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REPORT TO FIFTH SESSION OF COMMITTEE ON TRADE AND REGIONAL INTEGRATION

8-10 OCTOBER 2007, ADDIS ABABA

DEVELOPMENTS IN INTRA-AFRICAN TRADE

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 these fronts remains weak or limited at best. Intra-African trade therefore continues to be a major source of concern for policy makers. The same is true of trade with the outside world, which is a major part of Africa's total trade. Consequently, the fifth session of the CTRCI will review developments on both fronts. On intra-African trade, the Economic Commission for Africa intends to devote the next edition of the ARIA (Assessing Regional Integration in Africa) series 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 NEPAD and Regional Integration Division (NRID) of ECA on this major research work.

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

Against this backdrop, and in accordance with the 2006-2007 work programme of NRID, 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 Abuja Treaty Establishing the African Economic Community (now the African Union), Africa has a vision to create a common continental market for goods and services, coordinate macroeconomic policies for interest rates, exchange rates, budget deficits and fiscal spending, and develop physical infrastructure to ease transport and communications across all borders. 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 larger trading and investment environment, inducing backward and forward supply links and permitting the economies of scale that make countries competitive. Thus, it would be possible to engage in a range of manufacturing activities on a larger scale, thereby expanding the industrial base necessary for Africa's economic transformation.

The common market space thus created could be optimized with a growing level of trade among the countries, because more trade among them would mean retention of more 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 (RECs) exist. They are intended to expand trade at the subregional level by eliminating tariff and non-tariff barriers and enhancing mutually advantageous commercial relations through trade liberalization schemes. While the details, sequencing, modalities and pace of these schemes vary from subregion to subregion, they usually have one common objective: to establish free trade areas and customs unions as a prelude to the common market.

The focus on intra-African trade raises the question whether international trade should be discounted in favour of intra-African trade. The answer is clearly "no". International trade has always 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 Africa-South trade is currently a fast-growing aspect of the continent's international commerce. For instance, China-Africa trade exceeded $US10 billion for the first time in 2000. Since then, growth in bilateral trading relations and investment has been exponential. Africa's trade with China *is now worth about $US40 billion.*

Acknowledging the virtue of international trade, Africa is making every effort to improve the terms of its trade with the outside world. But the fact remains that Africa's trade within itself has been constantly poor compared with the internal trade of other regions such as Europe and Asia. According to WTO 2006 international trade statistics, intra-African trade as a percentage of total exports was only 9.8 per cent and 8.9 per cent in 2000 and 2005 respectively, compared with 72.7 per cent in 2001 and 73.2 per cent in 2005 for Europe's export trade, and 66.8 per cent and 66.7 per cent respectively, among the 25 countries of the European Union. Africa's intra-export trade can further be contrasted with that of South and Central America and Asia. Asia's intra-export trade as a percentage of total exports was 51.2 per cent in 2005, while South and Central America's was 24.3 per cent. These comparative statistics clearly show Africa's unenviable record in terms of its intra-regional trade, and hence the need for rapid improvement.

It is often said that actual intra-African trade exceeds what is reported in official trade data, because such data do 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 sphere of informal trade.

III. Africa's export and import patterns

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

Table 1[1] highlights the available data on the overall direction of export and import trade in the various RECs. The statistics are quite instructive in terms of the average share of trade of each group within the REC itself, with the rest of Africa, and with the rest of the world, between 2000 and 2005.

[1] See Annex 1 and 2 for details by country

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 Intergovernmental Authority on Development (IGAD) with 21.5 per cent, followed by South African Development Community (SADC) with 19.9 per cent, Economic Community of West African States (ECOWAS) with 13.9 per cent, East African Community (EAC) with 12.6 per cent, Community of Sahel-Saharan States (CENSAD) with 12.2 per cent, and Economic and Monetary Union of West Africa (UEMOA) with 11.5 per cent. The RECs that traded the least among themselves on average between 2000 and 2005 (less than 1 per cent) were Economic and Monetary Union of Central Africa (CEMAC) with 0.9 per cent, Economic Community of Central African States (ECCAS) with 0.7 per cent, and Maro River Union (MRU) with 0.4 per cent. In terms of exports to the rest of Africa, UEMOA was the highest with 18.6 per cent, followed by Common Market for Eastern and Southern Africa (COMESA) with 8.6 per cent, and EAC with 7.2 per cent. 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 import trade between 2000 and 2005

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

Table 1: Overall direction of trade (average percentage of exports and imports between 2000-2005)

RECs	INTRA REC		REST OF AFRICA (ROA)		ASIA (Including 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
ECCCAS	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.

Intra-REC export/import growth trends between 2000 and 2005

In the preceding discussion, we presented data to show the overall direction of trade on average between 2000 and 2005. In the following discussion, we will examine the percentage growth of 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 very small to moderate improvements in intra-REC trade in the years 2000-2005. For example, on average, all the RECs registered positive growth in exports to community members, with **CEMAC**, **CEPGL, COMESA** and **CENSAD** showing an average increase of 40 per cent or more. Five other RECs (**UEMOA**, **IGAD**, **SADC, ECOWAS,** Arab Magreb Union **(UMA)** and Indian Ocean Commission **(IOC)** registered growth in exports to the community in the range of 20-40 per cent.

Table 2: ***Intra-REC indices of export trends (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, which also shows growth in intra-REC imports in all the RECs, with the largest increase registered by COMESA, CENSAD, IGAD, CEMAC and IOC. Overall, there appear to be some encouraging signs of growth in intra-REC export/import trade in most RECs. However, in terms of the share of total trade, in the majority of the RECs, over 80 per cent of exports were destined for markets outside Africa, with the European Union and the United States of America accounting for over 50 per cent of this total.

In addition, 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 such improvements on trade and regional integration.

Table 3: *Intra-REC indices of export trends (base year = 2000)*

REC	2000	2001	2002	2003	2004	2005	Average 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 total import and export trade within Africa for the period 2000 to 2005.

Table 4: African countries' average share of export and import trade within Africa between 2000 and 2005 as a percentage of their total exports and imports

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	Equatorial Guinea	0.08	Mozambique	4.27	Ethiopia	0.52
Senegal	2.45	Liberia	0.08	Morocco	3.39	Equatorial 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	Central African Republic	0.15
Djibouti	1.09	Central African Republic	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 & Principe	0.02

COUNTRY	EXPORTS %	COUNTRY	EXPORTS %	COUNTRY	IMPORTS %	COUNTRY	IMPORTS %
SACCA [2]	0.92	São Tomé & Principe	0.00	Burkina Faso	1.64	Zimbabwe	0.00
Benin	0.80	Total	100.0	Algeria	1.46	Togo	0.00
Gabon	0.80			Tunisia	1.30	Total	100.0
Mauritania	0.75			Benin	1.27		
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 major exporters to Africa in value terms were South Africa, Nigeria, Côte d'Ivoire, Kenya and Zimbabwe. Thus, even though South Africa's exports to Africa were only 13.5 per cent of its total trade, in value terms, they represented 31.79 per cent of the total 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 value terms (over the 2000-2005 period) were turned in by South Africa, Zambia, Ghana, Côte d'Ivoire, Nigeria, Mali and Mozambique. Other countries that performed relatively well over the period included Morocco, Angola, Kenya, Egypt, Tanzania and Uganda.

African merchandise exports by major product groups and main destinations

Table 5 highlights the value of African merchandise exports by major product groups in 2005 and the share of those exports by major destinations (including Africa) in 2000 and 2005.

Table 5: African merchandise exports

	Total Merchandise			Fuels and Mining Products			Manufactured Products			Agricultural Products		
From Africa	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: ECA, compiled from WTO 2006

In 2005, Africa's total merchandise exports amounted to $297.7 billion, with intra-African trade accounting for $26.5 billion or 8.9 per cent of that total (9.8 per cent in 2000). Fuels and mining products constitute Africa's major export commodities, representing over 65 per cent of exports in 2005. More than 70 per cent of Africa's fuel and mineral exports went to Europe and North America, while only 4.8 per cent served the African market. However, between 2000 and

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

2005, we see an increase in Africa's share of its export trade in manufactured products from 16.2 per cent to 18.1 per cent. Table 5 also shows that Africa traded more with itself in 2000 and 2005 in manufactured and agricultural products than with Asia and North America. Europe remained the principal export destination for all the three major product groups.

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

- Africa's dependence on 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 per cent.

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

IV. Challenges of intra-African trade

Judging by various declarations and resolutions, African countries want to encourage trade among themselves and promote a collective development process through a regional integration pact anchored around trade liberalization. Thus, barriers to the flow of goods and services would be lowered, which would allow for substantial trade creation and trade expansion, and hasten the continent's industrialization and economic development.

However, on the whole, not much progress has been made on intra-African trade, even though many of the subregional integration groupings have been in existence for a considerable period of time, and have 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. Some of these challenges are outlined below:

Structural deficiencies

An important dimension of free trade is the capacity to produce goods and services to satisfy the liberalized and enlarged subregional 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, including minerals, timber, coffee, cocoa, and other raw materials for which 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, trade liberalization programmes of RECs have not been able to significantly induce greater intra-REC trade, particularly in manufacturing goods.

Highlighting this shortcoming in no way underestimates Africa's traditional trade structure and patterns, because most African countries would be much more fragile, weaker and poorer without their limited traditional exports of coffee, minerals, hides and skins, sugar and cotton. But the real concern is that these countries all produce the same or similar commodities for exports, principally to 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 that 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 macroeconomic 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 programmes 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 is aimed at creating a free trade area and a customs union through the adoption of schemes for the mutual abolition of tariff and non-tariff restrictions to trade and the establishment of a common external tariff in relation to third countries. Regional economic communities 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 tariff 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 production, distribution, importing and exporting activities 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 per cent 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 product exports. The imbalance is a very serious issue, which has given rise to only a half-hearted commitment to trade liberalization schemes by certain countries and the slowdown 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. However, compensation schemes need 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, the alleged lack of political resolve to implement agreements such as trade liberalization protocols could actually be explained by a rational calculation of the costs and benefits of such agreements.

Africa has grand designs in infrastructure, but …

Efficient infrastructure and services are important for the development of Africa and the pursuit of intra-regional trade on the continent. Sound interregional and overseas transport and communications contribute to the facilitation, promotion and expansion of international and intra-regional trade and 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 for the expansion of trade and investment between geographically distant African countries.

In this regard, a number of past and ongoing programmes are worth mentioning, including the Yamoussoukro Declaration on a New Air Transport Policy, which will create an environment for cooperation 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 hydroelectricity and thermal energy. Many parts of Africa have rich energy resources that have not yet been fully harnessed to support industrialization. Almost all of the integration groupings in Africa put emphasis on 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 subregion, 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 subregion, 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. In the current era of globalization, it is making an important contribution to the rapid transformation of the world into a "global marketplace", and it should help transform the African market space in a similar manner. Information technology is rapidly spreading all over the world in forms ranging from satellite dishes to fiber optics, microelectronics, 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 marketplace and define their economic and human development agenda. Information technology has indeed become important as a factor of production similar to land, labour and capital, because the availability of and access to information are crucial for economic activity. It is for these reasons that IT should be a key aspect of the efforts to connect African countries to one another, and Africa to the rest of the world, in order to make its integration effective.

Strong-based infrastructure can provide the requisite enabling environment for intra-African trade, investment and general private-sector development. To this end, effective support for 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 transforming Africa into a haven for investment. African infrastructural 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 paving the way for enhanced intra-African trade. (See box 1).

Box 1

In 2002, NEPAD launched a Short-Term Action Plan for Infrastructure (STAP) to address the infrastructure development needs of the continent. The STAP covers areas such as facilitation, capacity-building and investments in physical and capital projects. It 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 $US8 billion, half of which 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 spent about $US629 million to finance 16 projects under the STAP. It also mobilized about $US1.6 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 $US522.7 million. Japan-JICA is also funding 38 projects of the NEPAD. Through the NEPAD process, African countries have access to a $US200 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 EUR320 million in grants and loans have been 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 subregion, 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 to improve 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 its Short-Term Action Plan (STAP). In October 2002, bilateral and multilateral donors endorsed in principle a $US25 million 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 was instrumental in the adoption of a declaration by African Ministers responsible for Transport in Bamako in November 2005, in which they agreed to "integrate regional corridor treaties and relevant international transport conventions into national legislation, and remove all non-physical barriers to transport." ECA is playing an active role in the establishment of the RECs Transport Coordination Committee (REGTCC), 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 using a sample methodological approach to illustrate the potential of this trade.

V. Intra-African trade potential

Different techniques can be used to assess trade potential. Currently, the gravity model is a common tool for assessing trade potential and international trade modeling. The model analyzes 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 gross domestic product (GDP) and inversely proportional to the distance separating them.

- The GDP of partner countries is an indicator that reveals the market potential size, while GDP per capita considers the effect of consumers' purchasing power in 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, since international transport statistics show that over 80 per cent 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 landlocking "country with no sea front" negatively affect the volume of bilateral trade.

Though geographical distance is supposed to reflect the transaction costs in the gravity model, it 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, mode of transport used (bulk marine, containers, road transport, air freight), scale economies, and efficiency of the transport sector in general. For instance, transport costs are 63 per cent higher in African countries compared to the average in developed countries (ECA/ARIA 2004). They are estimated at 14 per cent of the value exported in the first group of countries, against 8.6 per cent only in the second. Freight cost, as a percentage of the imported value, stood at 11 per cent for North African countries, i.e. 111 per cent more than industrialized countries and 25 per cent more compared to the average in developing countries (UNCTAD 2002).

Other less perceptible aspects, such as administrative, technical or informational barriers, quantitative restrictions, high-priced procedures, and exchange restrictions may also affect the trade flows between partner countries more severely. 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 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. Governance quality influences trade through the output expected from international trade operations. Defective institutions with heavy and bureaucratic or even arbitrary and approximate regulations 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, proving that trade is crippled by both 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 for 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 25 per cent 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 less 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 for reforms to remove the trade obstacles.

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 experiences in Africa, including a comparative analysis and ranking of the performance of member States and the RECs towards fulfilling 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 the attendant overlapping memberships. ARIA III, scheduled for release in December 2007, is addressing the important issue of macroeconomic policy convergence as a bedrock for effective regional integration.

In the context of the ECA/NRID 2008-2009 work programme, ARIA IV will attempt 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 fourth session of the Committee in March 2005. Tariff advantages embodied in free trade areas and customs unions 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, investment potential and technologies are available or can be obtained within the regional market, the regional integration process should 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 further investigate these issues.