

**REPORT TO FIFTH SESSION OF COMMITTEE ON TRADE AND REGIONAL INTEGRATION
OCTOBER 2007, ADDIS ABABA**

DEVELOPMENTS IN INTRA-AFRICAN TRADE

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I. Introduction

In March 2005, the fourth session of the Committee on Trade and Regional Cooperation and Integration (CTRCI) examined *inter-alia* the topic of intra-African trade and the status of international trade negotiations. The Committee observed that progress on all these fronts remains weak or limited at best. Intra-African trade therefore continues to remain a major issue of concern to policy makers so is trade with the outside world as it is a major part of Africa' total trade. Consequently, the fifth session of the CTRCI will review developments on both fronts. On intra-African trade, it is the intention of ECA to devote the next edition of the ARIA series (Assessing Regional Integration in Africa) to intra-African trade and infrastructure, the latter being a key ingredient of the former. The CTRCI is therefore expected to provide suggestions and guidance to the ECA NEPAD and Regional Integration Division (NRID) on this major research work to be undertaken on intra-African trade.

The fifth session will also examine the latest developments in the international trade arena, in particular in the context of the WTO negotiations and the discussions on the economic partnership arrangements with Europe, and assess Africa's realistic expectations and outcomes from these global trade talks. As a constant item on its agenda, the Committee will examine other matters relating to the Division's activities in support of regional integration in Africa, with focus on the transport sector as a key driver of growth in both internal and international trade.

Against this backdrop, and in accordance with NRID's 2006-2007 work program, this report is a "parliamentary document", providing background information for the Committee's discussions and recommendations on developments relating to intra-African trade. In this regard the report will address the following topics pointing out relevant issues for interactive discussions by the Committee:

- Why intra-African trade is important
- Africa's export and import patterns
- Challenges of intra-African trade
- Intra-African trade potential
- ECA future in-depth research on intra-African trade in the context of the fourth edition of ARIA (Assessing Regional Integration in Africa).
- Conclusion

II. Why intra-African trade is important

Through the Treaty Establishing the African Economic Community -Abuja Treaty (now the African Union), Africa has a vision to create a common continental market for goods and services, coordinate macro-economic policies for interest rates, exchange rates, budget deficits and fiscal spending, and develop physical infrastructure to ease transport and communications across all borders. And with a unified common market, production factors including workers are expected to move freely across countries. This vision makes sense for Africa's 53 mostly small economies, because the common market would provide access to a wider trading and investment environment, inducing backward and forward supply links and permit the economies of scale that make countries competitive. Thus, a range of manufacturing activities would be able to operate on a larger scale, expanding the industrial base necessary for Africa's economic transformation.

The common market space thus created can be optimized with a growing level of trade among the countries, because more trade among them would mean more retention of wealth within the bloc, which in turn would enhance the availability of funds to permit new investments and job creation.

It is for the same reasons that the Regional Economic Communities exist to expand trade at the subregional level by breaking down tariffs and non-tariff barriers and enhancing mutually advantageous commercial relations through trade liberalization schemes. The details, sequencing, modalities and the pace of these schemes however vary from sub-region to sub-region, but they usually have common objectives in terms of establishing Free Trade Areas and Customs Unions as a prelude to the common market.

The focus on intra-African trade raises the question as to whether one should discount international trade in favor of intra-African trade. Certainly not. International trade has played an important role in African economies and will continue to do so. African countries have strong links with their traditional trading partners in the industrialized world, and currently, Africa-south trade is a fast growing aspect of the continent's international commerce. For instance, China-Africa trade exceeded \$10bn in 2000 for the first time. Since then, the growth in bilateral trading relations and investment has been exponential. Africa's trade with China *is now worth about \$40bn.*

There is undoubtedly a virtue in trade with the outside world, and Africa faces a great challenge as to how to improve the terms of this trade with the outside world. But the fact still remains that Africa's trade within itself remains poor compared to the internal trade of other regions such as Europe and Asia. According to WTO 2006 international trade statistics, intra-African trade as percent of total exports was only 9.8% and 8.9% in 2000 and 2005 respectively. An average of between 9% and 10% of intra-African trade is what we consistently witness. Contrast this to intra-Europe export trade, which was 72.7% in 2001 and 73.2% in 2005, and has consistently been high. Among the 25 countries of the European Union, the figures are 66.8% and 66.7% respectively. Further contrast Africa's intra-export trade with that of South and Central America and Asia. Asia's intratrade as a percentage of the total exports of the region was 51.2% in 2005, while South and Central America's was 24.3%. These comparative statistics clearly show the unenviable record of Africa in terms of its intra-regional trade, and hence the need for the continent to do something to raise this low level of trade compared to what obtains in other regions.

It is often said that intra-African trade is perhaps greater than what the official trade data portrays because it does not take into account trade in the informal sector, which is perceived to be significant. While this may be plausible, it is not within the scope of this paper to venture into the stratosphere of informal trade.

III. Africa's export and import patterns

This section demonstrates Africa's export and import patterns of trade by selected regional groupings, showing key export destinations and sources of imports.

Table 1¹ highlights the available data on the overall direction of trade in terms of exports and imports in the various regional economic communities. The statistics are quite instructive in terms of the share of trade of each group within the REC itself, with the rest of Africa, and with the rest of the world, on average between 2000 and 2005.

Average intra-bloc trade, and trade with rest of Africa between 2000 and 2005

On average intra-REC exports between 2000 and 2005 were highest in IGAD (21.5%) followed by SADC (19.9%), ECOWAS (13.9%), EAC (12.6%), CENSAD (12.2%) and UEMOA (11.5%). RECs that traded the least among themselves on average between 2000 and 2005 (less than 1%) were CEMAC (0.9%), ECCAS (0.7%), and MRU (0.4%). In terms of exports to the rest of Africa, UEMOA was the highest (18.6%), followed by COMESA (8.6%), and EAC (7.2%). With regard to imports, SADC countries appeared to import the most from their Community market on average between 2000 and 2005, followed by EAC, ECOWAS and IGAD.

Average overall intra-African export and imports trade between 2000 and 2005

In terms of trade within the African continental market between 2000 and 2005 on average, UEMOA countries registered the highest percentage of exports to Africa (30.07%) followed by IGAD (27.26%), SADC (22.19%), EAC (19.82%), ECOWAS (19.38%) and COMESA (17.34%). CEMAC and ECCAS had less than 4 percent of their total export trade within Africa during this period. On imports, CEPGL ranks highest, followed by SADC, UEMOA, EAC and COMESA.

Table 1: **Overall direction of trade (exports & imports) in % (average between 2000-2005)**

RECS	INTRA REC		REST OF AFRICA (ROA)		ASIA (Includes China)		CHINA		EUROPEAN UNION (EU)		JAPAN		USA		REST OF THE WORLD (ROW)		WORLD	
	Exp.	Imp.	Exp	Imp	Exp.	Imp	Exp	Imp	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp	Imp.	Exp.	Imp.
CEMAC	0.9	5.2	2.7	8.9	23.1	6.9	11.6	2.8	36.1	52.4	0.8	1.9	28.9	13.1	7.4	11.6	100	100
CENSAD	12.2	13.0	4.5	6.4	18.9	16.4	6.0	6.1	35.5	39.1	1.9	2.7	8.7	4.9	18.3	17.5	100	100
CEPGL	2.7	1.6	4.7	35.5	17.6	8.3	3.9	3.7	39.8	33.5	6.0	2.4	7.0	4.1	22.2	14.7	100	100
COMESA	8.7	11.1	8.6	17.2	12.6	16.8	6.0	6.2	41.5	26.3	3.0	3.1	8.1	4.7	17.5	20.8	100	100
EAC	12.6	18.7	7.2	9.9	17.3	15.2	3.6	5.1	30.4	24.5	2.0	4.5	3.7	4.8	26.8	22.5	100	100
ECCAS	0.7	3.8	2.2	14.0	18.8	9.1	10.1	3.1	42.5	50.6	0.8	2.1	23.6	10.7	11.5	9.7	100	100
ECOWAS	13.9	15.8	5.5	5.2	20.7	17.3	4.2	6.8	40.4	40.7	1.7	2.9	7.3	4.3	10.0	13.7	100	100
IGAD	21.5	15.2	5.8	3.6	18.0	21.9	11.8	8.3	19.9	19.7	3.9	3.7	2.8	5.0	28.2	30.9	100	100
IOC	3.0	3.6	1.8	15.1	7.3	21.4	0.8	6.4	63.8	32.9	3.4	2.8	16.6	3.0	4.1	21.1	100	100
MRU	0.4	1.3	3.9	9.4	7.8	25.2	1.4	5.6	68.7	38.7	0.2	7.3	6.5	4.5	12.4	13.6	100	100
SADC	19.9	33.1	2.3	2.6	12.2	14.2	6.3	3.8	40.7	25.2	4.3	2.9	9.4	5.4	11.2	16.7	100	100
UEMOA	11.5	14.9	18.6	13.7	30.8	12.9	6.8	4.9	25.2	40.3	2.0	1.8	3.0	3.0	9.0	13.3	100	100
UMA	2.5	3.1	4.5	1.7	3.0	9.0	1.0	3.9	70.4	60.3	2.8	2.4	5.1	3.9	13.1	19.6	100	100
Average	8.5	10.8	5.6	11.0	16.0	15.0	5.6	5.1	42.7	37.2	2.5	3.1	10.1	5.5	14.8	17.4	100	100

Source: ECA, compiled from IMF DOT 2006, China included in Asia, but separated as a memorandum.

¹ See Annex 1 and 2 for details by country

Intra-REC Export/ Import growth trends between 2000 and 2005

In the preceding discussion, we have presented the data between 2000 and 2005 to show the overall direction of trade on average between this period. In the following discussion, we examine the percentage growth of the trade between member countries within a given REC.

Tables 2 and 3 below provide indices in intra-REC exports and imports, respectively. The implications of these results are mixed, ranging from a very small to moderate improvements in intra-REC trade in the years 2000-2005. For example, we observe that on average, all the RECs have registered a positive growth in exports to Community members, with RECs such as **CEMAC**, **CEPGL**, **COMESA** and **CENSAD** showing an average increase of 40% or more in exports. Five other RECs (**UEMOA**, **IGAD**, **SADC**, **ECOWAS**, **UMA**, **IOC**) registered a growth in exports to the Community in the range of 20% to 40%.

Table 2: Intra-REC Indices in Export trend (base year = 2000)

REC	2000	2001	2002	2003	2004	2005	Average Growth
CEMAC	100.00	121.88	139.34	152.07	181.15	206.98	150.24
CENSAD	100.00	100.20	132.67	140.09	171.83	212.30	142.85
CEPGL	100.00	106.73	127.42	142.86	187.62	214.37	146.50
COMESA	100.00	115.74	124.40	146.12	173.44	205.13	144.14
EAC	100.00	111.67	115.25	118.78	126.05	144.02	119.30
ECCAS	100.00	106.63	104.26	103.66	124.93	142.74	113.70
ECOWAS	100.00	81.93	114.31	109.74	157.13	196.99	126.68
IGAD	100.00	128.63	125.56	150.77	142.58	167.00	135.76
IOC	100.00	126.66	99.43	169.01	146.22	150.14	131.91
MRU	100.00	82.34	89.36	104.65	108.18	123.60	101.35
SADC	100.00	89.31	100.26	128.02	150.35	173.06	123.50
UEMOA	100.00	104.66	115.74	145.30	166.50	187.71	136.65
UMA	100.00	103.89	109.88	122.29	125.61	172.31	122.33

The trends in intra-REC imports are presented in Table 4. Similarly, we see growth in intra-REC imports in all the RECs, with the largest increase registered by COMESA, CENSAD, IGAD, CEMAC and IOC. Overall, there appears to be some encouraging signs of growth in intra-REC export/imports trade in most RECS. However, in terms of the share from total trade, the fact remains that in the majority of the RECs, over 80 percent of exports were destined to markets outside Africa, with the EU and USA constituting over 50 percent of this external export market.

Furthermore, a more rigorous and thorough examination (based on more detailed data for a longer period of time) is required in order to fully assess the driving forces behind the intra-REC growth trends as well as the significance and/or impact of any of such improvements on trade and regional integration.

Table 3: Intra-REC Indices in Export trend (base year = 2000)

REC	2000	2001	2002	2003	2004	2005	Average
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							Growth
CEMAC	100.00	119.18	113.58	152.78	170.35	194.64	141.75
CENSAD	100.00	118.63	115.70	159.09	178.36	218.93	148.45
CEPGL	100.00	106.72	127.45	142.81	187.56	214.30	146.47
COMESA	100.00	122.51	126.13	159.99	201.26	238.71	158.10
EAC	100.00	97.51	103.46	146.24	195.29	223.13	144.27
ECCAS	100.00	105.67	92.05	105.65	121.29	138.59	110.54
ECOWAS	100.00	105.67	92.05	105.65	121.29	138.59	110.54
IGAD	100.00	120.01	119.49	151.44	162.64	197.74	141.89
IOC	100.00	125.80	174.38	207.73	306.20	314.71	204.80
MRU	100.00	87.49	94.95	113.27	124.86	142.67	110.54
SADC	100.00	98.38	108.13	118.43	175.48	201.75	133.69
UEMOA	100.00	108.53	122.68	141.13	170.11	190.99	138.91
UMA	100.00	102.82	112.09	124.61	127.03	174.27	123.47

In tables 2 and 3, we examined the trends in intra-REC exports and imports. In Table 4, we highlight individual African countries' percentage share of the value of the total trade within Africa in terms of exports and imports within the period 2000 and 2005. Africa.

Table 4:

COUNTRY	EXPORTS	COUNTRY	EXPORTS	COUNTRY	IMPORTS	COUNTRY	IMPORTS
	%		%		%		%
South Africa	31.79	Congo, Rep.	0.37	South Africa	8.07	Gabon	0.78
Nigeria	14.56	Congo, DR	0.34	Zimbabwe	6.84	Rwanda	0.77
Côte d'Ivoire	9.86	Guinea	0.28	Zambia	6.12	Sudan	0.59
Kenya	5.36	Burkina Faso	0.27	Ghana	5.96	Liberia	0.58
Zimbabwe	4.19	Madagascar	0.23	Côte d'Ivoire	5.74	Djibouti	0.58
Zambia	3.07	Sudan	0.18	Nigeria	5.00	Mauritania	0.55
Egypt	2.97	Mali	0.11	Mali	4.99	Gambia	0.54
Libya	2.79	E.Guinea	0.08	Mozambique	4.27	Ethiopia	0.52
Senegal	2.45	Liberia	0.08	Morocco	3.39	E. Guinea	0.50
Algeria	2.05	Seychelles	0.07	Angola	3.35	Congo, Rep.	0.49
Morocco	1.86	Gambia	0.06	Kenya	3.35	Seychelles	0.42
Tunisia	1.58	Guinea-Bissau	0.06	Egypt	3.27	Sierra Leone	0.39
Cameroon	1.55	Somalia	0.05	Tanzania	3.23	Chad	0.38
Mozambique	1.49	Chad	0.05	Uganda	3.01	Burundi	0.37
Togo	1.21	Sierra Leone	0.05	Libya	2.71	Comoros	0.22
Tanzania	1.17	Burundi	0.04	Congo, DR.	2.70	Guinea-Bissau	0.22
Uganda	1.10	Rwanda	0.04	Senegal	2.69	CAR	0.15
Djibouti	1.09	CAR	0.04	Cameroon	2.49	Cape Verde	0.13
Mauritius	0.98	Cape Verde	0.00	Malawi	2.49	SACCA	0.13
Ghana	0.94	Comoros	0.00	Mauritius	2.31	São Tomé & P	0.02
SACCA ²	0.92	São Tomé & P	0.00	Burkina Faso	1.64	Zimbabwe	0.00
Benin	0.80	Total	100.0	Algeria	1.46	Togo	0.0
Gabon	0.80			Tunisia	1.30	Total	100.0
Mauritania	0.75			Benin	1.27		

² SACCA comprises Botswana, Lesotho, Namibia, and Swaziland.

Angola	0.69			Somalia	1.21		
Malawi	0.58			Guinea	0.94		
Ethiopia	0.51			Niger	0.93		
Niger	0.50			Madagascar	0.92		

Source: ECA, compiled from IMF DOT 2006

The countries that were major exporters to Africa in value were South Africa, Nigeria, Côte d'Ivoire, Kenya and Zimbabwe. Thus, even though South Africa's exports to Africa were only 13.5% of its total trade, in value terms, it represented 31.79% of the total of all the exports from African countries to Africa. Other countries that performed relatively well over the period included Zambia, Egypt, Libya, Senegal and Algeria.

Applying the same appraisal procedure to intra-African imports, we find that the best country performances in intra-African imports in value terms (over the 2000-2005 period) were South Africa, Zambia, Ghana, and Côte d'Ivoire, Nigeria, Mali and Mozambique. Other countries that performed relatively well over the period include Morocco, Angola, Kenya, Egypt, Tanzania, and Uganda.

Merchandise exports of Africa by major product group and main destination

Table 5 highlights the value of merchandise exports of Africa by major product group in 2005, and the share of those exports by major destinations including Africa in 2000 and 2005.

Table 5 Merchandise exports of Africa

From Africa	Total Merchandise			Fuels and Mining Products			Manufactures			Agricultural products		
	Value In Billion \$	Share (%)		Value In Billion \$	Share (%)		Value In Billion \$	Share (%)		Value In Billion \$	Share (%)	
	2005	2000	2005	2005	2000	2005	2005	2000	2005	2005	2000	2005
To World	297.7	100%	100%	194.2	100%	100%	63.0	100%	100%	32.3	100%	100%
To Europe	127.8	50.3%	42.9%	74.2	45.7%	38.2%	34.5	60.1%	54.7%	15.2	50.0%	47.2%
To North America	60.2	17.3%	20.2%	52.9	24.7%	27.2%	5.1	8.6%	8.1%	2.0%	5.0%	6.3%
To Asia	48.6	16.4%	16.3%	33.4	18.3%	17.2%	7.7	9.8%	12.2%	5.0%	18.2%	15.3%
To Africa	26.5	9.8%	8.9%	9.4	5.1%	4.8%	11.4	16.2%	18.1%	5.5%	18.7%	17.1%

Source: Source: ECA, compiled from WTO 2006

In 2005, Africa's total merchandise exports amounted to 297.7 billion dollars, with intra-African trade accounting for 26.5 billion dollars or 8.9%. (9.8% in 2000). Fuels and mining products constitute Africa's major export commodities, representing over 65% of exports in 2005. Over 70% of Africa's fuel and mineral exports went to Europe and North America, while only 4.8% served the African market. However, between 2000 and 2005, we see an increase in Africa's share of its export trade in manufactures from 16.2% to 18.1%. Table 5 also shows that Africa traded more with itself in 2000 and 2005 in manufactures and agricultural products than with Asia and North America. Europe remained the principal export destination in all the three major product groups.

Overall, the trade statistics provide low levels of intra-REC and intra-African trade relative, even though we some growth in the intra-bloc trade, overall the countries depend on the outside world for trade. The overall trade picture come be summed up as follows:

- Africa's dependence on the developed countries as predominant suppliers of imports and the markets for its exports.
- Heavy export reliance on fuels and minerals.
- Persistently small intra-African trade, consistently under 15%.

We attempt to highlight some of the persistent challenges underlying this phenomenon in the ensuing section.

IV. Challenges of intra-African trade

It is a fact that African countries, from various declarations and resolutions, are desirous to encourage trade among themselves and promote a collective development process through a regional integration pact of which trade liberalization constitutes an important component. Thus, barriers to the flow of goods and services would be lowered, hopefully allowing for substantial trade creation and trade expansion, which can positively impact on the industrialization and economic development of the members.

However, on the whole, with a few exceptions, not much progress has been made on intra-African trade in spite of the fact that many of the subregional integration groupings have been in existence over a considerable period of time, and implemented impressive trade liberalization measures.

A number of empirical studies (OECD-Longo, Sekkat; World Bank-Yeats, IMF-Carey, Gupta, Jacoby, Khandelwal, ECA-Mahamat) highlight the various challenges that continue to plague intra-African trade. We highlight some of these challenges below:

Structural deficiencies

An important dimension of free trade is the capacity to produce the goods and services to satisfy the liberalised and enlarged sub-regional markets. Production structures of member countries are not complementary. This has contributed to the lack of tradable goods for regional exchange. Manufactured goods production is weak and not competitive. Countries have similar production structures geared to exports of primary commodities. These include minerals, timber, coffee, cocoa, and other raw materials for which the demand is basically externally oriented. The outward-looking direction is also underpinned by foreign exchange earning motivations and the fact that the countries generally lack a strong industrial capacity for diversified manufacturing goods. Under such circumstances, RECs' trade liberalization programmes have not been able to significantly induce greater intra-REC trade, particularly in manufacturing goods.

Highlighting this by no means underrates Africa's traditional trade structure and patterns. Otherwise, how much fragile, weaker or poorer would most of African countries be without their limited traditional exports of coffee, minerals, hides and skins, sugar and cotton. But the real concern is having to produce the same or similar commodities for exports, principally to markets of developed countries.

Yeats further explains this challenge by stating that “Africa's non-oil exports are concentrated in a very few products - none of which are important in regional imports. Sub-Saharan African countries appear to have relatively little to trade with each other. An analysis of historical changes in the other countries' exports indicates the "non-complementarity" problem in African trade cannot be resolved quickly.”

Economic development challenges

Structural deficiencies are an offshoot of Africa’s daunting economic development challenges. The size of a country’s economy, its wealth and its stage of development have a significant impact on its capacity to trade. The literature shows that improving the state/size of the economy can have a positive impact on exports (e.g. Sekkat and Varoudakis, 2000). Indeed, countries that have benefited greatly from free trade arrangements and integration (EU for instance) are those which have achieved a degree of harmony and convergence to agreed criteria for effective macro-economic policies that promote stability and create an environment conducive to trade, private sector participation, public sector efficiency, competitive production, and investments in key sectors of the economy including infrastructure, telecommunications and energy.

Half-hearted commitment to trade liberalization programs due to inherent difficulties

In Africa’s regional cooperation and integration process, the development and expansion of trade among the partners is a major policy to be implemented by African countries and their regional integration institutions through trade liberalization. This policy aims at achieving a free trade area and a customs union by means of the adoption of schemes for the mutual abolition of tariffs and non-tariff restrictions to trade and the establishment of a common external tariff in relation to third countries. RECs constitute the main institutional blocks for implementing the above policy. In this context, various trade liberalization schemes have been launched. Underscoring these schemes are plans for stabilizing and gradually removing tariffs and non-tariff barriers to trade, harmonizing customs duties and internal taxes, facilitating trade through trade information and other promotional services, and abolishing restrictions to the movement of people, goods, services and investments across borders. These schemes are further buttressed by plans to strengthen sectoral integration in money and finance, transport and communications, industry and energy.

All of these measures are necessary to facilitate activities such as production, distribution, importing and exporting and thereby increase trade among the participating countries. They are, therefore, of tremendous significance to intra-African trade promotion.

However, tariff reductions cause public revenue losses: Considering the high share of customs duties in public revenues (50 to more than 70% for many countries), reduction of tariffs remains a formidable challenge for many countries. Benefits of market integration are not automatically assured to individual countries. They are a rather long-term prospect, particularly for countries that are not in a regionally competitive position. Gains would normally accrue to countries that are more industrially developed. These countries are obviously in a vantage position to capture the bulk of the additional opportunities through exports of products. The imbalance is a very serious issue, which has caused a half-hearted commitment to trade liberalization schemes by certain countries, and the slow down of some integration groups.

For countries that find themselves on the losing side, compensation schemes and solidarity funds become a crucial component of market integration. Compensation schemes

need however to be designed carefully to avoid creating disincentives to intra-regional trade. Political leaders sometimes have to weigh the spontaneous negative effects in terms of loss of revenue and sovereignty against the long-term, and often vague and not necessarily assured benefits. Therefore, when people say that there is lack of political resolve to implement agreements such as trade liberalization protocols, in effect, it could mean a rational calculation of the costs and benefits.

Africa has grand designs in infrastructure, but.....

Efficient infrastructure and services are important for the development of Africa and the pursuit of the continent's intra-trade. Sound interregional and overseas transport and communications contribute to the facilitation, promotion and expansion of international and intra-regional trade as well as enable African countries to be full participants in the globalization process. The higher the level of infrastructure networks, the better the prospects for increased intra-African trade. The development of infrastructure (in transport, communications, energy, information technology etc) will therefore be crucial in order to broaden trade and investment between geographically distant African countries.

A number of past and on-going programmes need mention. These include the Yamoussoukro Declaration on a New Air Transport Policy, which will create an environment for co-operation among African air transport operators; the Regional African Satellite Communications System (RASCOM); and the Pan African Telecommunications programme (PAN-AFTEL).

A key aspect of infrastructure development is the effective exploration and exploitation of Africa's energy resources including hydro-electricity and thermal energy. Many parts of Africa have rich energy resources yet to be fully harnessed to support industrialisation. Almost all of the integration groupings in Africa have among their areas of concentration the development of their energy resources. For instance, there are master plans to establish interconnection of electricity grids and a West African Power Pool in the ECOWAS/UEMOA sub-region, taking into account the energy needs of the Member countries. A West African Gas Pipeline is already established. Similar initiatives exist in the eastern and southern Africa sub-region where the South African Power Pool has been created to link SADC member States into a single electricity grid.

Information technology (IT) also constitutes another important area of focus in infrastructure development. Especially in the current era of globalization, it is making an important contribution to the rapid transformation of the world into a "global market place", and it should help similarly transform the African market space. IT is rapidly spreading all over the world in forms ranging from satellite dishes to fiber optics, micro electronics, computers, telephones, e-mail, Internet and the like, and it is rapidly changing the way in which countries, people and societies interact with one another, conduct their businesses, compete in the international market and define their economic and human development agenda. IT has indeed become important as a factor of production similar to land, labour and capital because information and access to it are crucial to economic activities. It is for these reasons that IT should be a key aspect of the efforts to connect Africa geographically within itself and between it and the rest of the world so as to make its integration effective.

Infrastructure if bolstered can provide the requisite enabling environment for intra-African trade, investment and general private sector development. To this end, effective support to programmes to build transport and communications networks, develop energy

resources and encourage IT penetration would be instrumental in accelerating progress in intra-African trade, and the transformation of the Africa region as a haven for investment. African infra-structural needs are huge. Strong investment-packed initiatives such as the NEPAD Short-Term Action Plan, if fully supported, could go a long way in significantly improving Africa's infrastructure situation and pave the way for improved intra-African trade. (See box 1)

Box 1

In 2002, NEPAD launched a Short-Term Action Plan for Infrastructure (STAP) for addressing the infrastructure development needs of the continent. The STAP addresses areas including facilitation, capacity building and investments in physical and capital projects. The STAP consists of 120 priority regional and continental projects/programmes in the Energy, Transport, Water and Sanitation, and Information and Communications Technology (ICT) sectors, at an estimated cost of about US\$ 8 billion, of which, half of the cost of the investment projects is expected to be financed by the private sector. The African Development Bank (AfDB) has been designated as the lead institution for the implementation of NEPAD infrastructure projects. Within the period 2002-2005, the AfDB has spent about US\$ 629 million to finance sixteen projects under the STAP. It has also mobilized about US\$ 1.6 billion through co-financing of these projects with other development partners. Part of its 2006 Lending Programme includes additional support for 13 other projects/studies at an estimated total cost of US\$ 522.7 million. Japan-JICA is also funding 38 projects of the NEPAD. Through the NEPAD process, African countries have access to a US\$200 million credit line provided by India. The European Union has also been providing financial assistance to African countries in support of infrastructure development. In February 2006, the EU and the European Investment Bank (EIB) agreed to the terms for the establishment of a trust fund to support infrastructure in Africa. Up to EUR 320 million in grants and loans are earmarked for the fund over the first two years. The fund would be used to finance big transport, telecommunication and energy projects on the continent. The EU decided to set up the fund because it believes that a strong infrastructure network is critical for the sustainable development of the continent. In the Central African sub region, the World Bank is involved in efforts to reduce transaction costs for operators in Chad and Central African Republic, using the port of Douala in Cameroon. Since 1998, the Bank has been assisting in improving the operations at the port of Douala, contributing to the creation of a "single window" office, where all port clearing operations are settled. Furthermore, the Bank is contributing to the streamlining of all customs and ports operations relating to transit trade. Other areas where the Bank is involved include the funding of inland transport infrastructure, telecommunications, energy and restructuring of the railway network in sub Saharan Africa. The Sub-Saharan Africa Transport Policy Program (SSATP) was launched in 1987 as a joint initiative of the World Bank and the United Nations Economic Commission for Africa (UNECA). Since its inception, the SSATP has established itself as the only transport programme reaching across the whole of Sub-Saharan Africa. NEPAD relies on the SSATP as a key instrument to support the implementation of NEPAD's Short Term Action Plan (STAP). In October 2002, bilateral and multilateral donors endorsed in principle a US\$25 M Long Term Development Plan. The thematic approach under the plan comprises: poverty reduction and pro-poor growth responsive transport strategies; transport sector performance indicators; road management and financing strategies; transport services strategies; and regional transport strategies. ECA has been instrumental in the adoption of a declaration by African Ministers responsible for Transport in Bamako in November 2005. In the declaration the ministers committed to "integrate regional corridor treaties and relevant international transport conventions into national legislation, and remove all non-physical barriers to transport. And ECA is playing an active role in the establishment of the RECs Transport Coordination Committee (REC-TCC), whose main objective is to coordinate activities undertaken within the framework of SSATP. It is also involved in an ongoing Development Account Project with ECE, ESCWA, ESCAP, and ECLAC on "Capacity building in developing interregional land and land-cum-sea transport linkages".

Some informal trade could be hurting intra-African trade...

Although available statistics are sketchy on the subject, cross-border informal trade can have a negative impact on intra-African trade, because it often includes a wide range of imported goods, which flood the domestic and subregional markets and unfavourably compete with local products in both quality and price, as such goods dodge customs duties and taxes.

The next section further highlights some of the parameters or determinants that underscore intra-African trade in the context of a sample of a methodological approach to illustrate the potential of this trade.

V. Intra-African trade potential

Different techniques can be used for the assessment of trade potential. Currently, the gravity model is a common tool for assessing trade potential and international trade modelling. The model analyses trade potential as a function of several enabling (attraction) factors and disabling (resistance) factors. The enabling factors include the economic size of countries and their per capita income level, while the latter are such factors as geographical distance and various obstacles to trade. The basic principle underscoring the model is that the intensity of trade between two countries is proportional to their GDP and inversely proportional to the distance separating them.

GDP of partner countries is an indicator that reveals the market potential size, while GDP per capita considers the effect of consumers' purchasing power of both partner countries. Thus, a rise of per capita GDP should have a positive impact on demand and therefore increase the volume of bilateral trade. "Distance" and "surface" variables are used to highlight transport costs generated by trade between the partner countries. In a gravity model, these two variables are factors that have a negative impact on the volume of bilateral trade. If the partner countries share a sea front (SF), this is considered to be a positive factor on trade in contrast to a country in a landlocked situation, considering that international transport statistics show that over 80% of trade is routed by boat, bulk or in containers. Hence, a landlocked country is penalized by its situation. Thus, geographical distance factors measured by the "distance" and "surface" variables or land-locking "country with no sea front" negatively affect the volume of bilateral trade.

Though geographic distance is supposed to reflect the transaction costs in the gravity model, the distance is an imperfect proxy of trade transaction costs for a number of reasons: For a given distance, transport costs may vary according to infrastructure quality, nature of traded products, the mode of transport used (bulk marine, containers, road transport, air freight), scale economies, and the efficiency of the transport sector in general. For instance transport costs are 63% higher in African countries compared to the average in developed countries (ECA/ARIA 2004). They are estimated at 14% of the value exported in the first group of countries, against 8.6% only in the second. Freight cost, as a percentage of the imported value, stood at 11% for North African countries, i.e. 111% more than industrialized countries and 25% more compared to the average in developing countries (UNCTAD 2002).

Other less perceptible aspects, such as administrative, technical or informational barriers may also affect the trade flows between partner countries more severely. These include administrative barriers, quantitative restrictions, high-priced procedures, and exchange restrictions. Most barriers have no legal ground and are arbitrarily imposed according to circumstances.

Trade potential can also be influenced by the impact of regional integration agreements. In theory, preferential tariffs offered within a trade agreement foster trade between member countries. Findings of the gravity model estimations reveal that other things being equal, countries having entered a preferential trade agreement tend to trade over twice more than countries uninvolved in a trade integration agreement. Trade agreement between partner countries is therefore a factor that fosters bilateral trade. The same applies to countries that have a common currency and a common language. These factors are considered to have a positive influence on bilateral trade.

In addition to the factors related to the economic weight of partner countries, their history and geography, there are other variables that influence the level of bilateral trade.

These include the quality of economic policies and the ratio of credit to GDP, which measures the total amount of credits distributed in the economy compared to the gross domestic product. This variable gauges the weight of market intermediation, and is used as a measure of the financial sector quality of partner countries. Simulations from the gravity model show that the trade increases with the development of market intermediation and the liberalization of current and capital operations.

The model can also try to capture the effect of governance quality on trade via the “Governance” variable. This variable corresponds to the sum of governance indexes of countries based on the “*International Country Risk Guide*” data. The measure of governance is based on three dimensions: (i) the process through which governments are “chosen”, controlled and replaced, (ii) the government’s effective capacity to conceive and implement adequate economic policies and (iii) the respect that the government and citizens feel towards the institutions governing the economy and society. The governance quality influences trade through the output expected from international trade operations. Defective institutions with a heavy and bureaucratic or even arbitrary and approximate regulation, act as a trade tax. Rodrick (2002) points out that the main obstacle to international trade could be the implementation of contracts. Improving the quality of governance is therefore likely to foster trade between countries. Anderson and Marcouiller (2002) reached the same result in the case of Latin American countries. They proved that trade is crippled both by the high level of formal trade barriers and weak institutions.

Findings from some African subregional case studies

The gravity model was applied to assess the trade potential in some African regional communities (UEMOA, UMA and ECOWAS) the results of which were practically identical. Generally speaking, according to Foroutan et Pritchett, trade among African countries remains low due to structural reasons. Others like Naudet (1993) estimate that considerable trade potential exists in the Africa region, which remains to be fully explored by the countries. For instance, the study in ECOWAS estimated that West Africa has a potential of achieving a 25% intra-trade by 2020.

Simulations carried out by ECA in North Africa in 2003 also showed that North African intra-trade in exports simulated according to the gravity model would be ten times higher than its current level.

The conclusions from the gravity model estimations are that African countries remain poorly open to trade among themselves. However, simulated intra-bloc exports appear to be much higher than their current level. This potential should be a sign of encouragement to undertake reforms to remove the obstacles to trade.

VI. ECA future in-depth research on intra-African trade in the context of the fourth edition of ARIA (Assessing Regional Integration in Africa).

ARIA was conceived by ECA as a tool to regularly evaluate and appraise progress being made on the process of integration in Africa. The maiden issue of ARIA provided an incisive overview of the entire spectrum of integration experience in Africa, including a comparative analysis and ranking of the performance of member States and the RECS towards fulfilling the fulfilment of the established goals and objectives. After the first edition, subsequent issues of ARIA have tried to address critical thematic challenges. To this end, ARIA II looked at the long-standing issue of multiplicity of integration groupings in Africa and their attendant overlapping

membership. ARIA III, scheduled to come out by December 2007, is addressing the important issue of macro-economic policy convergence as bedrock for effective regional integration.

In the context of ECA/NRID's 2008-2009 work program, (ARIA IV) will be further work to deepen the investigations and analysis on intra-African trade. In this regard, ARIA IV will be designed to be empirical and practical to cover areas including:

- Export and import opportunities using statistical analyses of trade flows within the African subregional and regional markets
- In-depth demand and supply surveys to establish products that countries need and can offer on a sector by sector basis
- Business development opportunities by matching potential importers with potential exporters
- Proposals with effective deadlines for breaking down outstanding tariff and non-tariff measures within subregional communities, and establishing common trade documentation, nomenclatures and other trade facilitation instruments across Africa
- Complementary trade promotion measures, including support at the enterprise level in product and market development.

VII. Conclusion

The level and structure of intra-African trade remain largely unchanged since the 4th Session of the Committee in March 2005. Tariff advantages embodied in FTAs and Customs Union in Africa are never a sufficient nor a necessary condition for good export growth performance. They will not guarantee expansion in production and investments unless Africa intensifies parallel efforts to upgrade industrial, technological, and manpower capacities to a level of sophistication capable of feeding its regional markets as well as the global market with competitive consumer and capital goods.

The price of such efforts is bound to be extremely high in terms of investments in production capacities, technologies, transport infrastructure, energy supply and managerial and entrepreneurial skills. Where such know-how, investments potential and technologies are available or can be obtained within the regional market, the regional integration process should be such as to serve as a transmission belt to facilitate their mobility across borders.

A more empirical and comprehensive look at intra-African trade is envisaged within the framework of the ARIA series to investigate these issues in greater empirical detail.

