# Introduction: Intra-African Trade in Context

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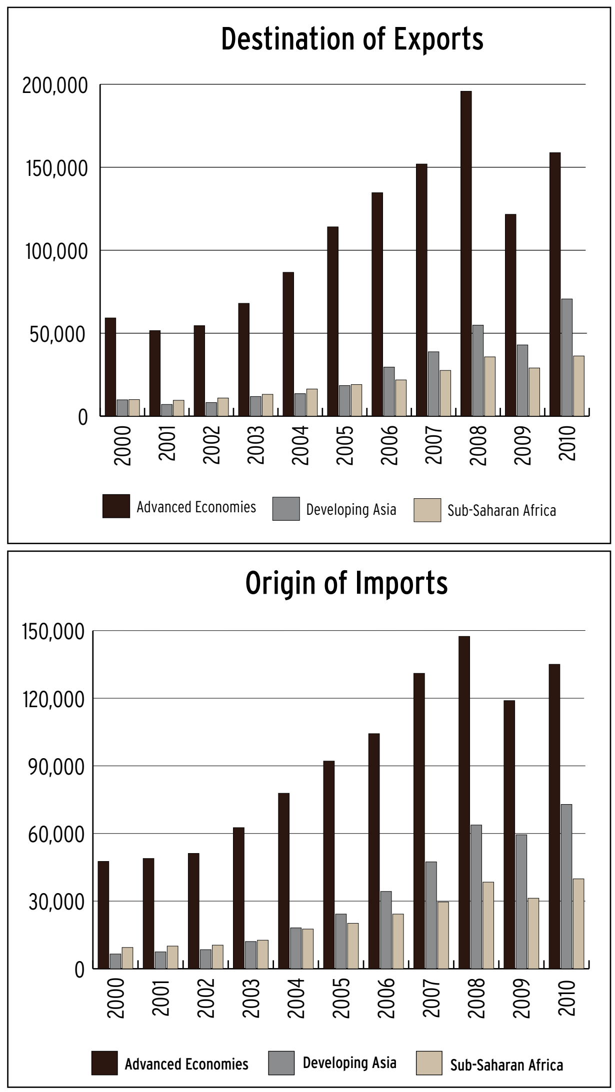
Africa, which covers approximately 30 million square kilometers, is the second-largest continent in the world and approximately three times the size of the United States. Viewed from the perspective of its economy, however, Africa is quite small. In 2010, its gross domestic product was approximately $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)**

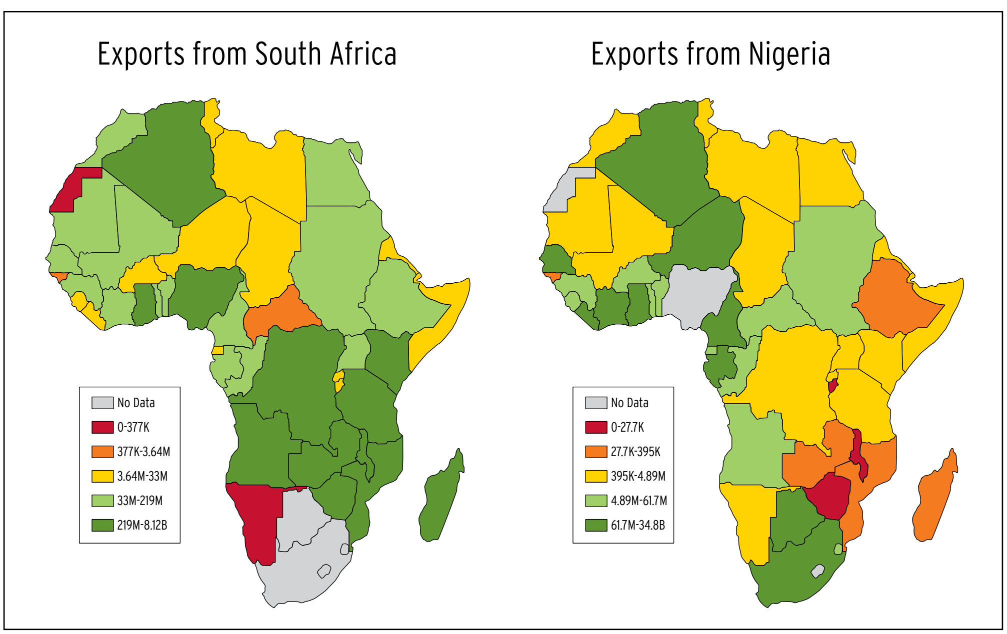
| Regional Economic Community | Value |
|---|---|
| Economic Community of Central African States | 382 |
| Common Market for Eastern and Southern Africa | 8,092 |
| East African Community | 1,996 |
| Economic Community of Central African States | 482 |
| Economic Community of West African States | 8,910 |
| 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.

## References


Lesser, C., and E. Moisé-Leeman. 2009. *Informal Cross-Border Trade and Trade Facilitation Reform in Sub-Saharan Africa*. OECD Trade Policy Working Paper 86. Paris: Organization for Economic Cooperation and Development.

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