.

The existence of tariff barriers or quantitative constraint pose formidable obstacles to trade, but they do not render trade exchanges impossible, as does the absence of an appropriate regional infrastructure (UNCTAD, 2007). According to the *ARIA I* on Regional Integration in Africa (UNECA, 2004), transport costs are 63 per cent higher in African countries compared with the average in developed countries. They are estimated at 14 per cent of the value exported in the first group of countries, against 8.6 per cent in the second. According to UNCTAD, as quoted by Lisinge (2005), the freight cost, as a percentage of the imported value, stood at 11 per cent for North African countries, i.e., 111 per cent more than industrialized countries and 25 per cent more compared with the average in developing countries. Similarly, Collier and O'Connell (2006), cited in Njinkeu and Fosso (2006), estimated that coastal areas have a growth advantage of about 1.5 percentage points higher compared with their landlocked counterparts. Since about 35 per cent of the African population live in landlocked countries, compared with the global average of 1 per cent (Njinkeu and Fosso, 2006), regional integration may allow landlocked nations to narrow this growth gap in Africa.

**Table 10.7**  
**Indicators of macro and infrastructure in Africa 2000-2005 (average)**

	Macro indicators			Infrastructure indicators	
	RER	CAB	Growth	Roads	Telephone
High-income countries (OECD)	100*	-2*	2.3	94.3	574.1
Africa	101.1	0.3	4.2	22.7	28.4
North Africa	93.4	5.1	3.9	60.9	90.3
Sub-Saharan Africa	103.5	-2.2	4.3	18.2	15.0
Sub-Saharan Africa excluding South Africa	104.2	-2.5	4.6	17.5	8.4
Sub-Saharan Africa excluding South Africa and Nigeria	103.1	-4.3	4.3	17.7	8.8

**Source:** Based on World Bank, ADI (2008a) and WDI, World Bank (2008b).

**Note:** RER=Real effective exchange rate index (2000 = 100) (per cent).

Growth=GDP annual growth (per cent).

Roads=Roads, paved (per cent of total roads).

Telephone=Telephone mainlines (per 1,000 people).

\* The figure of CAB and RER was -6 and 93 for USA, and -2 and 101 for UK, respectively, for 2005.

Casem (2001) examined how trade logistics, the level of economic development and an economy's size influence the bilateral trade potential in Southern African countries. His study shows that transaction cost of trade, the growth paths of economies and changes in per capita income should be the focuses of economic policies to raise intra-Africa trade in the region. Intra-regional trade liberalization could engender further trade potential in some country groupings. This will depend not only on tariff liberalization but also on the overall reduction in trade costs (Casem, 2001). Similarly, Shams (2003) noted that some of the chief obstacles to intra-regional trade in West Africa are bureaucratic and physical ones, such as road charges, transit fees and administrative delays at borders and ports, which raise transport costs and render deliveries unreliable (Shams, 2003). Using a modified gravity model, Augustine and Nwabuzor (2002) examined the impact of infrastructure on African trade. Their analysis reveals that while trade flows among ECOWAS member nations have been growing, inadequate infrastructure has deterred growth. There is also a strong indication that these impediments have tended to increase transaction costs. Supporting evidence is shown in section 10.3.2, below.

Deficient telecommunications services also tend to isolate African states from each other (table 10.7). Consequently, it is much easier and more comfortable for businessmen in Africa to deal with their counterparts in Europe and North America than with their fellow Africans (Yeboah, 1993). Intra-Africa trade is further hamstrung by the absence of market information. While the standard trade theory assumes that such information—about product availability in foreign countries, their characteristics and prices—is accurate and costs nothing, in Africa, where communication



links among countries are few and indirect, relevant market information may be expensive for both importers and exporters (Yeboah, 1993).

Thus, transport costs in Africa are recorded to be the highest in the world. The freight costs as a percentage of the total value of imports were about 13 per cent for the continent in 2000, compared with 8.8 per cent for all developing countries and 5.2 per cent for developed countries (UNCTAD, 2002). East and South Africa have higher freight costs compared with other regions on the continent. Similarly, Ackah and Morrissey (2005) note that transport costs constitute about 15 per cent (about 20 per cent for landlocked countries) of the unit value of exports in Africa, which is considerably higher than other regions such as Asia (about 8 per cent) and Western Europe (about 5 percent).

### ***10.3.1.3 The absence of macroeconomic coordination and the multiplicity and inconvertibility of currencies***

Macroeconomic coordination is necessary to intra-Africa trade and regional integration. Although the liberalization policy pursued in almost all African countries has resulted in a somewhat improved fiscal posture and some degree of success in managing macro variables, Africa's macro environment and the current fiscal posture, including indebtedness, leaves much to be desired. Growth in the last five years has been good in most African countries. However, other indicators of macro-stability such as current account balance, exchange rate and budget deficit were not impressive. Even the excellent growth record has recently eroded owing to the current global financial crisis (table 10.7). Variation exists across countries in meeting macroeconomic targets, which is one of the reasons why they fail to meet the convergence criteria drawn for various RECs in key macro-variables. This requires, among other things, an institutional framework for realizing policy harmonization. Establishing such a framework and monitoring the convergence criteria. It requires member countries to surrender a certain degree of autonomy in domestic policymaking, establishing an elaborate and transparent institutional mechanism and deploying a skilled labour force. This is what the history of European integrations shows. Studies indicate that there is an enormous variation across RECs and member countries in terms of the macroeconomic environment, the fiscal posture, the asymmetry of shocks as well as the policy response to such shocks (Alemayehu 2001; Weeks, 2008). A macro-policy harmonization scheme should be designed to suit the specific context of each REC with adequate safeguard measures for their weaker members.

The issue of currency is closely related to macro-policy harmonization. Establishing monetary unions is an important step. It is estimated, for instance, that a pair of countries that begin to use common currency may see a near doubling of their bilateral trade. Thus, the effect of a currency union on trade is positive and significant (Rose,

2002; Rose and Engel, 2002; cited in Njinkeu and Fosso, 2006). The multiplicity of currencies compounded by exchange-rate problems encourage underground trade in the form of smuggling and increased unrecorded trade (Yeboah, 1993). Multiple currencies also raise international trade costs, as those in business are confronted with the cost of currency conversion and related market uncertainties.

CEMAC and UEMOA are monetary unions, with CFA franc as the common currency. Although formally differentiated, the common currencies are exchangeable between the two communities one to one and are convertible into the euro at a fixed exchange rate. Southern Africa, Namibia and Swaziland are members of a Common Monetary Area (CMA), where the South African rand circulates freely as a common currency under a floating arrangement. All three members of the EAC (Kenya, Tanzania and Uganda) have floating currencies. Most of the non-UEMOA members of ECOWAS also have floating exchange rates. Although these are encouraging trends, the multiplicity of African currencies and exchange-rate arrangements (including their associated uncertainties) argues for the establishment of clearing mechanisms in the short run and some kind of monetary union in the long run. ECOWAS and COMESA formally established clearing houses to promote intra-community trade with the use of local currencies against a background of exchange control dictated by the scarcity of hard currencies in most countries (IMF, 2001). It is time to build on this fragmented and less organized, yet important, initiative to enable the macroeconomic environment for intra-Africa trade.

#### ***10.3.1.4 Other supply-side measures***

Trade and industrial policymaking in newly developed Asian countries featured prominently in their impressive growth record over the past five decades. Supply-side measures that include export-promotion policies, appropriate and timed incentive structures as well as efficient bureaucracies at the service of exporters, are central to their trade growth. Failure to enhance trade facilitation measures such as these hinders trade by reducing market access through delays and higher costs. It also raises input costs. These factors erode the competitiveness of exporting firms (Biggs, 2007).

Customs authorities in many African countries are inefficient. Delays at African customs are, on average, longer than in the rest of the world: 12 days in sub-Saharan countries compared with seven days in Latin America, less than six days in Central and East Asia, and slightly more than four days in Central and East Europe. These delays add a tremendous cost to importers and exporters (ECA, 2004). And they increase the transaction costs of trading among African countries.

Each transport day lost due to customs and related problems is equivalent to a tax of about 0.5 per cent (Hummel 2000, reported in *Global Economic Prospects*, 2005, World Bank). The situation when crossing borders between African countries can be even worse. In Southern Africa, delays at the main border between South Africa and Zimbabwe (Beit-Bridge) amounted to six days in February 2003, costing an estimated loss in earnings per vehicle of US\$ 1,750, the equivalent to the cost of a shipment from Durban in South Africa to the United States. Another study (Alvis, 2004) indicates that crossing a border in Africa can be equivalent to the cost of more than 1,000 miles of inland transportation compared with its equivalent of 100 miles in western Europe (World Bank, 2005). Border crossing delays also are linked to other trade costs, especially corruption in customs.

Trade facilitation is also obstructed by problems with international payments mechanisms, insurance requirements and customs guarantees. Documentary credit payment, which is popular in Africa, is characterized by cumbersome procedures. Its basis is a series of checks in which the progress of goods towards the buyer is pinned to the progress of payment to the seller. The process is time-consuming, requires the physical movement of documents between different banking establishments in two different countries, is not well-understood and is often badly managed. It has been reported that half of all requests for payment are rejected on the grounds of documentary inconsistencies (Njinkeu and Fosso, 2006).

In addition, delays and complicated procedures related to insuring goods and customs guarantee requirements raise the cost of exporting from Africa and compromise the continent's competitiveness. It is estimated that each day of delay reduces the export volume by about 1 per cent. At this rate, if Uganda, for example, reduces its factory-to-ship time from the current level of 58 days to 27 days, its exports would increase by 30 per cent (Njinkeu and Fosso, 2006). Table 10.8 shows how competitiveness in African trade could be adversely affected by delays in customs clearing, the cost of doing business, the business regulatory environment and macroeconomic management, where African countries rarely register good ratings.

**Table 10.8****Indicators of competitiveness related to trade facilitation for selected countries**

	SSA	North Africa	Rwanda	South Africa	Angola	Botswana	Egypt
Average time to clear customs (days)	4.2	2.4	6.7	4.3	16.5	1.2	na
Trade rating (1=low to 6=high)	3.6		3.5	Na	4.0	na	4.0
Cost of business start-up procedures (percent of GNI per capita)	162.9	28.1	188.3	6.9	486.7	10.6	68.8
Business regulatory environment rating (1=low to 6=high)	3.1	3.0	3.5	Na	4.0	na	na
Macroeconomic management rating (1=low to 6=high)	3.5	na	4.0	Na	3.0	na	na

**Source:** *World Development Indicators, World Bank, 2008.*

To give a quantifiable dimension of the issues outlined in this section (infrastructure, trade-related policies, the ease of doing business and the role of regional economic communities), a gravity model of determinants of African trade is specified and estimated. (see annex 10.1 for model specification.) The results are shown in table 10.9. This gravity model is similar to those used in previous sections. However, it is estimated for all African countries using the data for the year 2000 to 2006. In addition to traditional gravity model variables, membership in African RECs (UMA, ECOWA, SADE and COMESA), infrastructure indicators (number of mobile phones per 1000 population, and paved roads as percentage of total roads in the reporting African country), market access indicators in importing countries (taxes on international trade) as well as policy indicator variables such as net FDI in the reporting African countries) are used. These are believed to roughly summarize factors mentioned in this section as a supply constraint that is quantifiable.

**Table 10.9**

**Gravity model: All African countries, 2000-2006**  
**Dependant variable is log of bilateral trade.**

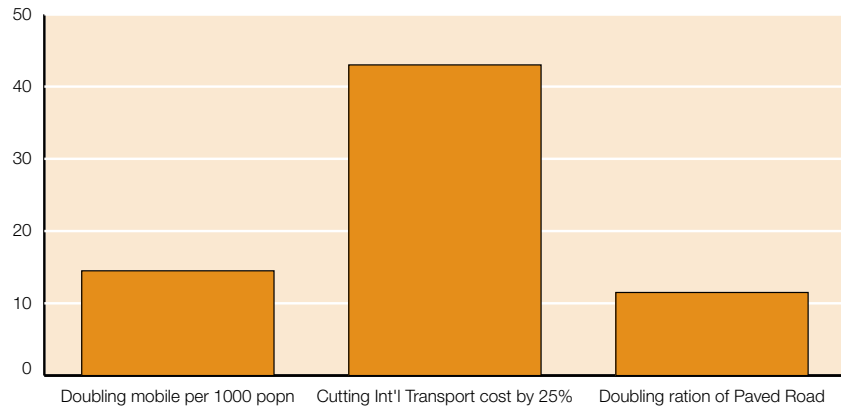
Tobit Equation			
	Coefficients	t-value	
UMA	0.54	0.7	
ECOWAS	1.05	3.4	*
SADEC	1.05	2.6	*
COMESA	0.42	1.5	***
Ln (Area <sub>j</sub> )	-0.23	-5.7	*
Ln(Area <sub>i</sub> )	0.01	0.1	
Ln(GDP <sub>j</sub> )	1.14	21.0	*
Ln(GDP <sub>i</sub> )	0.42	4.9	*
Ln(Dist)	-1.23	-11.6	*
Ln (Mobile <sub>i</sub> )	0.19	2.6	*
Ln(Road <sub>i</sub> )	0.16	2.6	*
Land Locked	-0.47	-2.6	*
Border Share	0.79	2.5	*
Ln(FDI <sub>i</sub> )	0.16	2.3	*
Ln(Dif_Percapita)	-0.06	-1.0	
Ln(Taxe_Intnl <sub>j</sub> )	-0.06	-2.7	*
Language_offical	0.60	4.4	*
Constant	-28.22	-17.1	*
Pseudo R-Square		0.1833	
No of observation		2382	
Log likelihood	-2400.18		

\*, \*\*, \*\*\* Significant at 1, 5 and 10 percent, respectively.

As table 10.9 illustrates, traditional gravity model variables are important determinants of African trade. Among these, distance from trading partners (a proxy for the cost of international transport), the income of trading partners, sharing borders, being landlocked, in descending order of importance, are found to be the main determinants of African trade. Internal infrastructure, another indicator of supply constraint related to transport and communication (whose proxies are the number of mobile phones and percentage of paved roads), is found to have a positive and statistically significant impact on bilateral trade. In fact, a simulation of doubling these infrastructure indicators using the gravity model above could improve African trade by about 15 per cent. Similarly, cutting the cost of international transport by 25 per cent could raise the level of African trade by more than 40 per cent (figure 10.1).

**Figure 10.1**

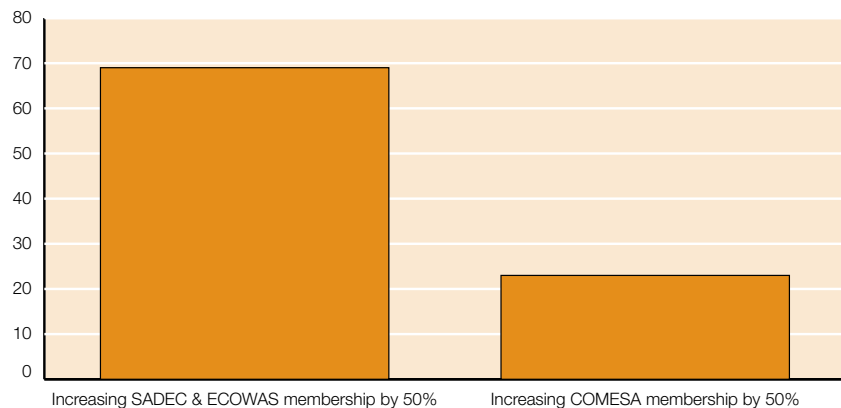
*The impact of transport and communication infrastructure on African trade (as % of Base Run)*



The result also shows that belonging to RECs has a positive effect on bilateral trade in every case except that of UMA. Although the coefficient for UMA is positive, it is not statistically significant, perhaps confirming the finding of UNCTAD (2005) concerning the low level of trade among North African countries, and that of Achy (2006), who observed that UMA trade is ten times below its potential. On the other hand, ECOWAS and SADC, followed by COMESA, are found to strongly and positively influence the bilateral trade of African countries, making a case for RECs and intra-African trade. A simulation exercise using the model shows that increasing the membership of countries in SADC and ECOWAS by 50 per cent may lead to an increase in African trade of about 70 per cent. The comparable figure for COMESA is about 20 per cent (figure 10.2).

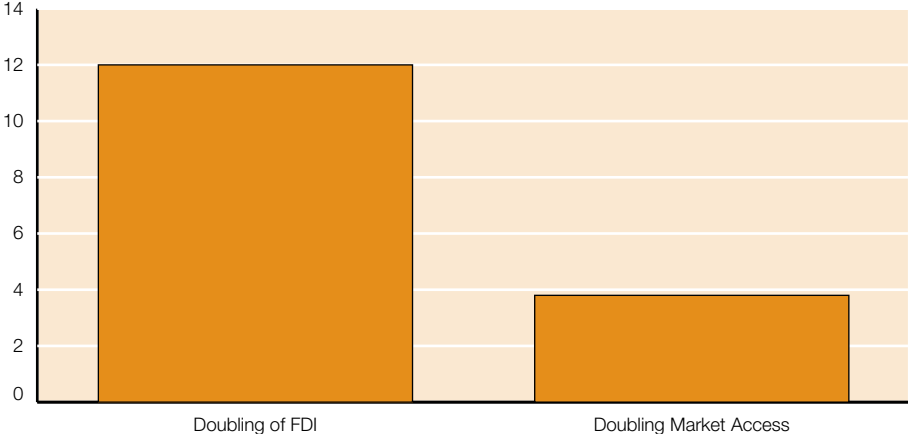
**Figure 10.2**

*Simulation of increasing membership in RECs by 50 per cent (Deviation from Base Run, in %)*



Finally, policy and cultural indicators such as foreign direct investment (FDI) and sharing an official language are found to have a positive and statistically significant effect. The model shows that doubling the level of FDI through enabling macroeconomic environments and improved institutions may increase African trade by more than 12 per cent (figure 10.3). While not statistically significant, the per capita income gap has the right sign (the higher the income gap, the higher the demand gap and hence low trade) called “the Linder Effect.” Market access in partner countries (whose proxy is a tax on international trade) is also found to have a statistically significant negative effect on African exports, although its potency, or coefficient value, is not great. Our model simulation shows that reducing taxes on international trade in partner countries by half will lead to an increase in African trade only by 4 per cent.

**Figure 10.3**  
*The impact of an improved policy environment on African trade (Deviation from the base run, in %)*



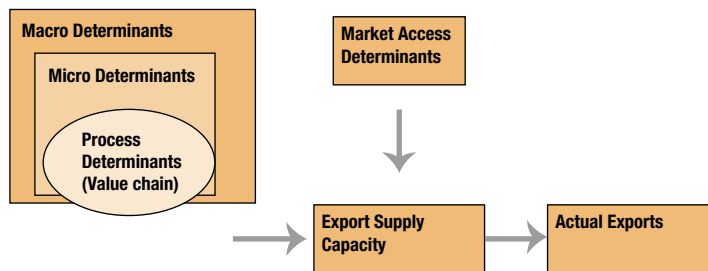
Thus, even if African countries have the potential for trade in addition to good trade-similarity indices, the supply constraint will hinder that trade potential. These supply-side constraints have been briefly summarized based on the available information. The quantifiable dimension of this issue also has been summarized using a gravity model for Africa. The result confirms not only how important RECs are to improving African trade but also the importance of the supply constraining factors in determining the level of trade through Africa’s competitiveness. This section concludes with an examination of five recent African case studies.

### 10.3.2 New evidence from African case studies of supply capacity constraint

Detailed country-level studies on supply capacity constraint in Africa are absent from the literature. Recently, however, the African Economic Research Consortium (AERC) is conducting a study on the issue in a sample of countries: Ethiopia, Kenya, Ghana, Mauritius, the Sudan, Togo and Uganda. The main findings of these studies' interim reports are summarized below. They generally corroborate with the picture presented in our model, above.

The AERC case studies are geographically representative countries. The studies saw the supply constraints of both traditional and non-traditional exports from macro (using macro-data), micro (using sample survey) and process (using value-chain analysis) perspectives. These in turn are confronted with market access conditions in the destination of African exports to determine the level of actual African exports, depicted in figure 10.4. The evidence shows that although different factors have differing degrees of importance across countries, some commonality could be read from country case studies, as can be inferred from the brief description of each country given below.

**Figure 10.4**  
*Analytical structure of the AERC study*



Source: AERC

In the case of Sudanese traditional exports (both raw and processed agricultural exports), the real exchange rate, high input costs, old and outdated equipment, high cost of energy and high port charges are the most binding supply-side constraints of traditional exports. Oil is a fast-growing, non-traditional export for the Sudan, which is increasingly dominating the export sector (Maglad et al., 2009). One noticeable phenomenon in this connection is a decline in the Sudan's traditional exports accompanying its surge in oil exports, indicating the possibility of the so called "Dutch disease" effect. But it is possible that this decline in traditional exports which follows the discovery of a new resource may also occur in other African countries.



The supply constraint study for Ghana has focused on non-traditional exporting firms in the garment and furniture exporting sub-sector as well as in Ghana's traditional exports of cocoa, minerals and timber. In the latter group of exports, macroeconomic indicators such as real exchange rate and the level and growth of Ghana's trading partners' income are important determinants of export growth. These exports are also adversely affected by a combination of expansionary macroeconomic and restrictive trade policies. Similarly, constraints imposed by institutional and regulatory rules are estimated to impose costs equivalent to 4 to 20 per cent of the value of exports. In the non-traditional export sector, competition from foreign and domestic firms; insufficient demand; the high cost, uncertain supply or poor quality of inputs; and high taxes and finance charges, are found to constrain exports. These supply-side inhibitors are important not only for exporting and non-exporting firms in Ghana, but also for the garment- and furniture-exporting firms chosen for the study (Akouoni et al., 2009). The Ghanaian (and Kenyan) study has also shown that government could play a positive role in exporting by creating the skilled labour necessary for exporting firms (box 10.2).

### **Box 10.2**

#### ***The role of government in supplying a skilled workforce, technology transfer and facilitating exports in Ghana and Kenya***

During the implementation stages of the Ghanaian President's Special Initiative for Textiles and Garments ten years ago it was realized that the available skills necessary for the factories to operate were inadequate. The implementation team therefore scouted for local expertise among the polytechnics and brought in experienced personnel from East Asia to train them.

The training centre was established in 2002 to train the manpower the garment industry required. This included managers, supervisors, technicians and machinists. Basic skills training took place for four weeks, after which the trainees acquired further specialized training in the factory. Initially, industries were involved in facilitating the importation of the required skilled labour. Experts were imported from India, Sri Lanka, Mauritius, the United States and South Africa to perform the training and impart best practices. Currently, the training centre is managed by a Ghanaian but still employs some expatriate staff. The centre currently has the capacity to train up to 10,000 people a year; however, it has only trained about 9,500 machinists in the past six years. In addition to machinists, supervisors are also trained.

Almost 80 per cent of firms interviewed in 2009 contended that the quality of workers on the market had improved in the past five years. All of the furniture-exporting firms interviewed were of the same opinion. Almost 70 per cent of the firms in the survey of garments and furniture firms claimed they were satisfied with the skills of their workforce. Focusing on the subset of exporting firms, a lower proportion is satisfied with the skills of the workforce. A recent assessment of the President's Special Initiative for Clothing and Textiles identifies low training capacity as one of the four challenges facing the Initiative. A large turnover of labour exists in the garment industry. It is necessary to develop a pool of skilled workers that firms can hire from when workers leave. The skill supply by the government was central to dealing with the supply-side constraints of exporting firms.

In the export sector, the results of a survey indicate that a significantly higher proportion of garment firms (i.e., 70.4 per cent) as compared with 50 per cent of furniture firms, had adequate access to technology. This difference could be a direct result of efforts that have been put in place under the President's Special Initiative on Garments and Textiles to provide support for acquiring the technology to help local garment manufacturers take advantage of the enormous opportunities offered under AGOA.

Similarly, the Kenyan government helped the growth of its non-traditional horticultural export sector through The Horticultural Crops Development Authority's (HCDA) legal provision to promote and develop the production and marketing of horticultural produce. The authority's focus was mainly on the smallholder farmers who had the potential to use their own labour, as production is labour-intensive. The HCDA provided all the packaging material at cost and airspace booking services in conjunction with and involvement of the Ministry of Agriculture Inspectorate staff. Over the years, HCDA's functions have evolved with the changing government policies and industry demands. HCDA also has field offices, which provide extension services to farmers, advice on methods of production, correct use of fertilizers and pesticides, and advice on meeting specific requirements, such as standards. HCDA also provides information and market linkages to farmers and potential exporters. It oversees the signing and implementation of contracts between farmers and exporters and has therefore played an important role in the marketing and export of horticultural produce from small holder farmers—hence the unprecedented growth of this export sector in Kenya.

Adapted from Akouoni et al. (2009) and Onjala and Otieno (2009).

In Ethiopia's and Kenya's export supply studies both traditional and non-traditional exports are investigated. The result shows that at a macro-level the demand for African exports, depicted by the level and growth of income in Ethiopia's and Kenya's trading partners, appropriate real-exchange rate and domestic capacity (depicted by GDP and its growth) are important in determining both traditional and non-traditional exports. For non-traditional exports, the evidence at firm and farm levels indicate that poor road networks, the high cost of electricity in Kenya and the high cost of imported inputs such as fertilizer and pesticides in both countries are major constraints to export supply. In the traditional exports of both countries, the low quality of inputs such as hides and skins, competition from other exporters, access to finance as well as the power of middlemen, brokers and exporters are important constraints on the supply of exports (Alemayehu et al., 2009; Onjala and Otieno, 2009).

The Ugandan study shows that at the macro-level, export supply in Uganda is constrained by the level of investment, capacity utilization rate and real exchange rate. At micro- or firm-level, productivity and access to modern technology, the high cost of inputs (both raw material and labour), high taxes and license fees, inadequate finance and inconsistent government policies, poor marketing information, and corruption, are the chief constraints to the total supply of traditional and non-traditional exports. The principle constraints to non-traditional exports such as fish and fish products are, in order of importance, competition from other firms on the foreign market, the lack of finance, high tariffs, poor access to information in foreign markets as well as poor access to and cost of imported inputs. For traditional exports

such as coffee, the principle constraints to export supply are pests and related coffee disease, the low price of the product, the lack of finance and poor infrastructure, in the order of importance, are (Mwebaze et al., 2009).

Finally, although the result is based on preliminary work, export supply in Côte d'Ivoire and the Congo is constrained by real exchange rate at the macro level, and level of investment and domestic GDP is used as an indicator of domestic production capacity. In addition to these factors, export supply of oil and timber in the Congo is also found to be constrained by poor and few roads and the high cost of power (Seka et al., 2009; Samba et al., 2009).

Thus, as table 10.10 summarizes, the traditional exports in the case study countries may increase through applying the appropriate macro-policy, in particular exchange-rate policy, followed by enhancing investment and improving infrastructure, especially roads. Similarly, the non-traditional export growth may be achieved if, in addition to having appropriate macro and trade policy, the country's infrastructure is improved and there is a reliable supply of inputs at reasonable prices to raise the relative competitive position of exporting farms and firms (table 10.10).

**Table 10.10**  
*Summary of major supply-side determinants/constraints of African exports*

Case study countries	Traditional exports			Non-traditional exports		
	Top major constraint	Second major constraint	Third major constraint	Top major constraint	Second major constraint	Third major constraint
Congo	Real exchange rate	Investment	Poor roads	Same	Same	Same
Côte d'Ivoire	Real exchange rate	Investment	Poor roads	Same	Same	Same
Ethiopia	Real exchange rate	Income of trading partners	Investment	Poor roads	Power	High cost of inputs
Ghana	Real exchange rate	Income of trading partners	Macro & trade policy	Competition in foreign market	Demand for exports	High cost of inputs
Kenya	Real exchange rate	Income of trading partners	Investment	Poor roads	Power	High cost of inputs
Sudan	Real exchange rate	High cost of inputs	Old equipment	Possible "Dutch disease" effect		
Uganda	Disease	Real exchange rate	Finance	Competition in foreign market	Finance	High tariff in foreign market

**Source:** AERC Interim Reports on Export Supply Constraint Studies (2009).

## 10.4 Conclusion and policy implications

This chapter has examined the nature of the potential for intra-Africa trade and the prospect for advancing regional economic integration. A variety of methods are deployed for the purpose. The analysis suggests that although results from a gravity model suggest a potential for intra-Africa trade, realizing this potential and hence the effort to advance regional integration through intra-Africa trade is challenged by the similarity of exports and imports and the relative competitive position of African suppliers. This is the result of weak infrastructural basis, weak productivity and weak trade facilitation—in short, acute supply constraint.

This calls for a new and different approach to enhancing intra-Africa trade and furthering regional integration. The issue is fundamentally about addressing supply constraint and the competitiveness of African exports and their diversification. One fundamental policy direction in this regard is to go beyond liberalization to the actual creation of trade potential through providing infrastructure, enabling the macro and institutional environment, and creating a trade facilitation and diversification plan. This effort may be problematic, as most African countries find themselves at differing levels of development and have limited resources.

Variable geometry, which allows some groups to move faster than others, could be usefully employed to address this latter problem (Oyejide, 2000). This may require a new cooperative framework in which responsibilities may be distributed across regions and countries. This will be important in addressing major constraints to intra-Africa trade and the regional integration effort—physical infrastructure and production capacity—which will enhance the competitiveness of African countries by lowering transaction costs (Oyejide, 2000) and raising supply.

Regional integration schemes should address these challenges through regulatory policies that foster integration and intra-Africa trade. Regional integration schemes should also address multi-country infrastructure and policy coordination. With respect to trade facilitation, efficient core services such as finance, telecommunication, energy and transportation must be fostered (Njinkeu and Fosso, 2006). Diversification and competitiveness are crucial to intra-African trade.

Advances in regional integration and intra-Africa trade growth are conditional on other important policies implemented by individual or group of countries. Rodrick (2006, cited in Biggs, 2007) for instance noted that Bangladesh's relative factor endowments are similar to those of China: abundant labour and scarce human and physical capital. But China has an export bundle that is 50 per cent more sophisticated than that of Bangladesh, a difference that must have a great deal to do with policy. China has made a determined effort to transfer technology into the country

and to diversify exports while Bangladesh has not. China, Vietnam and India have successfully integrated their economies into the world market, not through open liberalization, but by identifying and promoting exports and diversification that best suited their initial condition, political economy and institutional constraint (Biggs, 2007). Similarly, Africa's policy towards regional integration and intra-Africa trade need not be a one-size-fits-all policy prescription. It should be tailor-made to suit both regions and individual countries. Such a policy also needs to consider diversification the central issue, as the lack of export-import similarity is a chief hindrance to intra-Africa trade and regional integration.

Finally, deeper determinants of progress are related to issues of geography, incentives, capability, infrastructure, institutions and initial conditions (Biggs, 2007). A sustainable solution needs to address these problems in the medium to long term. This should be carried out in a phased and coordinated fashion at national, regional and continental levels.

## Annex

### Annex 10.1: Brief overview of the gravity model's methodology

#### 10.1.1 Its specification and estimation procedure

The gravity model has been widely used to identify determinants of bilateral trade, though it is often criticized for lacking a strong theoretical basis. As Cernat (2001) noted, despite its use in many early studies of international trade, the model was considered suspect in that it could not easily be shown to be consistent with the dominant Heckscher-Ohlin model explaining net trade flows in terms of differential factor endowments (Cernat, 2001). However, Anderson (1979), Bergstrand (1985), Deardorff (1998), and Feenstra, Markusen and Rose (1998) have each developed theoretical foundations to formally derive it. In a typical gravity model, bilateral trade flows are determined by the size of the two economies and the distance between them. However, it is always possible to expand the model to include other relevant determinants of trade. The following standard gravity model is specified and estimated to examine the potential for intra-Africa trade in this study:

$$T_{ij} = \beta_0 + \beta_1 (Y_i Y_j) + \beta_2 [(Y C_i Y C_j)] + \beta_3 Dist_{ij} + \beta_4 (Area_i Area_j) + \beta_5 |Y C_i - Y C_j| + \left[ \beta_i \sum Z_i + \beta_j \sum Z_j \right]$$

Where: T is bilateral trade between country i and j; Y is GDP; YC is GDP per capita and  $Z_i$  and  $Z_j$  are other relevant variables grouped under “infrastructure” (paved road length as per cent of total, number of mobile telephone per 1,000 people), policy (FDI in reporting countries, tax on international trade in partner country), “cultural and geographic” (distance between the capitals of the trading countries, common official language, sharing border, being landlocked) and membership in regional groupings (UMA, COMESA, SADC and ECOWAS).

Expected signs:  $\beta_1$  and  $\beta_2$  are expected to be positive;  $\beta_3$ ,  $\beta_4$  and  $\beta_5$  are expected to be negative. Infrastructure variables, sharing border and common official language, membership to a particular REC as well as FDI are expected to be positive, while being landlocked is expected to be negative.

This model is estimated using bilateral export data of African countries. The censored nature of such regional bilateral trade implies that OLS estimates are biased. Thus, the model is estimated using a Tobit formulation (Longo and Sekkat, 2001;

Elbadawi, 1997; Forotutan and Prichett, 1993; Alemayehu and Haile, 2008). The model's parameters are computed by finding estimates that maximize the likelihood function in the Tobit formulation. An experiment of other estimation techniques, such as the fixed-effect and random-effect model, did not change the result reported. Neither did the use of lagged GDP and FDI to address possible endogeneity bringing about different results. Hence, the Tobit-based result is used in the main text of this chapter.

**Source of data:** The trade data is taken from IMF's *Direction of Trade Statistics*; macro- indicators are taken from the World Bank's *World Development Indicators* as well as *African Development Indicators*. The data for FDI is obtained from the Web site of UNCTAD. The relevant data for each African country and its trading partner is compiled for all countries listed in Annex 10.1.2, below.

## Annex 10.1.2

### Sample of countries used in the gravity model

African countries (reporter and partners)		Non-Africa trading partners	
		Europe and North America	Asia and Latin America
Algeria	Madagascar	Austria	Latin America
Angola	Malawi	Belgium and Luxembourg	Argentina
Benin	Mali	Canada	Bolivia
Botswana	Mauritania	Denmark	Brazil
Burkina Faso	Mauritius	Finland	Chile
Burundi	Morocco	France	Mexico
Cameroon	Mozambique	Germany	Colombia
Cape Verde	Namibia	Greece	
Central African Republic	Niger	Iceland	Asia Pacific
Chad	Nigeria	Ireland	Australia
Comoros	Rwanda	Luxembourg	China
Congo	São Tomé and Príncipe	Italy	Hong Kong
Congo (Democratic Republic)	Senegal	The Netherlands	India
Côte d'Ivoire	Seychelles	Norway	Indonesia
Djibouti	Sierra Leone	Portugal	Israel
Egypt	Somalia	Spain	Japan
Equatorial Guinea	South Africa	Sweden	Malaysia
Eritrea	Sudan	Switzerland	New Zealand
Ethiopia	Swaziland	United Kingdom	Saudi Arabia
Gabon	Tanzania, United Rep. of	United States of America	Singapore
Gambia	Togo	Eastern Europe	Turkey
Ghana	Tunisia	Bulgaria	
Guinea	Uganda	Czech Republic	
Guinea-Bissau	Zambia	Croatia	
Kenya		Hungary	
Lesotho		Poland	
Liberia		Russian Federation	
Libyan Arab Jamahiriya		Ukraine	



## Annex 10.2: Brief overview of methodology for calculating African export similarity indices

### *Import-export similarity index*

To understand the potential for intra-Africa trade, we use the export similarity index approach originally developed by van Beers and Linnemann (1988) and used successfully by Oramah and Abou-Lehaf (1998) on African data. The import-export similarity index as proposed by van Beers and Linnemann are the following two indices, labeled cosine (COS) and EIS. Taking  $i$  and  $j$  for exporting and importing countries, respectively, these indices take the form of equations [1] and [2].

$$COS_{ij} = \frac{\sum_k E_{ik} M_{jk}}{\sqrt{\sum_k E_{ik}^2 \sum_k M_{jk}^2}} \quad [1]$$

$$EIS_{ij} = \sum_k \text{Min} \left\{ \frac{E_{ik}}{\sum_k E_{ik}} ; \frac{M_{jk}}{\sum_k M_{jk}} \right\} \quad [2]$$

Where  $E_{ik}$  = Exports of country  $i$  in commodity class  $k$

$M_{jk}$  = Imports of country  $j$  in commodity class  $k$

$k$  = Commodity class 1,...,n

Both measures of the import-export correspondence index, COS and EIS, vary between zero (no correspondence between the export of country  $i$  and the import of country  $j$ ) and one (perfect similarity). COS is the cosine of the angle between the vectors of country  $i$  exports and the vector of country  $j$  imports in an  $n$ -dimensional commodity space. The related equation EIS, given as an equation [2], is the sum over all commodity classes of the share of commodity class  $k$  in country  $i$  exports or in country  $j$  imports, whichever of these two shares is the lower, so that only the “overlap” counts (van Beers and Linnemann, 1988). The measures are sensitive to the level of aggregation; generally increasing the number of commodity classes,  $n$ , will tend to lower the numerical value of the measures. To avoid this problem, only five of the best import and export commodities of all African countries, for which data is available for the year 2007 from UNComtrade, are used. The other property of COS worth noting is that because of its non-linear nature it may assume a higher value, compared with EIS, when there is a high concentration of tradable commodities [If one that has the lion’s share, among the top five exports of country A is similar with one of the imports which is also the lion’s share of country B import, then the  $COS_{AB}$  will be high even if the other exports of country A are entirely different from

the imports of country B]. However, COS is normally preferred in the literature and hence used in this chapter.

A measure of export-import similarity may be interpreted as a variable reflecting the expected intensity of a bilateral trade flow from exporting country *i* to importing country *j*. The similarity of exports and imports of all classes of commodities is, however, one of the determinants of trade intensity between two countries. The term “intensity” is used in van Beers and Linnemann (1988) to indicate that the analysis abstracts from the economic size of trade partners as reflected in the total volume or value of their exports and imports; the latter are seen as scale factors with which the intensity has to be multiplied in order to arrive at observed or potential trade-flow magnitudes.

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# Economic Partnership Agreements and their Potential Impact on Intra-African Trade

## 11.1 Introduction

The report has thus far demonstrated the performance of intra-African trade over the years. It has also highlighted its opportunities and challenges. This chapter discusses how the prospects of intra-African trade are likely to be influenced by the changing institutional landscape, occasioned mainly by new bilateral and international trade agreements. Besides highlighting how intra-African trade might be affected by the bilateral economic partnership agreements between Africa and the European Union (EU), it also highlights implications of the negotiations under the World Trade Organization (WTO), especially the Doha Round. The Aid for Trade initiative, which has great potential to address these challenges, is also discussed, given that its success depends on continued cooperation among African countries and RECs that have regional and multilateral financial institutions.

## 11.2 EPAs and the RECs

### 11.2.1 Legal setting of the EPAs

The EPAs are the culmination of a series of agreements among the African, Caribbean and Pacific (ACP) countries and the EU, which will succeed the Cotonou Agreement of 2000 that was revised in 2005. The first agreement between the ACP and EU was signed in 1976, and since then, every five years. This was reviewed in what became known as the Lome Conventions. The trade pillar of the Lome Conventions comprises unilateral non-reciprocal preferences granted by the EU to ACP countries anchored on the enabling clause<sup>1</sup> of the General Agreement on Tariffs and Trade (GATT). The enabling clause could not continue to be used to justify the non-reciprocal trade preferences in the conventions, as the EU is not a developing

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<sup>1</sup> The enabling clause allows for RTAs between developing countries and preferential trade schemes by developed countries to developing countries as long as they extend to an entire grouping of countries.

member of the WTO. That is why in 2001 the non-reciprocal arrangement had to be granted a waiver at the WTO. Otherwise the EU would have been required to extend the same preferences to all other developing countries at the same level of development as the ACP.

The WTO waiver was to last until 31 December 2007, when the EU and the ACP countries should have agreed on a new trade regime compatible with Article XXIV of GATT. Only by meeting those provisions will the EPAs be granted most favoured nation status (MFN) under Article I of GATT. The framework for negotiating the new trade arrangement seeks compatibility with WTO requirements as outlined in the Cotonou Agreement. The central objectives of that agreement are to reduce poverty and promote sustainable development and the gradual integration of ACP countries into the world economy. Unlike the Lome Conventions, which provided non-reciprocal trade preferences, the new trade regime of the EPAs would have to be reciprocal. The EPAs would have to be notified to the WTO through the Committee on Regional Trade Agreements (CRTA). They would derive their legal mandate through meeting the WTO's provisions on regional trade agreements (RTAs) (see Lang, 2006, for further elaboration of WTO provisions on RTAs and their implications for EPAs).

One of the guiding principles of the EPAs is that they will help create regional markets. In other words, they are expected to strengthen trans-boundary trade in Africa. Specifically, the regionalism principle of the EPAs aspires to increase regional integration within groups of ACP countries. This is a step towards integrating ACP countries into the world economy. This principle guided the notion of including ACP countries in the negotiations with the EU. In Africa, four RECs were initially configured: Eastern and Southern Africa (ESA), Southern African Development Community (SADC), Economic Community of Western Africa States (ECOWAS), and Monetary and Economic Community of Central Africa (CEMAC). Except for Western Africa, there was overlapping membership with the RECs in the concerned regions. Towards the end of 2007 a new grouping centred on the EAC emerged with its membership drawn from the ESA and SADC.

### **11.2.2 EPAs and the RECs agenda for intra-African trade: The institutional challenge**

To understand the challenge EPAs represent to the intra-African trade goal of RECs, it is important to explain the differences between the two RTAs. The RECs are African RTAs that have many goals (*ARIA I*, 2004; *ARIA II*, 2006; *ARIA III*, 2008; UNECA). The RECs have much broader agendas and objectives than conventional RTAs. Strategic and political rationales underpin their existence, and economic integration is not always a priority. This might explain the mismatch in incentives to

harmonize trade policies and facilitate interregional trade. It may also account for why constraints of overlap and multiple memberships appear at times not to be urgent.

One of the best measures of their success is the level or share of intra-REC and intra-African trade that they catalyze. The RECs also are expected to be the platforms through which African countries can build the competitiveness to raise their global share of trade, which remains below 3 per cent. The RECs fall under the South-South category of RTAs, which, as indicated above, are legally grounded in the enabling clause. Some of the RECs have been notified to the WTO through the CRTA and justified under Article XXIV of GATT.

Unlike the RECs, the EPAs fall under the North-South RTAs<sup>2</sup> classification. As Karingi and Deotti (2008) argue, provisions in the agreements suggest that they are trade-policy tools. For this reason, in most of the studies that have been undertaken in assessing the economic and social impacts of the EPAs, the focus has been on the trade liberalization dimension of the agreements (ECA, 2005; Perez, 2006; Perez and Karingi, 2007; Fontagne et al., 2008). Karingi and Deotti (2008) have reviewed these studies and many others, in which they have summarized their results on the trade, fiscal and welfare impacts in the different groupings.

In particular, the reciprocity principle governing the EPA negotiations would lead to the trade displacement that is already taking place in the RECs. As a result, the EPAs pose a major challenge to the ability of African countries to raise inter- and intra-REC trade. Perez and Karingi (2007) and ECA (2005) have both shown that trade displacement affecting the regional integration agenda would take two forms: trade between African countries within the same EPA, and possibly diverted REC grouping. In addition, since the EPA provisions have not coordinated the common external tariffs and sensitive products lists, inter-REC trade will be compromised. ECA and AU projections indicate that with reciprocal trade arrangements under EPAs, European import surges could displace intraregional exports or intra-Africa trade by up to 16 per cent (see AU, 2007 cited in Karingi and Deotti, 2008).

The weak intra- and inter-REC trade integration could be further compromised since, besides the lack of coordination of the common external tariffs and the sensitive products lists, the EPAs have rules of origin that differ from those already operating in the RECs. In other words, the EPAs will be governed by rules of origin that favour the EU compared with those that African countries are offering each other in the RECs. These inequities affect the type and level of production and trading that takes place. Given that the rules of origin favour the EU, the status quo favouring

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2 When the comprehensive EPAs are concluded, Africa will be home to 21 RTAs (14 RECs, five EPAs and the already existing North-South RTAs signed by North African countries or South Africa with the EU or US).

trade in the direction of Europe is likely to persist. Even where product diversification in a given REC is supported by the EPAs rule of origin, the export destination is likely to be outside the REC.

Nevertheless, it is important to acknowledge arguments in favour of EPAs. Karingi and Deotti (2008) note that the EU foresees merit in EPAs in the case of regional integration since they could bring progress to the issue of overlapping membership and persistent barriers to intraregional trade. If the negotiating groups adopt common external tariffs as the basis from which to make market-access offers to the EU in the comprehensive EPA agreements, then regional EPAs would contribute towards enhanced economies of scale. The goal of enlarged regional markets could also begin to be realized. This would stimulate investment, increase domestic competition and promote the diffusion of technology. Moreover, as South Centre (2007) notes, the presence of the EU in each EPA grouping should enhance the credibility of integration initiatives and increase the attractiveness of ACP economies, while the incentives of financial aid and technical assistance should encourage political support for regional integration. Christian Aid (2007) observes that if African countries do not establish regional markets before opening to EU imports, they run a high risk of displacing or substituting previously efficient regional suppliers with less competitive EU markets. This could undermine any opportunity to develop industries in goods that can be traded regionally. Indeed, one of the key rationales for regional integration is that small African economies might be able to develop industries. But the EPAs could make this difficult unless mitigating measures are taken. But others suggest that if the negotiating groups become customs unions under EPAs, it could undermine or conflict with the programmes for the recognized RECs, whose memberships do not follow the EPAs grouping. This counterargument follows the premise that African RECs are based on what their members believe to be optimal, given the different objectives upon which they were established.

What challenges do EPAs pose to regional integration and, by extension, to inter-African trade? Karingi and Deotti (2008) tried to summarize this challenge when they point out that despite provisions referring to regional integration in Africa, the process is likely to face difficulties since the EPAs differ, especially where countries in different groupings are also engaged in a common integration agenda under the RECs. But this does not mean that EPAs and African regional integration objectives are incompatible. On the contrary, it is the sequencing of policies in the two initiatives and the accompanying measures and programmes under the EPAs that define the degree to which they complement Africa's integration agenda. This makes the Aid for Trade initiative in Africa crucial.

### **11.2.3 Trade-related aspects of EPAs and their potential long-term effects on intra-African trade**

The previous discussion has focused mainly on the trade-in-goods aspects of the EPAs. Yet the EPAs being negotiated involve more than trade in goods. As shown in ECA (2008), all of the African subregions have agreed to negotiate agreements with the EU under the EPA framework in areas such as services, investment and competition policy, among others.

Agreements in trade in services among African countries and the EU or on investment rules and competition policy will have implications for intra-African trade. Efficient and competitive services that support trade have had an important influence on intra-African trade. To the extent that there will be binding agreements between the EU and the African countries on services liberalization, the availability, efficiency and competitiveness of the trade-supporting services will determine the future level of intra-African trade. If the EPAs lead to more efficient and competitive banking and insurance sectors, challenges to intra-African trade in the area of trade financing and insurance are likely to be addressed.

The services economy is the new frontier for the expansion of trade, productivity and competitiveness. Thus, the EPAs, depending on their final structure, will not only have implications of the level of services trade, but also will determine the productivity of factors of production and the competitiveness of goods produced. This, by extension, will determine the performance of intra-African trade.

In 2007, before the onset of the financial and subsequent economic crisis, global services trade reached US\$ 3.3 trillion. The developing country share stood at 25.4 per cent, although the LDCs exports share stood at a meager 0.5 per cent. This notwithstanding, the services exports growth was fastest in Africa, at about 20 per cent. It is also worth emphasizing that 45 per cent of developing countries services exports fell under the category of South-South trade, indicating a strong bias towards intraregional exports. According to UNCTAD, in 2007, the share of intra-African services trade was an extraordinary 57 per cent, which dwarfs the meager 10 per cent share of such trade in goods. This reveals the huge potential for deepening of intra-African trade in services and indicates that such trade can improve productivity and competitiveness. But outcomes would depend largely on the mode of services liberalization of the EPAs.

The EPAs are also likely to produce dramatic changes in the institutional landscape under which intra-African trade will operate, depending on the final results of the

negotiations in the other trade-related areas.<sup>3</sup> In particular, negotiations on investment rules and competition policy are likely to profoundly influence the regional markets. To the extent that EPAs provide capacity-building in the trade-related areas, and insofar as the sequencing of implementation requires regional frameworks to be developed first, then it is likely that the EPAs would prove a catalyst to intra-African trade in goods and services. However, such positive effect will not be possible if the EPAs ignore the conditions that prevail in most African countries and RECs where policy frameworks for governing investment or competition are non-existent.

The EU has consistently argued during EPA negotiations that the Singapore issues are necessary to develop the regional markets that the EPAs hope to reach. The EU has been keen to secure provisions in the EPA agreements that set rules under which investments, competition and government procurement could occur between itself and African countries. The African countries, however, insist on provisions that would commit the EU to support the RECs in the elaboration and strengthening of regional instruments and institutions in government procurement, investment and competition policies. The structure (including concerning diversity) of the regional markets under which intra-African trade is to be based will depend on which of the two views—the EU’s or RECs’—will prevail in the final EPA provisions.

### 11.3 Other multilateral arrangements and their impact on intra-African trade

The ongoing WTO Doha Round of international trade negotiations is likely to have results that affect the prospects of intra-African trade. In this section, we highlight two important areas in which the multilateral negotiations are likely to influence the future of intra-African trade. First, the outcome of the Doha Round negotiations under paragraph 29 of the Doha mandate will not only affect the existing RECs, but also the future of the EPAs and any subsequent RTAs that African countries, individually or through RECs, might be engaged in. Second, the Doha Round modalities being developed in the current negotiations, especially in the non-agricultural market access (NAMA), already are pointing to significant challenges for African custom unions.

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3 The trade-related areas are almost always synonymous with the Singapore Issues; investments, trade facilitation, competition and government procurement.

### 11.3.1 The Doha mandate and RTAs

The Uruguay Round of international trade negotiations reached an agreement that defines the rules and disciplines that govern trade in services, the General Agreement on Trade in Services (GATS). Article V of GATS contains provisions on RTAs with respect to trade in services. Unlike Article XXIV of GATT, GATS Article V contains special and differential treatment provisions allowing for more flexibility for developing countries.<sup>4</sup> Lang (2006) highlights this uneven treatment of goods and services in the RTA regimes of the WTO. Developing countries, unhappy with the existing jurisprudence on Article XXIV in terms of its interpretation, had hoped that paragraph 29 of the Doha Round mandate would provide an opportunity to bring into the WTO rules for flexibility in terms of special and differential treatment that currently exists in GATS.

Paragraph 29 of the Doha Declaration states, “We [WTO trade ministers] also agree to negotiations aimed at clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements. The negotiations shall take into account the developmental aspects of regional trade agreements.” The negotiations with regard to realizing the mandate of paragraph 29 have been divided between systemic and procedural issues. Given that negotiations on RTAs are intended to clarify and improve disciplines and the rules on WTO compatibility and enhance their development, the final outcome will have implications on the intra-African trade. In particular, if the clarification of Article XXIV is such that the current understanding of the meaning of substantially all trade is upheld, then the probability that EPAs could be revised in favour of higher asymmetry will be diminished. This means that potential intra-African trade based on improved asymmetries in the EPAs would not be realized.

### 11.3.2 NAMA modalities

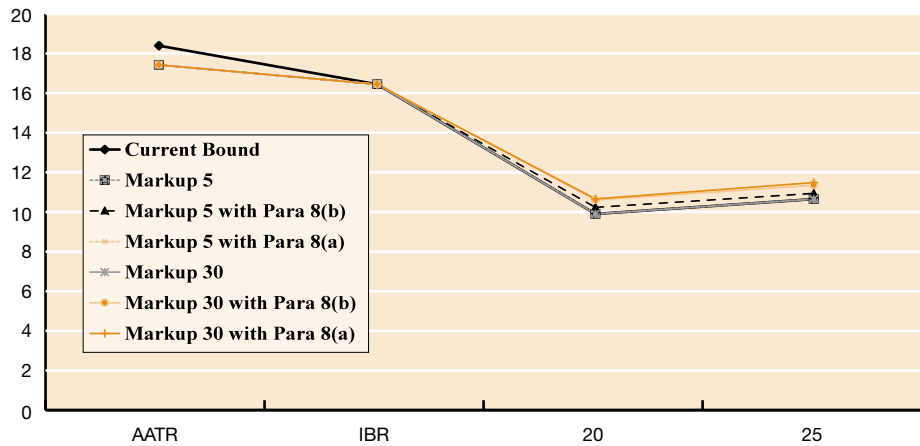
The modalities developments under the non-agriculture market access (NAMA) negotiations have demonstrated that the existing RECs protocols in Africa might be affected, unless flexibilities and curve-outs are provided for in the final modalities. Figure 11.1, below, illustrates this for the CEMAC region. Since Gabon is considered a developing country in the WTO, it is expected to make commitments in NAMA. But Gabon is in a monetary union with a common trade policy with other Central African countries, some of which are LDCs. The LDCs are not expected to make any commitments in the Doha Round.

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<sup>4</sup> Article 3a of GATS stipulates that, “Where developing countries or parties ..., flexibility shall be provided for regarding the [elimination of discriminatory measures], in accordance with the level of development of the countries concerned [...]”.

**Figure 11.1**

*Impact of different Swiss coefficients and S&D flexibilities on Gabon's average NAMA tariffs*



Source: Ben Hammouda et al., (2008).

As figure 11.1 shows, the actual applied tariff rate (AATR) of Gabon, which reflects the existing common external tariff (CET), is higher than the initial bound tariff rate (IBR), which is expected to be what Gabon will base its commitments on. Since there is a common trade policy, through the CEMAC CET, the AATR and the IBR must be harmonized. Unless Gabon is allowed to adjust the initial bound rate to the level of the actual applied rate, the CET would be compromised. This could mean a downward adjustment of the AATR (as captured by the CET) to the IBR. This will mean LDCs within CEMAC making some indirect commitments. This is an example of how the multilateral agreements could have direct effects on intra-African trade by altering the existing trade policies.

Other African RECs might be affected by these ongoing multilateral negotiations. These include the Southern Africa Customs Union (SACU), given the expected commitments on developing countries within this grouping. Any commitments by South Africa, Botswana, Namibia and Swaziland as developing countries will have implications for existing CET policy in which Lesotho, an LDC, is party to. Similar effects, albeit through different mechanisms, might appear in the East African customs union in which, though Kenya is not expected to make any commitments on industrial tariffs cut, the expectation that the country will increase its tariff binding (and do so with a target final average tariff rate in mind) could affect the nascent customs union of which all other members are LDCs. Zepeda et al. (2009) indicate that Kenya's trade with other African countries, where it has preferential treatment through agreements such as the EAC and COMESA treaties, is likely to be affected by the 2008 draft Doha Round.



## 11.4 Aid for intra-African trade

The preceding three editions of *Assessing Regional Integration in Africa* (*ARIA I*, 2004; *ARIA II* 2006; and *ARIA III*, 2008) have addressed the challenges and impediments to African intraregional integration. The series identified challenges ranging from incompatible trade policies among REC countries; inefficient and uncompetitive software and hardware elements of trade facilitation; regional conflicts and poor product standards, among many others. Subsequently, it is understood that unless these problems are addressed, even the most well-meaning integration programmes will not achieve their full potential through which Africa can launch its global integration. As the *Economic Report on Africa 2007* argues, the same challenges facing the continent's intra-African trade form some of the constraints that make it difficult for its economies to diversify, build competitiveness and exploit market-access opportunities internationally.

It is for these reasons, at the regional and multilateral markets level, that Aid for Trade becomes a significant policy and development issue. The Aid for Trade rationale, scope and objectives are structured to build productive for trade capacities. UNECA (2009) and Karingi and Fabbroni (forthcoming) provide detailed discussions on how Aid for Trade can address the trade challenges Africa faces. UNECA (2009) in particular distinguishes among Africa's internal and external trade challenges. It points out that the scope of Aid for Trade corresponds especially with the continent's internal trade challenges, especially its weak supply capacities, lack of skills in producing better products, limited resources for research and development, poor trade finance and trade facilitation, weak port and transportation infrastructure and institutional constraints.

Karingi and Fabbroni (forthcoming) offer indicators of these internal challenges. For instance, table 11.1, below presents their logistics performance index by RECs. The index captures the gaps in all those elements entailing trade logistics including customs, infrastructure, timeliness and international shipments, among others. A maximum score of 5 indicates the best performance. As the table shows, the African RECs score poorly (in most cases below 2.5), which indicates logistics constraints. Aid for Trade is intended to address these constraints, and if well-targeted, should result in improvements in the LPI scores.

**Table 11.1**  
*Logistics performance index average scores by selected REC*

REC	Int. LPI	Cus-toms	Infrastruc-ture	Interna-tional shipments	Logistics compe-tence	Track-ing & tracing	Do-mestic logistics costs	Timeli-ness
CEMAC	2.36	2.33	2.10	2.31	2.27	2.35	3.36	2.80
ECOW-AS	2.30	2.11	2.07	2.35	2.31	2.28	2.89	2.72
COME-SA	2.30	2.11	2.09	2.32	2.30	2.31	2.94	2.70
SADC	2.40	2.30	2.23	2.44	2.31	2.32	3.00	2.80
UMA	2.46	2.26	2.30	2.55	2.30	2.48	2.97	2.90
Sub-Saharan Africa	2.35	2.21	2.11	2.36	2.33	2.31	2.98	2.77

**Source:** Karingji and Fabbroni (forthcoming) based on World Bank data.

While the low indices for individual RECs point to difficulties for intra-RECs trade, the same can be said for inter-REC trade. This is captured by the weak sub-Saharan Africa indices in the same table above, which are the sum of the weak inter-REC indices in the areas covered by the logistics performance index. Taking a broader view of trade facilitation,<sup>5</sup> that it is a function of all the elements captured by the logistics performance index, addressing the poor performance within and between the RECs would be an important ingredient to enhancing intra-African trade. Aid for Trade is expected to address these constraints through investing in infrastructure.

Another indicator of constraints that hinder intra-African trade is the trading-across-borders indicator, a subset of the wider Ease-of-Doing-Business survey published by the International Finance Corporation of the World Bank. This index further captures the customs administration element of trade facilitation. Table 11.2 ranks African countries globally and in the region.

**Table 11.2**  
*Trade rankings across borders*

Economy	Rank		Economy	Rank		Economy	Rank	
	World	Africa		World	Africa		World	Africa
Mauritius	20	1	Algeria	118	18	Zambia	153	35
Egypt	24	2	Gabon	128	19	Swaziland	154	36
Djibouti	35	3	Comoros	129	20	Côte d'Ivoire	155	37

5 Alternative views exist on the definition of trade facilitation, depending on whether one addresses it from the perspective of international trade negotiations as captured in the Doha Mandate of the WTO negotiations. However, African countries prefer a broader definition, which they think encompasses both soft and hardware elements such as roads, ports, rail and other related infrastructure.

Economy	Rank		Economy	Rank		Economy	Rank	
	World	Africa		World	Africa		World	Africa
Tunisia	38	4	Benin	129	21	Mauritania	158	38
Cape Verde	56	5	Sierra Leone	132	22	Chad	159	39
Senegal	60	6	Equatorial Guinea	133	23	Congo, Dem. Rep.	160	40
Morocco	64	7	Cameroon	137	24	Zimbabwe	162	41
Gambia	73	8	Sudan	139	25	Eritrea	163	42
Ghana	76	9	Mozambique	140	26	Mali	166	43
Togo	84	10	Lesotho	141	27	Malawi	167	44
São Tomé and Príncipe	88	11	Nigeria	144	28	Rwanda	168	45
Seychelles	90	12	Uganda	145	29	Niger	169	46
Tanzania	103	13	South Africa	147	30	Burundi	170	47
Madagascar	109	14	Kenya	148	31	Angola	172	48
Guinea	110	15	Botswana	149	32	Burkina Faso	173	49
Guinea-Bissau	111	16	Namibia	150	33	Central African Rep.	175	50
Liberia	115	17	Ethiopia	152	34	Congo, Rep.	176	51

**Source:** World Bank (2008).

The trading-across-borders indicator captures information on the number of documents that must be processed and the time it takes to do so for exports and imports. It thus reflects the challenges that businesses face in moving goods across borders, including those within and among RECs. Evidently, compared with other countries in the world, African countries in the sample are concentrated in the second half of the global ranking. Therefore, beyond logistics difficulties through poor infrastructure, the customs administration challenges exacerbate Africa's trade challenges. The Aid for Trade investments in strengthening customs administration institutions at the ports and border points would help accelerate the movements of goods, and by extension reduce the costs that hinder intra-African trade.

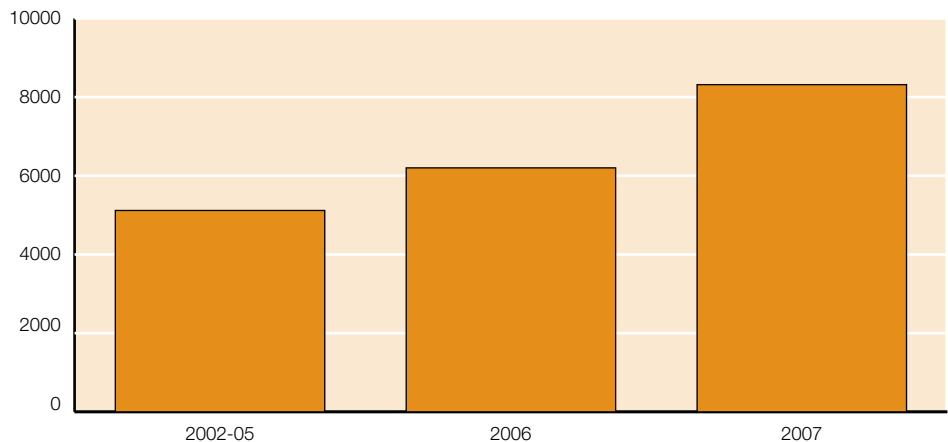
Aid for Trade is also expected to help address productive capacities. As the ECA and AU *Economic Report on Africa 2007* shows, Africa's development has been hampered by lack of diversification. A close examination of the diversification indices of African RECs yields mixed results, but generally they all exhibit low levels of diversification. Even though RECs such as SADC and COMESA seem more diversified compared with other RECs, overall, the export concentration index has consistently remained above 40 per cent, with RECs such as CEMAC remaining above 70 per cent. This absence of diversification limits the potential for African countries trade over the entire continuum of the value-chain.<sup>6</sup> Aid for Trade, by helping build productive capacities, should enhance intra-African trade.

<sup>6</sup> The international trade literature is replete with empirical studies showing that inter-industry trade thrives among countries that are most diversified. Such countries can trade and compete in different segments of the value-chain, even where they produce similar raw products. Aid for Trade

Figure 11.2 below shows that there has been an increasing trend, in nominal terms, of Aid for Trade commitments to Africa.

### Figure 11.2

*Aid progress for trade commitments to Africa (current US\$ million)*



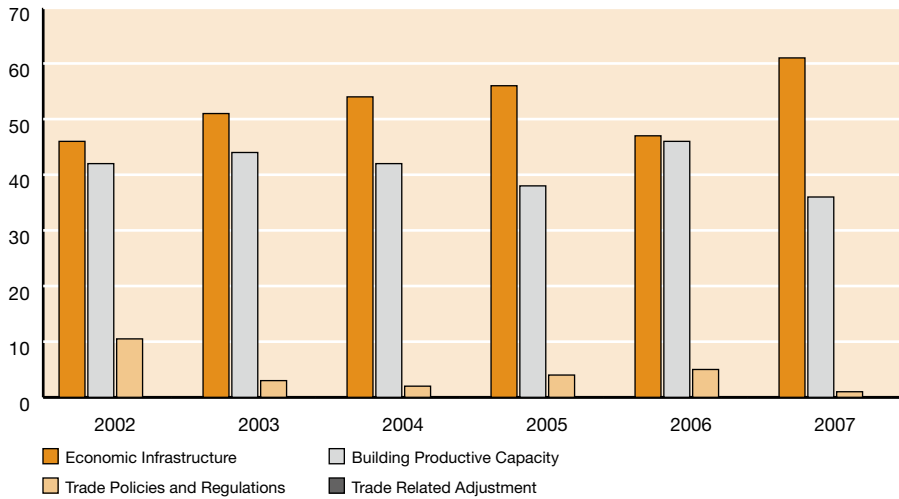
**Source:** OECD-DAC Statistics (2009).

Figure 11.2 reveals that there has been substantial, measurable progress in implementing Aid for Trade. Its commitments to Africa have been increasing each year since 2002 by an average rate of 17 per cent in nominal terms. Compared with the globally agreed base period of 2002 to 2005, in 2006, Aid-for-Trade commitments to Africa rose by 21 per cent to reach \$ 6.2 billion. In 2007, the commitments had risen by 62 per cent from the base period to \$ 8.3 billion. Overall, as OECD and WTO *Aid for Trade at a Glance 2009* shows, the Aid for Trade resources flow to Africa has increased at a faster rate than in other developing regions of Asia and Latin America. There has also been some increase (i.e., no shifting of ODA resources) in its commitments, with Africa receiving 60 per cent of the additional funds in 2007.

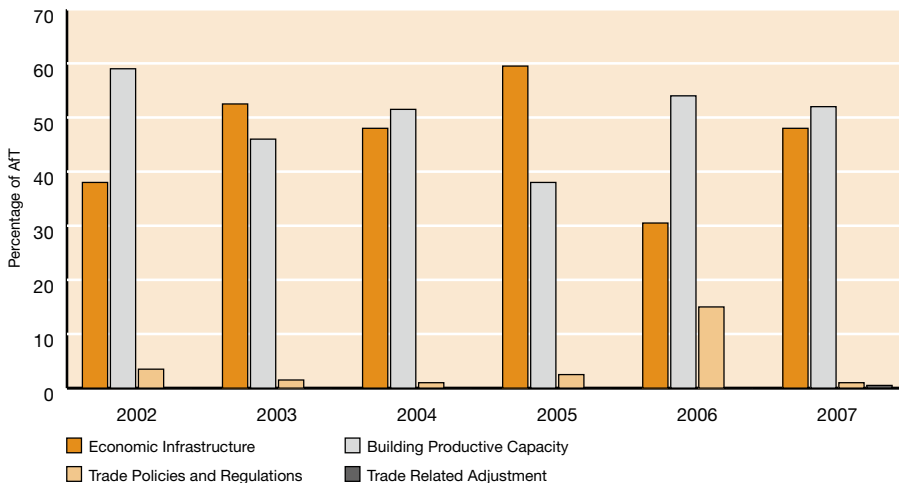
The Aid for Trade resources given to Africa also are directed to the priority areas of infrastructure development and building productive capacities. Figure 11.3 shows that economic infrastructure accounts for more than 60 per cent of the Aid for Trade resources in Africa, followed by building productive capacity, at about 36 per cent of total flows.

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would catalyse inter-industry trade by enabling African countries to diversify along the value-chains, even where they have similar commodities.

**Figure 11.3****Allocation of AfT commitments by categories in Africa (per cent of total)****Source:** OECD-DAC Statistics (2009).

This structure of allocations of Aid for Trade commitments is replicated among the RECs, except in ECOWAS, which tends to allocate more towards productive capacity-building, especially in the agriculture sector (see figure 11.4, below). Given the increasing flows of Aid for Trade and the priority structure, a natural question to ask is whether this has affected intra-Africa trade. In other words, have the Aid for Trade projects been effective and are they achieving the anticipated results?

**Figure 11.4****Allocation of AfT supplies to ECOWAS by broad categories****Source:** OECD-DAC Creditor Reporting System Statistics (2009).

This makes the analysis of Aid for Trade's impact imperative, as it will ultimately indicate whether there has been significant reduction of trading costs in those countries and RECs where significant allocations are going to infrastructure. Similarly, in an REC such as ECOWAS, if the Aid for Trade implementation is effective, then the significant share towards productive capacity-building should present itself in the form of an improved regional diversification index. In that case, the reduction in trading costs and improved diversification indicators would be channels through which intra-African trade benefits from Aid for Trade.

Given that the Aid for Trade initiative was initiated only in December 2005, and the review of its implementation begun in 2007, few studies of its results exist. Furthermore, there is limited analysis of its regional and subregional effects. However, a recent study by the Commonwealth Secretariat and the Overseas Development Institute (Cali and te Velde, 2008), indicates the possible influence that Aid for Trade is likely to have on intra-African trade, both at the REC level and continentally. Starting from the premise that Aid for Trade would help stimulate competitiveness and exports, Cali and te Velde (2008), provide empirical evidence on the programme's effectiveness. Their study tests for the effects of total trade-related aid and specifically Aid for Trade on trade-related outcomes.

Two results of their findings are promising. First, based on a sample of 120 countries, a 10 per cent increase in Aid for Trade (under the trade policy and regulations category) is associated with a 1.5 per cent reduction in trading costs. This finding is significant, considering the Djankov et al. (2006) finding and similar results cited in Karingi and Fabbroni (forthcoming), which suggest that each additional day that a product is delayed at a port or border reduces trade by at least 1 per cent. And as the trading across borders rankings have shown, Africa is doing poorly when compared with all other regions. Second, their study tested for the direct effects of Aid for Trade on export performance. It did so by dividing the aid to build productive capacities in specific sectors. The study finds a robust and positive effect of aid to productive capacities on exports.

Based on these findings, and assuming that the Aid for Trade implementation continues to be based on the Paris Declaration Principles on Aid Effectiveness, the measurable enhanced commitments to Africa could bear positive results. This would contribute to better performance of the intra-African trade since the allocations so

far indicate the focus is on investments that would lead to lower costs of trading and diversification.<sup>7</sup>

However, a lingering concern is over the programme's sustainability. One way to address this concern is through reinforcing the regional dimension of Aid for Trade to enhance support for focused strategies for regional integration among national and regional partners, including the RECs' bilateral donors and international financial institutions. Aid for Trade would be sustainable if regional integration processes become its drivers, rendering its results visible and affecting funding for regional programmes. The onus, therefore, is on the RECs to use the regional integration processes to harness Aid for Trade's power to promote deeper integration.

But should Aid for Trade be considered the only solution to financing measures that address Africa's trade challenges? Certainly not. It is important that African countries continue to seek and develop new mechanisms for financing regional integration. The experiences of some of the RECs, such as ECOWAS, could be extended to others. Similarly, successful financing instruments applied at the national level, such as the mobilization of resources through infrastructure bonds, could be regionalized. This will, however, require REC partner states to agree on common frameworks for deepening capital markets. Cross-border listing of bonds should become the norm rather than the exception, to allow the tapping of savings from across the partner states' private sectors.

## 11.5 Conclusions and recommendations

This chapter suggests that while EPAs present some opportunities, they also pose challenges to RECs' ability to raise inter- and intra-REC and by extension, intra-African trade. It is possible for trade between African countries within the same EPA to occur. It is also possible to lead to trade diversion in the RECs. This is likely to be the case due to the lack of harmonization of CETs, lists of sensitive products and rules of origin. However, if there is harmonization and proper sequencing, EPAs and regional integration objectives could be compatible.

Another issue relates to the fact that EPAs involve more than trade in goods. EPAs will present an opportunity if they lead to the development of regional frameworks in trade-related areas such as investments and competition. However, they will present

<sup>7</sup> Cali and te Velde (2008) also found that aid to economic infrastructure promotes exports significantly. Moreover, the effects of aid on productive capacity-building were relatively more important supporting exports in mining and manufacturing sectors compared with tourism and agriculture. As this study points out, the latter finding corresponds with the development strategies of most African countries that aspire to move the comparative advantages away from non-capital-intensive sectors.

obstacles if the initial conditions of the African countries are ignored and a “big-bang” approach is adopted in liberalizing trade in services and trade-related issues. The institutional landscape in which intra-African trade takes place will therefore change dramatically, and whether this is for good or ill will depend on the model of liberalization that the EPAs adopt—gradualism or “big-bang.”

The prospects for intra-African trade also are tied to multilateral negotiations under the Doha Round. Whether this is positive or negative will depend on whether the uneven treatment of goods and services in RTAs is addressed. A positive outcome for intra-African trade will occur if the special and differential treatment provisions in Article V of GATS are introduced in Article XXIV of GATT. On the other hand, a negative result for intra-African trade will unfold if these provisions are ignored altogether and disciplines are tightened for all RTAs, irrespective of whether or not they are North-South in nature. This means that developed countries’ understanding on all trade is upheld. Beyond the rules governing RECs and EPAs, the Doha Round results could unravel the already stabilized regional integration progress. This is demonstrated in the case of CEMAC, where Gabon is expected to make commitments in spite of having a common trade policy with LDCs in the grouping.

A more promising dimension relates to Aid for Trade and intra-African trade. This initiative could address some of the challenges to intra-African trade and can be extended to tackle implementation difficulties with respect to EPAs and the outcome of WTO negotiations. However, for this to happen the RECs must take responsibility for harnessing Aid for Trade’s power to finance regional programmes. Only then will concerns about the programme’s sustainability as part of the solution to the constraints facing intra-African trade be eliminated. Yet, as the present report argues, the most sustainable way to finance regional integration is for RECs to begin to mobilize regional resources. Thus, there is a continued need to develop and deepen regional capital markets.

The following recommendations can render permanent the opportunities for intra-African trade from EPAs, Doha Round and Aid for Trade, and also help mitigate the challenges they present. First, harmonizing and prioritizing the implementation of the EPAs will be crucial to intra-African trade outcomes. It will be important for concluding the comprehensive EPAs that focus on rationalizing and harmonizing the sensitive lists among the subregions. One set of rules of origin should not only allow cumulation across the EPA groupings, but also bring coherence to the rules of origin in the different RECs. With respect to implementation, the sequence could begin with full implementation of existing trade-related protocols in the various RECs. This would be followed by a phased implementation of EPA commitments.

Second, coherence among regional integration, EPAs and Doha Round commitments will be crucial to achieving the best results from intra-African trade. This calls



for more coordination among the RECs, the EPA negotiators and the African Group in the WTO. This will ensure that the commitments made at the EPAs level are not only consistent with those of the WTO, but also with REC policies.

Third, mapping binding trade constraints and front-loading interventions, including regional Aid-for-Trade projects, is necessary to achieve positive results in intra-African trade. This report has identified the infrastructure constraints that hinder increased trade. Mapping these constraints and identifying the financing gaps is essential. The mapping should include priority projects, which should be informed by the potential catalytic effect they might have on regional trade. And to ensure the sustainability of the required resources to finance regional projects, Aid for Trade should be understood as a complementary funding instrument to more significant domestic resources that can be mobilized at the regional level. The RECs, therefore, should fast-track initiatives that facilitate the evolution and deepening of regional capital markets.

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# Gender and Intra African Trade: The Case of West Africa

## 12.1 Introduction

Formal and informal cross-border trade<sup>1</sup> in West Africa has increased since the 1990s as a result of economic liberalization policies, population growth and urbanization. This expansion has been credited with deepening regional integration, improving economic growth and benefiting the population through employment, market and product diversification, increased outlets for goods produced and manufactured in the region and improvements in food availability (Salinger and Barry, 1996; Morris and Saul, 2000). It has been suggested that sustained economic growth in West Africa will be increasingly driven by trade in non-traditional exports such as agricultural products, livestock, fish, handicrafts and manufactured goods. This implies the importance of strong connections between trade and other sectors of West African economies, particularly agricultural production and processing, fisheries and manufacturing (ECOWAS-WAEMU, 2006).

Men and women alike are involved in cross-border trade as producers, traders and consumers. However, because of the critical differences in their positions in the economies and societies of West Africa, and in trade in particular, the benefits they derive and the challenges they face are based on gender (GENTA, 2001). This chapter focuses on women's capacities, their contributions to intra-West African trade, and particularly on cross-border trade and its constraints. While men's presence and contributions in some cases are discussed, the object of this chapter is to provide the basis for policies and measures to strengthen women's contributions to trade and

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1 Formal cross-border trade has been defined as the transportation of goods through official checkpoints, while informal cross-border trade is the transportation of goods through informal border crossings using footpaths or streams known only to local residents (Marphatia et al., 2000, p. A-3). This definition presents some challenges, as the mode of crossing borders cannot be the only factor distinguishing formal and informal trade. Other conditions, such as the registration status of the trader's business, its scale, space, facilities, distribution networks, relationship with formal economic and regulatory institutions, labour relations, capital base and sources of finance, are important in determining whether an enterprise is formal or not. Mwaniki (2004) defines informal cross-border trade as "registered or unregistered business activities undertaken across the borders based mainly on popular economy." The distinction between informal and informal business has always been difficult, and it is no easier in the case of cross-border trade businesses. There are strong links between formal and informal cross-border trade, and both of these contribute to government revenue and economic growth (Ackello-Ogutu, 1997; Randriamaro and Budlender, 2008).

reduce the gender inequalities in the benefits derived from such trade. The assessment will focus on economic policy, contextual factors, and institutional and regulatory issues and constraints.

By focusing on West Africa, we highlight the specificities of this region in more depth than would have been possible in an Africa-wide study. In spite of the many common elements of trade in Africa and the increasing convergences of trading practices, women's trade in West Africa is distinguished by the specificities of that region and its integration challenges, women's long history of intensive involvement in trade and the particularities of their trade goods and patterns of involvement. Similar studies of the Eastern and Southern African regions are available and highly recommended.

The chapter begins by establishing the West African context as the backdrop of cross-border trade. This is followed by a discussion of women's trading in the region. The next section examines constraints to women's trade in West Africa, followed by a case study of women's production and trade in the shea industry. The last section offers conclusions and recommendations.

Unfortunately, the chapter suffers from a lack of statistical data on the volume and composition of women's cross-border trade in West Africa. Sex-disaggregated data on regional trade is also unavailable. Much of the information on women's trade comes from monographs and articles focusing on the role of women traders in one market, a particular group of traders or a single product. The present chapter relies on these sources as well as on four recent studies, one on women in trade in West Africa by USAID's women-in-development technology (WIDTECH) programme, which was based on interviews with 100 cross-border traders and other operatives in Mali, Senegal, Benin, Ghana, Burkina Faso, Côte d'Ivoire and Nigeria (Morris and Saul, 2000; and supporting literature, Marphtia et al., 2000); and the second, on a study of women in cross-border trade in Africa, consisting of surveys conducted in Swaziland, Zimbabwe, Tanzania, Cameroon, Liberia, Senegal, Niger, Guinea and Togo (Randrimaro and Budlender, 2008). The two other studies concentrate on the ECOWAS protocols and the free movement of people and goods (Ibeanu, 2007) and present a plan of action for regional integration (ECOWAS and WAEMU, 2006).

## 12.2 Framing the issues

In volume and value, intra-West African trade is modest. However, it involves large segments of the population and has the potential to increase. Informal trade, while largely unrecorded, comprises a significant part of cross-border trade in West Africa, providing employment and income-generating projects for much of the popula-

tion and distributing food from food-surplus to food-deficit areas (Marphatia et al., 2000). Not surprisingly, it has been suggested that informal cross-border trade has done more for economic integration than formal trade has, because most traders operate informally.

Women's involvement in cross-border trade is widely believed to be substantial, but is not recorded in trade statistics because women often cross informally or transport goods using methods such as head-loading, which are not included in trade statistics. Their methods are a function of the scale of their trade, which is usually small (Randriamaro, 2008). Men, on the other hand, are more involved in visible cross-border trading and in trade facilitation and regulatory activities. Women's traded goods usually differ from those of men. A study has found that apart from products such as spare parts, used tyres and cars, which men sell, West African trade is largely a female activity (Morris and Saul, 2000; Marphatia et al., 2000). However, while most traders are female, transporters, freight-forwarders, money changers various formal and informal agents working in other aspects of transportation and forwarding are men.

The gender segmentation of trade is in part due to a similar segmentation of agricultural production, manufacturing, education and artisanal training. This segmentation differs according to region and country. While much of West Africa's, cross-border trading is dominated by women, in countries such as the Niger it is the men who do the market trading. While women often specialize in food crops and leave export commodities such as cocoa, cotton and coffee in the hands of men, cash crops such as shea remain in the hands of women. One study found that the retail trade in assorted vegetables and fruits belonged to women, but the importation and wholesale marketing of these products was done by men. Women involved in cross-border trade dealt with these products in small quantities. What are considered men's versus women's crops differ from country to country? Livestock importation, processing and retailing is largely men's work; women engage in a limited retailing of meat products. In Mali, women sell those parts of meat that men do not handle.

Women traders are not a homogeneous group. They include a large group of small-scale traders with little working capital and infrastructure and rudimentary literacy and numeracy skills; a much smaller group involved in regional and international trade with substantial capital, which can exceed \$100,000; and a range of others in between (Morris and Saul, 2000; Darkwah, 2002). Gender differences notwithstanding, trade is one activity women can take up with whatever resources they have at hand. And depending on how it is organized, women's cross-border trade has the potential to contribute significantly to household earnings and resources, and to empower women through giving them financial independence and control of their own resources (Morris and Saul, 2000).

It is useful to situate a discussion of gender and intra-West Africa trade in the broader debates about the relationship between trade liberalization and gender. Williams has identified a certain reciprocal relationship between trade liberalization and gender. “Trade liberalization can increase or decrease gender inequality, and gender inequality can prevent trade liberalization from achieving the desired results” (Williams, 2004; p. 73). However, some studies have assumed that trade liberalization improves the prospects of women, particularly those of unskilled female workers (Joeques, 1999; Nordas, 2003). They have pointed to women’s work in export-processing zones in Asia and in agricultural societies in sub-Saharan Africa, where the ownership of natural resources is more evenly distributed, and where women play an important role in the distribution and sale of farm produce and fish. While the situation of women in the household might worsen as a household shifts to producing cash crops for exports, many women have benefited from work outside their households in the new horticultural industries (Joeques, 1999; Nordas, 2003).

This analysis has been challenged by some who argue that trade liberalization worsens women’s livelihood prospects, as their losses under trade-liberalization policies sometimes exceed their gains. Even when their incomes increase, this has been offset by high transaction costs and risks, increased workloads and loss of time (UNIFEM, 2006; Sander, 2009). Research on agriculture, for example, has found that in several African countries, trade liberalization resulted in the closure of local state trading depots. While this affected both men and women, women suffered more because they had less mobility. The shift to export crops also resulted in land speculation and the loss of common property resources. Since women had a higher dependence on common property resources than men, the loss of such land was more detrimental to their livelihoods (Baden, 1998).

Trade liberalization also results in cheap agricultural products and can lower farm-gate prices and increase competition with foreign imports. This, and the removal of subsidies in developing countries, can either increase incomes from the export sector or decrease them because of competition from imports and the high costs of chemicals, fertilizer and other farm inputs. Trade liberalization can thus threaten access to food, shelter and basic services because women farmers and entrepreneurs can lose their livelihoods and markets from the influx of highly subsidized goods from developed countries (Williams, 2004; Musa, 2006). Economic liberalization policies also account for the proliferation of women in cross-border trade in unsustainable jobs as the options for alternative employment contract. In some cases, women’s socio-economic disadvantages prevent them from taking advantage of the opportunities provided by trade liberalization.

Thus, it is clear that trade liberalization can either reduce or increase gender inequalities, women’s incomes and their poverty, depending on the overall impacts of trade liberalization on their economies and societies, women’s location in the economy,



the scale of their activities and the particular activities in which they are engaged. Gender differences in the control of resources, the division of labour and decision-making also affect their ability to benefit from the policy. In countries where trade liberalization has created jobs in export-processing zones or in horticultural industries that chiefly employ women who were previously unemployed, it has been easier to point to benefits.<sup>2</sup> However, in situations where women have experienced trade liberalization through agriculture and trading, the picture is more complicated.

## 12.3 The West African sub-region as a pilot study

### 12.3.1 Economy and environment

West Africa, like the rest of Africa, has been experiencing low-intensity crises of economic, social and political dimensions for decades. This is despite unprecedented economic growth in sub-Saharan Africa, the rates of which have averaged 5 per cent, accompanied by single-digit inflation since 2000 (UNECA, 2009). Economic growths in the past decade have been spectacular when compared with the growth figures of the 1980s and 1990s. However, this did not translate into critical structural changes or create employment. Instead, economic liberalization brought unprecedented growth to informal economies with insecure and precarious forms of work and employment conditions, and it widened income disparities.<sup>3</sup> Because trade liberalization is key to economic liberalization policies, much of the growth in informal work has been in trade and services, including cross-border trade. This has been accompanied by the expansion in the supply of consumer goods—food, clothing, jewelry, electrical appliances, plastic goods, cutlery, crockery and toys—that are imported into the region from new and old sources such as China, Dubai, Thailand, Europe and the United States. By contrast, manufacturing in the region has been in decline.

While intra-ECOWAS trade has improved over the years, from 3 per cent of the region's total trade to 10 per cent in 2001, there has been a concurrent stagna-

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2 In any case, the conditions of women workers in horticultural industries have not been completely positive. In Kenya, Uganda and South Africa where horticultural businesses have employed predominantly female labour from both urban and rural areas, the women have had the poorer quality jobs with poor wages, longer hours of work, poor conditions of service and no social protection, while facing numerous health hazards (Razavi, 2007).

3 West African countries have traditionally had some of the most extensive informal economies in the world, which since the 1980s have grown exponentially at the expense of formal economies in most countries in the region. In many of the countries, less than 20 per cent of the working population, most of them male, are engaged in formal work (Tsikata, 2009a).

tion with regard to trade between ECOWAS and the rest of Africa, which in 2002 accounted for only 8 per cent of trade to and from Africa. Three countries—Nigeria, Côte d’Ivoire and Senegal—account for 90 per cent of all intra-regional exports and 50 per cent of intra-regional imports. In spite of its size, Nigeria’s intra-regional trade comprises only a very small proportion of its trade. Once that country is removed from the statistics, intra-regional trade increases to 20 per cent. There are also differences among countries related to their location in West Africa. The intra-regional trade of landlocked countries such as Burkina Faso, Mali and the Niger is above the regional average (UNCTAD, 2007). Export destinations from West Africa also are becoming gradually diversified. Exports to the EU from ECOWAS have remained stable around \$ 10 billion. However, export volumes to the EU used to be half of all ECOWAS exports during the early 1990s. The proportion decreased to one-third after a decade (Karingi, et al., 2005).

West African economies depend on one or two primary export commodities and are indebted and aid-dependent. Investment rates in West Africa are low (20 per cent of GDP in 2003). This has been attributed to insufficient levels of domestic savings and credit, and foreign investment that is only 2 per cent of GDP. West Africa comprises the majority of Africa’s least-developed countries.<sup>4</sup> With large areas of Sahelian agro-climatic features, many countries experience regular cycles of drought and flood with the attendant loss of life, livelihood, property and dislocation. Environmental problems such as deforestation, desertification, overgrazing, over-stripping and soil erosion, coastal and wind erosion and salinisation are increasingly common problems. In some cases, these problems have been exacerbated by the expansion of monocultures,<sup>5</sup> the long-term use of extensive, low-productivity agriculture and excessive deforestation (ECOWAS-WAEMU, 2006).

In several countries, civil conflict exacerbates these difficulties. More than 65 per cent of West Africa’s population lives in countries that have experienced conflicts in the last ten years (ECOWAS-WAEMU, 2006). This is the highest statistic for all regions in Africa. Under such circumstances, official development spending is disproportionately focused on defence, investment is discouraged and production and trade hindered. Countries emerging from conflict have underlying fragilities that offer them little flexibility during times of economic crisis, and this holds implications for development (ECOWAS-WAEMU, 2006; Tsikata, 2009 [b]).

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4 Only three of ECOWAS’s 15 members—Nigeria, Ghana and Côte d’Ivoire—are not classified as LDCs.

5 An example is the exclusive cotton production areas in Mali and Burkina Faso, countries whose ecosystems already are fragile.

### 12.3.2 The state of agriculture: Crop production and fisheries

Agriculture represents a third of regional GDP and contributes more than 15 per cent of export revenues, estimated at \$ 6 billion. Sixty per cent of the population of West Africa live in rural areas and play a critical role in agriculture (ECOWAS-WAEMU, 2006; ECOWAS, 2008; Oudet, 2005). West Africa is the leading exporter of cocoa and shea and is a substantial exporter of citrus. The region also has horticultural potential, represented by arable farmlands and the relative proximity to export destinations. At present, 80 per cent of West Africa's food requirements are met by regional produce, although the demand is growing as a result of demographic growth.<sup>6</sup> Agricultural food exports have increased by 95 per cent in the past 20 years, while imports have increased by 64 per cent. In spite of these statistics and the increases in the production of crops such as cereal and rice, West Africa continues to be a net importer of those commodities, and is therefore food-import dependent (ECOWAS-WAEMU, 2006). West Africa's rice imports—to the tune of 4 million tons worth more than \$ 1 billion a year—create a problem. The region's potential to grow rice in Mali and other countries, if realized, would be beneficial to intra-West African trade.

In spite of its contributions to West African trade, food crop agriculture and fishing have stagnated in much of West Africa in three decades of liberalization, while the food import bill has grown, and a diverse food basket of roots, tree crops, vegetables and cereals have gradually been replaced by rice and maize (UN, 2009).

The situation has been attributed to the low productivity of West African agriculture, which barely uses makes use of materials to intensify agricultural production such as selected seed, fertilizer and agricultural machinery. Agriculture also is hampered by declining soil fertility, degraded natural resources and increased conflict over land use. Persons with weaker land rights such as women, tenant farmers and young people have found their access to land challenged by growing land scarcity and tenure insecurities. Economic liberalization policies have exacerbated the situation. Since the 1980s these policies have promoted male-controlled export crops, while devoting little attention to the food crop sector in which women are active. Food self-sufficiency was not considered an important policy goal, as it was felt that healthy export earnings could be used for importing food and other needs. Thus, many countries in the region came to rely on cheap imports to feed their populations (Nankani, 2009).

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<sup>6</sup> West Africa's population, now 290 million, is expected to exceed 400 million by 2020 and 500 million by 2030.

Import liberalization, the removal of subsidies on agricultural inputs, the neglect of storage, markets, roads and other infrastructural requirements for food production and the dismantling of marketing boards for crops became common across West Africa. This removal of state support meant that the costs required to farm were beyond the reach of small farmers, the majority of whom had no access to formal credit<sup>7</sup> and most of whom were women. These farmers faced difficulties with pricing and marketing what they produced. More recently, large swathes of land in Ghana and other West African countries have been commandeered by transnational corporations to produce bio-fuels, with the approval of governments (*West Africa Observer*, 2009, p. 11; ECOWAS, 2008; UN, 2008). While bio-fuel production has the potential to increase incomes, it could threaten food security if measures are not established to safeguard food production (UN, 2008).

Liberalization of the agricultural sector was also extended to the fishing industry, which has suffered decline in some countries. In Ghana, for example, the catch has been steadily declining, which is attributed to the withdrawal of financial support for fishermen and to overfishing by foreign fishing vessels, particularly the paired trawlers (SEND, undated). Both river and sea fishing are predominantly male activities, involving temporary and more permanent migrations of fishermen across the West African region and into Central Africa. Ghanaian fishermen are working in Liberia, Sierra Leone, Côte d'Ivoire and Benin (Odotei, 2008) while fishermen from Benin, Togo and Ghana, have been found in Pointe Noire in Brazzaville, Congo (Tati, forthcoming).

The cross-border West African artisanal marine-fishing industry is facilitated by the region's continuous coastline and the ease of crossing borders at sea. In coastal countries such as Ghana, fresh, smoked and salted fish represents most of the animal protein the population consumes, and fishing employs a significant segment of the population, most of them male fishermen working closely with female fish processors and traders, as well as canoe-carvers, fuel-dealers, mechanics, firewood-sellers, food-vendors and others involved in activities to support the industry, including cooking, laundering and cleaning. In Ghana, it is estimated that 100,000 fishermen operate on the coast (Odotei, 2006; Britwum, 2009).

Male labour migration has been an integral part of the artisanal marine fishing industry since the colonial period. While in some cases fishermen migrate with one or more of their wives, in others they have established production relations in their new communities. Some fishermen operate in groups known as "companies," which include the wives of the boat owner and captain and a few other women, who col-

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7 In Ghana for example, a Ministry of Food and Agriculture survey found that the lack of credit to purchase inputs was the most prevalent constraint to agriculture development. Only 9 per cent of the credit from the formal banking system goes to agriculture. Farmers, therefore, have to rely on micro-finance programmes whose average loan size is under \$300 (Nankani, 2009).

lectively are paid the equivalent earnings of a single male member of the fishing company. Other spouses of fishing company members and independent women assist with fish processing and are remunerated. Thus, marriage and sexual relations are linked with business relationships, and business relationships could lead to marriages (Odotei, 2006; Britwum, 2009).

In addition to processing and marketing fish and feeding and laundering for the members of the company, wives and other women provide the crew with engine fuel and provisions for fishing trips in return for fish for their own use and for sale. In some cases, women accumulate enough money to buy boats and hire fishermen to work for them (Odotei, 2006).

In Odotei's study of migrant fishermen from Ghana, several of the reasons they offer for their transnational migration are relevant to discussions of regional integration. They cite the better economic conditions of neighbouring countries, such as the strength of the CFA franc, which makes catching and selling fish in the CFA zone more lucrative; more supportive fishing policies, such as subsidized fuel and the ease of buying equipment; fewer fishing restrictions and regulations; and the better geographical and coastal conditions, which render fishing safer. These, along with factors such as economic pressures from family and the desire to escape certain social obligations, make migration very attractive for some fishermen (Odotei, 2006).

Migrants make significant contributions to their host and home communities. One important benefit of migration is the diffusion of skills and the transfer of technologies that it accomplishes. Migrant fishermen also represent the informal micro-integration of people and communities across borders (Odotei, 2006), and cross-border fishermen are often the better off among the fishing population.

### **12.3.3 Social indicators in West Africa**

The economic and environmental situation in the region is manifested in the Human Development Index (HDI) rankings of the various countries. In 2003, out of 177 countries, the highest-ranking West African country was Cape Verde at 105, followed by Ghana at 138 and Togo at 143. All countries in West Africa fell in rankings between 1992, when there were 160 countries, and 2003, when there were 177. Countries ranked at 172, 174, 175, 176 and 177—Guinea-Bissau, Mali, Burkina Faso, Sierra Leone and the Niger, respectively, are all in West Africa. The HDI rankings are not surprising, given that 60 per cent of the population of West Africa live on less than one dollar a day compared with 46 per cent for all of sub-Saharan Africa. There is a higher incidence of poverty among women than men, and this has been attributed to the fact that more than half of West Africa's female population work in

agriculture. In Senegal for example, 86 per cent of women are involved in agriculture, compared with 70 per cent of men (ECOWAS/WAEMU, 2006, p. 59).

In West Africa, life expectancy at birth is 48 years, with women having a higher life expectancy than men in several countries. Close to 100 children per 1,000 live births die before they are a year old. Maternal mortality is higher than 600 per 100,000 live births in the region, with Cape Verde as the only exception at 55 per 100,000.<sup>8</sup> West Africa also has poor indicators for education. Forty-four per cent of the adult population is illiterate, compared with 39 per cent for sub-Saharan Africa. In some countries, the situation is extreme, with striking gender disparities. Guinea has a total literacy rate of 10 per cent (23 per cent male and 1 per cent female); Guinea-Bissau has 12 per cent (22 per cent male and 4 per cent female). In Senegal, 71 per cent of women compared with 52 per cent men are illiterate, and 91 per cent of women, compared with 76 per cent of men in the Niger cannot read. Ten per cent of the 1.1 billion people in the world having no access to potable water live in West Africa, a figure representing 42 per cent of the population. In the past few decades, there has been a resurgence of malaria, which is the leading cause of death, particularly in children under-five (ECOWAS and WAEMU, 2006).

The plight of West African countries raises questions about the region's robustness as a market for goods produced and circulated within it, given the poverty, informalization of work, low levels of agro-processing and manufacturing, periodic food shortages and endemic conflicts. However, the potential to improve cross-border trade in the region can be harnessed through policies and measures to create decent work, reduce poverty and promote its productive sectors.

The structure of West African trade also poses opportunities for trade synergies and competition. The similarities and differences of climatic conditions have meant that agricultural products exhibit corresponding similarities and differences, making exchange attractive. West Africa has a rainfall gradient from 300 mm per annum in the north to nearly 4,000 mm in the south. Many natural resources, including rivers, underground aquifers and bio-diversity reserves span several countries, demanding cooperation and planning among those countries. Diverse ecosystems yield a wide range of produce, resulting in complementarities in production and consumption (ECOWAS, 2008). Horticultural crops, cotton and livestock from the Sahel can be exchanged for produce from more humid areas, such as coffee, cocoa, rubber, oil palm, banana, pineapple, rice and dairy products (Marphatia et al., 2000). Also, similarities in climatic characteristics provide the opportunities for creating cross-border enclaves to produce and trade certain crops such as cotton, shea nuts, cocoa, tomatoes, cereals and rice. Agriculture, therefore, is critical to the integration of the West African economies.

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8 Sierra Leone's maternal mortality rate is 2000 per 100,000 live births.

In terms of its manufacturing traditions, certain countries specialize in products that can tap into West African markets. For example, Ghana manufactures aluminium products, salt and confectionery; Burkina Faso produces leather goods; Nigeria, Togo and Côte d'Ivoire produce textiles; Nigeria manufactures consumer items such as enamel bowls and plastics; and Côte d'Ivoire also produces pharmaceuticals and cosmetics. If traders buy and sell these goods regionally, markets would integrate, circumventing the consumption challenges posed by the region's intense poverty. Currently, the trade environment is complicated by the influx of foreign agricultural and manufactured goods, which have in some cases destroyed domestic production and resulted in the loss of jobs (UN, 2008).

## 12.4 Women in trade in West Africa

Since the colonial period, West African women have been involved in trade, both in their own countries and across borders, particularly in the distribution of food and small consumer items and in the trade in services. Their active involvement in small-scale trade is linked with the gendered construction of the colonial economy and society, which allowed male access to formal education and employment in the colonial bureaucracy and other forms of formal employment. Residential regulations during this period restricted women's access to urban areas and confined them to rural areas under the jurisdiction of chiefs. These circumstances resulted in the gender segmentation of the labour force, requiring women to restrict themselves to the margins of the colonial order, delivering much-needed services to male migrants and establishing themselves in the informal distribution of goods and services. These colonial patterns have persisted into the post-colonial period, reinforced by the continuing gender discrimination in terms of access to education and formal employment and the growing informalization of work due to economic liberalization policies (Tsikata, 2009).

Women's trading activities have always been integral to the region's rural and urban livelihoods. Traditionally, women cross-border traders were engaged in the sale of unprocessed and processed food (fish, salt and foodstuffs). As a result of the segmentation of labour in production and distribution, men and women have traded in distinct products in the marketplaces. Originally confined to jobs such as food-selling and shop-assisting in businesses at border crossings, they are now involved in cross-border trade, involving a range of goods and services, which has created informal distribution networks and credit systems that sustain livelihoods. Cross-border trading has resulted in new transnational networks, supported by commonalities in language, culture and kinship. Women traders also have been instrumental in establishing food distribution systems which have protected food security, often without

support from the state in the form of short term credit, storage and travel assistance. A study of women cross-border traders in Ghana found that two-thirds reported that kinship facilitated their trading activities (Morris and Dadson, 2000).

### **12.4.1 Women and agricultural production**

Women's trading is supported by their role in agricultural production in the maintenance of farms and harvesting and processing of food crops and fish. These activities have helped diversify rural livelihoods and increased the cash incomes of households for consumption and investment. Where these activities are successful and sustained, they have helped reduce poverty. For example, a steady trade across borders in agricultural produce processed on a small scale has increased shelf life and consumption convenience (Morris and Saul, 2000).

Most female migrants in the region are commercial (Agyei and Clotey, 2007). In a study on the movement of persons across borders in West Africa, nearly 39 per cent of respondents were classified as traders and market women, 13.1 per cent as driver/consultants and 2.2 per cent as clearing agents. The study concludes that the majority of persons crossing borders are traders, signifying that commercial migration is taking the place of labour migration in West Africa (Ibeanu, 2007). In this same study, 38.1 per cent of travelers carried goods across borders. This, the author concludes, affirms the importance of cross-border trade, challenging the often corrupt and unreliable official statistical claims that low levels of trade occur among countries. Although Ibeanu's study sample included only 15.6 per cent of women, the study's findings suggest an increase in women's participation in cross-border trade, in terms of their numbers and their activities (2007). These observations are relevant to the nature of policies established to regulate the movements of people within the region.

### **12.4.2 Three categories of trade**

Women traders, both within their countries and crossing borders, occupy three categories: retailers; wholesaler retailers; and wholesalers on the basis of the volume and value of their trade, their relationships with other traders and buyers and the particular commodities they sell (Dejene, 2001; Morris and Saul, 2000). Wholesalers import from manufacturers in West Africa and from as far away as Asia. Their products and sources in West Africa include machine-made textiles from Nigeria, Togo and Côte d'Ivoire; dyed basin cloth from Mali; aluminium-ware from Ghana; enamel bowls and plastics from Nigeria; and pharmaceuticals and cosmetics from Côte d'Ivoire. They sell these to wholesaler-retailers in smaller quantities and to some consumers.



Wholesaler-retailers trade in manufactured goods procured from wholesalers, often diversifying their portfolio to spread risk and increase profit margins.<sup>9</sup> They usually have access to storage facilities close to the markets, which enable them to engage in retail activities. Retailers are in the majority and are their own account workers, trade for others on commission or do both. They operate on a varied scale and often are younger women operating in both rural and urban areas and do not travel outside the region (Morris and Saul, 2000; Randriamaro and Budlender, 2008).

The classification of traders into three groups does not take account of the complexities of trading activities. While it conveys the differences in scale and the potential for upward mobility in trading, there are other equally significant trade variations. Some women trade in only one type of goods (e.g., manufactured imports, locally manufactured goods and agricultural produce, both raw and processed). Others combine these goods for long periods of time, while another group would try their hands at whatever goods are selling well at any point in time. Some traders also buy and sell different goods in different markets; for example, some traders from northern Ghana carry beans and shea butter across the border to markets in Burkina Faso and Togo, where they procure cloth to be exchanged for these goods back in Ghana (Chalfin, 2001).

All three categories of traders buy and sell agricultural commodities, although only some of the retailers and wholesaler-retailers are involved in the production and or processing of such produce. Wholesalers may, in some cases, also provide pre-financing for production. Fresh food items such as tomatoes, plantains, beans, cassava and locally processed food such as smoked and dried fish, garri and attieke (from cassava), palm oil, shea butter and nuts, dawa-dawa (from the locust bean), fermented nere seeds (*parkia biglobosa*), onions and palm oil are traded in small and large quantities. Different countries are known for certain agricultural and locally manufactured products, even though several countries contribute to the trade. For example, garri is associated with Benin and Nigeria, attieke with Côte d'Ivoire, locally manufactured goods with Senegal and Benin, smoked and dried fish with Nigeria, shea butter with Mali and Burkina Faso, palm oil with Benin, locally dyed cloth (*basin*) with Mali and aluminium and milled lumber products with Ghana. Wholesalers in agricultural commodities in some cases have working capital comparable with those trading in imported manufactures. Their profit margins derive from their ability to store the food to avoid seasonal price fluctuations or to take advantage of them (Morris and Saul, 2000).

Much of the manufactured imports consumed in the West Africa region have been brought in by long distance traders, most of whom are women. From their long

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<sup>9</sup> Goods include fabrics, kitchen utensils, plastic goods, batteries, plastic footwear, cosmetics, clothes and toys. Other goods include processed foods such as canned tomato paste, pasta, sardines, liquor and biscuits.

tradition of trading, which pre-dates European colonialism, women have exploited the trade liberalization policies of the last three decades. In markets in Accra and Kumasi in Ghana, international goods such as hair-care and beauty products, clothing, shoes, bags, belts, fabrics, kitchen equipment and electronics originating from Europe, the Americas, Brazil, China, Thailand and Dubai are on display. Some of these goods have been imported by wholesalers and wholesale retailers travelling to these locations and establishing supply lines and bringing back goods by air and by sea freight. These traders work with capital of between \$5,000 and \$20,000, and have been capitalized by family. They are often the daughters of mothers who were themselves traders (Darkwah, 2007). Some of these goods circulate within the region after they have arrived.

Machine-made cloth, whether produced in West Africa from plants owned by transnationals or more commonly imported from China, Manchester and the Netherlands, is very important to West African market trade. Its importance lies in its use for clothing, as a communicative device and as stored value (Manuh, 1998; 2001; Moran, 2007). Such cloth has replaced handwoven textiles, which are indigenous to the region as everyday and ceremonial wear, while the latter have become a prestige and luxury product, purchased and used by only a few (Moran, 2007).<sup>10</sup> Gender specialization is present in the trade in cloth and clothing. While women controlled the cottons used for women's clothing, which is the bulk of the trade in volume and value, men sold man-made or mixed fibre cloth used for men's clothing (Marphatia et al., 2000).

Market and product information circulates informally among and through traders visiting other countries on social business. The same or similar goods often criss-cross boundaries to take advantage of small opportunities, such as a supplier, lower transport costs or knowing someone at a border. Shifts in products and their sources are often copied by others, and therefore the profitability calculations soon become invalid.

Women cross-border traders are said to earn more than those trading strictly in their own countries. In particular, those operating between two well-established markets earn more than those who trade only in one. Those involved in trans-border trading, who both buy and sell in all the markets they attend, do better than those involved in cross-border trading, who buy in one market and sell in another (Clark, 1994).

In spite of the differences identified among traders, the majority of women traders in sub-Saharan Africa are involved in low-capital/low-returns activities, while the majority of those involved in high-capital/high-returns activities are men. It has been observed on the basis of surveys in francophone West Africa that gendered expenditure patterns are a factor limiting the expansion of women's businesses. More

<sup>10</sup> Interestingly, handwoven cloth is now often produced using imported yarns and dyes.

women than men spend their earnings and in some cases their capital on food, school fees, healthcare and rent, and were less likely to reinvest their earnings from informal cross-border trade into business expansion.

Women's capabilities arising from their long years of trading and accumulated experience are an important resource in West African trade. Often more than three generations of women traders operate in various trading families, and they have passed down their knowledge and experience of markets, strategies and techniques, financial and social capital, market space and other resources. Given how specialized trade, particularly cross-border trade is, these are critical resources which when deployed give certain women advantages in their work. Interestingly, trade liberalization policies have increased the competition between men and women in trade areas traditionally dominated by women (Baden, 1998; Randriamaro, 2008; Tsikata, 2009).

Trader organizations for welfare and networking purposes; facilitating credit; managing the supply, demand and prices of the product they sell; pooling resources to generate shared income; circumventing trade challenges; and influencing policies are useful resources. They exist at the level of the marketplace and in national and regional associations. Unfortunately, some of the poorest traders are unable to participate in these associations because they lack proximity, entry requirements and knowledge. Organizations based on products also are likely to have fluctuating and changing membership, as traders frequently change the products they trade in. Often these organizations are not set up to disseminate vital information to traders to support their activities.

## 12.5 Weak production systems, gender-blind policies and poor trade facilitation in West Africa

The main challenges to cross-border trade are either generic, in that they affect all those involved (although with different effects on men and women), or gender-specific, that is, they affect only men or only women. These challenges occur at many levels: individual, enterprise, governmental and institutional. Generic problems with differential impacts include the region's high poverty rates and its weak economic policies.

As this report has pointed out, enormous challenges to trade facilitation exist which also affect cross-border trade.<sup>11</sup> These include inadequate transport and communica-

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11 Trade facilitation has been defined as referring "to activities and practices relating to the movement, release and clearance of goods that cross national borders" (WTO, 2002). According to UNECA, the central concerns of trade facilitation include "transport and transit issues, import and export procedures including customs and cross-border problems, information and communication tech-

tion infrastructures; excessive customs and related payments; the failure to observe regional trade agreements intended to eliminate tariff and non-tariff barriers; poor financial services, particularly bank transfers, credit and currency exchange transactions and the lack of a relevant system of insurance; francophone-anglophone differences in banking regulations; trade taxation policies; the lack of progress in operationalizing ECOWAS trade liberalization schemes and the lack of adequate market information for certain goods. Gender-specific constraints include the absence of business skills and poor security resulting in sexual assaults and other forms of violence and the loss of goods (Morris and Saul, 2000). All these challenges make cross-border trade time-consuming, high-risk and carry high transaction costs (Randriamaro and Budlender, 2008). Trade facilitation is an increasingly important issue in trade because it concerns transaction costs that if addressed would benefit governments, traders and the regional economies (UNECA, 2004). It is one of the issues introduced by the Doha Development Agenda under the WTO, along with competition policy, government procurement and investment (Williams, 2004).<sup>12</sup> These issues will be discussed in more detail below.

### **12.5.1 Poor economic policies, gender inequalities and the challenges of reproduction**

The weaknesses of the productive sectors of West African economies, as discussed above, seriously constrain trade. The macro-economic situation in most West African countries creates additional difficulties. Price fluctuations in goods from inflation, currency fluctuations and the changing prices of inputs for goods manufactured in the region are a problem for trade profitability. In Ghana, for example, the depreciation of the cedi relative to the dollar and CFA has made goods from the CFA zone more expensive (Morris and Saul, 2000).

In the case of women, this is exacerbated by gender inequalities in access to and control of means of production—land, labour and capital—as well as the challenges of combining productive and reproductive activities. Throughout the world, women shoulder the burden of reproduction and the care economy. In conducting cross-border trade, this is especially difficult because it requires women to spend days on the road away from their families. In conjugal unions, male permission and continued support are critical for the success of cross-border and other types of long-distance trade. Women also rely on other family members and employees for support in trading and childcare. Women's multiple responsibilities, for childcare, household maintenance and income generation, has implications for their time, productivity and leisure but also puts them at a disadvantage in terms of attaining education

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nology, payments, insurance and other financial requirements and international trade standards” (UNECA, 2004, p. 1; WTO, 2000; Williams, 2004).

12 These four issues are known as the Singapore Issues.

and formal higher paying employment. Not surprisingly, a study of traders on the Bamako-Dakar railway found that the most important traders were divorced or widowed elderly women and former wives of railway employees. This was attributed to autonomy of older women and the reproductive burdens of younger women (Marphatia et al., 2000). Some of the limitations placed on women's movements that affect their trade are anchored in religion and other social sanctions. Women cross-border traders are sometimes accused of prostitution, extra-marital sexual transactions and other culturally illegal practices (Marphatia et al., 2000). In some situations where traders were successful, men have withdrawn financial support for their families (Randriamaro and Budlender, 2008).

Women have to acquire skills for their work informally, and few have formal business-management skills. This hampers their capacity to manipulate knowledge about pricing and the supply and demand of their tradable goods. Often, traders must depend on educated family members and others around the marketplaces for correspondence and other transactions with formal institutions. Traders are by no means uniformly illiterate, and there are women with tertiary education trading in the markets. However, their level of education often corresponds with the scale on which they operate, and the majority of women traders are hampered in reading and understanding regional agreements, market information and money transactions (Morris and Saul, 2000).

Women's capacity deficits and the discriminatory practices against them have resulted in labour-market segmentation and segregation, which locates them predominantly in the informal economy, particularly in its poorer segments. This affects their turnover and the scale on which they can operate.

West Africa is the only region besides Central Africa that has three official languages: English, French and Portuguese. With the region's high illiteracy and the fact that even educated traders are likely to be proficient in no more than one official language, the multiplicity of official languages further constrains cross-border trade. This obstacle, however, is not insurmountable if the profile and use of West African cross-border languages is enhanced. This way, language would not challenge the illiterate and traders can exploit the existence of major ethnic groups on both sides of the border among countries who share language, culture, kinship and informal social ties (ECOWAS and WAEMU, 2006).<sup>13</sup>

Differences in trading cultures also render trade uncertain. These differences relate to the measurement of goods, their presentation and packaging. Shea butter, for example, is processed and packaged differently in the various subregional markets.

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13 Examples include Bambara, Senoufu and Malinke speakers in Northern Côte d'Ivoire with Burkina and Mali; Hausa in South East Niger and Northern Nigeria and Ewe in Ghana and Togo.

While this allows buyers to identify the butter by origin, the lack of standardization hampers the product's sale.

West Africa's trade is further complicated by the region's multiple currency and pricing regimes, which raise challenges for managing exchange rates. However, some have referred to this as a resource, arguing that the differences between the Naira zone and the CFA zone in currency and prices make trade attractive between Nigeria and neighbouring francophone countries (Chalfin, 2001; Randriamaro and Budlender, 2008). Traders respond to complicated exchange-rate fluctuations by developing bartering arrangements. An example is the bartering of salt for horticultural products such as potatoes and onions between traders in the Niger and Burkina Faso (Marphatia, 2000). It is important to study more closely the impact of a unified currency on West African trade (Ibeanu, 2007).

### **12.5.2 Policy and institutional problems**

“The story of what West African citizens go through at the hands of border security officials is the same—harassment, extortion, brutality, threats of deportation and traumatic delays in moving goods across the border highways, many of them mounted by unauthorized officials” (Ibeanu, 2007).

Market traders have a long history of fractious relations with the state in Ghana, Nigeria and Guinea-Bissau, among others. Often scapegoats for shortages and high prices of consumer goods, they have suffered periodically from state harassment, prosecution and from the seizure and destruction of goods. Such episodes escalate in times of economic crisis. Infractions of planning regulations through the construction and use of unauthorized structures have often been punished by summary demolitions (Dennis, 1987; Hansen, 2004; Lourenço-Lindell, 2004; Robertson, 1983; Tsikata, 1997, 2009).

In the late 1980s, long-term economic stagnation, growing urban unemployment and liberalization policies resulted in the expansion of the informal and the contraction of the formal economy in many African countries (Banda and Nyirongo, 1996; Mhone, 1996; Lourenço-Lindell, 2004; Ndoró, 1996; Tripp, 1997; Tsikata, 2009; Skinner, 2008). This resulted in a more positive state attitude to the informal economy, and by extension, to traders (Adu-Amankwah, 1999; Hansen, 2004; Mhone, 1996; Ndoró, 1996). State support for the informal economy, however, has not been unequivocal. Street-clearing programmes and demolitions of stalls for city decongestion and beautification, and in some cases to make space for large transnational distribution chains or more up-market stalls, are still common occurrences (Hansen, 2004). Moreover, policy and public discourse focuses on how little tax informal traders pay, their price-fixing activities and the urban congestion that

arises from their activities. This ignores the official and unofficial taxes and levies traders pay in urban and rural areas and in cross-border trade, as well as their other crucial contributions, such as informal food distribution and credit systems and the employment they generate (Tsikata, 2009).

Several agreements are in place under ECOWAS that should facilitate free movement and trade.<sup>14</sup> In spite of these instruments, however, studies have found that movement, particularly in pursuit of trade, is highly problematic because treaties and protocols on free movement are honoured more in the breach. Ibeanu's study (2007), for example, found that on the Nigerian side of the Nigeria–Benin border, while there were a total of 25 security checkpoints within a ten-km radius, only five—customs, immigration, the Joint Nigeria-Benin Anti-Crime Border Patrol, the National Drug Law-Enforcement Agency and the Veterinary Quarantine Service—were legitimate. The extra checkpoints had been created by border personnel for extortion purposes. These figures are confirmed by UNIFEM's cross-border studies (Randriamaro and Budlender, 2008). As in the Ibeanu study, institutions were found to have a negative rather than positive impact on traders, who cited the payment of bribes and the loss of goods. Some traders even considered these to be the routine price of cross-border trade, which they factored into arrangements.

Cross-border trade involves high levels of insecurity related to both persons and goods from corrupt law-enforcement agencies and touts. Traders carrying money run the risk of having money seized. In one study, one in two respondents had experienced some form of harassment during their current trip (Ibeanu, 2007). The Nigeria-Benin border is considered particularly problematic and has defied solution in spite of joint border patrols organized at the behest of their presidents. The UNIFEM study of Liberia also reports that 37 per cent of respondents said they had experienced gender-based violence. Of this figure, 15 per cent had been raped or forced to have sex in exchange for favours (Randriamaro and Budlender, 2008).

The insecurity of traders is compounded by the fact that they often do not have valid travel documents and do not always know whether they need to pay taxes on the goods they are carrying. In Ibeanu's study, 60 per cent of respondents either did not know if the goods could be legally carried across the border or knew they could not. Eighty per cent did not know there were official transit registers and logbooks, only 9 per cent had filled such registers, and 9.8 per cent travelled with an interstate travel booklet. There was also inadequate knowledge among both travellers and law-

<sup>14</sup> Relevant ECOWAS instruments include the Treaty and Revised Treaty, Protocol A/P.1/5/79 on the Free Movement of Persons, Residence and Establishment; Protocol A/P.5/5/82 on Interstate Road Transit of Goods; Convention A/P.2/5/82 on Interstate Road Transportation between ECOWAS Member States; Supplementary Protocol A/SP.1/7/85 on the Code of Conduct for the Implementation of the Protocol on Free Movement of Persons, the Right of Residence and Establishment and Supplementary Convention A/SP.1/5/90 on a Community Guarantee Mechanism for Interstate Road Transit of Goods (Ibeanu, 2007).

enforcement officials about the provisions of ECOWAS protocols, particularly in relation to the documentation of persons, goods and vehicles. Also, there appeared to be conflicts in the provisions of various agreements applied across the borders, and the protocol has not been successful at harmonizing these rules across jurisdictions (Ibeanu, 2007). Respondents expressed frustration over the cumbersome processes of acquiring official documents. This degree of ignorance and noncompliance notwithstanding, many traders had devised strategies to cross borders with their goods.

The situation at the borders fuels extortion. Not surprisingly, extortion by law-enforcement officials is the most frequently mentioned problem by those interviewed. Significantly more women than men reported that their businesses had been adversely affected (46.5 per cent as opposed to 33.8 per cent) (Ibeanu, 2007). In the UNIFEM study of cross-border trade in Liberia, 74 per cent of respondents complained that high duties at numerous border crossings put significant dents in their profit margins. In Sierra Leone cross-border traders at Kondu and Jendema reported avoiding crossings to Liberian markets at Foya and Bo-Waterside to circumvent paying duties. Similar conditions were reported in Benin, Senegal and Mali, where border payments were between \$ 1.50 and \$ 7.00 (Randriamaro and Budlender, 2008). As there are no institutions to monitor law-enforcement agencies' activities, longstanding complaints about extortion are not receiving consistent attention. Poor security is particularly gender-specific. Women are vulnerable to requests for transactional sex from officials and are sexually harassed and or assaulted by officials and private citizens. They are more likely to have their goods stolen or lose their entire stock of perishable goods. This creates both physical and financial insecurity, increasing risk and the cost of goods to consumers (Ibeanu, 2007; Morris and Saul, 2000).

Studies have found that traders who carry goods in small quantities often bypass these checkpoints. Customs officials sometimes practice "border tolerance" by allowing the informal crossing of small quantities of goods such as kerosene, gasoline and agricultural produce. This, according to one study, is an important factor in the way cross-border trade is organized (Morris and Saul, 2000, p. 18). However, traders often have to make informal arrangements to unofficially pay money at the check points.

Even more troubling, national immigration laws were not harmonized before the ECOWAS protocol became effective. Thus, migration policies are the mandate of different ministries, departments and agencies in the various countries. Different institutions also are in charge of different elements of migration in any one country.<sup>15</sup> Poor coordination can result in contradictory policies and measures and contraventions of the ECOWAS protocol (Agyei and Clottey, 2007). The privileging of trade

<sup>15</sup> In Ghana, for example, migration is the business of the Ministries of Interior, Local Government, Trade and Foreign Affairs.



policies over migration policies is another problem. While trade has been liberalized extensively and resources have been poured into trade policy reform, migration has remained an area of numerous restrictions and policy neglect (Agyei and Clottey, 2007). Customs regulations also are not regionally homogeneous (Morris and Saul, 2000).

The existence of ECOWAS and WAEMU presents some opportunities but also challenges of parallel structures and overlapping mandates in the context of limited resources. They can complicate West African countries' agreements (ECOWAS, 2008). There are differences in the extent of trade policy reforms. WAEMU as a whole has undertaken more trade liberalization reforms than ECOWAS. While non-WAEMU ECOWAS countries such as Ghana have liberalized trade and simplified their tariff structures, cutting them down to WAEMU levels, Nigeria, the largest economy in the region, has not. This is because it considers the low tariff levels of WAEMU harmful to West Africa's agriculture and manufacturing (ECOWAS-WAEMU, 2006).

As in ECOWAS, there are challenges to the implementation of WAEMU. Its CET system and the harmonization of customs and statistics instruments, such as certificates of origin, customs and statistics nomenclature and customs declarations, have not been consistently implemented. Political instability and conflicts in member States around the region have affected the implementation of ECOWAS protocols. In some countries, an element of these conflicts has been anti-foreigner sentiment, leading to the ill treatment and expulsions of non-nationals (Agyei and Clottey, 2007).

The lack of implementation of trade liberalization agreements related to the region has also resulted in withholding benefits for women. For example, trade liberalization in unprocessed goods such as agricultural products and traditional handicrafts was adopted in 1979 but still has not been fully implemented. Given that these are the goods of small-scale female traders, implementation would improve their trade and increase their incomes.

Many non-tariff barriers impede cross-border trade. A large proportion of the products traded within or exported from West Africa are raw or semi-processed, particularly the agro-industrial products. Small-scale cross-border trade in foodstuffs is largely free of customs duty under the ECOWAS trade liberalization scheme. The obstacles to their exports mainly concern quality standards, which are becoming stricter, particularly in European markets and especially in relation to perishable goods such as fruits, vegetables and proteins; and handicrafts and traditional cash crops such as coffee, cotton and cocoa. These issues also concern subsistence crops sold in the region such as plantain, cowpea, cassava and livestock products (ECOWAS-WAEMU, 2006; Plunkett and Stryker, 2003).

### 12.5.3 Transportation, capital and market information

Transportation is a serious constraint to cross-border trade, although there have been gradual improvements. The issue has been considered more fully in the previous chapters on trade facilitation. Road transport remains the major means of travel. It consists of public and privately owned vehicles such as lorries, cars, motorbikes, bicycles, pushcarts and animal-drawn carts. In Ibeanu's study (2007), 72 per cent of respondents travelled by commercial road vehicles. Around 20 per cent of travellers mentioned motorcycle or bicycle, while 6 per cent travelled on foot. These simpler forms of transport enabled traders to bypass border crossings and avoid delays. The study also found that 70 per cent of the users of regional public transport (which includes rail transportation) were women (Ibeanu, 2007). Another study found that there were gender differences in the transport patterns. In Liberia for example, women used only cars, lorries and trucks, while men also used motorbikes and wheelbarrows (Randriamaro and Budlender, 2008).

In spite of its wide usage, road transportation is poor as a result of bad roads and derelict vehicles, many of which are secondhand imports from Europe. There are also not enough vehicles on the road. While significant efforts have been made in ECOWAS to develop an extensive road network for the region, there are serious challenges related to the quality of roads beyond the major arteries. Roads of variable quality in the region are used to transport farm produce and processed food items to markets within and across borders. Many do not have all-season surfaces, and their rutted conditions makes travel time-consuming and insecure. Studies are needed to analyze the pathways of certain important items of trade in the region to reveal the gaps in the road networks that need attention.

Thus road travel results in frequent delays, missed market days and perished goods. Bus trips across borders, for example, a return trip from Bamako in Mali to Cotonou in Benin, or Lagos, Nigeria, often takes several days. Africa's transportation problems consume the profits of traders. Road safety also is a serious problem. Many women ride with their goods on large open trucks, leaving themselves vulnerable to an even greater risk of accidents. They often travel long distances at night on unsafe roads prone to armed robbery.

Rail travel is just as problematic, as *ARIA IV* reports in detail above. Three different railway gauges are used on the continent, raising questions of physical integrating the rail system in the various subregions, including West Africa (UNECA, 2004). The quality of rail services also is poor. For example, to travel by train from Bamako in Mali to Dakar in Senegal once took a day and now takes two. While both men and women suffer from the poor roads, women's greater involvement in the sale of perishable goods, and the fact that they predominate among retailers who do not

have their own vehicles, means that they feel the implications of poor transportation more acutely than do men (Morris and Saul, 2000). Transportation problems also affect their domestic responsibilities. Studies addressed the issue of inadequate childcare, domestic violence and tensions arising from men's reactions to women's absences.

Some traders deal with the transportation problems by getting their transporters to purchase goods for them. Many transporters also include freight forwarding in their services. This provides traders with intermediaries in their dealings with the many officials operating on the trade route.

Poor access to capital also seriously constrains the scale of trade, along with the poor coverage of commercial banking services across the region. Most banks only operate in urban areas and serve a clientele quite different from micro-enterprise operators. The lack of effective, standardized inter-bank payment systems requires traders to carry large sums of money, which raises risk and limits the scale of their operations and the flow of goods and services.

There are three types of organizations mobilizing savings and facilitating access to credit of the poor in West Africa. These are private micro-finance institutions; financial branches of post and telecommunications, which are public and semi-public; and for WAEMU countries, the Regional Bank of Solidarity (Banque Regional de Solidarity, or BRS), a public institution. Questions have been raised about the long-term sustainability and efficiency of a market in which public and community structures coexist with private micro-finance structures. The situation is thought to be incompatible with private-sector growth, one of the two principles of community intervention, the other being the subsidiarity principle (ECOWAS–WAEMU, 2006). Clearly, the two principles underlying community intervention can be contradictory. However, the subsidiarity principle should prevail over the promotion of private-sector growth under such circumstances. Furthermore, pursuing a mixed strategy of public and private institutions for delivering credit to the poor need not contradict the goal of promoting private-sector growth.

Much of the credit available to cross-border traders is informal and based on networks of trust organized among trader-wholesalers, wholesaler-retailers and retailers. This informal credit system mitigates the effects on trade of poor financial services in West Africa. Informal credit arrangements depend on mutual trust, enabling wholesalers and retailers to offer credit to buyers, and barter arrangements that allow the circulation of goods without financial services. These relations are by no means always smooth and carry risks of default and capital shortages, with the result that not all traders are willing to extend credit. Women often rely on their family members, including mothers, siblings and husbands, for their capital. The lack of credit

constrains traders from scaling up their operations and dealing in high-capital goods (Darkwah, 2007; Morris and Saul, 2000).

It has been suggested that traders prefer “consignment credit,” provided by suppliers in the form of merchandise, which they then pay off over days or weeks as goods are sold. This is not considered a debt. Similar financing arrangements involve wholesalers entering into business partnerships with other women in other towns, who provide them with room and board and act as their sales agents, storing their goods and collecting their outstanding debts in return for a commission (Morris and Saul, 2000). Insurance facilities are underdeveloped and do not have the depth to extend services to protect the goods and persons of women operating small-scale enterprises. Ironically, motor vehicle insurance is much better developed in the region.

Inadequate market information significantly hampers the development of West African markets. Traders have no official objective information and have to rely on cooperative relationships with friends and fellow traders for anecdotal market information. It complicates relations among traders in a competitive environment with too many operators and too many goods. It also leads to saturated markets and the unproductive circulation of goods across borders, since traders tend to market what is already being sold by other traders (Morris and Saul, 2000).

Nevertheless, studies suggest that women are more likely to work collectively to address their trading problems than men. They develop informal networks of friendship, kinship and faith. Individual traders also help each other with financial, moral and emotional support. These different networks notwithstanding, traders have cited the lack of trust as a trade constraint (Randriamaro and Budlender, 2008). Instead of regional initiatives, the more established and prosperous women traders are typically involved in formal, national associations and networks, which tend to be dominated by men. Recent efforts to establish networking relationships among the chambers of commerce of West Africa are likely to increase the influence of such chambers on trade policy. Small traders, on the other hand, do not have access to similarly supportive institutions.

Informal cross-border trade in food, in spite of its many benefits, can adversely affect the livelihoods of farmers, especially when the crops are brought in more cheaply from neighbouring countries, creating a glut and leaving farmers with no market for their products. Imports of tomatoes from Burkina Faso by Ghanaian traders are an example of cross-border trade that Ghanaian farmers do not consider positive.<sup>16</sup>

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<sup>16</sup> Consumers prefer the type of tomatoes grown in Burkina Faso, which raises the question of why Ghanaian farmers do not switch to this variety or why there is not a stronger effort to process and can tomatoes produced in Ghana.

Similarly, not all manufactured imports are welcome. Second-hand clothing, cloth and other cheap consumer goods circulating in West Africa adversely affected efforts to promote the region's processing and manufacture of food and goods. This topic requires further analysis and the institution of policies to ensure that cross-border trade can complement rather than threaten local efforts.

## 12.6 Cross-border trade in northeastern Ghana, southeastern Burkina Faso and northwestern Togo: A case study

This section presents an account of the cross-border trade in shea involving the junction of northeastern Ghana, southeastern Burkina Faso and northwestern Togo, an area that experiences the rapid mobility of persons and goods. The nature of trade in this area is influenced by the differences and the commonalities of the three components of the area and their respective countries.

Ghana, Burkina Faso and Togo have taken different economic policy trajectories. Burkina Faso has focused on self sufficiency and import substitution, with the government highly involved in agriculture. Its main exports are cattle, cotton and shea nuts. It has also been a source of migrant labour for neighbouring countries. Togo is greatly dependent on both imports and exports with a very liberal import regime. Thus it is the main recipient of consumer goods and the centre of re-exports to the subregion. Its exports are phosphates, coffee and cocoa. Ghana has relied on cocoa exports but with a less liberal import and export regime than Togo. Its currency sets it apart from the other two, which operate within the franc zone. Chalfin argues that the countries' differences give them particular functions in the cross-border trade system. Burkina supplies food to Ghana and is gateway to the Sahel; Togo is a source of foreign- and African-made manufactures; and Ghana is a source of forest and savannah products, including yam, kola, shea and dawa dawa (locust bean), and also sometimes a source of imports such as fertilizer and petroleum products.

The three border zones share the same ecology and socio-cultural characteristics. They are located in the Guinea savannah and form a common agricultural complex dominated by millet, sorghum, pulses (such as groundnuts, black-eyed peas and bambara beans). They share a common culture and social organization as Voltaic people. These commonalities provide the basis for exchanges related to surpluses and shortages in particular commodities. For this reason, this account focuses on the characteristics and movement of main commodities of women's trade in the area: cloth, beans and shea butter.

### 12.6.1 The history and economic significance of shea

The shea-nut trade is primarily an activity of poor women across the Sahel. Shea grows in 18 countries in a 5,000 km expanse of guinea and sahel savannah woodland.<sup>17</sup> The major shea countries are also among the poorest in the world (Elias and Carney, 2007). Burkina Faso has the highest concentration of shea nut trees, covering about one-fourth of its total land mass, and it is West Africa's largest exporter, with its annual output estimated at 850,000 tons, with only 50,000 tons harvested a year (Harsch, 2001; Elias and Carney, 2007). Women pick shea nuts wild, process it into butter and then trade it locally and across borders. One estimate is that between 300,000 and 400,000 women in Burkina Faso alone are involved in the production and trade of shea (Harsch, 2001). It has also been estimated that about 4 to 5 million women in West Africa are involved in collecting, processing and marketing shea nuts and butter, providing about 80 per cent of their incomes (Plunkett and Stryker, 2002). While the West African market consumes most of the butter, used mainly as edible oil and in the artisanal and industrial manufacture of soap, tanning and tobacco-curing,<sup>18</sup> the nuts also are exported to Europe for use in the chocolate and cosmetic industries (Chalfin, 2004).

Shea butter was originally produced for subsistence. After years of selling surplus, market production became a primary goal by the 1930s. This increased the frequency and scale of butter production among women. In some countries, the state intervened with marketing boards to set prices and provide a market for shea. By the 1950s, shea nuts had become an established commodity of international trade to Europe for the confectioner's industry. However, shea butter was sold predominantly in local and cross-border markets in West Africa (Chalfin, 2004; Harsch, 2001).<sup>19</sup> The shea butter sold at the Bawku market, one of the main markets in the tri-junction area, derives from the Bawku and neighbouring districts of northeastern Ghana. Producers and traders from different districts are segregated at the market, observing different conventions of pricing, packaging and division of labour, and therefore allowing customers choice and traders the ability to bond and cooperate. Traders work together, lend each other money and purchase butter for fellow traders who cannot attend the market. They also build trade relations with customers and suppliers, offering credit to customers and purchasing supplies on credit. Wholesal-

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17 In West Africa, these include Benin, Burkina Faso, Côte d'Ivoire, Guinea, Mali, Niger, Nigeria, Senegal, Ghana and Togo.

18 Shea also serves as fuel for light, lubrication for musical instruments, to prepare corpses for burial and is used in both human and veterinary medicine because of its anti-bacterial properties. It also is a useful beauty aid to protect the skin and hair from the dry savannah climate (Chalfin, 2004).

19 Shea's position in international trade has undergone changes. Since the 1990s, it has moved from being an invisible ingredient in the processing of inexpensive chocolate to an expensive, exotic and sought-after cosmetic and beauty aid. This has altered the value and meaning of shea butter in world.

ers from Burkina Faso and the Niger buy shea from the Bawku market. Bawku traders also attend markets outside Ghana, sometimes bringing cloth from the Sinkanse market in northern Togo and other products such as potash from the Niger (Chalfin, 2004).

The cloth, most of which is imported from China, is procured from northern Togolese markets and diffused across Ghana and Burkina Faso. Beans are brought into Ghana from Burkina Faso, Togo and other parts of northern Ghana. Ghanaian traders often take quantities of *dawa dawa* (locust bean) from the Bawku District to the beans market in Bitou in Burkina Faso. Traders from Burkina Faso and Togo, in turn, would frequently come to markets in Ghana to purchase and sell locally produced goods, including beans. On the Ghanaian side of the border, the multiple sources of beans coming to Bawku enable this market to supply beans to many urban centres in Accra and Kumasi in southern Ghana.

The women involved in trade at the border zones operate at different scales. There are a few wholesalers who purchase cloth from Sinkanse market in northern Togo in large quantities for distribution to retailers in markets in northeastern Ghana, such as Bawku and Bolgatanga. Others purchase smaller quantities of cloth to retail themselves. A third group, mainly the shea-butter traders, also buy cloth for barter or outright sale in exchange for agricultural commodities in rural markets.

The main challenge to the shea-butter trade lies in how time-consuming it is to process and the fact that it requires many hands to accomplish it.<sup>20</sup> There is the additional challenge of preserving the source trees, which are often unproductive and difficult to cultivate. Changing land tenure systems are increasingly constraining women's access to shea trees. The variable quality of the butter and women's limited access to market information and credit to purchase labour-saving devices and promote the crop are also significant constraints.

Shea butter preparation requires large quantities of firewood and water. It is estimated that a kilogram of shea butter demands between 8.5 and 10 kilograms of fuelwood (Elias and Carney, 2007). As shea is often processed during the dry season, water shortages are especially acute, increasing the distances women have to travel to procure water. It has been estimated that the processing of ten kilograms of nuts to butter typically requires eight to ten hours of an individual woman's labour (Elias and Carney, 2007).

20 Producing shea butter is a time-consuming process. Butter processing techniques vary from place to place, and the skills are learned over years of observation and practice and handed down in families. Older women supervise the younger to complete the process, which involves fetching water, starting the fire, washing bowls and carrying basins. This requires an intergenerational effort. The youngest women—daughters, daughters-in-law and junior wives—provide labour, the middle aged women the capital and the older women the expertise (Chalfin, 2004; Elias and Carney, 2007).

## 12.6.2 Trading in shea

Trade liberalization policies have resulted in scaling back the operations of market boards and the disorganized marketing of shea products. Many high-profile projects directed at women have attempted to improve producer prices and connect them with European cosmetic and chocolate producers. However, these government and donor projects have not succeeded in securing women's productivity and marketing of shea. Shea exports have increased in Burkina Faso, with nuts averaging 15,000 tonnes a year between 1994 and 2004, and butter averaging 630 tonnes between 1997 and 2001. Ghana's nut exports increased from 15,000 to 32,000 tonnes between 1995 and 1997, representing growth from \$ 2 million to \$ 7 million in foreign-exchange revenue (Elias and Carney, 2007).

Outside West Africa, shea continues to be exported largely as nuts, and therefore the added value of processing is lost to the producers. The global market is dominated by three corporations that also specialize in the sale of cocoa-butter substitutes and prefer to do their own processing. This has contributed to the very low export prices of shea, and even the small cosmetic firms that buy directly from West African sources still benefit from the low prices fixed by the larger firms. Shea-based products return to West Africa in the form of cheap chocolates and cosmetics (Chalfin, 2004). This reproduces the pattern of colonial production, with value-added processing taking place outside the production area (Elias and Carney, 2007).

In local markets, prices fluctuate. While the trade in shea occurs year-round, prices nearly double during the dry season, while the economic value of nuts and butter is lowest between June and September. Nevertheless, considerable amounts of shea products are sold at this time because it coincides with the pre-harvest agricultural period when household grain reserves are lowest and women need the money to buy food (Elias and Carney, 2007). Shea buyers, most of them women, purchase nuts cheaply from female collectors during the dry season and store them until prices improve. They then sell to wholesalers, local food traders and in some cases to the very people who sold it to them. It is estimated that a rural Burkinabe woman could earn around \$ 106 from the 560-650 kg of nuts she collects in a typical year. However, this amount is rarely realized because most of the nuts, between 60 and 90 per cent, are kept for household consumption and what is sold is often put on the market when seasonal prices are low. A more realistic estimate of her earnings is between \$ 23 and \$ 27 for the same quantity. This is quite low, and although it contributes to equally low farm incomes, it does not provide producers with the incentive to increase production to levels that make an appreciable difference to poverty levels (Elias and Carney, 2007).



Women's future access to shea trees depends on the maintenance of communal principles in the land-tenure systems that are fast eroding. This strengthens the position of male heads of households in relation to other household members. Women's access to trees depends on whether the land on which the trees are found constitutes personal fields, household land or unclaimed or open-access forests. If trees grow on a woman's personal fields, she has a stronger interest in their fruits than if they are on the family fields, which the male household head controls. One study has found that in parts of Burkina Faso, although shea remains a female activity, women increasingly have to share their earnings with male household heads, and in a few cases, men have claimed the entire amount from sales. Young men also are entering the business of collecting nuts. They do not process the nuts but instead sell to traders. Their lack of skills, seen in their failure or inability to select high-quality nuts and process them to avoid germination, is affecting nut and butter quality and could drive down prices further.<sup>21</sup> Thus, male encroachment into the shea trade could replicate similar cases such as their entry into the oil palm trade, in which they came to control both the crop and the labour of women for their profits (Elias and Carney, 2007).

Labour-saving technologies and more efficient extracting processes would improve the productivity of shea processors. In Burkina Faso, women's cooperatives have mechanized mills to grind shea nuts and equipment to crush nuts and help with heating and kneading. These devices, while useful, increase the initial and recurrent capital costs and have in some cases left cooperatives indebted. While fair-trade shea projects are assisting women in these West African countries to market their products, standardizing processing and using labour saving devices, women's specialized knowledge of processing methods is being lost. This opens the door for their domination of the industry to be challenged by those with control of capital. Nevertheless, the useful elements of these interventions, if oriented specifically towards West African trade, would be even more useful and involve more women in the industry. A more robust West African market in shea nuts and butter would strengthen exports to Europe and other markets.

## 12.7 Towards strengthening gender-equitable West African trade

The preceding discussion has established women's significant contributions to trade in West Africa, particularly in food-crop commodities and manufactured consumer goods. A central argument has been that the economic and social challenges facing

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<sup>21</sup> The quality of shea butter in Mali, its leading producer, is concerning, and this raises questions about the difference in processing methods used in the main shea-producing countries of Mali and Burkina Faso. It has been noted that no single technique has emerged as superior. Thus, it is challenging to reform processing techniques (Plunkett and Stryker, 2002).

West African countries, the majority of which are least developed, have prevented the region from becoming a robust market for the trade in goods and services produced within or beyond its borders. And yet trade is an important source of value for West African economies and critical for integrating the region. Thus, many of the recommendations contained in various studies of trade, particularly women's trade in West Africa, need to be implemented. The ECOWAS treaty contains provisions that justify the promotion of women's interests in economic policy and in trade. Article 63 of the treaty sets out the following commitments:

1. Member States should formulate, harmonize, coordinate and establish appropriate policies and mechanisms to enhance the economic, social and cultural conditions of women.
2. To this end, member States shall take the necessary measures to:
  - Identify and assess all constraints that inhibit women from maximizing their contribution to regional developmental efforts; and
  - Provide a framework within which these constraints will be addressed and to incorporate women's concerns and needs into the normal operations of society.<sup>22</sup>

There are two relevant recommendations. One concerns national-level measures to support production and trade, while the other focuses on promoting regional integration. In some areas, they overlap. For simplicity's sake, they will be discussed separately.

### **12.7.1 National-level actions to support production and trade**

#### *Sectoral policy recommendations*

To promote gender-equitable national development through trade requires strengthening the productive sectors of West African economies to attain food security and create decent work that is equitably distributed between rural and urban centres, across regions and among different social groups, particularly men and women. Labour-market segmentation that disadvantages women should be overcome, and a key to this lies in recognizing the importance of reproductive activities and instituting measures to support them. Economic policies also should support the livelihoods of particular groups—food farmers, small-scale traders, small artisans and service providers and their employees—to maximize their productive activities and

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<sup>22</sup> These provisions are within a Women-in-Development (WID) paradigm, and therefore should be reviewed in keeping with the global concern of reviewing, adopting and implementing policies and strategies from the perspective of the rights and needs of gender equality.

increase the scale on which they operate to promote accumulation, growth and job creation. Some of these recommendations are elaborated below.

West African countries need policies to prioritize agricultural reform. Countries that have achieved both growth and equity have provided resources to small farmers in the form of irrigation, inputs, research and credit, combined with appropriate institutions and price policies to improve productivity and contribute to the rest of the economy (Ali and Thorbecke, 1997; Nankani, 2009). Attention to women farmers is particularly important in this regard. Agricultural policies should privilege those segments of the economy where women predominate to correct decades of policy neglect. In this connection, the potential of products such as shea should be recognized and supported with substantial investments. Safeguards should be instituted to protect women's industries from takeover by transnational corporations and male-dominated regional enterprises. Other recommendations are to promote exports in new agricultural sub-sectors, such as fruits and vegetables; import substitution (rice and cereals) and manufacturing industries processing agricultural products. These require substantial improvements in the methods and scale of production and guarantees of the freedom to settle in other countries and acquire land. There is an urgent need to address the challenges to the control of land, labour and capital in agriculture, particularly as they affect women farmers.

The primary commodities export-led economic policies that West African countries have pursued since the early 1980s must be drastically reformed. Manufacturing based on agricultural processing and the production of consumer goods should become an integral part of restructuring these economies. The shea case study demonstrates amply the importance of value-added processing, which is relevant to the main exports of the region—cocoa, cotton, timber and horticultural products. The value of exports both within and outside the West African region would be significantly enhanced through processing, which can also create employment and enhance farmers' incomes. Ghana's tomato farmers' concerns about competition from tomatoes from Burkina Faso and canned tomatoes from the EU could be addressed by processing plants that buy and process their tomatoes in the harvest season for use during the rest of the year. Such a plan would stabilize the price of one of the key ingredients for sauces in the West Africa region.

### ***Measures to address women's challenges and to strengthen trade facilitation***

Some of the challenges facing women traders have been the subject of recommendations in the literature. These include increasing women's literacy and numeracy and their capacity, skills and understanding of business management and trade policy and procedures; and providing them with market and customs regulatory information through trade information centres and the mass media, particularly radio, and

circulating price information for different commodities in different West African markets.

Supporting women's reproductive rights is critical for tackling their time constraints and challenges of balancing work with family life. This includes providing childcare support and developing and dispersing labour-saving devices, improving the delivery of formal healthcare and education and supporting the care economy as a whole (Morris and Saul, 2000).

It is also urgent to strengthen research and extension services in a gender-equitable manner, improving access to information and knowledge through programmes designed to fully involve women. Such programmes must strengthen capital sources and give access to financial services; develop infrastructure, particularly in rural areas, support women's associations, encourage private and social investment in food processing and provide new farming technologies and access to HIV/AIDS education and treatment (UN, 2008). Recommendations related to infrastructure include improving rail, road and air transportation, establishing and renovating markets to increase the space and facilities, particularly for women traders, and providing storage facilities.

Further improvements should include the coverage, relevance and quality of financial and insurance services. Financial-sector reforms should ensure that small producers, particularly women, can access credit from formal institutions with a larger resource base so that loans can raise the productivity and scale of their operations significantly. This should mobilize domestic resources to increase government revenue and policy space for development and provide resources for private-sector and local development.

As discussed, infrastructure must be improved if trade is to increase. In the case of transportation, establishing multi-modal transport operators to ensure the uninterrupted flow of goods from origin to destination has been strongly recommended (UNECA, 2004). Other useful recommendations include a campaign to promote the consumption of locally produced food, such as rice, and protecting territorial waters from foreign vessels and damaging fishing techniques (SEND, undated; Nankani, 2009).

### **12.7.2 Reforming national and regional regulatory institutions**

These national-level policies would be most effective if anchored by a streamlined framework of regional agreements. The reform of the institutional framework for border regulation to reduce the number of institutions and streamline operations is

critical for addressing corruption, risks, security and border avoidance. This requires harmonizing national policies with regional policies and regulations. These steps, as previously noted, would eliminate customs and regulatory bottlenecks, extra check points and standardize regulations. Agreements must be reached between regional and national policymakers concerning cross-border trade. Trade policies should be revisited to ensure they protect and promote small-scale cross-border traders.

There is consensus that regional integration is necessary for development in West Africa (ECOWAS–WAEMU, 2006). However, disagreements persist over the goals and elements between the open regionalism that conceives of West African Regional integration as an integral part of a global economic system governed by economic liberalization policies or, alternatively, as an aspect of African regional integration powered by a continental developmental agenda. It has been argued that because of West African poverty, it is preferable to promote exports from the region to the global markets, which are more competitive and larger than the “poor, fragmented and thus narrow markets in the subregion” (Ali and Thorbecke, 1997). While it is true that in the short-term, global markets offer more opportunities, strengthening regional markets involves strategies compatible with growing global markets. In the long-run they provide more synergies and benefits to the region. These would involve goals such as regional food self-sufficiency and would increase food production and processing, and provide infrastructural support for agriculture, manufacturing and services, particularly for establishing cross-border trade and trade links with other African regions.

The idea of integrated development of some cross-border areas is interesting, given their de facto integration. Examples are the area around Sikasso in Mali, Korhogo in Côte d’Ivoire and Bobo Dioulasso in Burkina Faso for fruits and vegetables, the Niger River Basin for rice production; and cotton production in Mali, Burkina Faso and Benin (Morris and Saul, 2000).

African governments’ commitment under NEPAD to spend at least 10 per cent of their national budgets on agriculture and rural development should be implemented in all West African countries. The ECOWAS common agriculture policy (ECOWAP), adopted in 2005, is particularly pertinent. It recognizes agriculture’s dominance in the West African economy and therefore its effects on other economic sectors. ECOWAP also intends to secure food sovereignty, reduce dependence on imports and recognize family farms and small-scale production to provide decent incomes for farmers (Oudet, 2005; ECOWAS, 2008). However, challenges to successfully implementing ECOWAP persist. For example, it has been argued that the tariffs pegged under WAEMU’s CET are so low that they threaten the food sovereignty and increased intra-regional trade in ECOWAP’s food goals. Already, liberalization policies have taken their toll. As a result of cheap food imports, farmers in Burkina Faso and Mali, who have invested heavily in developing rice farming, are

not reaping the gains from their investments because their countries are importing large quantities of rice at low prices (Oudet, 2005). The global food crisis has returned agriculture to the policy “front burner.” To accelerate ECOWAP’s implementation, African heads of State signed the “Offensive for Food Production to Combat Hunger” at their 34<sup>th</sup> Ordinary Session in June 2008, which was intended to increase the productivity and competitiveness of West African agriculture, and implement and adapt the trade regime of West Africa to countries outside the region (ECOWAS, 2008). However, some responses to the crisis suggest that the integration of regional food markets is still not understood to be a matter of collective security and stabilization. Some countries reduced the food costs and shored up purchasing power proposals to ban food exports to neighbouring countries (ECOWAS, 2008).

Challenges facing intra-West African trade are likely to be worsened by the proposed EPA between the EU and West Africa. The EPA is aimed at establishing a free trade zone between West Africa and the EU. Some fear that EPAs constitute a grave threat to region integration, contradicting the unilateral protection of agriculture under ECOWAP, for example. Studies estimate that intra-regional exports could diminish in ECOWAS after an EPA. For example, it has been found that the fall in exports would be hardest for Togolese exporters, who account for almost one-third of the total trade loss in regional exports. Losses also are estimated for Liberia, Mali, Benin and Cape Verde, which are all LDCs. Côte d’Ivoire, the Gambia, Guinea-Bissau, Mauritania, Nigeria and Senegal are expected to fare better because they are less exposed. The main products expected to experience significant reductions in export revenues are fish and crustaceans, cotton, products from the milling industry, chemicals, vehicles, dairy products and eggs and miscellaneous foods. This analysis has led to the recommendation that measures be taken to deepen regional integration before dismantling tariffs on EU goods (Karingi, et al., 2005). Otherwise, without increased productivity, product diversification and a stronger common market, West African countries will not derive significant benefits from the EPA. More disaggregation of the data is needed to identify impacts on rural people as well as women and men in different kinds of production and trade. Already, discussions of the gender dimensions of the EPAs are raising questions about the failure of discussions to take the likely impacts on women traders and producers into account (Ulmer, undated).

There are several recommendations concerning the EPAs in the literature. For example, Oudet’s analysis of the ECOWAP and CET points out that under the EPAs, at least 80 per cent of EU imports will not be subject to customs duties. West Africa needs to move forward with an ECOWAS CET that includes a list of special products to be exempted from the EPAs. The CET should also move away from the low tariff levels of the WAEMU CET to protect West African agriculture and find alternatives to the EPAs in their present form because they will have adverse effects on agriculture, what little is left of manufacturing, industries and livelihoods. They

will also affect government revenue and weaken regional integration (Oudet, 2005; See Nwoke, 2009 for analysis about the implications of the EPAs for Nigeria's economy). Last but not least, further studies are needed on commodities, trade routes, volumes, profitability and livelihood outcomes and ways to realize the potential of intra-West African trade at 25 per cent of trade by 2020.

Many recommendations have been made for promoting gender-equitable and developmental intra-West Africa trade over the years. But recommendations are only the first step. There is often neither the political will nor the capacity to implement them. Hopefully, what traders have been able to achieve regardless of state support will inspire policymakers to make intra-West Africa trade a priority.

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# Trade Experience beyond Africa

## 13.1 Introduction

The world has witnessed the flourishing of regional agreements over the past five decades. Of these, only a few, such as those of the European Union, can be considered to have achieved impressive progress in achieving their goals. Some have done better than others in improving regional integration, thereby benefiting their populations and countries. Identifying the success stories and achievements of the regional economic communities (RECs) that are role models may be valuable to late starters in advancing their own regional integration agendas.

This chapter assesses the experiences of more advanced and successful regional arrangements, not necessarily in an attempt to replicate them but to draw lessons in the areas of intraregional trade and cooperation—lessons that may benefit Africa.

Specifically, the chapter reviews the experiences of two well-known and relatively successful regional arrangements; the European Union (EU) and the Association of Southeast Asian Nations (ASEAN). Our assessment of these regional communities is by no means comprehensive; they are but snapshots of processes and developments that have taken place since they were established. Following each assessment, the implications for Africa are considered.

## 13.2 European Union (EU)

The EU expanded to include 10 new countries in May 2004—the biggest expansion since it was formed. This process did not trigger any immediate disruption of trade, since the transition had been planned for a decade. Indeed, on its eve, more than 95 per cent of the trade of the EU-15 with the new entrants was already “free.” Structurally, the enlargement is anticipated to make the EU stronger in relation to its trade-negotiating partners because a larger single market is both a more attractive prize to outside economic players and a more costly opportunity loss when cut out. Enlargement increases the size of the single market (accounting for 18 per cent of world trade and contributing to 25 per cent of the world’s GDP), augments the

geographical size of the EU by 34 per cent, and boosts the total population by 105 million to a total of \$450 million.<sup>1</sup>

By joining the EU, however, new members bring a wealth of different histories and cultures, and thus different interests, priorities and sensibilities. These must be included and amalgamated in the definition of a common European position on trade and may pose a challenge to current institutional mechanisms. Pessimists argue that diversity could incapacitate the EU and bog down multilateral trade liberalization. They say it could also lead to positions that reflect the lowest common denominator and, therefore, to the EU taking a protectionist position in international trade negotiations. On the other hand, there is no doubt that expanding the EU will make internal negotiations more difficult for its trade ministers to control. This in turn could further concentrate trade policymaking power in the hands of the commission, which has a historical and functionalist interest in promoting trade liberalization (Van den Hoven, 2002). In short, the impact of new members on the balance between protectionist and liberal forces in the EU overall is underdetermined.

Undoubtedly, EU enlargement raises several legal and political issues. For instance, the United States and the new EU members have bilateral agreements on investment protection that do include provisions contrary to community law (for instance, with respect to investments in the audiovisual sector). Another issue is the negotiation that follows from the extension of the customs union to 10 currently autonomous territories (known as the Article 24 negotiation). In most cases, third countries will benefit from a drop in custom duties. Official EU calculations predict that enlargement will lead to an overall reduction in average tariffs of from 9 to 4 per cent. In some highly visible cases, however, the pre-enlargement custom duties of the new members are lower (when not null) than those of the EU—leading to an increase after May 2004 and thus presumably to trade frictions, in particular with the United States (similar to the “chicken tax” tensions between Western Europe and the US during the Johnson administration). Independent calculations show that expanding the EU will lower industrial tariffs to the new entrants, but may nearly double tariffs on agriculture, especially for products such as wheat, beef and dairy products, which are all important in the EU trade policy at the World Trade Organization (WTO) (Van den Hoven, 2002).

### **13.2.1 EU's economic integration**

A crucial feature of the EU's regulatory approach is that, despite having engaged in a greater degree of regulatory approximation than any other group of countries,

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<sup>1</sup> Source: Commission of the European Communities, “Trade implications of EU enlargement: Facts and Figures,” Brussels, 4 February 2004. [http://europa.eu.int/comm/trade/issues/bilateral/regions/candidates/ff040204\\_en.htm](http://europa.eu.int/comm/trade/issues/bilateral/regions/candidates/ff040204_en.htm).



significant variation among national rules is still permitted. It is this acceptance of variation, within limits, that arguably holds the key to its potential as a model for the multilateral system.

An important note here is that the EU has demonstrated a much greater tolerance for differences among the regulations of production processes—such as social legislation and some environmental measures—than it has for those that affect market access, such as product characteristics. Apart from worker-safety legislation, which often actually concerns equipment safety, the EU has made little attempt to harmonize working conditions, the work-time directive being the sole exception. Most environmental legislation that addresses pollution from production processes has taken the form of minimum directives, which only set the regulatory floor. This approach is reinforced by the treaty provisions on worker safety and the environment (articles 118a and 130t, respectively, of the Single European Act), which permit member governments to maintain or introduce national measures more stringent than those agreed to at the European level. Further, environmental process directives (for example, the large combustion plant directive) often formally accept significant degrees of national variation in the form of derogations. Finally, there has recently been a move to make greater use of environmental quality targets, as opposed to approximating limits on particular emissions from specific sources. This permits much greater flexibility at the national, and even regional, level.

Although there is a strong economic argument (Smith et al., 1996) for not being over-concerned about production processes when seeking to liberalize international economic exchange, the EU's approach has been dictated by regulatory politics (Young and Wallace, forthcoming). Member governments have their own preferences which cannot always be reconciled by the common rules. Given the EU's problems in tackling these issues (as a relatively small, homogeneous “club” of countries compared with the rest of the world), it is unlikely that the global system will make much progress towards common standards, despite concerns in parts of the developed world about social and environmental “dumping.”

The EU is less tolerant of regulatory variation, but not altogether intolerant. Again, politics matter. The EU has made progress on trade liberalization only because its approach acknowledges and respects the member governments' prerogatives to pursue legitimate public policy objectives, even at the expense of interfering with the four freedoms (Young and Wallace, forthcoming). The result is that although the EU system is predicated on liberalizing interstate economic exchange, it accepts legitimate national restrictions. To understand how this works and how it might apply to the multilateral system, it is necessary to summarize briefly the key aspects of the EU's regulatory regime, the *acquis communautaire*.

The starting point is, of course, the treaties, particularly the 1957 Treaty of Rome. This established the core principles of non-discrimination and the free circulation of goods, services, capital and people, within certain boundaries (see table 13.1). Significantly, national rules, in part because they addressed valid public-policy objectives, could not simply be swept away by the application of treaty principles. Consequently, secondary legislation, which introduced some regulations, had to be adopted in a number of areas. Thus John Pinder's (1968) distinction between "negative" and "positive" integration, while analytically useful, is somewhat too stark.

Crucial to the functioning of the EU regime and its suitability and transferability to the multilateral level, is the role played by the European Court of Justice (ECJ) in interpreting the treaties' provisions and secondary legislation and the member States' compliance with them. In particular, the ECJ is charged, at least implicitly, with assessing whether national rules that impede the four freedoms do so within the treaties' acceptable limits. Acceptance by governments of negative judgments, particularly in light, until recently, of no coercive powers, hinges upon the legitimacy of the ECJ.

### 13.2.2 EU trade flows and patterns

#### *The EU and world trade*

The EU's share in world trade is very strong; it has averaged more than 39 per cent over the last decade.

However, during the period of the study there was a slight decrease of about 2 per cent in 2000 and between 2005 and 2007 of the world trade. Most of the EU's activity is concentrated in countries that use the euro.

**Table 13.1**  
*EU's share in global trade (per cent)*

	1995	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
Exports	42.3	41.3	38.0	39.9	40.6	41.7	41.0	38.9	38.0	38.2	39.5
Imports	40.6	40.1	37.7	38.6	38.9	40.2	39.7	38.4	38.4	38.6	38.8
Total	41.5	40.7	37.9	39.3	39.8	41.0	40.3	38.6	38.2	38.4	39.2

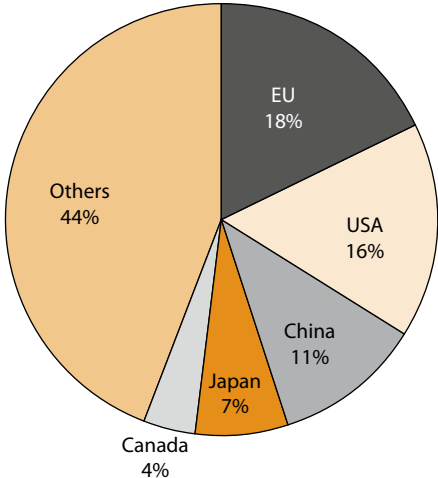
*Source: UNCTAD World Trade Statistics Handbook 2008.*

The value of world trade, excluding intra-EU-27 trade, was about \$ 2,440 billion between 2000 and 2007. The EU is the leading trader, accounting for 18 per cent of total world trade. The US was the second-largest trader, with 16 per cent, followed by China with 11 per cent, Japan with 7 per cent and Canada with 4 per cent.

The EU is the largest exporter and the second-largest importer in the world. Between 2000 and 2007, the average value of extra-EU-27 exports was EUR 1,241 billion and the value of imports EUR 1,434 billion.

The US is the largest importer in the world. It also records the greatest trade deficit, almost EUR 624 billion in 2007. China has become a major global trader in recent years. In 2004, China overtook Japan as the third-largest trader in the world.

**Figure 13.1**  
*Share in world trade, 2007*



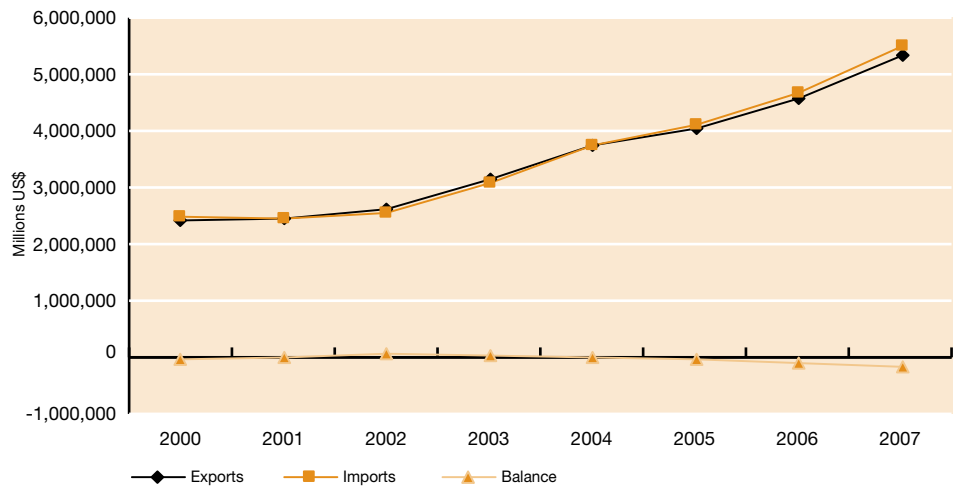
Source: Eurostat, 2009.

### 13.2.3 EU trade by geographical zone

Since 2000, the EU recorded steady growth both in imports and exports. From 2000 to 2007, the average annual growth rate was more than 12 per cent for exports and nearly 13 per cent for imports.

EU trade is characterized by a permanent but generally limited trade deficit. Between 2000 and 2007, the deficit reached US\$ 31,793 million, which was slightly lower than in the previous year but more than four times higher than in 2001 to 2004.

**Figure 13.2**  
**European trade with the world**



**Source:** Eurostat, 2009.

In 2007, more than 40 per cent of EU imports came from Asian countries while other European countries accounted for more than a quarter. Thirty per cent of the EU's exports in 2007 went to Asia, 28 per cent to other European countries and 24 per cent to North America. The EU has a considerable deficit in trade with Asian countries, and this more than doubled between 2002 and 2007. The largest surplus is recorded in its trade with North America.

### 13.2.4 Intra-EU export and import trends

Available data on the value of intra-EU exports in US\$ millions indicates that in general, intra-EU exports have been growing in value across most countries. Europe's share in global exports increased from just over 40 per cent in 2000 to 40.5 per cent in 2007, but averaged nearly 42 per cent between these periods. On average, between 2000 and 2007, the top 10 countries in intra-EU exports as a share of total exports in Europe in value terms were Germany (22.6 per cent), France (11.5 per cent), the Netherlands (11.5 per cent), Belgium (9.1 per cent), Italy (8.5 per cent), the UK (8.3 per cent), Spain (5.0 per cent), Austria (3.3 per cent), Sweden (2.8 per cent) and Ireland (2.7 per cent).

The US has traditionally been the EU's most important trading partner, but its relative significance has declined in recent years. Between 2000 and 2007, imports from EU countries represented about 60.3 percent of Europe's total world imports. Europe's major sources of imports come from outside the continent. The US and Asia continue to be major sources of imports, but China is also an important import source.

### 13.2.5 EU conclusions

European countries are increasing efforts to make regional integration work. Over the past few years they have intensified their efforts by enlarging their market and have become the biggest trading block in the world, due to being a single economic unit. As a result of its potential hegemonic power, based on its capacity to grant or withhold access to its internal market, the EU has become as powerful as the US. Moreover, its more than 40 years of experience negotiating international trade agreements on behalf of its members has made the EU an essential player and a powerful bargainer in the multilateral trading system.

Increasingly, it uses its market access as a bargaining chip to obtain changes in its trading partners' domestic agendas, from their labor standards to their development policies. Indeed, one of the EU trade policy's central objectives has been to harness globalisation and to disseminate, through the negotiation of trade agreements, the European model of society to the rest of the world.

The EU offers several avenues for civil society to influence its policymaking process. Two of the most significant are the European Economic and Social Committee, which is composed of representatives of employers, workers and other civil society sectors from each member State and provides input to the EU; and the social partnership process, in which trade unions and employer groups develop proposals for EU initiatives, including some that have led to legislation. EU employees of multinational companies also have rights to consultation at the company level.

## 13.3 Association of Southeast Asian Nations (ASEAN)

ASEAN was founded in 1967 with the signing of the Bangkok Declaration by five countries, namely, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Initially, ASEAN was born out of political and security concerns during the Vietnam War and threats of instability as a result of communist insurgents, border disputes and other factors. As the ASEAN Declaration states, its aims and purposes were, first, to accelerate economic growth, social progress and cultural development in the region; and second, to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter.

Initially, ASEAN's main objective was to create an environment that would accelerate economic growth, social progress and cultural development in the region. This

would be achieved through regional peace, collaboration on matters of common interest and in trade-related areas and assistance in education. Its primary concern was to ensure its members' political commitment to regional peace and security and to strengthen the regional bonds among member countries as a precondition for economic and social development in the region. Economic and social cooperation was not a high priority at the outset (Francis and Kallummal, 2008).

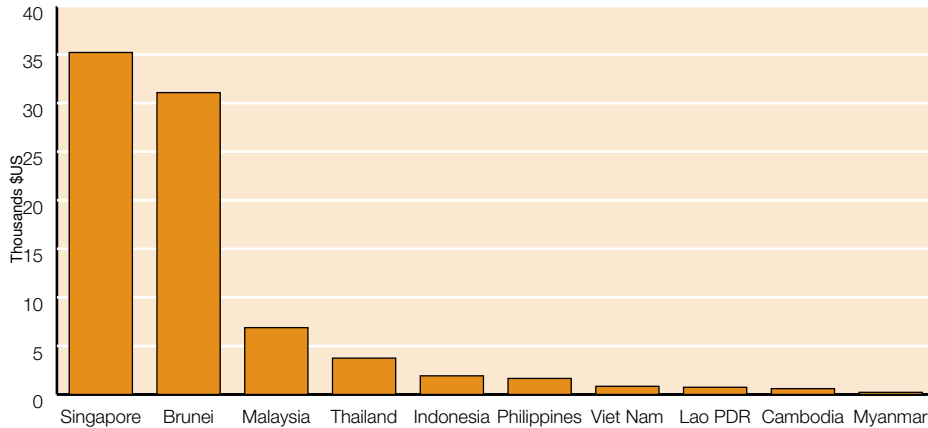
All countries in the region were welcomed to join the association from the very beginning, although it took almost two decades for the remaining Southeast Asian countries to join the association. Today the number of ASEAN countries stands at 10, including the five members that joined between 1984 and 1999, namely, Brunei, Cambodia, Lao PDR, Myanmar and Vietnam. As of 2007, the ASEAN region had a population of about 576 million, a total area of 4.5 million square kilometers, a combined GDP of almost \$ 1,300 billion and a total trade of about \$ 1,400 billion.

ASEAN is a group of countries with enormous differences in economic development, economic size and structure and diverse resource endowments. This is reflected in their income distributions, which is highly skewed and varies from very-low income countries such as Myanmar and Cambodia, to countries with an extensive reach such as Singapore and Brunei (figure 13.3).

Nevertheless, despite their differences in economic structure, size and social characteristics, ASEAN countries witnessed impressive progress in regional economic integration during the 1990s, and until the Asian financial crisis of 1997-98, experienced increased trade, economic policy coordination and the beginnings of regional trade liberalization. Preferential trade arrangements boosted regional trade significantly (see Frankel, 1997). Economic development became the main source of regional identity (Solingen 1999, Frankel, 1997), and ASEAN regional integration was increasing being based on the "Asian Economic Miracle." ASEAN is one of the most successful regional groups besides the EU, and yet the ASEAN countries have followed a different path to becoming integrated. Beuter (1997) argues that the success of ASEAN cooperation is due to the export-led national policies of individual countries. National Southeast Asia policies in the mid-1980s were typically FDI-driven export-dependent strategies. Thus, the liberalization of foreign trade policies to attract FDI had already made ASEAN one of the most attractive investment locations in the developing world at that time (Francis and Kallummal, 2008). It is reasonable to argue that the market-driven regionalization has played a much more important role in ASEAN's success. According to Francis and Kallummal (2008), regional cooperation in ASEAN complements national policies.

**Figure 13.3**

**Distribution of GDP for ASEAN countries, 2007**



**Source:** ECA, from official sources

The ASEAN economic community, modeled after the EU but with ASEAN characteristics, aims to establish it as a single market and production base, capitalizing on the region's diversity to create opportunities for business and making it a stronger and more dynamic segment of the global supply chain. The strategy consists of integrating ASEAN and enhancing ASEAN's economic competitiveness.

Towards realizing this objective, ASEAN countries have agreed on the following key programmes and activities:

- Institute mechanisms and measures to strengthen the implementation of its economic initiatives, including the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Services (AFAS) and ASEAN Investment Area (AIA);
- By 2010, accelerate regional integration in the following priority sectors: air travel, agro-based products, automotives, e-commerce, electronics, fisheries, healthcare, rubber-based products, textiles and apparels, tourism and wood-based products;
- Facilitate movement of business persons, skilled labour and talents; and
- Strengthen ASEAN's institutional mechanisms, including improving its ASEAN Dispute Settlement Mechanism to ensure expeditious and legally-binding resolution of any economic disputes.

Most of the ASEAN members' original trading partners are the industrial nations and former colonial countries outside the region. The most significant programme of action towards deepening regional integration through economic cooperation began with the signing of the ASEAN Preferential Trading Agreement (APTA) at the first

ASEAN Summit held in 1976 in Bali. This heralded further regional ties through AFTA and the Asia-Pacific Economic Cooperation (APEC). AFTA, launched in 1992, aims to promote the region's competitive advantage as a single production unit. It is expected to promote greater economic efficiency, productivity and competitiveness among member countries through eliminating tariff and non-tariff barriers. Since then, ASEAN countries have witnessed significant trade improvements internally and with the rest of the world.

### **13.3.1 The ASEAN free trade area (AFTA)**

ASEAN was projected to play a significant economic role in the region from the outset. To this end, its member countries have redoubled their original efforts to create peaceful, prosperous countries in the region. Phongpaichit and Baker (2002) argue that the idea of ASEAN trade cooperation became prominent in the 1990s in reaction to other world events, including the transition of the European Community into the EU and the beginning of US negotiations that led the establishment of the *North American Free Trade Agreement (NAFTA)*. In view of these changes, and after a series of meetings, Asian nations agreed to put in place one of the most significant goals towards achieving their own economic union, which led to launching AFTA in 1992. Modeled after the EU single market, AFTA's main objective was to promote the region's competitive advantage as a single production unit by ASEAN countries' eliminating tariff and non-tariff barriers to integrate their economies into a single production base and create a regional market.<sup>2</sup> Before AFTA was signed in 1976, a preferential trading arrangement (PTA) providing tariff preferences for trade among ASEAN countries had been initiated. Implementation of the PTA agreement, however, depended entirely on each country's choice of what products to render tariff-free. AFTA strengthened this non-binding approach and boosted intra-ASEAN trade.

A number of instruments were put in place to realize AFTA's objectives. The agreement on the Common Effective Preferential Tariff (CEPT) has been its main mechanism. The CEPT scheme, which governs the comprehensive list of traded goods for tariff reduction/elimination under AFTA, consists of four categories of product lists. The first category is the inclusion list (IL) and covers the products for tariff elimination/reduction. These products are manufactured and processed agricultural products and some unprocessed agricultural products. The second category of products refers to the temporary exclusion list (TEL); products for which member countries seek temporary exclusion. The third category of products are those considered sensitive or highly sensitive (HSL), which require a longer time for transfer into the inclusion list. The fourth category, products on the general exclusion list (GEL), are those that are permanently exempted from tariff reduction/elimination. These products

<sup>2</sup> Southeast Asia: A Free Trade Area, ASEAN Secretariat 2002.



are exempted for reasons of national security, human and plant life and health. They include products with artistic, historic and archeological importance.

The CEPT-AFTA was amended on 30 January 2003 in the Agreement for the Elimination of Import Duties, in which ASEAN-6 committed to eliminate intraregional tariffs on 60 per cent of their products in the IL by the year 2003. Currently, tariffs on more than 64 per cent of the products in the IL of ASEAN-6 have been eliminated. The average tariff for ASEAN-6 under the CEPT scheme is now down to 1.51 per cent from 12.76 per cent, where it stood when the tariff-cutting exercise began in 1993.

Implementation of the CEPT-AFTA scheme was further boosted in January 2004, following Malaysia's announcement of the reduction of tariffs for completely built up (CBUs) and completely knocked down (CKDs) automotive units to gradually meet its CEPT commitment one year earlier than its original schedule. Products that remain out of the CEPT-AFTA scheme are those in the HSL and the GEL. A coordinating committee on the implementation of the CEPT scheme for AFTA (CCCCA) has been set up to review all of the GELs to ensure that only those in the CEPT agreement are included in the list.

ASEAN members also have resolved to work towards eliminating all non-tariff barriers and this process includes verification and cross-notification; updating the working definition of non-tariff measures (NTMs)/non-tariff barriers (NTB); establishing a database on all NTMs maintained by ASEAN members; and eventually eliminating unnecessary and unjustifiable NTMs.

In order to better employ the CEPT-AFTA scheme, an alternative rule has been adopted in determining origin for CEPT products. The task force on the CEPT rules of origin has undertaken substantial transformation rules for certain product sectors, including wheat flour, iron and steel and the 11 priority integration sectors covered under the Bali Concord II of 2003.

Other major integration-related economic activities of ASEAN include the following:

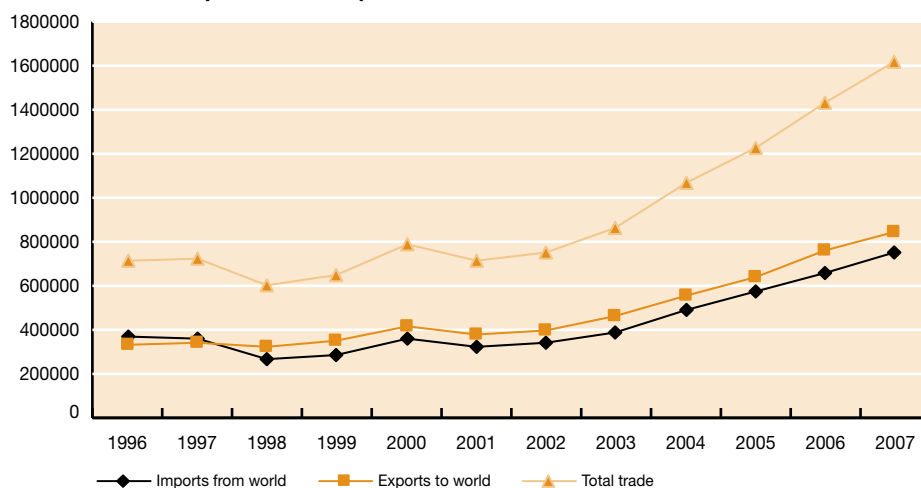
- A roadmap for the financial and monetary integration of ASEAN in capital market development, capital account liberalization, the liberalization of financial services and currency cooperation;
- A trans-ASEAN transportation network consisting of major interstate highway and railway networks, including the Singapore to Kunming Rail-Link, principal ports and sea lanes for maritime traffic, inland waterway transport, and major civil-aviation links;
- A roadmap for integrating the air travel sector;

- Improving the interoperability and interconnectivity of national telecommunications equipment and services, including the ASEAN Telecommunications Regulators Council Sectoral Mutual Recognition Arrangement (ATRC-MRA) on Conformity Assessment for Telecommunications Equipment;
- Creating trans-ASEAN energy networks, which consist of the ASEAN power grid and the trans-ASEAN gas pipeline projects;
- The initiative for ASEAN Integration (IAI), focusing on infrastructure, human resource development, information and communications technology, and regional economic integration primarily in the CLMV countries;
- The Visit ASEAN Campaign and the private-sector-led ASEAN Hip-Hop Pass to promote intra-ASEAN tourism; and
- The agreement on the ASEAN Food Security Reserve.

### 13.3.2 ASEAN trade patterns and trade direction

After the implementation of AFTA in 1993, ASEAN trade expanded significantly. Figure 13.4 depicts trends in ASEAN import–export trade with the rest of the world. Although ASEAN trade slowed after the Asian financial crisis of 1997-98, it recovered fairly quickly and continued to show a steady increase in the years that followed.

**Figure 13.4**  
ASEAN world imports and exports, 1996-2007

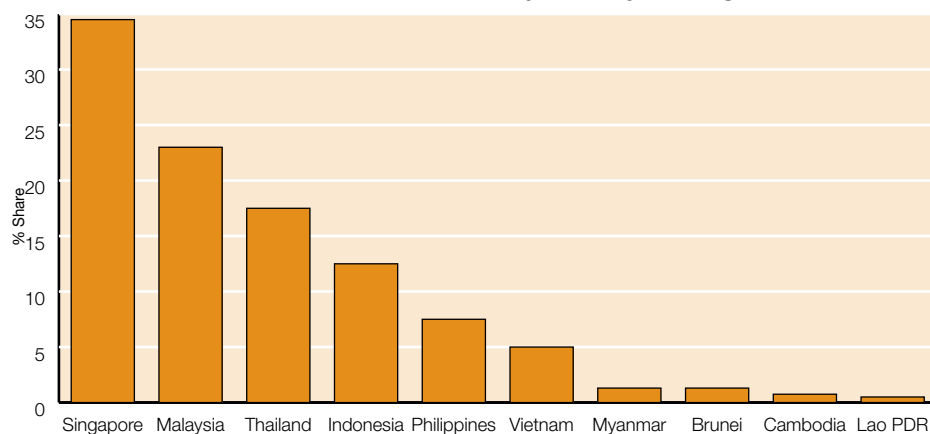


Source: DOTS, IMF February 2009.

ASEAN exports to the world increased on average by 9.2 per cent per year, from around US\$ 343.27 billion in 1996 to around \$ 858.041 billion in 2006. Similarly, ASEAN imports from the world were valued at around \$ 762.37 billion in 2007, up from \$ 379.30 billion in 1996, registering an average increase of 7.6 per cent per year. Figure 13.5 depicts the average share of each country as a per cent of the total ASEAN trade to the world between 1996 and 2007. This shows that ASEAN trade to the world has been dominated by its original five countries, namely, Singapore (34.4 per cent), Malaysia (21.6 per cent), Thailand (17.5 per cent), Indonesia (11.8 per cent) and the Philippines (8.4 per cent). These countries combined contributed, on average, about 93.7 per cent of the total ASEAN trade to the world. The remaining five contributed less than 7 per cent of ASEAN's trade to the world during the same period. This is unsurprising, given the great differences in their stages of development, economic size, structure and resource endowments.

**Figure 13.5**

*Distribution of ASEAN trade to the world by country, average 2006-2007*



Source: DOTS, IMF February 2009.

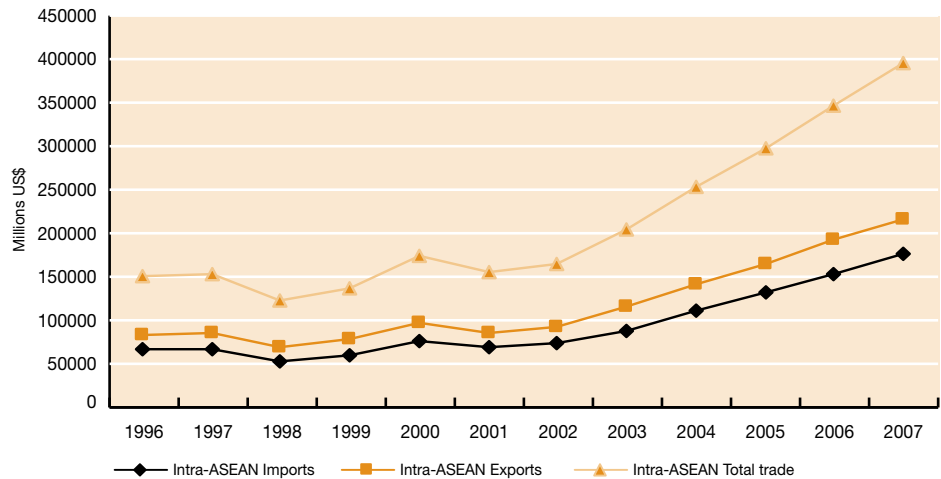
### *Intra-ASEAN trade patterns*

Intra-ASEAN trade has also significantly improved since AFTA was established. In the mid-1960s until the 1970s, the share of intra-ASEAN trade from total trade was between 12 to 15 per cent.<sup>3</sup> However, after AFTA was established, the share of intra-ASEAN trade from total ASEAN trade has risen, except briefly during the 1997-98 Asian financial crisis. Figures 13.6 and 13.7 illustrate intra-ASEAN trade patterns between 1996 and 2007. These patterns show that intra-ASEAN trade has been expanding in recent years. On average, intra-ASEAN exports and imports

3 Francis S. and M. Kallummal (2008). "The new regionalism in Southeast Asian trade policy and issues in market access and industrial development: An analysis of the ASEAN-China Free Trade Agreement." The Ideas Working Paper Series, New Delhi.

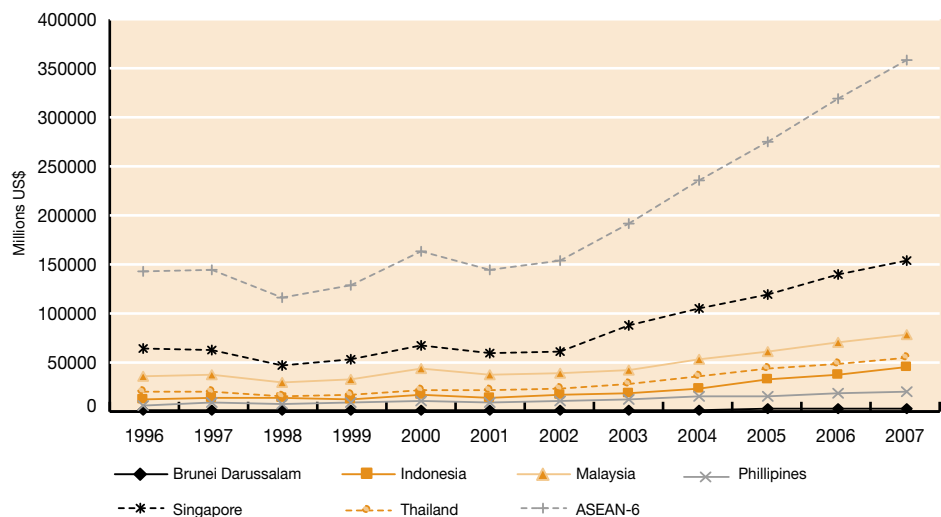
increased by 9.94 and 10.26 per cent, respectively, between 1997 and 2007. The rate of increase was even more pronounced in more recent years. For instance, between 2002 and 2007, intra-ASEAN exports and imports increased by 16.74 and 17.2, respectively. These impressive trade patterns further indicate a deepening of intra-ASEAN trade.

**Figure 13.6**  
*Intra-ASEAN trade patterns*



Source: DOTS, IMF February 2009.

**Figure 13.7**  
*Intra-ASEAN trade patterns by country*

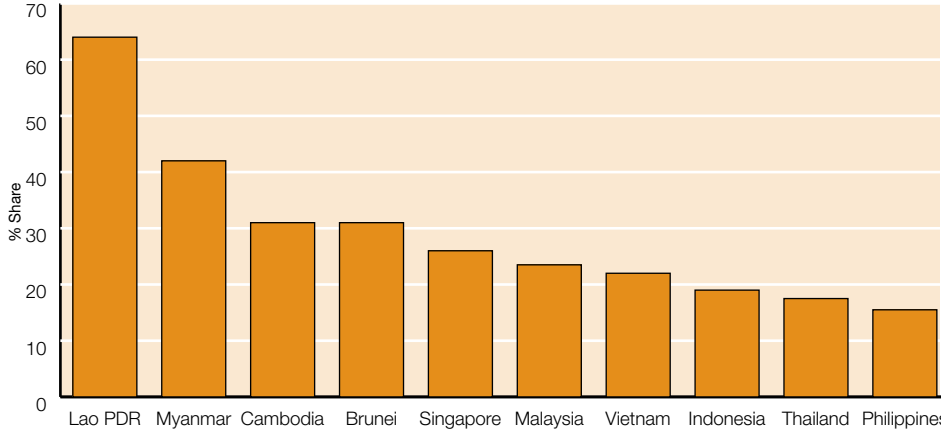


Source: ECA, from official sources

The share of intra-ASEAN trade as a percent of ASEAN trade to the world was around 24.47 per cent in 2007, up from around 20.06 per cent in 1996. On average, intra-ASEAN trade was around 22.3 per cent of total ASEAN trade to the world for the period 1996-2007. This may not seem very large compared with intra-EU trade (67 per cent) and intra-NAFTA trade (47 per cent). However, it still remains impressive when compared with other regional groups in the developing world, such as Africa. It is important to note that ASEAN countries are trade-oriented, with large manufacturing sectors whose products are destined for the US, the EU and Japan.

During the same period, Intra-ASEAN trade as a percentage of total trade was highest for Lao PDR (64.5 per cent) and Myanmar (41.6 per cent), followed by Cambodia and Brunei, each of them trading about 31.1 per cent of their total regional trade (figure 13.8). However, in terms of value, Singapore was the dominant player, contributing more than 40 per cent of the total intra-ASEAN trade, followed by Malaysia (22.88 per cent), Thailand (13.64 per cent) and Indonesia (9.98 per cent). Singapore's share was particularly high as it handles considerable intraregional entrepot trade.

**Figure 13.8**  
**Share of trade in ASEAN as per cent of the region's total trade (average 2006-2007)**



Source: DOTS, IMF, February 2009.

### 13.3.3 Trade facilitation measures in ASEAN

Trade facilitation measures have been undertaken by ASEAN countries to complement efforts in tariff reduction and elimination under AFTA. These include the elimination of unnecessary technical barriers to trade, harmonization of standards and conformance measures and the simplification and harmonization of customs

procedures to facilitate the flow of goods across borders. These measures are necessary to successfully implement AFTA and promote economic integration.

### *Customs cooperation*

The ASEAN customs agreement was signed in 1997 to simplify customs procedures and processes of trade in goods. The aim of customs cooperation is to facilitate the smooth flow of goods by reducing the time it takes to process documents. To do so it has implemented several customs measures.

### *ASEAN harmonized tariff nomenclature*

ASEAN has already adopted a harmonized commodity description and coding system (HS) for customs classifications. The ASEAN harmonized tariff nomenclature is intended to harmonize the procedures of individual customs authorities. The eight-digit level nomenclature is expected to facilitate product comparability and the ease of data collection and hence accelerate regional trade.

### *Harmonized valuation of goods*

ASEAN countries have implemented the harmonized valuation of goods to ensure uniformity and predictability in implementing customs valuation under the WTO and to avoid arbitrary pricing.

### *Green Lane System*

The Green Lane System plays an important role in expediting the clearance of goods at customs. Under this system, goods from ASEAN countries are only subjected to random checks.

## **13.3.4 Standards and conformance**

There are two other important aspects of customs that ASEAN countries have adopted: the mutual recognition of products agreement and the standards harmonization, which further facilitate intra-ASEAN trade through better market access.

### ***Mutual recognition arrangements***

The ASEAN Framework Agreement on Mutual Recognition which was signed in 1998, provides for the development of a mutual recognition of standards and conformity assessment among ASEAN countries. This arrangement allows products that were certified in one ASEAN country to be sold in other member countries without having to go through the same standards and conformity process.

### ***Standards harmonization***

ASEAN has agreed to align national standards for 20 priority product groups with relevant international standards such as the International Standards Organization (ISO), International Electrical Commission (IEC) and International Telecommunications Union (ITU). These products represent widely traded products in the region, including important consumer goods such as radios, television sets, video apparatus, refrigerators, telephones and air conditioners, among other electronic equipment. ASEAN has also agreed to harmonize another 72 standards on safety and 10 standards for electromagnetic compatibility in the region.

## **13.3.5 Other areas of economic cooperation**

ASEAN has adopted numerous other initiatives to improve economic integration involving industrial cooperation, investment and the liberalization of services, e-ASEAN and others.

### ***ASEAN Industrial Cooperation Scheme (AICO)***

Introduced in 1996, the AICO is a programme to promote the sharing of industrial activities among ASEAN-based companies. It requires a minimum of two companies in two different ASEAN countries to form an ASEAN industrial cooperation arrangement.

AICO enables participating companies to enjoy a preferential tariff of zero to 5 per cent, ahead of the AFTA's common effective preferential tariff deadline. The scheme benefits companies producing products where the common effective preferential tariff rates are above 5 per cent. It has played an important role in promoting industrial links between ASEAN-based companies in a number of sectors, such as the automotive industry, electronics, food packaging, plastics, rubber products and the petrochemical industry.

Through the ASEAN Industrial Cooperation Scheme, ASEAN companies can engage in industrial collaboration programmes or initiatives to enhance and foster industrial connections among regional firms.

### ***Investment***

The promotion of investment in the ASEAN region, which was signed in 1998, is guided by the framework of the ASEAN Investment Area Agreement (AIA). The ASEAN AIA aims to establish a competitive base to attract foreign direct investment through implementing programmes and activities on investment liberalization, facilitation and promotion. The agreement's implementation is expected to contribute to the free flow of investments in the region, as conceived in the ASEAN Vision 2020.

The agreement covers all small, medium and large direct investments in manufacturing, agriculture, forestry and mining, fisheries and services activities related to these sectors.

The investment facilitation programme, which is implemented both individually and collectively, includes more transparent investment rules, policies and regulations through publications and websites; the promotion of public- and private-sector dialogue and networking to facilitate business operations; harmonizing an ASEAN statistical collection and reporting system and publication of annual ASEAN investment report; and an ASEAN database to provide information to the business sector. In light of this, a number of publications to facilitate investment, including SMEs, have been undertaken under the investment facilitation programme since 1998. Some of these publications include the ASEAN Investment Area Series, the FDI Statistical Series, the ASEAN Investment Report Series, Facts and Figures: The Cost of Doing Business in ASEAN Series, ASEAN Supporting Industry database (ASID), The Guidebook for Investing in ASEAN, ASEAN Investment Maps, and The Directory of ASEAN Technology Suppliers.

### ***Liberalization of services***

The ASEAN framework agreement on services which was signed in 1995 is intended to promote cooperation among service suppliers in the region. ASEAN services liberalization commitments exceed their commitments to the WTO. To this end, ASEAN has completed a number of packages of service liberalisation related to the construction, telecommunications, business, finance, air and maritime transport and tourism sectors.



## *e-ASEAN*

Another important area of cooperation in ASEAN is in information and communications. Signed in 2000, ASEAN cooperation in the information and communications sectors is guided by the e-ASEAN Framework Agreement, which guides the development of the ICT sector and addresses the region's "digital divide." The agreement has led to the ASEAN e-Tourism Portal, the ASEAN Regional Internet Exchange, the Knowledge Workers Exchange, the ASEAN Training Network, the ASEAN Internet Service Provider Association and e-ASEAN Certification Authority Forum. These and other projects play important roles in developing the ICT sector.

### **13.3.6 ASEAN conclusions**

ASEAN is considered as one of the most successful regional economic communities in the world, after the EU. The establishment of the ASEAN market, through AFTA, which comprises more than 576 million people, provides enormous potential for market expansion for ASEAN companies.

The ASEAN experience demonstrates that intraregional trade barriers are largely policy-induced. ASEAN countries are trade-oriented, and overcoming these barriers has necessitated changes in their trade and commercial policies. Most important, ASEAN has made considerable progress in dismantling tariff and non-tariff barriers to trade. ASEAN has also been instrumental in increasing its member nations' bargaining power with their trading partners, giving them the benefit of the combined force of their ASEAN partnership in their trade negotiations with the outside world.

## **13.4 The Southern Common Market (MECOSUR)**

MERCOSUR was formally created in 1991 by the Treaty of Asunción, when the previous agreements between Argentina and Brazil were expanded to include Paraguay and Uruguay. Later on, Bolivia and Chile were accepted as associate members, and other South American countries expressed their wish to apply. Venezuela has requested to become a full member, and so far three members have approved its inclusion.

The main objectives of the Treaty of Asunción were to promote the peace and stability of the region, generate advanced political dialogue and strengthen internal and international cooperation. MERCOSUR has now reached the customs-union stage and is sketching the blueprint for its enlargement to the rest of the subcontinent

while deepening the scope and level of its integration. As a sign of the project's ambitious goals, a number of informal talks concerning monetary unification took place in 1998 and 1999.

According to most of the literature on regionalization, creating a common market and economic union requires establishing regional institutions. These are meant to deal with the two main dilemmas of collective action, that is, the decision-making processes and the resolution of controversies. Since 2001, MERCOSUR has built an institutional structure to deal with regional and global issues. Its decisions are taken through purely intergovernmental mechanisms, requiring unanimity in every case. The only decision-making organization consists of three regional bodies made up of either member States' public officials or nationally appointed managers with low-level responsibilities and a minimal secretariat located in Montevideo, Uruguay. A limited dispute-settlement system provides for an ad hoc mechanism of arbitration, but this has been required only three times in a decade. Furthermore, neither direct effect nor any supremacy of the community law exist; regional rules should be internalized by every member country through its own domestic procedures before being enforced. These features were intentionally advanced since MERCOSUR's founding to clearly distinguish between its political direction and the eventual bureaucratic direction that could threaten the treaty.

A great deal of political and technical debate has been fostered in some MERCOSUR countries concerning the need to establish common institutions. Government officials, professional associations, academics, producers and other groups have postulated the need for supranational institution-building, especially focusing on the creation of a court of justice for MERCOSUR. Some have also argued that MERCOSUR's development would follow the EU model, but neither the former claims nor the latter expectations have come true. Nonetheless, progress in the integration indicators such as commercial interdependence, investment flows, policy coordination and business strategies is apparent to observers and has puzzled most analysts and actors.

Since MERCOSUR was first formed, it has evolved during two very different periods. Until 1998, the agreement was perceived to be very successful. There was a substantial increase in the level of intraregional trade and the region attracted important flows of FDI. This was accompanied by higher international visibility and the perception of greater stability. These facts contrast with results observed in the period that followed the Russian financial crisis of 1998, which triggered a host of negative effects and revealed that the MERCOSUR countries were, in fact, rather vulnerable. Between 1999 and 2002, Argentina and Brazil introduced radical changes to their exchange-rate regimes and experienced financial and macroeconomic instability. The Argentine economy, in particular, deteriorated; a full-blown financial crisis followed

and the country went into partial default. These events had negative effects on the macroeconomic stability of the two smaller partners, Uruguay and Paraguay.

The consequences of the successive crises of the exchange-rate regimes on growth and regional institutions were no less damaging. Between 1999 and 2002 the GDP growth rate was negative in Argentina and Uruguay, zero in Paraguay and very low in Brazil. The process to establish the governance structures for regional transactions slowed substantially, and there were partial policy and institutional reversals in specific cases. The building of the customs union was not completed, and neither macroeconomic policy coordination nor deep integration showed any progress. The quality of the policy responses of the different partners in this period, on the other hand, left much to be desired. The responses were basically reactive and defensive. Domestic goals took priority in the adjustment to the crisis, and no coherent policies were implemented to preserve the integration process. The crisis revealed the weaknesses of the MERCOSUR's governance structures. It was only natural that, in a context of high- aggregate volatility, falling levels of domestic activity and shaky regional "rules of the game," intraregional trade showed a persistently discouraging evolution from 1999 on.

In 2007, MERCOSUR's GDP is US\$ 1,566 billion and the region has a population of around 241 million. Brazil's is by far the largest economy and comprises 81 per cent of MERCOSUR's GDP, followed by Argentina with 16.8 per cent, Uruguay with 1.5 per cent and Paraguay 0.7 per cent. There has been a substantial acceleration in the growth rate; aggregate volatility is much lower, and the worst consequences of the financial turmoil are gradually fading away. Under these new circumstances there has been a recovery in intraregional trade flows.

Most of the MERCOSUR members' trading partners are the industrial nations and the rest of Latin America. The first and most significant programme of action towards deepening regional integration through economic cooperation began with the signing of the MECOSUR free trade zone (FTZ) in 1998. This initiated what later evolved into a much greater regional cooperation through the establishment of the MECOSUR custom union and common market. It is expected to promote greater economic efficiency, productivity and competitiveness among member countries through the elimination of tariff and non-tariff barriers.

### **13.4.1 Before the Treaty of Asunción**

Although the first steps toward creating MERCOSUR were taken in 1979 under the military presidencies in both Argentina and Brazil, the current integration process can be reckoned to have begun in the 1980s, when democratic regimes were inaugurated in the region. Democracy would consequently become one of the main goals as well

as an indispensable condition of support for subsequent agreements among other Latin American countries (Schmitter, 1991; Hurrell, 1995; Lafer, 1997; Fournier, 1999). The turning point was the Argentine-Brazilian Integration Act (*Acta para la Integración Argentino-Brasileña*), endorsed in July 1986 in Buenos Aires, which established the Integration and Cooperation Programme (*Programa de Integración y Cooperación Argentino-Brasileño, or PICAB*) and can be seen as the origin of MERCOSUR. The act was substantially due to the role the newly appointed democratic presidents had decided to play in the regional scenario. Arguably, neither the globalization pressures nor the democratization process would have been sufficient to overcome the secular distrust between Argentina and Brazil, including as it did military cooperation and the mutual inspection of their nuclear installations.

In 1988, during the same presidential tenures, the Treaty on Integration, Cooperation and Development (*Tratado de Integración, Cooperación y Desarrollo*) was signed. Intended to be the culmination of a process of mutual recognition and confidence building, it instead was a crucial step toward the next phase of the new relationship. During the period between the signing of the PICAB and the creation of MERCOSUR in 1991, a versatile institutional arrangement was settled to move the process along. Its main features were the direct participation of top officials in the negotiations, under the coordination of the foreign ministries; a biannual presidential summit; and high profile bilateral diplomatic channels, especially the ambassadors in every capital. (Peña, 1998a). Most of these characteristics were maintained throughout the process despite the establishment of formal structures.

MERCOSUR has since changed what was an FTA among its member countries into a customs union, with the long-term goal of becoming a common market. The framework adopted so far is distinctive in the region, different from any in previous or contemporaneous experience.

### **13.4.2 MERCOSUR today**

Since 2002,<sup>4</sup> MERCOSUR has progressed towards the completion of its customs union and has established some elements of a common market, while reinforcing its institutional framework.

#### ***Political and institutional developments since 2002***

The following several milestones are worth noting:

- The upgrade of the administrative secretariat to a technical secretariat. Begun as a mainly clerical function, it has become a technical advisory body to the

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<sup>4</sup> The year of the first MERCOSUR regional strategy paper.

MERCOSUR institutions, staffed by four independent experts, two lawyers and two economists. Although it has extremely limited resources and political room to manoeuvre, the technical secretariat acts as a legal and economic adviser to the decision-making body and monitors the integration process by issuing biannual reports (CMC N°30/02);

- The creation of a MERCOSUR political direction body (*Comisión de Representantes Permanentes*, or CRPM) in June 2003 (Decision 11/03). The functions of the CRPM are to strengthen economic, social and parliamentary relations in MERCOSUR, establish links with the Joint Parliamentary Commission (CPC) and the economic and social advisory forum, as well as with the specialized meetings of MERCOSUR and when mandated by the council, represent MERCOSUR, through the CRPM's president, in its relations with third countries, groups of countries and international organizations;
- The inter-institutional agreement of October 2003 between the CPC and the Common Market Council, (CMC) providing for the consultation of the CPC on MERCOSUR rules to be incorporated in legislation by the national parliaments. This should accelerate the process of transposing MERCOSUR rules. However, the agreement is not yet in force, as the regulations of the national parliaments have yet to be adapted accordingly;
- The approval, in 2004, of the rules of procedure for the ad-hoc arbitration tribunals (the first instance of the MERCOSUR dispute settlement procedure established by the 2002 Olivos Protocol) was an essential step for the Olivos tribunal system to start functioning. However, due to a lack of funding, the tribunal is still not operational;
- The creation, in August 2005, of the permanent review tribunal (TPR), the main achievement of the Olivos protocol, although its budget is still to be adopted;
- The establishment of a MERCOSUR fund of structural convergence in December 2004 to tackle infrastructure needs and “asymmetries.” The fund will amount to US\$ 100 million per year. Brazil is expected to contribute 70 per cent, Argentina 27 per cent, Uruguay 2 per cent and Paraguay 1 per cent. In terms of distribution, Paraguay would receive 48 per cent of the funds, Uruguay 32 per cent, and Argentina and Brazil 10 per cent. The fund was operational at the beginning of 2006;
- A reinforcement of the “democratic clause” in the form of a new human rights protocol was adopted at the December 2005 Montevideo Summit. It permits the MERCOSUR to suspend a member State where there is evidence of “systematic and massive” acts of violence; and

- The protocol for establishing and regulating a MERCOSUR parliament, adopted at the December 2005 Montevideo Summit and established in December 2006.

### *MERCOSUR's custom union and common market*

Progress on the core issues of MERCOSUR's custom union and common market has been steady, but limited:

- Decisions adopted in December 2003 established a new schedule for the elimination of CET exceptions by 2010 at the latest and regulated the special import regimes (for example, on capital and information technology goods);
- The July 2006 Cordoba Summit formed a high-level group to draft a new common customs code for adoption by mid-2007;
- Progress was also made with Decision 54/04 on the free circulation of goods and the elimination of the double collection of the CET on imported goods; However, the decision only applies to goods entering duty-free, and its extension to goods actually subject to duty was subject to a series of conditions;
- As for the common market in services, six rounds of negotiations have taken place. The Montevideo Protocol, the legal basis for services liberalization, was ratified by the four MERCOSUR states only in 2005. The protocol provides for full liberalization 10 years after its entry into force; and
- Adoption in December 2004 of the public procurement implementing regulation. Despite this progress, there still remain significant issues to be resolved among which are the following:
  - Non-tariff barriers are still hindering intra-MERCOSUR trade and creating friction among members;
  - The customs union is incomplete: there is no common external trade policy and no completely free circulation of imported products; and
  - The free circulation of factors of production and services is not yet implemented, and the legislation intended to put this in place is still blocked in the national parliaments.

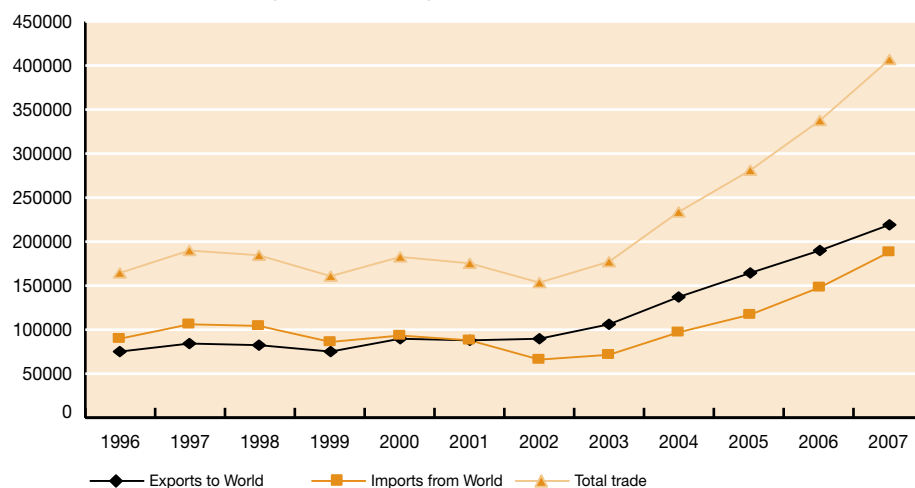
The completion of the customs union and the common market, therefore, should remain MERCOSUR's main objective.

### 13.4.3 MERCOSUR trade patterns and direction of trade

#### *MERCOSUR trade with the world*

Following the implementation of MERCOSUR FTZ, intra-MERCOSUR trade and trade with the world expanded significantly. Figure 13.9 depicts trends in MERCOSUR import-export trade with the rest of the world. Although the region's trade slowed following the Brazilian crisis of 1999-2002 and the devaluation of the exchange rate, it recovered fairly well and continued to show a steady increase in the subsequent years.

**Figure 13.9**  
**MERCOSUR world imports and exports, 1996-2007**



Source: DOTS, IMF, February 2009.

MERCOSUR's world exports increased on average by 10.8 per cent per year, from around US\$ 75,421 billion in 1996 to around US\$ 220,418 billion in 2007. Similarly, MERCOSUR world imports were valued around US\$ 188,389 billion in 2007, up from US\$ 89,793 billion in 1996, registering an average increase of 8.6 per cent per year. On average, the total trade between MERCOSUR and the world increased by 9.5 per cent during the same period.

In assessing these intraregional and extraregional trade-flow magnitudes, trade diversion is not apparent. However, even though the regional agreements have played an important role in raising the levels of intraregional trade, this does not necessarily mean there has been trade creation. And given that the shares of intraregional trade in overall exports reflect MERCOSUR's low participation in world trade, this may suggest that it is not a natural trading bloc. Indeed, given that the level of tariff and

non-tariff barriers are preferential within countries, trade from non-members faces entry costs that distort their relative competitiveness in these markets.

Empirical research in the field of trade in the Americas so far has not produced clear evidence of trade diversion. Different studies reveal mixed results. For instance, one of the pioneer studies on MERCOSUR, by Yeats (1997), concluded that there had been substantial trade diversion among its membership. Other authors, such as Nagarajan (1998), found that trade diversion only occurred with a small number of products. This, however, did not offset the spectacular trade creation with non-members. Another group of authors has shown that the “new regionalism” of MERCOSUR, in conjunction with the reforms implemented by its members, has not diverted trade (Estevadeordal, Goto and Saez, 2000).

Two other studies, which are more supportive of regionalism, reveal that there is evidence of trade creation. The first concludes that Brazil as a MERCOSUR member will benefit from greater trade liberalization both intraregionally under the FTAA, and extra-regionally under the EU-MERCOSUR agreement, since both agreements will have trade-creating effects (Harrison, Rutherford, Tarr and Gurgel, 2003). The second study finds that Argentinean intra-industry trade increased, both intraregionally and extraregionally, after MERCOSURE was formed. Further, it shows how these dynamic effects support agreements between South-South members, although MERCOSUR trade may have experienced more modest growth than NAFTA (Flores and Granato, 2003).

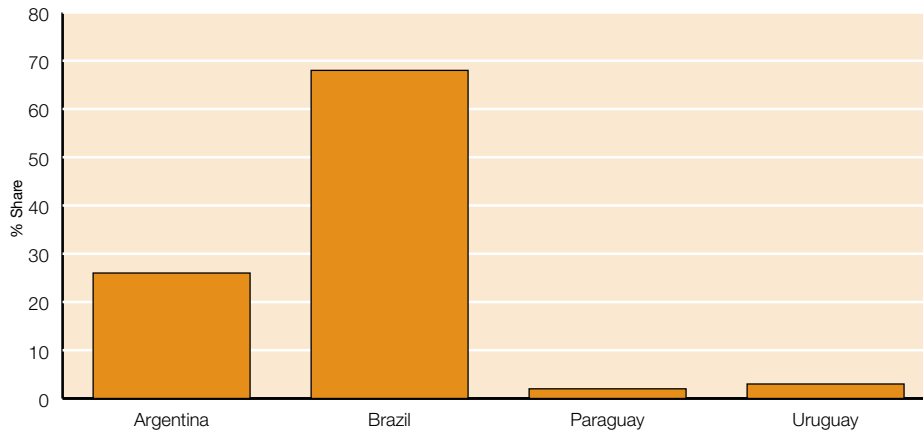
Many see the FTAA as a promising North-South agreement, where trade and investment may lead to more growth than the existing South-South agreements in Latin America. In this sense, if the FTAA were to eliminate the existing trade barriers among the member States, it could most likely contribute to correcting trade diversion in the region. However, depending on the scope of liberalization, the extent to which the FTAA could correct diversion between the hemisphere and its extraregional trading partners remains to be seen.

Figure 13.10 depicts the average share of each country as a per cent of the total MERCOSUR trade to the world between 1996 and 2007. This demonstrates that MERCOSUR trade to the world has been dominated by the original two countries, namely, Brazil (at 68.7 per cent) and Argentina (at 26.1 per cent). Together the two countries contributed, on average, about 94.8 per cent of the total MERCOSUR trade to the world. The remaining two countries contributed less than 6 per cent of MERCOSUR trade to the world during the same period. This is not surprising, given the great differences in stages of development, economic size, structure and resource endowments that exist in the region.



**Figure 13.10**

*Distribution of MERCOSUR trade to the world by country, average 2000-2007*

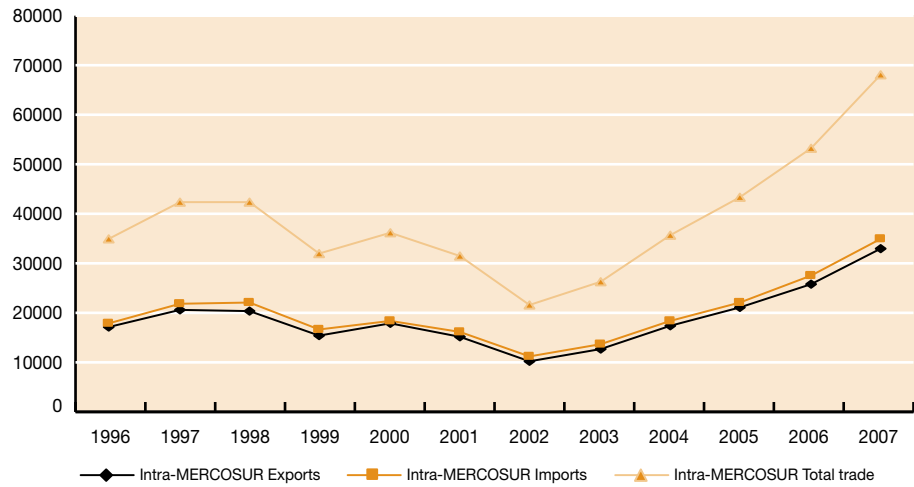


Source: DOTS, IMF, February 2009.

### *Intra-MERCOSUR trade patterns*

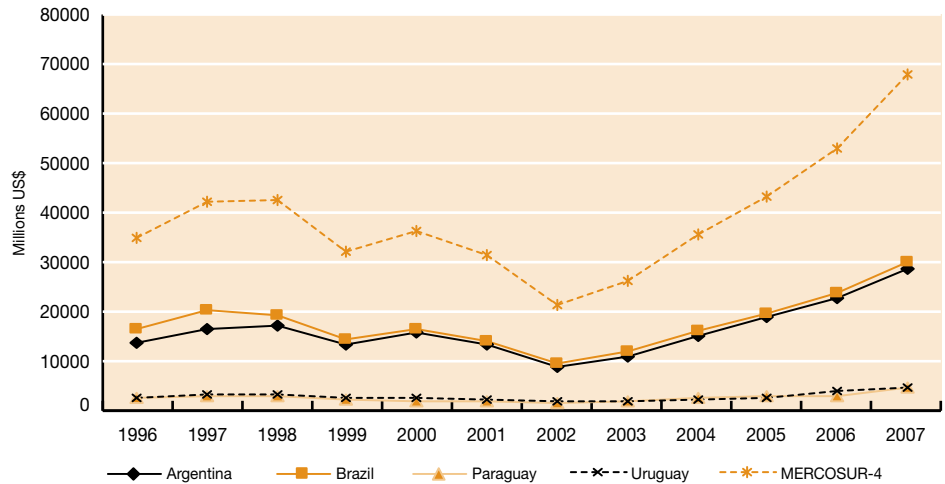
Intra-MERCOSUR trade averaged 18 per cent of total trade between 1996 and 2007—a relatively low rate when compared with other regions such as the EU (63 per cent) or NAFTA (40 per cent). From 1985 until the end of the 1990s, the share of intraregional trade showed an upward trend, a development that has been reversed in more recent years due to the economic and financial crises in the region. However, following the establishment of the FTZ, the share of intra-ASEAN trade from total ASEAN trade has been on the rise, except for a brief period during the 1999–2001 Brazilian crisis and the devaluation of the real exchange rate. Figures 13.11 and 13.12 depict intra-MERCOSUR trade patterns between 1996 and 2007 and reveal the expansion of trade during the period. On average, intra-MERCOSUR exports and imports increased by 8.8 and 8.6 per cent, respectively, between 1996 and 2007. The rate of increase in intra-MERCOSUR trade was even more pronounced in recent times. For instance, between 2003 and 2007, intra-MERCOSUR exports and imports increased by 26.5 per cent and 25.6 per cent, respectively. These impressive trade patterns further indicate a deepening of intraregional trade in MERCOSUR.

**Figure 13.11**  
**Intra-MERCOSUR trade patterns**



Source: DOTS, IMF, February 2009.

**Figure 13.12**  
**Intra-MERCOSUR trade patterns, by country**

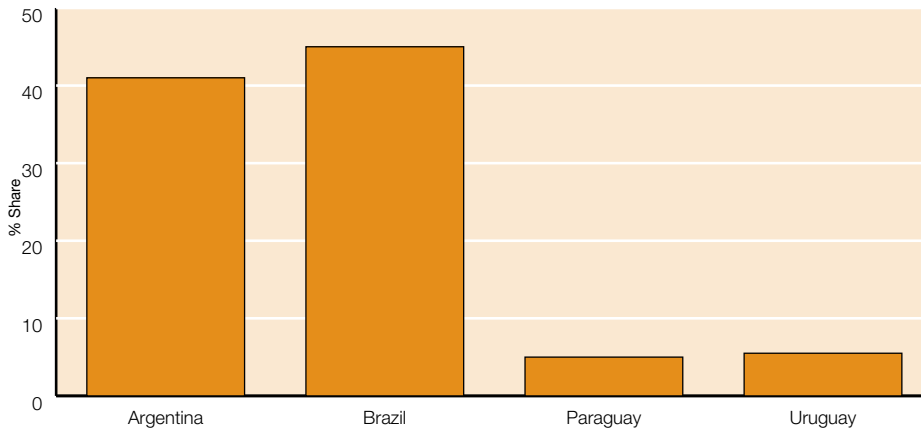


Source: DOTS, IMF February 2009.

During the same period, intra-MERCOSUR trade as a percentage of total trade was highest for Brazil (45.2 per cent) and Argentina (41.4 per cent) followed by Uruguay and Paraguay, at 7.0 per cent and 6.3 per cent, respectively, of their total trade in the region (figure 13.13).

**Figure 13.13**

*Share of trade within MERCOSUR as a percentage of the country's total trade, average 2006-2007*



*Source: DOTS, IMF February 2009.*

### **13.4.3 MERCOSUR conclusions**

In recent times, several institutional developments have taken place in MERCOSUR which indicate its evolutionary nature and willingness to adapt to the challenges of the 21st century. But its present institutional structure has not yet found its final balance. The democratic and transparency gap is significant and can only partly be addressed by MERCOSUR's parliament. MERCOSUR successfully increased the region's economic integration to a degree, though not the extent of the EU and NAFTA. It still has a long way to go to attain the goals set by the Asunción Treaty and creating a full-fledged MERCOSUR common market.

However, during its 19 years of existence, MERCOSUR has proved successful in promoting regional peace and democracy. It has generated high-level political dialogue and cooperation among many domains, from justice and the fight against terrorism to the environment. It has also proved resilient during the years of economic and financial turmoil and has coped with its member States' political and economic differences. MERCOSUR continues to face challenges, but these difficulties, and many of its successes, can be extrapolated to other regional economic communities.

#### ***Macro-convergence***

There are important structural asymmetries between MERCOSUR's member States. Full macro-convergence requires coordinating macro-economic, monetary and financial policies. They will also need to align exchange-rate regimes and avoid com-

petitive devaluations, a practice that member countries such as Brazil and Argentina have been tempted to do in the past, given their weak currencies.

### ***Trade facilitation***

Trade facilitation is key to overcoming the economic asymmetries between the member States and also to fully integrate their markets. New structural funds were announced in 2008 known as the Structural Convergence Funds, geared to finance cooperative projects among members, including regional infrastructure projects to help solve some trade constraints. This is particularly important for effective integration, since it will allow the smaller member States to overcome their main limitation, which is their relative size when compared with two giants such as Argentina and Brazil.

### ***Public participation and social integration***

The initiative to encourage public participation and cooperation is the structural convergence fund (FOCEM), which also entails solidarity funds for the development of the smaller member States.

Another key initiative is in the field of food security. A fund for subsistence farming was created in 2008 to finance programmes and projects to promote this type of farming.

Finally, a common policy on social matters with a regional character is also anticipated. It was first conceived during the declaration of social MERCOSUR principles in 2007, and later FOCEM in the context of a broader social cohesion programme, which envisages common economic projects at the borders.

Other initiatives for social integration are the various “social summits” to promote civil society participation in regional integration to provide citizens access to tangible benefits under MERCOSUR. A joint public-private programme emphasizes the dimensions of a productive social, political and cultural MERCOSUR to complement the commercial dimension of the integration process and seeks to democratize MERCOSUR, create an active common growth and employment strategy and to develop a MERCOSUR “citizenship,” among others.

## **Trade**

MERCOSUR has met obstacles in consolidating its customs unions, and there are new delays and exceptions to the agreement, especially in the field of textiles and apparel. Nonetheless, MERCOSUR trade has been the most dynamic in the Latin America region, especially with respect to intra-MERCOSUR exports, which increased by almost 140.3 per cent since 2004, while extraregional trade with the rest of Latin America increased by 82.9 per cent.

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# Looking Ahead: ARIA IV

## Conclusions and Recommendations

*ARIA IV* analyses the status of intra-African trade, its progress and the challenges that still must be addressed in legal, policy, institutional and infrastructural capacities at the national, regional and continental levels. The role of other essential requirements in ensuring successful trade reforms has been articulated. These requirements include information and communications technology (ICT), the informal economy, external trade agreements (specifically the EPAs) and the role that gender plays in trade, especially in driving the informal economy.

The report observes that regional integration continues to occupy the agendas of many African leaders, indicating that there is significant political will to move regional integration efforts forward. Working closely with member States, African institutions are undertaking a number of initiatives to accelerate regional integration. These initiatives clearly demonstrate Africa's desire to move towards continental unity.

There is an emerging consensus in the literature that trade effectively promotes economic growth and reduces poverty. However, the empirical assessment of the nexus between trade and growth is inconclusive. Some studies find a positive correlation between openness and growth, while others conclude that the impact of reducing trade barriers is negative on economic growth.

Regional economic integration, as a prelude to continental market integration, is clearly an imperative survival strategy for Africa. Through deeper integration, the continent could pool its resources to create a single, independent market and halt the continent's marginalization in global production and trade. Integration will help address the problem of most African countries that are too small, in terms of economic and demographic size, to have any influence on global trade. The realization of the full benefits of subregional trade and market integration is hampered by a number of factors, including numerous tariff and non-tariff barriers.

*ARIA IV* supports the assertion that trade has made and will continue to make a tremendous contribution to many developed and developing countries as it enables them to specialize and to export those products that they can produce more cheaply in exchange for what others can provide at a lower cost. Trade also provides the material means in terms of capital goods, machinery and raw and semi-finished

goods, which are critical for economic development. This basic factor has been and continues to be one of the driving forces behind economic development and the enhancement of participating countries' national incomes. Since trade is a vehicle to growth and development, removing its barriers will help increase its beneficial effects. Free trade thus becomes an important instrument for removing such impediments and promoting greater levels of intra-regional trade.

African countries and their RECs are pursuing integration along a systematic continuum of free trade, customs unions and common markets. Eventually these efforts are expected to converge in an African common market and subsequently, in an economic union in which economic, monetary, fiscal, social and sectoral policies will be integrated or rendered continentally uniform.

There is consensus that high trade costs impede the effective facilitation of regional integration and participation in global trade. They have contributed to preventing Africa from effectively taking part in global trade because, compared with the rest of the world, trade transactions costs are especially high.

The volumes of goods that cross borders and the value of international global trade have increased in recent years. However, Africa's trade with the rest of the world has steadily declined, falling from 10 per cent in 1950 to about 2.5 per cent in 2008. According to available statistics, on average, intra-African trade stands around 10 to 12 per cent, which is lower than other regions of the world. This is partly due to the fact that economic structures of the African countries are generally similar.

According to *ARIA IV*, trade restrictions are being revised and dismantled to create a common market in the framework of regional and subregional agreements. But these efforts are hampered by numerous barriers including policy and regulatory frameworks, internal and regional border crossings and weak financial and capital markets.

According to the present report, developing landlocked countries continue to face serious challenges in gaining direct access to the sea. This fact, and their remoteness and isolation from world markets and high transit costs, continue to impose deleterious constraints to their socio-economic development. The situation has intensified the poverty levels of many of these countries.

Regional integration projects, particularly in the development of infrastructure, are necessary to address the challenges that African landlocked countries confront. According to estimates produced by the ECA, landlocked developing countries, on average, spent almost two times more of their export earnings for the payment of transport and insurance services than the average spent by developing countries and three times more than the average spent by developed economies.



Although being landlocked is a hardship, there are practical solutions to many of the problems these countries face, including comprehensive approaches to transit corridors; overall regional integration efforts; and legal, regulatory, institutional and administrative reforms.

*ARIA IV* also addresses the role of payments systems and concludes that they play an important role in reducing the cost and delays of exchanging goods and services and address the disadvantages of holding cash. The promotion of national and regional payments system modernization would also “facilitate the formation of adequate regional trade of goods and services, enhance competition and thereby efficiency and productivity and facilitate the effective and efficient flow of goods” and services across RECs and the continent. This would also further the process of integrating African countries’ financial systems and capital markets, regionally and internationally.

Payments systems improve government transactions, thereby increasing government revenue collection and the timeliness and transparency of government fiscal operations. It is imperative, therefore, for member States, in collaboration with the RECs, to support and effectively implement payments systems.

*ARIA IV* identifies infrastructure development as essential to trade facilitation. Dilapidated and inadequate infrastructure and services negatively affect the cost of production and transactions. A better-connected Africa, internally and with the rest of the world, will create larger markets and also help achieve the internationally approved millennium development goals (MDGs). Efforts are being made at national and regional levels to boost coherent programmes in the areas of energy, transport and communications in accordance with the priorities established in the New Partnership for Africa’s Development (NEPAD) and the mandates of the AU and the RECs and their relevant technical-sector organizations.

The report also concludes that it is important to continue to develop infrastructure networks among the African regions to improve intra-Africa trade flows. There has been a significant increase in resources for investment and operations of infrastructure in Africa since 2005, when the Infrastructure Consortium for Africa (ICA) was established. This trend is expected to continue, despite recent world financial and economic crises. Private-sector investment has been especially significant, amounting to about \$ 20 billion (or 50 per cent) of commitments in 2007.

Inter-regional coordination and cooperative infrastructure development are prerequisites among the RECs, which are the foundation of regional integration. The cooperation among COMESA, EAC and SADC in the framework of the Tripartite Agreement of 2008 is an excellent example. Similarly, the interconnectors among the various power pools will also play a vital role in facilitating regional integration.

*ARIA IV* analyses the role and impact of the EPAs and observes that the conclusion of EPAs likely will improve the trading pattern of many African countries with European countries. Once concluded, the EPAs also will assist in creating regional markets through strengthening cross-border trade. It is most likely the EPAs will especially increase regional integration among ACP countries.

The report notes, however, that the EPA principles work against the current configuration of the eight AU-recognized RECs. One of the principles is that the EPAs could bring progress on the issue of overlapping membership and persistent barriers to intra-regional trade. If, in the EPA agreements, the negotiating groups would adopt single starting points or common external tariffs from the basis of which to make their market-access offers to the EU, then regional EPAs would be contributing towards enhanced economies of scale. The goal of enlarged regional markets could also eventually be realized. This would stimulate investment, and increase domestic competition and promote the diffusion of technology.

It is imperative that the EPA negotiations should address more than trade in goods. This will correspond with the agreement between the African subregions and the EU to have the negotiations address services, investment and competition policy, among other issues. These issues will certainly have implications for intra-African trade. In addition, negotiations on investments rules and competition policy are likely to have a profound influence in the regional markets.

It is also important that the ongoing WTO Doha round reach a conclusion, as this too will likely improve the prospects of intra-African trade, particularly in two areas. First, Paragraph 29 of the Doha mandate will not only affect the existing RECs, but also the future of the EPAs and any subsequent RTAs that African countries, individually or through RECs, might be engaged in. Second, the Doha Round modalities currently being negotiated, especially concerning non-agricultural market access, already indicate to significant challenges for African custom unions that already exist.

*ARIA IV* also addresses the issue of informal trade and notes that despite being one of the major channels through which goods are collected and distributed, the informal economy and its operators continue to face policy, legal, institutional and infrastructural obstacles, including the absence of social security protection, access to finance and credit and the subjection to corrupt practices and all forms of violence.

The report presents the significant progress the various RECs have made to further regional integration in terms of implementing the stages of the Abuja Treaty, and argues that African leadership now has the political will for integration to take place.

*ARIA IV* also identifies challenges that either do or could impede the process of regional integration. These include:

- The establishment of FTAs in some RECs.
- Africa's fragmented, small economies, which hamper market expansion that could enable regions to reap the benefits of economies of scale for production and trade. In the absence of regional integration, efficiency through larger markets, increased competition in global trade and access to foreign technology, investment and ideas cannot be attained.
- Poor infrastructure networks, physical barriers, conflict and civil war in some parts of the continent, poor governance, and poor implementation of decisions that have been made to facilitate regional integration.
- Low levels of intra-regional trade among the RECs compared with the rest of the regions of the world. This weakness is attributed to the slow implementation of customs unions in some RECs.
- Continued disruption to trade from non-tariff barriers such as unnecessary administrative procedures, checkpoints and roadblocks.
- Illegal confiscation of goods and foreign currencies.
- Lengthy customs delays.
- Illegal searches, sexual harassment and rape of women.
- Inconsistent national versus regional and community laws and regulations.

To address the enormous challenges that continue to threaten the goal of intra-regional integration, member States, RECs, the private sector and others involved in trade and Africa's development are encouraged to consider the following recommendations:

- The Minimum Integration Programme (MIP) is a major programme that RECs should adopt if they are to achieve regional integration. African countries need to implement various decisions, adopted by the African Heads of State and Government, pertaining to regional integration.
- Member States, particularly policymakers, should include regional integration in their broader strategic development package. There is no doubt that it will offer more economic opportunities in terms of investment, economic growth, production and trade. Africa's fragmented markets must be integrated if they are to attract investments, both from Africa and the rest of the world, as well as assist in building competitive and more diversified economies.
- Given the importance of developing ICTs in Africa, particularly in promoting economic growth and reducing poverty, member States and stakeholders should enforce the liberalization of the ICTs market. This requires accel-

erating the privatization of telecommunication networks to attract foreign investors through establishing rural telecommunications projects to rural areas, promoting training centers in ICT and reducing communications prices.

- Regarding the free movement of goods, services and people, the problem of infrastructure must be addressed. Poor infrastructure remains one of the main obstacles to moving goods and services. Border and passport issues must also be addressed to facilitate the free movement of people among regions.
- RECs should establish programmes to improve agricultural production in areas frequently confronted with drought, floods and the proliferation of pests and their consequences. They can do so by sharing their experience and best practices and by developing an early-warning mechanism and plans for emergency food storage. There is need, therefore, for all RECs to enhance the implementation of the Comprehensive Africa Agriculture Development Programme (CAADP) to address the problem of food security throughout the continent.
- RECs must fast-track their trade liberalization programmes and strengthen their transit and trade-facilitation programmes. Member States should ratify and implement all of their RECs' trade protocols.
- Efforts should be made to encourage the establishment of inter-REC FTAs. The steps that COMESA, EAC and SADC have taken to form a single market are commendable and have contributed to promoting trade in those RECs.
- Greater effort should be made to harmonize trade policies, such as requiring common documents for cross-border clearance of cargo, vehicles and business people; removing unnecessary duplication of programmes; harmonizing investment codes and factor mobility; and promoting a genuine unification of the subregional markets.
- Effective and affordable physical infrastructures and services, information and communication technologies are necessary to integrate markets. This will contribute substantially to reducing the cost of doing business in Africa, which in turn will help expand trade and market integration among the RECs.
- Monetary, fiscal and financial policies should be harmonized within the RECs in particular and Africa in general.
- Policies and programmes addressing production and the supply-side constraints of the continent should complement measures that deepen market integration.
- Transport and communication networks must be improved.

*ARIA IV* recommends not only addressing the physical barriers to moving goods, services and people, such as multiple checkpoints; it encourages policies that will increase the flow of FDI to boost domestic capacity expansion to support trade. FDI is not just an avenue for expanding capacity and growth; it generates considerable technological spillovers to host countries. This can take the form of educating and training local employees, learning innovative marketing and management procedures and importing modern machines and equipment incorporating the latest technical innovations.

The report also recommends taking the following additional steps to facilitate trade:

- Implement recommendations and protocols on the free movement of people and the means of production, limited cross-border investments and weak banking and financial intermediation in trade and productive sectors.
- Trade costs must be lowered significantly.
- Landlocked countries must examine their trade policies by focusing on the composition and direction of their foreign trade, and should also be mindful of transportation costs when trading with major markets to which they have no viable access via transit routes to the sea.
- Landlocked countries should consider developing sectors that are either high-value or high-value-added and depend less on expensive imports. They also should develop coherent and comprehensive trade transportation policies to support the transit corridors needed to facilitate trade.
- Landlocked and transit countries must continue to strengthen their infrastructure development—new roads and railway lines—and to upgrade port infrastructure.
- Landlocked countries should establish strong bilateral and multilateral agreements with their neighbouring countries.
- Administrative and registration procedures should be improved to include providing licenses to genuine small-scale operators of cross-border trade and briefing customs officials and operators on rules and regulations. Implementing ECR rules on proper customs procedures would permit the eventual elimination of certain customs duties and taxes.
- Governance must be improved and strict disciplinary measures taken to reduce the corruption of custom officers, local administrators and militia.
- Infrastructure should be updated, including roads, communications (mobile telephones) and storage facilities. Cross-border trade infrastructure also should be improved. This includes roads and transport facilities, holding grounds for watering livestock and providing animal fodders and vet serv-

ices. Banking facilities should be available at borders to provide loans and credit and foreign-exchange transaction services to cross-border traders.

- Social and economic development must be promoted throughout the continent's member States, particularly in its isolated border areas, and the distribution and marketing of locally produced goods to border areas should be facilitated to foster better competition.

*ARIA IV*, like the other *ARIA* reports, should be used as a tool for monitoring the progress of Africa's regional integration and for providing policy advice to the continent's member States and the RECs.





Economic Commission for Africa



African Union



African Development Bank

Africa's internal trade (intra-Africa trade) has consistently remained minimal compared with its intercontinental trade. The pattern of African exports continues to be heavily influenced by historical links with the rest of the world as more than 80 per cent of African countries' exports are still destined for markets outside the continent.

RECs have fostered trade development through programmes aimed at achieving a free-trade area, a customs union, and a common market. However, numerous initiatives and decades of experimentation with integration in Africa have not brought about any significant levels in intra-REC and intra-African trade.

The production and export structures of most African economies are geared to primary commodities such as minerals, timber, coffee, cocoa, and other raw materials, for which demand is externally oriented. Most lack the industrial capacity for diversified manufactured goods to support trade within regional markets. Sub-Saharan African countries appear to have relatively few goods to trade with each other.

Inadequate infrastructure remains one of the chief obstacles to intra-African trade, investment, and private-sector development. Programmes to cultivate transport and communications networks, energy resources, and information technology would accelerate trade progress and transform Africa into a haven for investment.

The implications of low intra-African trade are many and far reaching. Many opportunities are lost for using trade within the continent to enhance the prospects for specialization between African countries and accelerated development and integration. Intra-African trade can generate development and dynamic integration among African subregions and is a powerful driver of African growth and economic maturity. The main question, therefore, is how to reverse the situation so that African countries can benefit from improved intraregional trade.

ARIA IV attempts to address these pressing issues. It undertakes a comprehensive empirical analysis of intra-African trade to determine why it has remained consistently low over the past decades. The report proposes concrete recommendations, to be implemented by member States, RECs, members of the private-sector, and other stakeholders in Africa's development. It also analyses the various policy issues and other factors that have affected intra-African trade, although these issues may have been addressed in different contexts.

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