Africa Growth Initiative
at BROOKINGS

JANUARY 2012

Accelerating Growth through Improved Intra-African Trade


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For Africa to achieve transformative progress, policy solutions must come from African sources. The Africa Growth Initiative brings together African scholars to provide policymakers with high-quality research, expertise and innovative solutions that promote Africa's economic development. The Initiative also collaborates with research partners in the region to raise the African voice in global policy debates on Africa. Our mission is to deliver research from an African perspective that informs sound policy, creating sustained economic growth and development for the people of Africa.

The following AGI partner think tanks also contributed to this publication:

Kenya Institute for Public Policy Research and Analysis (KIPPRA)

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Introduction: Intra-African Trade in Context

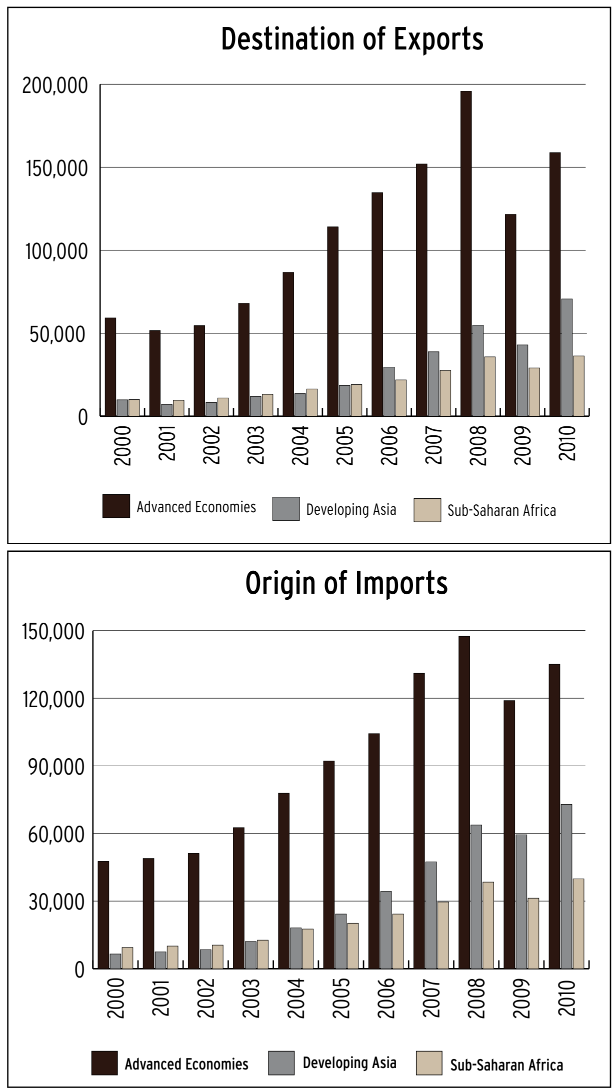
Mwangi S. Kimenyi , Zenia A. Lewis and Brandon Routman, Brookings Africa Growth Initiative

Africa, which covers approximately 30 million square kilometers, is the second-largest continent in the world and approximately three times the size of the United States. Viewed from the perspective of its economy, however, Africa is quite small. In 2010, its gross domestic product was approximately $1.6 trillion, compared with the U.S.'s $14.5 trillion GDP. Given these small economic dimensions, the commercial engagement between African countries will be crucial for generating economic growth and raising the standards of living for many on the continent.

The Motivation of Integration

Although intra-African trade is not a panacea for development, it is quite important. It can help the continent's industries become more competitive by creating economies of scale and weeding out producers that are less productive in the marketplace. It can establish and strengthen product value chains and facilitate the transfer of technology and knowledge via spillover effects. And it can incentivize and spur infrastructure development and attract foreign direct investment. For these reasons, expanding intra-African trade is a key to accelerating economic growth on the continent. It is especially important for the continent's many small, landlocked countries that face tremendous challenges trading internationally. Unfortunately, however, Africa's current internal trade is low—making up only about 10 percent of its total trade. Most of its exports go to the world's advanced economies, and most of its imports come from those same advanced economies (figure 1).

Figure 1. Destinations and Origins of Exports from and Imports to Sub-Saharan Africa, 2000–2010 (millions of dollars)



Source: International Monetary Fund, *Direction of Trade Statistics*.

Table 2. Africa's Intraregional Trade as a Percentage of the Continent's Total Trade, 2002–10

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Percent	10	9	9-10	8-10	8-10	9	9-10	10-11	10-11

Source: International Monetary Fund, *Direction of Trade Statistics*.

Other regions of the world enjoy significantly higher levels of internal trade. For the developing countries in Asia, intraregional trade as a share of total trade was roughly 17 percent in 2010; for the member countries of the European Union, the same figure was more than 60 percent. And it is particularly of concern that intra-African trade does not seem to be converging to these international levels; in recent years, it has been marked by only marginal improvements (table 2).

That said, there are reasons for some optimism. Some indications suggest that informal trade, which is not captured by official statistics, is widespread on the continent. For instance, it has been estimated that Uganda in 2006 exported $231 million worth of goods, informally, to the five countries that border it—an amount that is roughly 86 percent of its official export volume to these states (Lesser and Moisé-Leeman 2009). But then the question is why does such informal trading occur? One answer is that it is a rational response to the costs and red tape involved in exporting one's products through the formal economy (an issue that is discussed below). In this sense, the existence of informal trade is inextricably tied to formal trade; thus, addressing the root causes of the former will also mean addressing the factors that undermine the latter. Moreover, informal trade deprives national governments of tariff revenue and foreign currency, hinders their ability to form appropriate trade policies, and often triggers bribery and corruption.

What is clear from official statistics is that Africa's biggest economies are also among its most prominent intraregional traders (table 3). For instance, South Africa, the continent's largest economy, is also the largest intraregional importer and exporter in Africa. In 2010, the country exported more than $12 billion worth of goods to and imported $7 billion worth of goods from the rest of the continent. Nigeria, Africa's third-largest economy, was its second-biggest intraregional exporter. As shown in figure 2, these two countries trade disproportionately with other countries in their vicinity—a feature that also characterizes commerce for much of the rest of the continent.

Table 3. Value of the Exports and Imports of the Top Ten African Interregional Traders, 2010 (millions of dollars)

Exports to the Rest of Africa		Imports from the Rest of Africa	
Country	Value	Country	Value
South Africa	12,097.161	South Africa	7,059.620
Nigeria	7,599.004	Zambia	3,319.483
Cote D'Ivôire	3,663.154	Ghana	3,261.322
Egypt	2,896,594	Zimbabwe	2,859.942
Kenya	1,953.564	Cote D'Ivôire	2,563.625
Angola	1,803.362	Nigeria	2,404.335
Algeria	1,381.670	DRC	2,157.381
Zambia	1,368.961	Kenya	1,933.762
DRC	1,22.,823	Mali	1,757.390
Morocco	1,059.572	Morocco	1,604.929

Note: DRC = Democratic Republic of the Congo.
Source: International Monetary Fund, Direction of Trade Statistics.

Opportunities and Challenges

The main factors that impinge on increasing intra-African trade levels include regional integration, economic diversification, conflict, infrastructure and border issues. The following short discussions of each factor provide very basic background information and, to some extent, provide context for the briefs that make up the rest of this report.

Regional Integration

Africa is characterized by a large number of very small, landlocked markets, which are highly dependent on neighboring countries, economically—one very significant reason for the need for regional integration. Regional economic communities (RECs) have sprung up to address this need; at present, every country in Africa is a member of at least one REC, and most belong to two or more. But these proliferating memberships in RECs may have drawbacks. In fact, some observers suggest that multiple memberships might, ironically, be hindering regional integration—and by extension, intraregional trade rather than enhancing it. They point out that multiple memberships impose high costs in time, energy and resources on African governments and force them to juggle competing regulations.

Nonetheless, some RECs have had success in achieving their stated goals. The Southern African Customs Union, for instance, has made significant headway in allowing for the free movement of the factors of production, in creating a common tariff on goods from external countries and in removing intraregional barriers. The West African Economic and Monetary Union has created a system whereby the macroeconomic policies of its member states are reviewed regularly, has put in place a shared accounting structure, and has instituted a stock exchange that spans the region. Other RECs, however, have seen less success. The Economic Community of the Great Lakes Countries and the Economic Community of Central African States, for instance, have failed in their attempts to eliminate tariffs on products made within their respective regions. These policy outcomes (or lack thereof) have had a significant effect on the level of intra-REC trade (see table 4)—and consequently, on intra-African trade as a whole.

Table 4. Regional Integration: Value of Goods Exported within the African Regional Economic Communities, 2010 (millions of dollars)

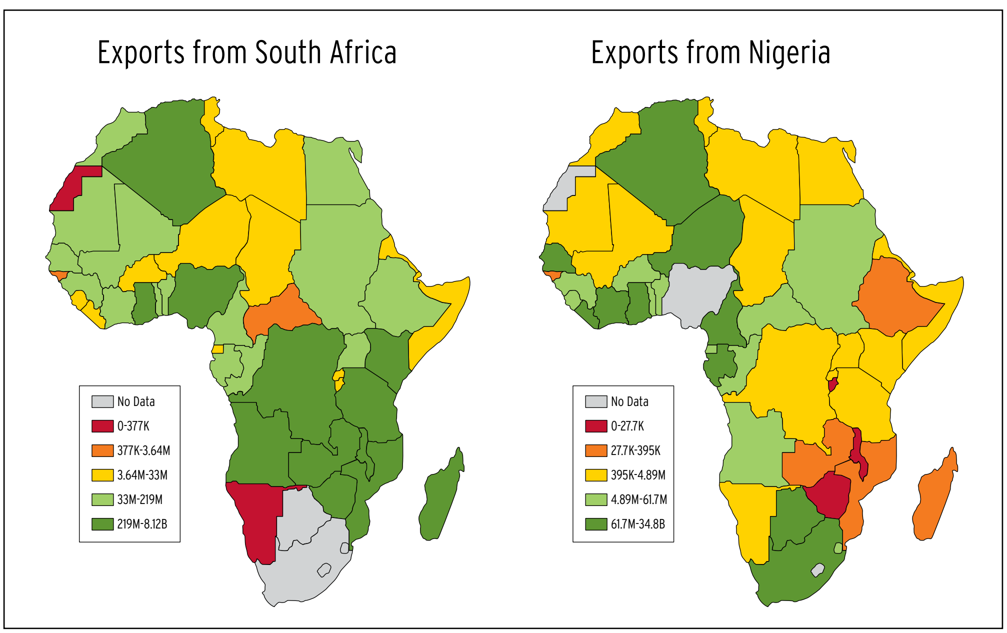
Regional Economic Community	Value
Economic Community of Central African States	382
Common Market for Eastern and Southern Africa	8,092
East African Community	1,996
Economic Community of Central African States	482
Economic Community of West African States	8,910
Mano River Union	12
Southern African Development Community	14,173
West African Economic and Monetary Union	2,250
Intergovernmental Authority on Development	1,664

Source: International Monetary Fund, *Direction of Trade Statistics*. Author's own calculations

Economic Diversification

Many African countries specialize in the same products as their neighbors, especially commodities like oil and gas. With few complementary goods to exchange with each other, these countries cannot exploit the gains to be made via comparative advantage. In other

Figure 2. Exports from South Africa and from Nigeria, 2008



Source: World Bank data, http://devdata.worldbank.org/TradeMapVisualizer/.

words, their lack of economic diversification limits the usefulness of—and therefore the levels of—intra-African trade. That said, the reverse is also true: the lack of intraregional trade limits the abilities of these economies to become diversified.

Conflict

Political tension, conflict and violence also diminish the capacity for African states to engage in intracontinental trade. These factors lead to low levels of economic growth, destroy needed export infrastructure, and slow and reverse regional integration.

Infrastructure

Infrastructure is and has always been a major issue for Africa, especially for Sub-Saharan countries. Like conflict, infrastructural deficiencies reduce economic growth and productivity, and raise transportation costs. According to a 2010 report from the UN Economic Commission for Africa, only about 30 percent of African roads are paved and, as a consequence, "shipping a car from Japan to Abidjan costs $1,500, while shipping that same vehicle from Addis Ababa to Abidjan would cost $5,000" (UN Economic Commission for Africa, African Union and African Development Bank 2010).

Africa's maritime ports have their own problems; the same report estimates that the continent's port productivity is only 30 percent of the international norm. It is likely that part of the reason for this underperformance is the unequal usage of the continent's ports; only six of its 90 total ports (three in Egypt and three in South Africa) handle 50 percent of its trade. A related issue deals with cost; the port in Durban—Sub-Saharan Africa's busiest port—charges more to dock a ship than any other major harbor in the world and double the world's average.

Border Issues

Africa's notoriously bad customs environment poses yet another impediment to intra-African trade. The high fees that custom offices charge is part of the problem; according to the *Doing Business 2011* report, Sub-Saharan Africa is the world's most expensive region to trade within (World Bank and International Finance Corporation 2011). The costs to businesses in time delays is another issue; the same *Doing Business* report shows that delays are up to three times as long in Sub-Saharan Africa compared with other regions of the world. One culprit for this is excessive bureaucracy. The former secretary-general of the East African Community once described the congestion at the border between Zambia and Zimbabwe as rife with duplicated paperwork and procedures that could involve up to 15 government agencies (World Bank and International Finance Corporation 2011).

A Preview of the Report

The Africa Growth Initiative at the Brookings Institution has been asked by the African Union Mission in Washington to contribute practical ideas for increasing intra-African trade for the African Union's consideration. The policy briefs that make up this report highlight the major barriers to intraregional trade, provide country-specific case studies and present thoughtful policy recommendations. It is hoped that the African Union and the other stakeholders in Africa will find this analysis useful in the promotion of trade on the continent. These policy briefs cover the following topics:

- John Page presents a big-picture view of intra-African trade with a special emphasis on its *role in the wider, global economy*.
- Olumide Taiwo and Nelipher Moyo examine *barriers* to the movement of goods and people within African countries. They present strategies to eliminate internal barriers to commerce as a prerequisite for increasing regional trade in Africa.
- Mwangi S. Kimenyi, Zenia A. Lewis and Brandon Routman discuss how *foreign trade preferences and cross-border value chains* can promote intra-African trade.
- Mwangi S. Kimenyi and Jessica Smith consider two issues that hinder the *mobility of people* in Sub-Saharan Africa, which they believe can be addressed through improved policy coordination and border management capacity.

- Anne Kamau examines the potential for *functional cooperation* between African trading partners, as an alternative to market and currency unions, to enhance intraregional trade.

- Augustus Muluvi, Paul Kamau, Simon Githuku and Moses Ikiara describe *Kenya's regional trade performance*, institutional barriers to increasing trade, and policies that would alleviate these associated problems.

- Lawrence Othieno examines the *barriers to Uganda's intraregional trade* within the East African Community and the Common Market for East and Southern Africa and proposes solutions for improved trade within these groups.

- Louis N. Chete and A. O. Adewuyi prescribe solutions for *scaling up Nigeria's limited trade* within the Economic Community of West African States.

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Why Intra-African Trade Matters: Working Locally to Go Global

John Page, Brookings Africa Growth Initiative

Economic integration efforts have a long history in Africa. The large number of preferential trade agreements signed in the past five decades has led to a "spaghetti bowl" of intertwined and overlapping regional organizations. Every African country is a party to at least one regional economic agreement, and many are members of five or more. Despite these efforts, intra-African trade remains low. Regional exports are less than 10 percent of Africa's total merchandise exports, and models estimating the trade potential between countries based on economic size, geographical distance, and other characteristics consistently find that trade among Africa's economies is below the levels predicted (World Bank 2009).

Recently, the African Union launched another effort to boost intraregional trade. The initiative is urgently needed, but not for the reasons articulated by most of Africa's leaders. With a total economic size equal to that of Canada, the African regional market can act as a complement to the global market, but it cannot substitute for it. Open regionalism—using regional agreements to integrate more fully with the global economy—can be an important tool for solving the continent's most urgent problem, lack of structural change.

Why Structural Change Matters

Structural change—the movement of workers from low productivity to high productivity employment – is a key driver of economic growth and a source of "good" jobs. For more than two decades structural change has lagged in Africa, while in Asia the movement of workers from lower to higher productivity sectors has increased the overall rate of economic growth and led to rapidly rising household incomes. In Africa, however, structural change has moved in the opposite direction. Over the past 20 years, labor has shifted from higher to lower productivity employment, reducing overall growth and slowing the pace of poverty reduction. (McMillan and Rodrik 2011; Page 2011). Without major changes in economic structure, Africa cannot create enough good jobs and remains vulnerable to shocks and long run decline in commodity prices.

Africa's Competitiveness Challenge

In both economic theory and history, industry is the sector that leads the process of structural change. In Africa average manufacturing labor productivity is more than three times greater than in agriculture. But, the vast majority of Africa's economies lack globally competitive industries and services. The 1980s and 1990s were marked by a shift in manufacturing production capacity out of the continent. Africa's share of manufacturing in GDP is less than one half of the average for all developing countries and, in contrast with developing countries as a whole, it is declining. Its share of global manufacturing (excluding South Africa) fell from 0.4 percent in 1980 to 0.3 percent in 2005, and its share of world manufactured exports fell from 0.3 to 0.2 percent (UNIDO 2009). The decline in African manufacturing production and exports was also accompanied by a decline in their diversity and sophistication.

Breaking Into the Global Market

For those African economies without natural resources the global market represents the only opportunity for increased industry growth. If, as seems likely, China and India continue their rapid growth, the fundamentals of location and labor costs should favor a shift in labor-intensive manufacturing toward lower-income countries. However, this does not guarantee that it will move to Africa. The region will have to compete with low-income economies in other places.

Changes in the structure of global manufacturing may help. Since around 1980 manufacturing for many products has been broken up into "tasks", each of which can be undertaken where costs are lowest. Recent industrializers such as Vietnam have exploited this opportunity to break into global markets. Africa needs to insert itself into global task-based trade.

Working Locally to Go Global

Effective regional integration can support Africa's industrialization. Free movement of goods across borders will increase both the competitive pressure on incumbent firms in the region and create new possibilities for task-based production focused on extra-regional markets. The opportunity to export to near neighbors can help export-oriented firms learn how to enter more distant foreign markets, find foreign suppliers and customers, and build economies of scale.

The small size of Africa's economies and the fact that many are landlocked make regional approaches to infrastructure, institutional and legal frameworks in trade corridors (customs administration, competition policy, and regulation of transport) and trade related services imperative. For exporters in landlocked countries poor infrastructure in neighboring, coastal economies, incoherent customs and transport regulations as well as inefficient customs procedures and "informal" taxes in transportation corridors slow transit times to the coast and raise costs.

National governments in Africa need to rationalize the membership of regional trading blocs and empower the regional organizations to develop coherent regional development strategies and resolve collective action problems among member states. Regional implementation of power and transport investments are urgently needed. The capacity of the regional economic communities (RECs) to develop bankable projects, to carry out monitoring and evaluation and to ensure adequate financial management needs to be strengthened.

Africa's development partners have not aggressively helped regional integration, preferring to deal with individual countries rather than regional organizations and limiting financial commitments to trans-border projects. Donors should make the RECs the lead institutions in the dialogue on regional strategies and programs. They also need to make stronger efforts to harmonize their support of regional organizations, decrease the use of their own systems to channel aid flows to regional programs, and to integrate their national aid programs into their regional strategies.

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Eliminating Barriers to Internal Commerce to Facilitate Intraregional Trade

Olumide Taiwo and Nelipher Moyo, Brookings Africa Growth Initiative

Increased trade between African countries holds promise for shared growth and development in the region. However, before African countries can fully exploit the benefits associated with increased trade with each other, they must first address the barriers to the movement of goods and people within their countries. It is difficult to imagine how Africa will be able to move goods from Cape Town to Cairo when it is unable to move goods from one city to another within the same country. Take the case of Kenya: while parts of northern Kenya were experiencing major food shortages in January 2011, farmers in the Rift Valley had food surpluses and were imploring the government to buy their excess crops before they went to waste.

Businesses must be able to exploit domestic markets and develop competitive edges before they can expand internationally. Unfortunately, African firms are yet unable to fully exploit resources within their own countries due to physical, ethnographic and institutional barriers.

Physical Barriers: The Infrastructure Deficit

Africa's infrastructure deficiencies—lack of adequate road, rail, water and other physical infrastructure—continue to hamper trade within and between African countries. According to the World Bank's Rural Accessibility Index, only 34 percent of the rural population in Sub-Saharan Africa lives within 2 kilometers of a road that is passable in all weather. Similarly, the region has some of the worst urban connectivity in the world, with only 128 meters of road per 1,000 residents, compared with 700 meters per 1,000 residents in other low-income regions (Carruthers et al., 2010). Roads account for 80 to 90 percent of all freight and passenger movement in Africa. Road density is an effective proxy of how well connected areas of a country are. Africa has a road density of only 16.8 kilometers per 1,000 square kilometers, compared with 37 kilometers per 1,000 square kilometers in other low-income regions (table 1). Likewise, rail density in Africa is only 2.8 kilometers per 1,000 square kilometers—much lower than the 3.4 kilometers per 1,000 square kilometers in other low-income regions. Air travel within Africa continues to be more expensive per mile than intercontinental travel. Africa's inland waterways present an excellent opportunity to connect cities and countries. Five rivers—the Nile, Congo, Niger, Senegal and Zambezi—and three lakes—Victoria, Tanganyika and Malawi—could be utilized to move goods across the region. However, due to political instability, social unrest, and the lack of high-level government support for such projects, Africa's waterways remain the region's greatest untapped connectors.

Addressing Africa's transportation infrastructure deficiencies will require an innovative combination of strategies, including prioritizing maintenance, creating mechanisms to engage the private sector, leveraging China's growing interest in the region, and increasing connectivity between existing infrastructure (see box 1).

Maintenance

Policymakers should come to terms with the importance of the infrastructure maintenance. Maintenance projects are often neglected and underfunded, even though they are significantly more cost-effective than creating new infrastructure or rehabilitating decrepit infrastructure.

Table 1. Road and Rail Density in Sub-Saharan Africa Compared with the Rest of the World

Measure	Sub-Saharan Africa					Rest of the World	
	All	Low-Income (Fragile)	Low-Income	Resource-Rich	Middle-Income	Low-Income	Middle-income
Paved roads							
Road density by area, kilometers per 1,000 square kilometers	16.8	9.9	16	12.5	52.3	37	124
Road density by population, kilometers per capita	533	275	562	408	2,047	700	1,319
Road density by GDP, kilometers per $1 billion	483	253	308	110	36	1,210	2,080
Railway density							
By land area, kilometers per 1,000 square kilometers	2.8	1.6	2.2	2	8.8	3.4	141
By population, kilometers per million people	83.1	45.9	56.5	62.4	417.6	63.3	74
By GDP, kilometers per $1 billion	100	173.1	165.4	67.1	88.7	109.4	48.5

Source: Carruthers, Krishnamani and Murray (2010).

A 2008 joint report by the Organization for Economic Cooperation and Development (OECD) and the New Partnership for Africa's Development (NEPAD) found that "due to poor maintenance, many African countries have lost half of their road networks over the last 40 years" (Biau, Dahou and Homma 2008). This trend is likely to continue unless African governments reverse their views on infrastructure maintenance.

It is time for infrastructure maintenance to become a national priority in African countries. National agencies should be created to ensure the maintenance of infrastructure and draw upon infrastructure usage fees and/or government earmarked funds. For effective oversight and management of resources, these national agencies need to have certain institutional features. They need an independent auditing process, mechanisms that allow for transparency in decision making and revenue collection, the ability to coordinate with local governments, and the obligation of providing full public information on contracting and operations. In addition, citizens should be informed through public notice boards detailing how much has been allocated for infrastructure maintenance in their given locale, so that they can hold governments accountable when the quality of infrastructure declines.

The Private Sector

The private sector must be part of the solution to address Africa's infrastructure challenges. Governments in the region should adopt new and innovative approaches to public-private partnerships (PPPs). In fact, infrastructure projects that are only undertaken by the public sector should be a thing of the past. Instead, African governments should use PPPs to leverage their infrastructure stimulus spending by coupling government resources with private sector resources. The private sector can be engaged at multiple and different stages of projects, ranging from design to construction, service operation, maintenance and finance. To maximize public value, policymakers should try to find an optimal mixture of public and private sector participation in infrastructure projects. They should make use of the private sector in areas where it has a comparative advantage, such as service provision, and make use of the public sector when it has a comparative advantage, such as underwriting risk or credit provision (Deloitte 2010).

Integrating the private sector will also require increased coordination across government agencies involved in these projects. It is important to maintain a competitive environment within the infrastructure development sector to minimize costs and maximize the quality of projects. The presence of localized monopolies in the infrastructure development sector threatens infrastructure improvement efforts in the region. Therefore, African governments should develop a regulatory framework that facilitates competition between new entrant companies and incumbent firms.

China

China has emerged as an important investor in African infrastructure projects. The Infrastructure Consortium for Africa reports that China's investment in African infrastructure increased from $4.5 billion in 2007 to $9 billion in 2009. Consequently, China's share of external infrastructure support in Africa increased from 12 percent in 2007 to 18 percent in 2009. African governments should continue to engage China in their efforts to improve the region's infrastructure. African governments need to take the lead and steer China's infrastructure investments toward projects of national interest—not just those that facilitate the extraction of natural resources. Unfortunately, much of China's infrastructure investment in Africa continues to be concentrated in the natural resources sector.

It is up to African governments that want to diversify their economies to steer China's infrastructure investment to other areas of national importance. For instance, rural connectivity infrastructure projects should be prioritized for the development of the agricultural sector, which employs 70 percent of Africa's labor force. Research suggests that improving local roads in Africa could double agricultural productivity in the region (Biau, Dahou and Homma 2008).

Connectivity

Although long-term and large-scale infrastructure projects are needed, part of the solution to Africa's infrastructure deficiencies lies in better connecting the region's existing infrastructure. International connectivity builds on local connectivity. Unfortunately, local connector/feeder projects with significant potential to boost trade are often overlooked because they lack the fanfare associated with large new infrastructure projects. For example, while the government of Ethiopia works to construct a new railway between Addis Ababa and Me'eso, immediate benefits can be derived from connecting existing rail and road networks between these two cities in the interim.

Cultural Barriers: Consolidating Citizenship

As a result of ethnic fragmentation, citizenship is in practice defined not by nationality but rather by "ancestral land" in many African countries. For instance, much of the violence observed in and around the city of Jos in northern Nigeria occurred because the Hausa/Fulani lay claim to the territory by virtue of possession, while other groups lay ancestral claims to the land for which they believe they are true "native sons." Similarly, in Kenya much of the post-election violence observed in 2008 in the Rift Valley was due to "unresolved grievances by groups that believed that their rights to their ancestral lands were being infringed upon or usurped by members of other groups that had settled on those lands" (Kimenyi and Mbaku 2011). The potential for conflict limits the ability of individuals to settle in or secure property outside one's ancestral home and presents a significant obstacle to trade within and across African countries.

Ethnic fragmentation has broader implications for productivity and trade. Easterly and Levine (1997) found analytic links between ethnic fragmentation and insufficient infrastructure. Alesina and Ferrara (2005) found that given a supply of credit, ethnic fragmentation leads to inefficient credit allocation along ethnic lines. Reduced mobility within a country not only stifles knowledge exchange and skills development but also makes it difficult for businesses to acquire the types of resources that they need to produce competitively.

It is essential that African governments implement strategies to consolidate citizenship. Tanzania has had some success in this area; after independence, the government implemented a series of programs that emphasized nationalism and downplayed individual ethnicities. These policies have yielded positive dividends in terms of political stability and greater mobility (Miguel 2004). While there are no one-size-fits-all solutions, African governments must address these barriers.

Institutional Barriers: Coordination Failures

It is important that African countries harmonize interstate/interprovincial commerce rules and regulations.

Some African countries have embraced federalist and decentralized systems of government that diffuse power to states and provinces. While decentralization holds promise for increased competition and efficiency, it also requires greater effort to coordinate interstate commerce. This includes harmonizing legislation and procedures to ensure smooth transition between national and subnational infrastructure. For example, in Nigeria, the governor of Lagos State has undertaken numerous infrastructure improvement projects in his state only to face bottlenecks when the state's infrastructure connects with poor federal infrastructure (El-rufai 2011). Effective coordination of national and state/provincial policies could help to ease these bottlenecks.

Police roadblocks and checkpoints are often cited as major barriers to commerce within and across African countries. At these checkpoints businesses are required to pay taxes, transit fees and bribes. For example, there are about 47 roadblocks between Douala and Bertoua in Cameroon. Similarly, one must pass through 27 police checkpoints when traveling from Mombasa, Kenya to the Ugandan border. Businesses are often unable to predict how many roadblocks they will encounter and how much it will cost to get through them (*The Economist*, 2002). This uncertainty deters them from engaging in commerce outside their local area of operation. Part of the strategy to consolidate the rules and regulation for commerce must include processes to eliminate these roadblocks.

Recommendations

In order to address Africa's infrastructure deficit, the region's policymakers must prioritize maintenance, integrate the private sector in infrastructure development and leverage their engagement with China. Although large-scale new infrastructure projects are needed, Africa could reap significant gains by increasing connectivity between existing infrastructures. In an effort to remove non-infrastructure barriers to commerce, policymakers should redefine citizenship, harmonize interstate or interprovincial commerce rules and regulations, and minimize the incidence of roadblocks within their territory. African countries will not be able to exploit the full benefits associated with intraregional trade until they eliminate barriers to the movement of goods and people within their own borders.

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Box 1: Promoting Intra-African Trade through Infrastructure Development: The Role of the African Export-Import Bank

Jean-Louis Ekra, President, African Export-Import Bank

The low level of intra-African trade is in large part a result of the dismal state of infrastructure on the continent. Unfortunately, developing the quality and quantity of infrastructure to increase intra-African trade requires a great deal of political will and is enormously expensive. Some estimates suggest that addressing Africa's infrastructural deficiency requires more than $250 billion during the next 10 years.

There are encouraging signs, however, that these resources are being marshaled. A number of regional infrastructure projects are underway in Africa, reflected in bilateral, subregional and regional agreements. These include projects like the Spatial Development Initiative, which utilizes public-private partnerships to foster development of areas of poor socioeconomic conditions; and private sector-led initiatives, like the undersea cable project created by Main One Cable Company that has begun to improve telecommunication linkages.

The African Export-Import Bank, or Afreximbank, hopes to further these and other similar efforts. To this end, it has developed numerous financing programs designed to reduce the existing infrastructure deficiencies in Africa.

Attracting foreign investment often requires host governments to make certain financial, fiscal and/or legal commitments to potential investors. Through its guarantee program, Afreximbank supports African governments in meeting these commitments. The Export Development Finance Program offers a wide range of services geared toward creating noncommodity exports for regional markets and aims to implement regional infrastructural projects useful toward this end. Afreximbank's Advisory Services and Investment Banking Program supports the promotion of ventures that encourage intraregional trade, like those in the air transportation industry. Financial support has been extended to new airlines, such as Arik Air in Nigeria and Fly 540 in Angola. The program also encourages the development of the energy sector by supporting the Egyptian electrical company El Sewedy in its operations in Cameroon, Ethiopia and Zambia.

Promoting this type of intra-African commerce is one way of diversifying the continent's products and export markets. Such a diversification is crucial in attaining the full benefits that trade can offer. In pursuing this goal, Africa will need to overcome various challenges, including the paucity and poor quality of its trade-facilitating infrastructure. But thanks to a number of initiatives, and the political will and financial resources needed to back them up, progress is being made in dealing with the obstacles.

Trade Preferences and Value Chains

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Generally, African countries have not effectively exploited the various trade preferences extended to them by the United States' African Growth and Opportunity Act (AGOA) and by the European Union's Economic Partnership Agreements (EPAs). In fact, only a very small percentage of the roughly 6,000 duty-free, quota-free product lines allowed by AGOA have been utilized. These preferences could ideally catalyze intra-African trade and increase the competitiveness of African businesses. But to achieve such positive outcomes, they must be revised and redesigned in a way that does not penalize cooperation among African countries in their production of exports. In short, trade preferences should promote rather than discourage cross-border value chains.

To some extent, AGOA, as it currently stands, has been successful in helping to create value chains. These value chains have tended to cluster in the apparel sector, where the legislation allows multiple countries to add inputs to the production of goods under its special "rules of origin" provision. This has encouraged Tanzania to export cotton to Kenya for the production of textiles, and it has also motivated Mauritius and South Africa to invest in the apparel sector in other African countries.

However, some aspects of AGOA have negated progress in this regard. Specifically, when the United States has in the past *revoked* a country's AGOA eligibility, whole value chains were often harmed. For instance, when Madagascar's status was rescinded in January 2010 due to an undemocratic change in the country's government, other AGOA beneficiaries were also punished inadvertently. Negative effects rippled through the apparel sector in Zambia (which produces cotton), Swaziland (zippers) and Lesotho (denim fabric).

The European Union has its own trade preferences, which are part of its EPAs. Although these agreements are intended to foster value chains in Africa, they have been counterproductive. One reason is that their membership configuration does coincide perfectly with those of the continent's regional economic communities (RECs). Countries like Malawi, Zambia and Zimbabwe comprise part of the SADC REC, but are grouped with the COMESA EPA; the Democratic Republic of Congo, also part of the SADC, belongs to the CEMAC EPA. The task of harmonizing trade policy or creating a customs union is obviously complicated by these arrangements, which only exacerbate the problem of overlapping REC membership.

To a large extent, the point of the EPAs is to promote trade liberalization. They allow for the immediate access of African goods to EU markets and a reciprocal but gradual opening of European goods to African markets. Unfortunately, both sides of this exchange have the potential to undercut intra-African trade. Regarding the latter, Africa's small and still emerging industries will be hurt by an influx of products from their more developed European counterparts, some of which enjoy heavy subsidies. Regarding the former, the EPAs call for an elimination of taxes on African raw material exports—although some of this money is used to add value to these products through processing or manufacturing. In sum, the effect of such a policy will damage regional value chains and entrench Africa in its role as mainly a supplier of raw materials.

Recommendations

The EPAs and AGOA can and should be redesigned to correct the issues outlined above. To combat the problem regarding the revocation of AGOA benefits, the United States should allow newly AGOA-ineligible countries to continue providing inputs to regional supply chains (without allowing them to directly export to the U.S.). It should reform the "rules of origin" requirements for sectors other than apparel, such as manufactured goods.

Likewise, the EU should reconfigure the EPAs. First, they should be implemented and carefully sequenced in such a way that respects the RECs' integration agendas. Second, rather than opening up African markets to European imports indiscriminately, the EPAs should allow Africa's tariffs to fluctuate depending on a particular country's level of industrialization. Countries develop, in part, through their strategic use of tariffs to strengthen their local industries; foreign-imposed regulations that restrict the use of tariffs, like the International Monetary Fund's Structural Adjustment Program from decades ago, have generally produced poor development outcomes, including the stagnation of many Sub-Saharan African economies.

Finally, a more difficult but obvious improvement would be for the European Union and the United States to harmonize their individual preference programs for Africa. This, in conjunction with the other recommendations presented here, would help Africa foster value chains and intraregional economic integration.

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Intraregional Trade and Restrictions on the Movement of People

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The regional economic communities (RECs) in Africa have been established to streamline transactions within their respective subregions. In addition to the free movement of capital, intraregional trade and development strategies require the free movement of people across national boundaries. At one level, people need to be able to easily cross borders to explore opportunities and determine the feasibility of efforts to engage in trade. At another level, the free movement of labor allows for the optimal utilization of human capital as skills go to regions, industries and countries where they command the highest value. Extortion and abuse at the borders are some of the many barriers that prevent the mobility of people intraregionally in Sub-Saharan Africa. In this policy brief, we focus on two issues: the inconsistent implementation of the REC protocols; and irregular or illicit migration flows, which we believe can be improved by increasing policy coordination and border management capacity between trading partners.

Varied Levels of Implementation of Migration Protocols

Each REC has proposed protocols on the free movement of people. However, not all member states have signed on to the migration regulations. Implementation of migration policies is varied (see table 1), and even when in place the policies are not always enforced. Nevertheless, some RECs have made more progress than others. For example, the Economic Commission of West Africa States (ECOWAS) has a higher level of harmonization compared with the rest of the continent, and since 1993 the rights to entry, residence and establishment have been confirmed for all member states. ECOWAS passports have replaced national versions for regional travel, and member states are now able to enter and exit ECOWAS countries without much delay in processing at airports. However, the reliability and efficiency of passport processing at land border crossings are variable. ECOWAS nationals still require entry visas when traveling over land and experience harassment across borders when setting up businesses. The East African Community (EAC) also has a harmonized passport. In an effort to encourage ease of movement, Kenya and Rwanda recently made it acceptable to cross their mutual borders with only an identification card, and in 2010 the two countries entered into a reciprocal agreement waiving the work permit fee.

In contrast to the ECOWAS and the EAC, the migration policy of the Southern African Development Community (SADC) is at the other end of the spectrum for implementation. In 1994, South Africa and Zimbabwe both refused to abolish visa requirements for SADC member nations, despite the fact that all other members supported the elimination of visa requirements. However, there are still five holdout countries to abolishing work permits. Although South Africa currently allows SADC members to have 90-day transit/visitor stays and SADC truckers are permitted a 15-day stay, all in all, South Africa has maintained its iron-door border position for workers from other countries. The difficulty of traveling is magnified when it occurs between RECs. For example, business travelers from Senegal to Nairobi are not allowed expedited services; and other countries, such as Chad, require a visa that can take up to 10 weeks to process (Consular Services 2011).

Table 1. Implementation of Migration Policy in Interregional Organizations

Interregional Organization	Protocol	Countries That Have Implemented Freedom of Movement Protocol	Common Passport	Universal Tourist Visa	Rights of Establishment (for Business)
AMU	Article 2 of treaty 1989	3 out of 5	No	No	No
CEN-SAD	Paragraph 2 treaty 1991	Unclear	Visa waived for diplomats and certain professions	No	Right of Residence (not ratified)
EAC	Article 7	3 out of 5	Yes, EAC passport	In progress	Yes (2 out of 5 implemented)
ECCAS	Articles 4 and 40 of treaty and protocol in appendix VII	4 out of 11	Travel books, cards, special line in airport	In progress	YES (4 out of 11 implemented)
ECOWAS	Protocol no A/P/.1/5/79	All, 13 out of 13	Yes, ECOWAS passport, travelers' checks	No	YES
CEMAC	Arête, June 29, 2005	4 out of 6	NO	NO	NO
COMESA	Article 164	None	NO	NO	NO
SADC	Article 14	7 out of 15	Yes, but visa still required in SA and Zimbabwe after 90 days	In progress	NO
UEMOA	Article 4	All, 6 out of 6	Harmonized with ECOWAS	No	Yes

Note: AMU = Arab Maghreb Union; CEN-SAD = Community of Sahel-Saharan States; EAC = East African Community; ECCAS = Economic Community of Central African States; ECOWAS = Economic Community of West African States; CEMAC = Communauté Economique et Monétaire de l'Afrique Centrale; COMESA = Common Market for Eastern and Southern Africa; SADC = Southern African Development Community; UEMOA = Union Economique et Monétaire Ouest Africaine.

Sources: ARIA V 2011 (forthcoming), RECs' respective Web sites for tourist "univisa" and passport information.

Managing Illicit and Irregular Migration

Many nations are reluctant to allow increased freedom of mobility of nationals from certain countries due to concerns about the negative consequences of illicit migration—that is, human trafficking, organized crime and terrorism. Additionally, nations fear that irregular migration—from people seeking refuge, asylum or relief from economic crises—will shock the security, stability and economy of the state that is absorbing the immigrants. According to the United Nations Development Program (2010), of the 29 million emigrants from Africa, 2.3 million are recognized as refugees displaced mainly by war, drought or other natural disasters. South Africa experienced a series of xenophobic riots when a large influx of Zimbabweans migrated to escape declining economic conditions. Kenya and Ethiopia received influxes of Somali nationals during the 2011 famine in the Horn of Africa, ultimately depleting the two nations' emergency food reserves. Countries need a refined system for moving business people, traders and those who want to spend money legitimately while avoiding crime, drugs and terrorism. Refugee situations will continue to occur, but strong contingency planning and improved border management can help prevent the need to shut down borders completely.

Coordination of Protocol and Border Management

The coordination of migration protocol and improved border management facilitate the mobility of people. A few examples of improved coordination at the border level are the One Stop Border Posts (OSBP). The COMESA initiated the first OSBP on the Zambia-Zimbabwe border in Chirundu in 2009. In Chirundu, the creation of a passenger-only lane separate from commercial traffic has helped speed the movement of people (Trademark SA 2010). The South Africa–Mozambique OSBP in Lebombo will be exclusively dedicated to passengers, expediting taxi and bus traffic across the borders. A joint border patrol and diplomatic missions with improved capacity and technology will also help facilitate movement with a high level of security against illicit and irregular migration.

What Is the Holdup?

What is the holdup in improving the movement of people across borders? First of all, reforms of border management and protocols are costly, and governments do not want to give up the revenue and jobs generated by immigration control and customs fees. One way to encourage the members of the RECs to open up their borders uniformly would be to replace the revenue that was created previously by visa fees. One source of revenue in the pipeline are tourist visas for nonmembers, such as the much-hyped SADC "univisa," but these efforts need to be prioritized to come to fruition. New border technology and infrastructure, such as scanners, cameras, satellites, roads and bridges, are also costly.

A possible solution is to get firms in the private sector to buy into the improvements, enticing them with the benefits of being involved with the design of borders from the beginning of the project. For example, the Walvis Bay Corridor Group is a public–private partnership (PPP) that has reduced bottlenecks from Walvis Bay, Namibia, to the Democratic Republic of the Congo by improving infrastructure and establishing protocol, such as the single administration document that replaces multiple forms easing the burden on border staff and private transportation employees. With regard to the movement of people, the group has developed the Safe Trade and Transport Program to provide health, safety and security to the human resource component of intraregional trade. This program has set up wellness clinics along the corridor to prevent and mitigate the effects of HIV/AIDS on the trucker population (Walvis Bay Corridor Group 2011). PPPs have also been used to finance projects in the European Union. The Channel Tunnel rail link between the United Kingdom and France is an example that has had relative success, and the Perpignan–Figueiras rail link on the border of France and Spain has also been touted as a model PPP (Van Der Geest and Nunez-Ferrer 2011).

If intraregional trade is to become a reality in Africa, the free movement of people must be realized in parallel with free trade. Although both issues require complex negotiations, the real solutions will create arrangements with high value to all stakeholders—both private and public.

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Enhancing Intra-African Trade through Functional Cooperation

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The pooling of markets, currencies and economies and the formation of regional political federations within Africa are supposed to increase intraregional and interregional trade gains, competition, employment and investments across the continent. However, this integration process has proven to be time consuming and cumbersome. Even with the progress that has been achieved, trade remains low in African countries. Therefore, there is a need now to consider alternatives. Intraregional trade in the African continent is at 10 percent of total trade, compared with 69 percent in Western Europe, 49 percent in Asia and 40 percent in North America (Velde 2009). Various reasons have been put forward as to why intraregional African trade has remained low, such as high transportation costs, tariffs and customs issues. One alternative way to look at the issue would be to shift the emphasis from the formation of markets and currency unions to the formation of functional cooperation in order to enhance intraregional trade.

According to Girvan (2007), functional cooperation involves "the sharing of services and the undertaking of joint activities in order to reduce costs and achieve synergies." The advantage that functional cooperation has over regional integration is that it does not require countries to give up their sovereign powers on any matter. Furthermore, regional integration's benefits are mainly economic, whereas functional cooperation's benefits encompass both economic and other aspects of human and social development. Regional integration requires countries to give up their sovereignty in matters pertaining to monetary and fiscal policy and to political control which they often do not wish to do. However, functional cooperation is easier to undertake and less cumbersome. Countries simply need to agree on the best way to share their common resources to better serve the region. This sharing is expected to result in reduced transaction costs and enhanced intraregional trade.

Functional cooperation more often than not involves regional public goods that extend across national borders. For instance, areas where functional cooperation can be undertaken would be in the provision of public health, environment/agriculture/land, security, scientific research and development, transportation and telecommunications, tourism, disaster management and fisheries/water management—to name a few. Functional cooperation is not a new concept, as evidenced by its existence in some parts of Africa. In the first iteration of the East Africa Community (EAC), functional cooperation existed whereby EAC members shared specific public services for their synergic advantages, such as the East African railways, airways, telecommunications and postal services. Transaction costs fell and trade within the EAC region was high. The EAC has since been revived with the signing of the tripartite agreement in 1996; while the East African Customs Union and common market protocol were established in 2010 (Economic and Social Research Foundation 2011). Currently, there are initiatives in the South Africa and East Africa trade blocs to cooperate in joint infrastructure projects—rail, roads and waterways.

In other parts of the world—in particular, in the Caribbean Community (CARICOM)—functional cooperation has been successful in bringing about sustainable development, as evidenced by the improved incomes, economic structures, health, education, safety nets, governance and quality of life in the countries of the community. The Caribbean region has experienced a reduction of export concentration and an expansion of imports intraregionally. CARICOM intraregional trade in fats and waxes, and animal and vegetable oil constituted almost 90 percent of its total exports in 2006. According to CARICOM (2008), "intraregional trade exports of miscellaneous manufactured articles and beverages and tobacco on average accounted for 40.6 percent and 39.7 percent of CARICOM's total exports in these respective categories in 2006." Similarly, CARICOM (2010) notes that "intraregional trade grew 23-fold from 1973 to 2008." This success has been attributed to the regional integration process, and the explanation to a large extent is found in the functional cooperation underpinning CARICOM's single market and economy process (CARICOM 2007, 2010).

Given the success of functional cooperation in enhancing intraregional trade in the Caribbean, the efforts in Africa to cooperate in the provision of services ought to be strengthened. The institutional framework exists in African countries and they are already engaging in discussions of the areas where they can cooperate regionally. However, the recent trend is for talks to focus on the formation of common markets or currency unions. More effort should be put toward the common ownership and provision of services, infrastructure and institutional arrangements that will facilitate both intraregional and extraregional trade. The benefits from such efforts would enrich the livelihoods of the residents of African countries with better services and also lead to increased trade.

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Kenya's Trade within the East African Community: Institutional and Regulatory Barriers

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Regional trade arrangements are instrumental in promoting global trade and foreign direct investment. The East African Community (EAC), one example of such an agreement, is comprised of Burundi, Kenya, Rwanda, Tanzania and Uganda; in 2010 the EAC included an estimated population of more than 130 million people; and, in 2001 it had a combined gross domestic product of $74.5 billion. The EAC was revived in 1999 after having been dissolved for a number of years. It established a customs union in 2005 and a common market in 2010. Its next phases involve the creation of a monetary union in 2012 and a political federation in 2015.

Kenya's Trade Performance within the EAC

Trade among the five EAC partner states grew from $1.81 billion in 2004 to $3.54 billion by the end of 2009, an increase of 96 percent. This growth can be attributed to, among other factors, the establishment of the customs union. However, intra-EAC trade remains low and currently stands at 13 percent of the total trade volume. This compares poorly with other regional trade arrangements such as the European Union and the North America Free Trade Agreement, where intraregional trade accounts, respectively, for 60 percent and 48 percent of total trade portfolios.

Agricultural commodities and manufactured products, to some extent, form the bulk of intra-EAC trade; food, live animals, beverages, tobacco and inedible crude materials dominate its trade. Kenya's exports to the region, however, are more diversified and include chemicals, fuels and lubricants, machinery and transportation equipment.

The EAC is a major destination for Kenya's exports. For instance, in 2010 the EAC accounted for 53 percent of Kenya's total exports to the rest of Africa and 24 percent of its total exports to the world. In the same year, Uganda was Kenya's leading export destination, absorbing 12.7 percent of total exports, while Tanzania and Rwanda came in fourth (8 percent) and 10th (2 percent), respectively. Overall, Kenya's trade value in the region has grown significantly, from $1.2 billion in 2008 to $1.52 billion in 2010, representing a 26.7 percent increase. Kenya accounts for about 45 percent of the total intra-EAC trade.

The EAC's deepening and expansion have widened the scope of trade opportunities for Kenya's businesses during the last 10 years. However, Kenya has not yet fully exploited the opportunities offered by the EAC's integrated market, a problem that is increasingly associated with institutional and regulatory barriers to trade in the region.

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Institutional Barriers to Kenya's Trade in the EAC

Various Kenyan ministries, departments and parastatals regulate and support the country's trade, including the Ministries of Trade, Finance, Justice and Constitutional Affairs, Public Health and Immigration. Specific agencies that are also involved include the Kenya Plant Health Inspectorate Service (KEPHIS), Kenya Revenue Authority (KRA), Kenya Bureau of Standards (KEBS), Kenya Ports Authority (KPA) and Kenya Roads Board (KRB). In performing their functions, these institutions and agencies sometimes hinder the free and smooth flow of goods and services in the EAC. These hindrances occur because of the setting of product standards, technical regulations and conformity assessment procedures that constitute technical barriers to trade.

Of the agencies mentioned, the KRA has the most significant impact on intraregional trade. It is responsible for the enforcement and management of the customs laws and the administration of common external tariffs. Additionally, the clearance of goods by the KRA takes time because of the lack of harmonized import/export documentation and procedures. Currently, the digital data exchange system used by revenue authorities is operational in Rwanda, Uganda and Kenya, but not in Burundi and Tanzania. Only Kenyan customs operates for 24 hours, meaning that even if goods are cleared in Kenya, they are delayed for Burundi and Tanzania by other member states.

Other important agencies that affect the EAC's trade in Kenya include KEPHIS, which inspects plants and issues a plant import permit; KEBS, which tests and grades the quality of goods; KPA, which manages port charges; and the Kenya police, which provide security and inspect cargo by verifying legal documents. Others agencies include the Immigration Department, which issues work permits; KRB, which deals with the application of axle load specifications through the truck scales; and the Public Health Department, which inspects goods to ensure that they are fit for consumption. All these agencies operate independently of each other, without much coordination (thereby occasioning delays). In addition, most of them do not operate 24 hours a day.

The Ministry of the EAC coordinates, facilitates and oversees affairs related to the EAC. Together with similar ministries from partner states, it makes various policies for implementation by relevant agencies. However, there is a disconnect between the officers at the border points and those at the ministry's headquarters; decisions and policies made by the latter are often not communicated to the former.

Regulatory Barriers to Trade

The reduction of tariff barriers following the implementation of the EAC's customs union in 2005 resulted in an increase in the use of nontariff barriers as a tool for regulating trade.

Customs Clearance

Before the importing or exporting of commodities within the EAC, a trader must obtain an import declaration form (IDF) issued by an appointed government agency in the partner states. The issuance of IDFs involves numerous agencies (the government printer, the national bank, KEPHIS, KEBS, KPA and KRA), which conduct the procedures for the inspection, verification of dutiable value and certification of compliance. The result of having all these agencies partake in the issuance of IDFs is often duplication of effort and wasted business time. Additionally, in some cases, inspection bodies have not established inspection posts at major entryways, thus forcing traders to travel long distances for customs clearance.

Standards and Certification

EAC member countries apply numerous certification and conformity assessments to ensure technical quality standards in intra-EAC trade. However, there are differences in product standards and agencies that are accredited to undertake the standardization procedures. Some agencies accredited to conduct standardization in one country are not recognized by officers in another country—a problem that adds to the cost of conducting certification and wastes time.

Rules of Origin

Currently, EAC member countries do not have their own specific rules of origin; instead, they apply the ones adopted by the Common Market for Eastern and Southern Africa. These rules of origin stipulate that a good must wholly be produced or contain imported content of no more than 40 percent of the cost, insurance and freight value of the materials used in production. The procedure for obtaining the certificate of origin is cumbersome and lengthy, which itself is costly for the business community.

Licenses and Permits

Licenses required within the EAC include a business license, an import/export license, a road transportation license and a municipal council license. The procedures for obtaining these various licenses vary across countries. In addition, there is a lack of preferential treatment to EAC-originating businesses. This makes cross-border registration of businesses a difficult, cumbersome and expensive process. In most EAC countries, manual processes are used in business names searches, registration and the payment of relevant charges. Moreover, multiple licenses are required for the production, distribution and sale of goods, resulting in duplication and prohibitive costs of doing business in the region.

Immigration Procedures

For citizens of EAC member countries, visas are not required for travel within the community. However, movement of people across the region is restricted to passport holders or those with temporary travel documents, and a majority of EAC residents do not hold such documentation. In addition, the requirement for the yellow fever vaccination by Tanzania has been identified as a major bottleneck to trade. Although this is justified on the basis of health concerns, the procedures for its application and the fee of $50 for those who apply at the entry points pose a challenge. Therefore, the cost of movement across boundaries has a significant impact on cross-border trade.

Police Checks and Roadblocks

Within the EAC, there are many roadblocks and police checkpoints along the major roads that disrupt the efficient movement of goods. For every 100 kilometers, traders encounter about two, five and seven roadblocks in Tanzania, Uganda and Kenya, respectively (Karugia et al. 2009). These stops are costly in terms of time and money. Making matters worse, police officers often solicit bribes at these locations from transporters and traders, especially those whose vehicles have foreign registrations.

Truck Scales and Inspections

The mandatory weighing of goods along the transit route adds time and cost of upkeep for transporters. These costs are particularly significant on the Kenyan and Tanzanian sides of the transportation corridors. Acceptable weights per axle and the number of axles per metric ton have not yet been harmonized among the EAC member states. Numerous truck scales along the main road transportation routes like the Northern Corridor makes it difficult to move goods to destinations on time. In addition, because the EAC members have not yet harmonized gross vehicle mass, 54 metric tons are allowed in Kenya, 45 metric tons in Uganda, 56 metric tons in Tanzania and 58 metric tons in both Rwanda and Burundi.

Language Barriers

English is the agreed-upon language across the EAC for the purposes of administration, public trade facilitation and private transactions. However, for francophone Burundi, customs officials still insist on documents being translated into French. To fulfill this requirement, traders must incur extra costs and time. Translation can involve traveling to Bujumbura to have the documents certified before transportation commences.

Recommendations

The further expansion of intra-EAC trade will require a sustained effort toward reducing and eventually eliminating the various institutional and regulatory barriers identified in this policy brief. First, all the agencies operating at the border points need to have harmonized inspection processes to hasten the clearance process and reduce delays at the borders. Consideration should be made to establish a one-stop border shop. Second, the agencies should simplify various application forms with a view to reducing lengthy and technical procedures. Third, more point offices (i.e., focal points) for obtaining important information regarding the EAC are required. Currently, there are only two regional offices, in Busia and Namanga, and these lack adequate staff.

On regulatory barriers, Kenya and the other EAC governments should streamline customs clearance procedures, rules of origin and standards by reducing the number of trade documents required and by harmonizing the nature of the information to be contained in these documents. Such documentation should also be designed and standardized in accordance with internationally accepted standards, practices and guidelines and should be adaptable for use in computer systems. In addition, the customs departments in partner states need to harmonize information and communication technology programs. The international community can play a key role in enhancing technical capacity in the region by helping to identify, communicate and advise institutions on how to eliminate barriers to trade.

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Barriers to Uganda's Trade within the Regional Trade Blocs of the EAC and COMESA

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Uganda is a member of two regional trade blocs: the East African Community's (EAC's) Customs Union, along with Kenya, Tanzania, Rwanda and Burundi; and the Common Market for Eastern and Southern Africa (COMESA), which has a total membership of 19 independent states, including Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, the Democratic Republic of the Congo, Libya, Sudan, Uganda, Kenya, Malawi, Zambia, Mauritius, the Seychelles, Madagascar, Swaziland, Zimbabwe and Rwanda. The ratio of Uganda's trade flow to the COMESA has declined over the years, from 71.2 percent of the country's total exports to the world in 2003 to 37.6 percent in 2010. Likewise, the country's exports to the European Union dropped from 34 percent in 2002 to 22.6 percent by 2010, although this is narrower compared with the COMESA. Conversely, Uganda's exports to the EAC region grew by about 7.2 percent from 2001 to 2010. The drop in Uganda's trade flow to the COMESA could partly be attributed to the poor physical infrastructural network, which adds greatly to the costs of transporting goods.

Although there has been much progress in trade liberalization within the EAC and COMESA, a range of reforms still need to be addressed, especially nontrade measures hindering full exploitation of the trade potential within these blocs. A number of attempts have been made and are now underway to deal with some of the trade barriers within the blocs. However, many of the efforts require more resources and political will aimed at addressing issues of poor physical infrastructure to reduce the cost of transportation, as well as facilitating the free flow of trade within the region. Another challenge is the slow implementation of the member states' commitments to eliminate tariff and nontariff barriers. The current tariff barriers refer to category B products (i.e. products that are considered particularly sensitive to competition from other countries, including for example agricultural products and various manufactured goods), which were granted asymmetrical tariff liberalization among the EAC partner states, that is, Uganda and Tanzania on Kenyan products. The common nontariff barriers still prevailing within the two blocs include the major impediments of cumbersome customs documentation and clearance procedures, border controls, transportation and transit traffic regulations, visa requirements and corruption.

The primary barrier to Uganda's trade with its regional partners is the poor physical infrastructure development in terms of quality, maintenance and connectivity within the region. The railway and road networks linking Uganda to its regional partner states remain in poor condition. Their connectivity also remains limited to EAC and COMESA partners. For example, Uganda lacks railway connection to Tanzania, Burundi, Rwanda, the DRC, Sudan and Ethiopia. Likewise, Kenya lacks the same infrastructural linkages to Tanzania, Ethiopia and Sudan. These deficiencies have increased trade transaction costs and depressed trade opportunities within the region. For example, inland transportation and handling for Uganda costs $2,150 during exportation and importation (World Bank and International Finance Corporation 2011). Conversely, in Malawi it costs $1,000 for export-related inland

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transportation and handling ($1,900 for import-related) and only $900 for export and import inland transportation and handling in Lesotho, both of which are landlocked countries whose expenses are much lower than those of Uganda. However, other landlocked countries in East Africa suffer similarly, with costs in Rwanda and Burundi being $2,300 and $2,200 for export-related costs.

The second issue is the persistent interference with ground transportation, especially truck transportation, which is characterized by arduous customs and roadblock checks. For example, it takes four and five days, respectively, to secure export and import customs clearance and technical controls in Uganda (World Bank and International Finance Corporation 2011). In addition, there are about six truck scales from Mombasa to Malaba, including those in Mariakani, Narok (mobile), Gilgil (Static), Eldoret (mobile), Webuye (static) and Amagoro (mobile, but permanent). In Uganda, there are three truck scales between Malaba and Kampala located in Malaba (permanent) just before customs, Busitema (permanent) and Iganga (mobile).

Likewise, there are about 13 checkpoints in Kenya staffed by security agencies (mainly Kenyan police and administration police), which are located in Mombasa (town exit), Miritini, Mazeras, Voi, Konza, Athi River (before the truck scale), Mai-Mai, Mau escarpment, Mai-Mahiu, Gilgil, Salga, Timborwa and Kandui. Likewise, in Uganda, there are more than seven checkpoints, which include Malaba (Special Protection Revenue Unit, SPRU), Busitema (Uganda Revenue Authority, URA), Busitema (Police, 1 kilometer from URA checkpoint), Kitende (police), Lukaya (URA/SPRU), Kyazanga (police), Mbarara (URA) and Kabale (police). These holdups act as avenues for corruption, consequently undermining the efforts toward trade facilitation practices at border entry and exit points, roadblocks and truck scales (Uganda Freight Forwarders Association 2011).

The EAC and largely COMESA partner states are currently entwined in exporting substitutable products rather than complements. For example, all the EAC partner states export to each other, inter alia, plastics, dairy products, food stuffs, soap products, cement, paints and varnishes, and vegetable, fats and palm oil. This has generated unnecessary competition within the single market, which in turn has limited the gains from trade, especially for Uganda because it is landlocked and incurs more production costs for the transportation of some raw materials. Thus, Uganda needs to rapidly diversify its exports, especially in the services industry, in order to reap the gains of integration.

Uganda and its partners within the EAC, except for Rwanda, maintain work permit requirements even for citizens of other EAC and COMESA partner states. This restriction undermines the free movement of people within the region. Similarly, in terms of capital movement, Tanzania remains closed to foreign capital stock trading—among others, according to the EAC Protocol on the Movement of Capital, the purchase of foreign securities locally by nonresidents (however, this restriction will end December 31, 2014), the sale or issuing of debt securities locally by nonresidents (ending December 31, 2015), the sale or issuing of debt securities abroad by residents (the elimination date is December 31, 2012), the purchase and sale of money market instruments locally by nonresidents (ending December 31, 2015) and the purchase or sale of money market instruments abroad by residents (ending December 31, 2015).

Recommendations

Uganda first and foremost needs to address the stock and quality of its physical infrastructure affecting the efficiency of its producers and traders. This will require extensive investment in the road, railway and energy sectors. This could be done more effectively, especially for the energy sector through a public–private partnership framework, which seems to be the current alternative. However, this should be done in rationalized formulas, that is, with appropriate laws and policy strategies to guide the process. Likewise, with regard to the road and rail infrastructure, there is a need for a joint venture among the partner states to combine their resources to construct highways and rail networks that would connect regional markets. This could work through forming a trust infrastructure fund that could be developed through borrowing and putting the funds in one basket under the management of the EAC Secretariat, which is currently attempting to implement the ambitious and robust EAC Fourth Development Strategy (2011-16) geared toward the consolidation of the customs union, with emphasis on infrastructure development to facilitate trade in the region.

Uganda also strongly needs export diversification. Achieving successful and sustainable diversification will require a mix of public and private sector activism to address coordination failures and support the entry of firms into new activities. In an effort to minimize unnecessary competition of products within the region, the EAC Secretariat is drafting an industrial policy strategy to guide partner countries on the respective sectors of their relative comparative advantage. However, some of the semiautonomous agencies have encountered challenges vis-à-vis such initiatives—for example, the Uganda Investment Authority, which is charged with investment promotion and licensing, has been faced with high political influence over some of its activities, particularly in public land allocation, vetting investor potential, and monitoring and evaluating incentive structures. The successful implementation of the EAC industrial strategy therefore would require partner states to establish autonomous agencies in charge of investment in particular sectors, and thereafter the government could fault the shares in the market for private shareholding. For example, this could entail recreating agencies such as the Uganda Development Corporation, which was an autonomous body charged with overseeing preliminary investments in various sectors in the 1960s to 1980s.

Political will and commitment are central to the implementation of trade agreements. The prevailing nontariff barriers, such as arbitrary police roadblocks and unnecessary checks along highways and customs border posts, violate Article 13 of the EAC Customs Union Protocol. These barriers can be indefinitely removed or eliminated through political interventions. However, the staffs of the committees that are charged at national levels with monitoring the elimination of these barriers are made up of mere civil servants who do not have any political authority to ensure enforcement. Therefore, the political heads need to strengthen institutions with sufficient political authority to deal with such barriers to improve trade flow. For example, the Ministry of Trade and EAC Affairs in Uganda should be given a degree of political authority over the police in dealing with such barriers.

The free mobility of skilled labor is a prerequisite for open trade. Given that the implementation of the EAC Common Market took effect on July 1, 2010, there is a need to ease and adjust the respective partner migration policies toward skilled labor to facilitate the flow of labor and to address persistent skills shortages in specific fields. This would help foster regional trade and raise competitiveness. Thus, Uganda and its partner states need to follow the directions of Rwanda with regard to the elimination of work permits, in order to deepen the spirit of regional integration and harness the benefits of trade.

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Dynamics of Trade between Nigeria and Other ECOWAS Countries

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Nigeria's trade with the other countries that belong to the Economic Community of West African States (ECOWAS) remains poor—as do aggregate trade flows among all the ECOWAS member states.[1] Specifically, Nigeria's export to the ECOWAS region, which averaged about 7 percent of its total exports between 2001 and 2006, plummeted to 2.3 percent in 2010. The vast majority of Nigeria's exports to the ECOWAS are mineral fuel and oils, which reached 97 percent and 94 percent, respectively, in 2009 and 2010. Comparatively, the share of manufacturing in Nigeria's total exports to the ECOWAS region climbed from 1 percent in 2001 to 5.4 percent in 2010, while the share of Nigeria's agricultural exports—which was 3 percent in 2001—plunged to nearly nothing in 2009 and 2010. Likewise, the share of other ECOWAS countries in Nigeria's imports dropped from 4.4 percent in 2001 to less than 0.5 percent in 2010.

Constraints on Expansion

The prospect for significant trade between Nigeria and other countries in the ECOWAS zone is constrained by parallel or noncomplementary production structures across member countries. For instance, the share of agricultural products as a percentage of GDP was approximately 72 percent in Liberia in 2000 and approximately 62 percent in Guinea Bissau in 2006. Similarly, services accounted for nearly 61 percent of the Senegalese GDP and 74 percent in Cape Verde in 2006. In contrast, share of manufacturing in GDP was below 5 percent in Guinea, Mali, Sierra Leone and Nigeria between 2000 and 2006 .

A widespread infrastructural deficit also remains a formidable obstacle to the expansion of national output and the generation of surpluses for export within the region.[2] According to the World Bank (2007), delays in obtaining necessary connections to electricity can average up to 80 days, while electricity outages occur on average 91 days per year. Furthermore, the value of output lost, as a proportion of turnover due to electrical outages, is estimated at 6.1 percent. Similarly, telephone outages average 28 days a year. Moreover, the average freight cost in West Africa in 1997 was about 12.9 percent of the cost of insurance and freight import values, in comparison with 4 percent of these values for developed countries (World Trade Organization 2004). The incredibly high volume and range of nontariff barriers that are still in force is corrosive to intraregional trade. The number of checkpoints erected by law enforcement agents along highways connecting West African countries range from seven per 100 kilometers between Lagos and Abidjan to two per 100 kilometers between Accra and Ouagadougou.

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[1] The ECOWAS member states are Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Nigeria, Niger, Senegal, Sierra Leone and Togo.

[2] According to the Manufacturers' Association of Nigeria, infrastructural inadequacies particularly shortfalls in electricity provision resulted in the closure of 86 industrial firms in Kano in 2009–10. During the same period, 834 firms shut down across the country, with an estimated loss of 830,000 jobs.

Differing standards and certification measures are likewise required through ECOWAS members, covering food safety, fair trade and organic certification standards, as well as labor and several kinds of environmental and labeling standards.

Recommendations

Policymakers should consider infrastructure, regional value chains, the role of corruption and the value of regional integration when identifying priorities for stimulating intra-African trade. Massive investment in critical infrastructure is essential to encourage growth, unlock productive capacity and induce structural transformation. This will encourage an export supply response in sectors such as agriculture, manufacturing and mining.

Growth corridors and regional hubs can be useful strategies for spurring economic activities and inspiring diversification. National and regional industrialization strategy should focus on transforming agricultural products into manufactured goods and the provision of high-technology services at competitive prices to enhance the potential for trade within the ECOWAS. Production sharing, cross-border input supply and conditional incentives for exports can foster the development of local and regional value chains and strengthen export competitiveness. Certain agricultural products (e.g., bananas, sweet potatoes and sugarcane) could be processed, properly packaged and traded. There is also considerable potential for trade in timber, limestone and marble. Regional value chains should be developed for products such as textiles and clothing.

The unnecessary delays, harassments and massive graft associated with corruption among those engaged in intraregional trade in West Africa needs to be addressed in order to increase trade. This will require a coordinated and harmonized implementation of ECOWAS protocols on the free movement of goods and people across the region by, in particular, dismantling the numerous security outposts and checkpoints along the borders. This process will facilitate trade, reduce smuggling activities and promote regional investments in trade. Signing bilateral trade and investment agreements between countries in the region will facilitate trade creation and arrest the diversion of trade to the European Union and China. To reduce trade diversion, a supranational body or the region's more prosperous countries should fill any vacuum created by the stepping back of non-African trading partners. Regional innovation and technology policies should be crafted to ensure the diffusion of technology, and a comprehensive competition policy outlining the rules of the game in the form of rewards and sanctions for the conduct of national economies in intraregional trade could also be designed. There is a need for greater efficiency in the delivery of trade-related services by banks and other financial institutions in the region. Adequately capitalized export-import banks should be encouraged to support trade within West Africa by facilitating the painless and expeditious transfer of export receipts and import payments.

To effectively stimulate growth across sectors and among nations in the ECOWAS region, including Nigeria, significant efforts must be undertaken to address these challenges if the benefits of intra-Africa trade are to be truly realized.

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