Distr.: LIMITED
ECA/EASRDC/ICE/V/08
April 1998

UNITED NATIONS
ECONOMIC COMMISSION FOR AFRICA

Original: ENGLISH

Eastern Africa Subregional Development Centre (EASRDC)

Fifth Meeting of the Intergovernmental Committee of Experts

26-28 May 1998
Addis Ababa, Ethiopia

FORMULATION OF A TRADING STRATEGY FOR THE INTERGOVERNMENTAL AUTHORITY ON DEVELOPMENT (IGAD) SUBREGION

Table of Contents

INTRODUCTION

The Intergovernmental Authority on Development (IGAD) and the Sub-Region

1. The IGAD sub-region consists of seven East African countries, namely, Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan and Uganda and covers an area of 5.2 million square kilometres and has a total population of more than 140 million. One-half of the population is under 14 years of age. [1]

2. The sub-region is prone to recurrent and severe drought which hampers crop and livestock production. The severe drought coupled with other natural and man-made disasters has resulted in food deficits each year thus making the IGAD sub-region one of the most food insecure regions. About 80% of the IGAD sub-region is classified as arid and semi-arid lands (ASALs) and sub-humid lowlands which receive an average of less than 400-800 mm of rainfall per year. More than 40% of the total area is considered unproductive because of severe environmental degradation caused by both natural and man-made disasters. [2]

3. The sub-region lags behind in adopting technological innovation and depends largely on traditional labour intensive means of production which limits output and quality. Poor infrastructural development and communication among the countries of the sub-region have greatly impeded the possibility of sharing available resources, promotion of intra-regional trade and the effective exploitation of the resource endowment of the sub-region. On the other hand, there are considerable natural and human resources that could be developed to propel the sub-region towards sustainable development.

4. Although IGAD was originally conceived to coordinate the efforts of member States to combat drought and desertification, it became increasingly apparent that the Authority could as well provide a regular forum where policy makers of Eastern African countries could be able to tackle other political and socio-economic issues in a sub-regional context. More importantly, the emerging challenges at national, regional and international levels, especially the changing nature and amounts of development assistance, changes in geo-political climate and deteriorating economic performance in the sub-region overwhelmed the then existing institution and the mandate of IGAD. What is more, with the end of neo-colonialism and the collapse of the cold war, the move towards economic globalization, liberalization and democratization proved the ineffectiveness of individual country development models and stimulated the tendency of strengthening subregional groupings.

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[1] IGAD, IGAD Forges Regional Cooperation in the Horn of Africa,document published on the Revitalized IGAD, Djibouti, 1996.

[2] Ibid

5. Thus, the new revitalized IGAD launched in Djibouti in November 1996, has an expanded mandate that focuses not only on food security and desertification control, but also on socio-economic development issues as well as political and humanitarian affairs.

6. The vision of the revitalized IGAD is based on the determination of governments to pool resources and co-ordinate development activities in order to face the present and future emerging challenges collectively, and at the some time enable the sub-region interact and compete in the global economic field. The overall objective of the revitalized IGAD is conceived in the light of enhancing the capacity of member states to harmonize and co-ordinate policies of mutual benefits thus offering new innovative approaches to solving common development problems in a regional context.

7. The 1996 IGAD is firmly founded and established on the following background and actual facts.[3]

- The well established ties of brotherhood and fruitful cooperation among the peoples and governments of the sub-region.
- The wide ranging similarities of present and future challenges and interdependence of the countries as well as the extensive complementarities of the natural resource endowments of the sub-region.
- Africa's ability to meet the challenges of promoting sustained economic growth through appropriate, effective and practical arrangements for co-operation as stipulated in the Treaty establishing the African Economic Community.
- The principles and objectives of the Treaty establishing the Common Market for Eastern and Southern Africa.
- Responsibility to guarantee the economic security and development of the people for minimizing the vulnerability of the states.
- The development of economic cooperation and integration between the countries of the sub-region as a contributing factor to the achievements of the purposes set forth in the charters of the OAU and the UN.
- Pursue comprehensive cooperation on the basis of equality and mutual benefit with a view to achieving economic integration.
- Need for concerted efforts to combat drought and other natural or man-made disasters.
- Noble purpose of promoting peace, security and stability and eliminating the sources of conflict and prevent and resolve same in the sub-region.

8. The overall strategy of IGAD is therefore based on its general policy objective of sustainable economic development. Regional cooperation and integration is provided a special impetus to promote long term collective self-sustaining and integrated socio-cultural and economic development.

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[3] Agreement Establishing the Intergovernmental Authority on Development, Nairobi, 21 March 1996.

IGAD's Objectives and Aims

9. The specific aims and objectives of IGAD are to:[4]

- Promote joint development strategies and gradually harmonize macro-economic policies and programmes in the social, technological and scientific fields;
- Harmonize policies with regard to trade, customs, transport, communications, agriculture and natural resources, and promote free movement of goods, services, and people and the establishment of residence;
- Create an enabling environment for foreign, cross-border and domestic trade and investment;
- Achieve regional food security and encourage and assist efforts of member States to collectively combat drought and other natural and man-made disasters and their consequences;
- Initiate and promote programmes and projects for sustainable development of natural resources and environment protection;
- Develop and improve a coordinated and complementary infrastructure, particularly in the areas of transport and energy;
- Promote peace and stability in the sub-region and create mechanisms within the sub-region for the prevention, management and resolution of inter and inter-state conflicts through dialogue;
- Mobilize resources for the implementation of emergency, short-term, medium-term and long-term programs within the framework of sub-regional cooperation;
- Promote and realize the objectives of the Common Market for Eastern and Southern Africa (COMESA) and the African Economic community;
- Facilitate, promote and strengthen cooperation in research, development and application in the fields of science and technology.

IGAD's Priority Areas

10. The IGAD mandate calls for the development and implementation of appropriate strategies in economic, social, cultural, political and environmental sectors, which in turn require proportional capacity both at national and sub-regional levels. However, taking into account the present capacity of IGAD and its member States; the need for urgent actions to address the crises in Eastern Africa; and, the need for the promotion of sub-regional cooperation and economic integration, it has been agreed that at the initial stage IGAD should concentrate on the top priority areas of the subregion, namely,[5]

- Food security and environment protection,
- Conflict prevention, management and resolution and humanitarian affairs,
- Infrastructure development.

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[4]. Ibid

[5]. IGAD, Project Profiles on IGAD Priority Areas, Djibouti, October 1996.

i) Food Security and Environmental Protection

11. The IGAD Policy on food security and environment is to ensure that all people in the IGAD subregion are self-sufficient in food, while preserving the natural resource base and environment. Priority projects include:

- Establishment of Regional Integrated Information System (RIIS)
- Strengthening the library and documentation services in member States*
- Remote sensing services*
- Household energy*
- Training of and credit schemes for tradespeople in artisanal fisheries*
- Implementation of the international convention to combat desertification*
- Promotion of sustainable production of drought tolerant, high yielding crop varieties through research and extension.
- Trans-boundary livestock disease control and vaccine production.
- Promotion of environment education and training
- Strengthening environment pollution control
- Capacity building in integrated water resources management.
- Promotion of community based land husbandry
- Training in grain marketing*

(* projects currently ongoing, or approved for funding)

ii) Conflict Prevention, Management and Resolution and Humanitarian Affairs

12. Article 18 of the Agreement establishing IGAD states that member states shall act collectively to preserve peace, security and stability which are essential prerequisites for economic development. For the medium-term two projects will be pursued:

- Capacity building in area of conflict prevention
- Alleviation and integration of humanitarian crises.

iii) Infrastructure Development

13. IGAD focuses on co-ordination and harmonization of policies in trade, industry, tourism communications (transport by road, rail and water) and telecommunications. Emphasis is on:

- Removal of physical and non-physical barriers to interstate trade, communication and telecommunication;
- Construction of missing links on the Trans-African Highway and the Pan African Telecommunications Network (PANAFTEL);
- Improvement of ports and inland container terminals;
- Modernization of railway telecommunication services.

Objectives of the study

14. Within the context of regional economic cooperation and integration, the aims and objectives of IGAD in the area of trade as stated in Article 7 of the Agreement are to:

- Harmonize policies with regard to trade, customs, transport, communications, agriculture, and natural resources, and promote free movement of goods, services and people and the establishment of residence.
- Create an enabling environment for foreign, cross-border and domestic trade and investment.

15. There are also other objectives like the development of infrastructure, promotion of peace and stability, promotion of the realization of the objectives of COMESA and AEC and others which complement the development and strengthening of trade relations and cooperation in the sub-region.

16. Under Article 13A of the Agreement on Areas of Cooperation, member States have agreed to develop and expand cooperation in the field of trade as follows:

- Work towards the promotion of trade and gradual harmonization of their trade policies and practices and the elimination of tariff and non-tariff barriers so that trade can lead to regional economic integration.

17. In this Article other areas of cooperation which are required for the implementation or realization of trade cooperation have been identified. One of such areas is the gradual harmonization of transport and communication policies and development of infrastructure and removal of physical and non physical barriers to inter-state trade, transport and communications.

18. Even though most of these objectives and aims in the area of trade could be similar to those of other economic integration schemes, due to differences in socio-economic realities within different economic groupings, the modalities and strategies of implementation do vary.

19. The objective of this study is, thus, to formulate an appropriate trading strategy for the IGAD subregion pursuant to Articles 7 and 13A of the IGAD Agreement and the critical role of trade in subregional cooperation and integration. The terms of reference for the study are in Annex I.

20. The methodology used for data collection, analysis and report writing is as follows:

a) Indepth discussions were held with the East African Subregional Development Centre of the ECA and the IGAD Secretariat on the objective of the study and related issues.

b) Technical consultations were undertaken in selected countries of the subregion, namely, Djibouti, Eritrea, Ethiopia and Uganda, on national trading policies and reform measures, trading patterns and trade cooperation and regional integration.

c) Data collected and information gathered from the various concerned institutions of the selected countries were analysed.

d) In addition to the countries visited, there was a review of relevant documents on other countries of the IGAD subregion.

Organization the study

21. The introduction deals with background to IGAD as a regional economic community and the objectives of the study. Part I provides the general analysis of national trade policies and reform measures, pattern of trade and regional integration.

22. Part II discusses IGAD as an economic integration scheme within the framework of the African Economic Community (AEC) and the rules and regulations of the World Trade Organization (WTO). The background for the consideration of alternative trading strategies within the context of the objectives of AEC and the rules and regulations of WTO on regional economic integration is articulated.

23. Part III considers alternative trading strategies for the IGAD subregion. Alternative strategies and review of the Treaty Establishing the Common Market for Eastern and Southern Africa (COMESA) and the progress so far achieved in attaining the objectives of COMESA in the area of trade are considered.

24. Conclusions and recommendations on a trading strategy for the IGAD subregion constitute Part IV of the study.

PART I. NATIONAL TRADE POLICIES

A. Djibouti

Economic background and challenges

25. The constraints on economic development in Djibouti are substantial: they are those of a dualistic economy with skewed income distribution between a small modern sector based on a relatively well developed infrastructure and on expatriate skills and a larger traditional society close to a subsistence level. The tertiary sector dominates the economy by contributing nearly 70 per cent of GDP and providing the bulk of foreign exchange earnings.[6] Its mainstays are services provided to the French military personnel stationed in the country (about 30 per cent of GDP), and other services related to the role of Djibouti as a regional centre due to its port facilities, private banking and telecommunication services.

26. Djibouti has managed to survive mostly on external assistance, both financial and technical. External aid finances about 40 per cent of government expenditure and is equivalent to about 24 per cent of GDP.[7]

27. Since independence in 1977, the government has been trying to promote activities in other sectors and to strengthen social infrastructure while continuing to reinforce the service sector. However, the sectoral structure has changed very little. The service sector has remained dominant in Djibouti's economy reflecting the country's character of a city-state with well developed international facilities. The existence of modern infrastructure has enhanced Djibouti's role as a service centre for the region. Agriculture and industry continue to play a minor role in the economy owing to the scarcity of natural resources, arable land and water, the lack of skilled labour, and high production costs. Merchandise exports of local origin are insignificant, and the country depends heavily on imported food and consumer goods. Social sectors have improved, because of the government's effort in providing better health facilities, and in upgrading the educational and training level of Djibouti's population.

28. Djibouti has one of the most liberal economic regimes in Africa, banking and commerce being practically unrestricted. Its currency is freely convertible and has been pegged to the US dollar since 1949 (US$1=177FD) However, the economy is distorted by high wage-cost structure and an overvaluation of the Djibouti Franc.

Trade Policy and Reform Measures

29. Djibouti has adopted very liberal economic and trade policies as well as a freely convertible currency.

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[6]. World Bank Djibouti, The challenges of A City State, May 1991 Washington D.C.

[7]. Ibid

30. Import permits are required for some few specific items like khat and animal feed from Ethiopia. There is also a deposit requirement of FD 1,000,000 for the importation of khat. Specific surtaxes also apply to certain imported goods like khat partly to discourage their consumption and partly to protect domestic plants like dairy factory water bottling, etc.

31. Djibouti levies custom duties at rates of 5%, 20% and 33%. The 5% rate was levied in 1994 for goods that were in the positive list. Most imported products are taxed at the 33% rate. This 33% rate is also levied on those in the surtax category.

32. Taxes on imports represent about 60% of the total tax revenue in Djibouti. In order to cope with the fiscal situation the government has taken measures mainly aimed at specific imports. Since 1993, the surtax on khat has been fixed at 561 FD for a kilo of khat. The surtax on tobacco which was 56.25% in 1993 has been raised to 70% since 1994. Surtaxes on wines and alcoholic drinks, fuel oil and gases have also been raised.

33. Djibouti has been using the Brussels Tariff Nomenclature classification and valuation; but now is in the process of adopting the Harmonized Commodity Description and Coding System.

34. The Government has attached high priority to encourage private investment, both foreign and domestic, so as to make the country more competitive especially in export processing industries and sell of services region wide. To this effect, the government is in the process of implementing a programme package that includes:

a) the effective promulgation of the investment code legislation that was revised in 1994 with a view to making it more attractive to foreign investors. The revised investment code provides a number of incentives like a tax holiday of 10 years and freedom to foreign investors in the purchase of real estate in Djibouti.

b) the promulgation of the legislation on the establishment of free zone areas in the form of offshore corporate zones that are free from local taxes and policies.

c) the promulgation of the legislation on the establishment of export processing zones and industrial zones formulated along the Mauritian model. This will involve the setting up of industrial estates in a free zone context or provision of the free zone status to individual industrial undertakings engaged in export activities without the geographical restrictions of free zone.

35. As far as the sale of services is concerned, the government is currently reviewing the rates and charges of both the port and airport in order to make them competitive, and the efficiency of loading and unloading services is being closely examined. One of the most sensitive topics in Djibouti's development dialogue is the long-standing link between the Djibouti Franc and the US dollar. The Djibouti Franc is overvalued, and the effect is apparent in the high cost of labour and services and high consumer prices which frustrate the development of exports. Adjustment of the parity, whether a substantial one-time devaluation or, in stages, would be one way to improve Djibouti's development prospects. Within an associated substantial compression

in nominal wages, the exchange rate adjustments could reduce wages in dollar equivalent terms. Several adjustments are under consideration within the 1990-2000 Development Plan.

Pattern of Trade

36. Export earnings come mostly from sale of services and re-export of goods to French military personnel and to neighbouring countries. Domestic exports accounting for less than 10 per cent of total exports, consisting primarily of live animals.

37. As is shown on Table DJ.1, total exports in millions of FD have been fluctuating from 1991-1995. In 1991 the value of total exports was FD 3,083 million, dropping to FD 2,800 million in 1992 and again dropping to FD 2,151 million in 1993. The value was raised to FD 3,424 million in 1994 but again went down to FD 2,414 million in 1995.

38. In terms of the destination of exports, of the total value exports in 1994 and 1995, about 14% and 16% respectively was from Africa and particularly from the Eastern and Southern Africa sub-region; of which Somalia and Ethiopia were the major importers.

39. Djibouti imports virtually everything since the primary sector is little developed and natural resources are scarce. The main trade partners are France, Ethiopia, Japan and some Arab States. Food items are imported largely from France and Ethiopia and represent about 25 per cent of imported goods. Imports of Khat represent nearly 10 per cent of imported goods and cost about US$18 million a year. Energy requirements have been mostly met by imported petroleum products, which represent 9 per cent of imported goods.

40. Table DJ.2 depicts the value of total importation and origin of imports for the years 1991-1995. The value of total imports has been declining since 1992 with the general economic slow down over the period. As has been indicated above, Djibouti largely imports from countries other than Africa with the exception of Ethiopia. Of the total value of imports for the years 1994 and 1995 only 8% and 9% was from the Eastern and Southern Africa sub-region, respectively, of which Ethiopia's share was 99% and 92%.

Trade Cooperation and Regional Integration

41. Djibouti possesses good potential in its access to various international markets. As a member of the Lome IV Convention, Djiboutian exports are accorded preferences in the European Union Market. As a member of the Arab League, Djibouti has also preferential access to the Arab markets. The country also joined the World Trade Organization in 1995 and is in the process of adjusting structures in order to comply with the requirements of WTO. Although the country has not yet signed the COMESA Treaty, it was a member of the Preferential Trade Area for Eastern and Southern Africa. On bilateral bases, Djibouti signed general trade agreements with Ethiopia in 1993, with Eritrea in 1993, with Kenya in 1984, with Uganda in 1988, with Sudan in 1983, with Tanzania in 1980 and with Burundi in 1984. In effect as reflected in Tables DJ.1 and DJ.2 Djibouti already has trade links not only with IGAD member States but also with countries outside the IGAD Subregion.

Table DJ-1 Exports by Value and Destination (in million FD)

Destination	1991	1992	1993	1994	1995
Africa	227	394	300	463	379
Burundi	1	0	0	3	1
Comoro	2	0	5	3	1
Djibouti	2	15	9	17	3
Ethiopia	55	140	39	85	136
Kenya	8	16	56	21	6
Mauritius	0	3	1	8	0
Uganda	2	0	0	0	0
Somalia	127	189	174	321	227
Tanzania	0	1	0	3	0
Madagascar	30	30	16	2	5
2. Other countries	2,857	2,421	1,931	2,961	2,034
Total	3,308	2,800	2,231	3,424	2,414
Export to Eastern and Southern Africa as percentage of the total	7%	14%	13%	14%	16%

Source: Statistics Authority, Djibouti

Table DJ-2 Imports by Value and Origin
(in million FD)

Origin	1991	1992	1993	1994	1995
1. Africa	3551	3490	2877	2439	2893
Burundi	0	0	2	0	0
Comoros	0	0	0	0	1
Djibouti	21	24	51	43	17
Ethiopia	3,154	3,068	2,604	2,427	2,665
Kenya	267	309	174	160	172
Mauritius	7	2	1	5	1
Uganda	8	11	4	0	0
Somalia	21	37	51	26	28
Swaziland	0	0	0	1	0
Tanzania	54	31	17	1	1
Zambia	8	0	3	0	0
Madagascar	11	7	5	12	9
2. Other Countries	34,552	35,570	34,622	32,229	28,471
Total	38,103	38,860	37,499	34,908	31,395
Import from Eastern and Southern Africa as percentage of the total	9%	8%	8%	8%	9%

Source: Statistics Authority, Djibouti

B. Eritrea
Economic rehabilitation, recovery and development challenges

42. Following the liberation of Eritrea in May 1991, the Government launched a major programme to rehabilitate the economy and society. This effort has been supported by the World Bank and other donors through contributions towards the Government's Recovery and Rehabilitation Programme (RRPE) aimed at providing foreign exchange to import essential inputs to jump-start the economy. This programme included an Economic and Financial Management Programme (EFMP) which focused on building the basic capacity of the government in the area of economic management. The EFMP, in particular, concentrated on enhancing the institutional capacities for economic management in a number of key agencies including the office of the President, the Ministry of Finance and Development, the Bank of Eritrea and the Commercial Bank of Eritrea. The EFMP, a multi-donor technical assistance package, was finalized at the end of 1994.

43. The major task facing the government concerns long-term development and the country's national development objectives for the next two decades include:[8]

- Improved agricultural production through development of irrigated agriculture;
- Enhancing the productivity of peasants, pastoralist and agro-pastoralist;
- Developing capital and knowledge-intensive and export-oriented industries and services;
- A developed tourism sector and high-grade conference and convention facilities;
- A competitive international financial centre;
- A developed and systematic public health care system;
- Broad-based education incorporating widespread dissemination of skills and languages and extensive human capital formation;
- An effective social welfare and safety net system;
- An upgraded and safe-guarded environment that is free from pollution;
- A decentralized and democratic political system;
- An internally peaceful and state nation at peace and in harmony with its neighbours; and
- A free and sovereign state where human rights are respected.

44. To achieve the above cited objectives, the government has adopted a broad based growth strategy comprising rehabilitation, reconstruction and development of the key sectors of the economy. Major components of this strategy are: human capital formation, with education and health as key inputs; export oriented developments both in industry and agriculture; infrastructural improvements to remove critical bottlenecks; environmental restoration and protection; and the promotion of the private sector.

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[8]. The Government of the State of Eritrea, Macro Policy, November 1994, Asmara, Eritrea.

45. The centrepiece of this strategy is the establishment of an efficient outward-looking, private sector led market economy, with the government playing a pro-active role to stimulate private sector activities.

46. The economic role of the public sector is to be restricted to those areas which the private sector may tend to avoid. However, the strategy does not preclude a well prepared public investment programme in strategic sub-sectors to initiate economic growth and supplement the efforts of the private sector. In such cases, all strategic public investments are to be subjected to rigorous project preparation work and are to be operated on a commercial basis with eventual divestitive not excluded. Such public investment programmes are to be carried out within the limits of a prudent fiscal policy.

47. Eritrea has already undertaken a number of reforms, including an overhaul of the tax system, the promulgation of a new investment code and the preparation of legislation relating to land utilization. The country has also made progress in eliminating many restrictive policies of the past, and moving towards a market-based economy, open to external trade, and creating a stronger role for the private sector.

Trade Policy and Reform Measures

48. As part of the pursuit of market-based economic policies, the government has liberalized the trade regime, with the result that Eritrea now has a relatively open economy.

49. The trade policy objectives include: [9]

- promotion of economic growth and a healthy balance of payments;
- increased access to sources of raw materials, technology and know-how;
- removal of domestic market limitations for marketing of outputs and thereby improve employment opportunities;
- enhanced efficiency in production and competitiveness in price and quality of commodities and services;
- promotion of regional cooperation and economic integration; and
- increased attraction of Eritrea to direct foreign investment.

50. For the realization of the trade policy objectives, the following, short and long-term trade strategies will be implemented:

- Fostering liberal internal and external trade regimes with limited interactions that would not contradict the tenets of free trade. This will mean, among other things, liberalizing and simplifying the licensing regime and reducing and eliminating tariff and non-tariff barriers.
- promoting export based industries and services by providing;

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[9]. Ibid.

. preferential financing
. assistance in international market penetration
. information backup
. assistance in meeting the rigorous quality standards required by the international market.

- participating in regional bilateral and multilateral trade and economic cooperation;
- assisting and encouraging the private sector to play a leading role in both the domestic and external markets;
- building the required institutional capacity that could make Eritrea a trading nation;
- supporting and encouraging the participation of Eritreans abroad in trading activities.

51. Eritrea levies three types of charges on goods, sales taxes, excise tax and customs duties. Sales taxes are payable on all goods and services unless otherwise explicitly stated. Customs duties on imports are set to exempt or charge minimum duty on capital goods and intermediate inputs and discourage conspicuous consumption of luxuries while being uniform and low on all other goods and services. An excise tax on selected domestically produced and imported goods of luxury type and destined largely for domestic consumption has been introduced. All exports are exempted from sales taxes and customs duties. Re-exports are also exempted from export duties and sales taxes. According to the drawback arrangement, sales taxes paid on the importation of goods used for export production will be refunded upon presentation of proper documents.

52. The Government's October 1994 tax reforms ended discriminatory sales taxation, with the result that all goods attract the same sales tax, regardless of whether they are domestically produced or imported.[10] Most raw materials and intermediate goods are still subject to a 3 per cent sales tax, while most consumer goods continue to carry a sales tax of 5 per cent. Items and goods considered as luxury, like television sets, video decks and private vehicles are subject to a 12 per cent sales tax. But some items enjoy exemptions from the sales tax, including cereals, live animals, a variety of capital goods, transport vehicles, kerosene and medical equipment.

53. The excise tax ranges from 3 per cent for salt to 100 per cent for alcoholic beverages, cosmetics and perfumes. The excise tax was introduced in October 1994 to compensate for revenue loss due to the exemption of exports from sales and customs duties and to discourage conspicuous consumption of luxuries.

54. Recently, changes were made in customs tariff which included the following:

. the maximum customs duty was raised from 50 per cent to 200 per cent (for beverages with high alcoholic content and tobacco products);

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[10]. The Government of the state of Eritrea, customs Tariff Regulations, Legal Notice No. 18/1994, 5 October 1994, Asmara, Eritrea.

- previously zero-rated goods (eg. capital goods, raw materials, fertilizer) now mostly carry a 2 or 3 per cent customs duty;
- the exemption for all relief and aid imports was eliminated; and
- the import of used clothing, ivory, drugs and asbestos was forbidden.

55. Customs duties, sales and excise taxes on imports are the largest sources of revenue; on the average they account for 40 per cent of the total revenue. The government is considering to raise the contribution of non-tax sources of revenue by rationalizing and properly managing existing non-tax sources of revenue and by exploring new ones.

56. Since designing a simplified import processing system is a priority, a new customs law will be introduced soon. With the introduction of the new Customs Law, the international standards on the harmonization and simplification of customs procedures will be adopted taking into consideration the Customs Cooperative Council, the Kyoto Convention and the GATT Valuation Code. Preparations are also underway to computerize the whole customs procedure and formalities.

Pattern of Trade

57. According to the estimates of the Customs Office of Eritrea, between 1992 and 1993, exports more than trebled to reach Birr 190 million and Birr 177 million in the first six months of 1994. Even though, the customs authorities believe that exports have grown significantly in the following years, reliable data was not readily available.

58. Ethiopia has been Eritrea's main trading partner, although Ethiopia's significance as a trading partner has, since 1993, been more pronounced in terms of exports (60 per cent) than imports (7 per cent). Eritrea's main exports to Ethiopia comprise textiles, shoes, household goods (like plastic goods, matches, candles), salt and beverages, while imports from Ethiopia mainly include consumer items and petroleum products i.e. when Ethiopia was importing crude oil and refining it at Assab. With the issuance of the new Eritrean currency (NAKFA), trade exchange between the two countries is to be settled with a common currency, namely, the United States Dollar. Since this arrangement requires efficient banking transactions which at the movement are not in place, trade between the two countries is almost non-existent except for some items and goods that are being smuggled through the borders. It is hoped that the banks of the two countries will settle the problem within a short period of time.

59. Eritrea's exports to countries other than Ethiopia have increased recently, especially since the first half of 1994, thus contributing to the decline in Ethiopia's share in Eritrea's total exports. Exports include sesame seeds to Egypt, hides and skins to Italy and livestock to Saudi Arabia. Fish exports continue to be negligible, partly owing to low levels of domestic production. (See Table Er.1)

60. However, it is estimated that exports through unofficial channels to neighbouring countries such as Ethiopia, Sudan and Yemen could be significant.

61. While recorded exports have been negligible in the past few years, import levels have remained very high between 1992 and 1993, imports rose by 145 per cent to reach birr 899.7

million and for the first six months of 1994 imports totalled birr 672 million. As a result recorded exports in 1993, covered just 21 per cent of imports and the relevant figure for the first half of 1994 was 26 per cent (See Table Er.2).

62. Apart from Ethiopia, Eritrea's imports are predominantly from the Gulf countries - Saudi Arabia and the United Arab Emirates, and Europe-Italy and Germany. Imports of machinery/transport goods and manufacturing products account respectively for about 40 per cent and 30 per cent of Eritrea's total imports, ie. excluding petroleum products. Even though the trade statistics are not well recorded, Eritrea has recently started trading relations with Kenya, Uganda and Djibouti.

63. Imports are constrained by the country's acute shortages of foreign exchange. There is no centralized allocation of foreign exchange and most imports are on a franco valuta bases, with licences being made available to those who have their own foreign exchange.

64. Regarding services, official figures indicate a substantial surplus on transactions (US$31.4 million in 1992). Transfer receipts include the payments of oil refinery services and transhipment costs of Ethiopia's foreign trade, totalling US$32.9 million in 1992.[11] At the same time, service payments were low (US$1.5 million). Regarding transfers, during 1992, net private remittances from Eritreans abroad amounted to US$ 76.4 million; these were largely used to finance imports through the franco valuta (own resources) system.[12]

65. The surpluses on the services and transfer accounts offset a substantial part of the trade balance deficit, leaving a current account deficit for 1992 of US$ 61.3 million, equalling about 14 per cent of GDP.[13] This deficit was more than offset by large inflows in the capital account, totalling almost US$ 100 million. In 1992, private capital inflows from Ethiopia (in Birr) were US$ 48.3 million. In addition, Eritrea received about US$ 51 million of official loans and grants.

66. As far as foreign exchange rate arrangements are concerned, with the issuance of an independent national currency, NAKFA, two different official exchange rates are being used. One is the marginal rate determined through the bi-weekly foreign exchange auction system (in February 1998 the rate was close to NF 7 to US$1 and the other is the rate at which foreign exchange from Eritreans abroad is bought and sold at NF 7.05 and NF 7.20, respectively. A parallel market also exists, where the exchange rate is slightly higher than the remittance rate (NF 7.20 to 7.40 = US$1).

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11. UNIDO, Eritrea, A new beginning, Industrial Development Review Series, 17 June 1996, Vienna, Austrea.

12. Ibid

13. Ibid

Trade Agreements and Regional Cooperation

67. The government has placed high priority on regional integration and as such has endeavoured to establish good relations with most neighbouring states. Historically, trade between Eritrea, Sudan and Ethiopia had been important, with Eritrean exports commanding a significant share of the regional market.

68. In a bid to foster much deeper regional integration, a number of major agreements have been signed between Eritrea and Ethiopia to facilitate bilateral trade. Currently there is a free trade agreement in effect between Eritrea and Ethiopia while the two countries set different external tariff policies with other countries.

69. In January 1992, agreements were reached over the use of the port of Assab and oil refinery and over transit trade between the two countries. This was followed by the Agreement on Friendship and Cooperation which was signed in July 1993; then the Protocol Agreement on Harmonization of Economic Policies was signed covering fiscal, monetary, trade and investment policies. During early 1995, further high-level talks were held on increased cooperation in industrial development, justice, defence, foreign relations and economic integration.

70. Relations with Sudan remain strained at present. Diplomatic communications broke off in December 1994. Relations with Saudi Arabia have been strengthened with the appointment of a Saudi Ambassador in May 1995. Saudi Arabia has become the largest aid donor to Eritrea.

71. In May 1993, Eritrea was admitted to the group of African, Caribbean and Pacific (ACP) countries and as such became a member of the Lome Convention. Moreover, the country joined the IMF in July 1994 with an initial quote of SDR 11.5 million ($17 million). Eritrea is also a member of OAU, COMESA, the United Nations and its specialized agencies and the Intergovernmental Authority on Development. Eritrea's membership to the WTO is under consideration.

Table Er-1 Direction of Exports
1992 - 1994
(percentages)

	1992	1993	1994 January - June
Egypt	-	-	6.4
Ethiopia	86.7	68.7	44.9
Germany	0.3	0.7	0.1
Italy	7.5	2.9	3.1
Netherlands	0.3	0.1	-
Saudi Arabia	0.3	1.9	26.5
Sudan	-	24.5	13.2
Sweden	2.5	0.3	-
United Arab Emirates	0.6	0.1	-
United Kingdom	0.6	-	1.0
Yemen	0.5	-	1.5
Others	0.6	0.9	3.3
Total	100.0	100.0	100.0
Total Value (Millions of birr)	46.1	190.0	176.8

Source: Customs officials/Eritrea

Table Er-2 Source of imports, 1992 - 1994
(percentage)

	1992	1993	1994 January-June
Belgium	0.1	1.6	2.3
Djibouti	3.6	1.3	1.0
Egypt	0.4	0.2	0.7
Ethiopia	16.8	7.4	5.9
Germany	1.9	8.8	9.3
Italy	7.6	15.2	21.8
Netherlands	1.8	2.4	7.7
Saudi Arabia	37.1	31.4	21.8
Sudan	0.6	5.9	4.4
Sweden	0.6	2.9	0.7
Switzerland	0.4	1.0	0.4
United Arab Emirates	9.8	10.7	5.4
United Kingdom	1.3	3.3	6.6
United States	0.3	1.3	1.3
Yemen	1.9	1.4	1.0
Other	15.7	5.2	9.8
Total	100.0	100.0	100.0
Total value (millions of Birr)	367.1	899.7	672.0

Source: Customs Authority, Eritrea

C. Ethiopia
New directions in economic policy

72. The primary economic management objective of the present government in Ethiopia has been the implementation of corrective measures to revitalize the domestic economy and create the policy environment conducive to the proper utilization of the country's resources. Accordingly, the Government recognized the need for a more coherent economic strategy to correct entrenched macroeconomic imbalances. This culminated in the New Economic Policy (NEP) which was unveiled in late 1991. The NEP represented a radical departure from the past in that the main thrust of economic policy became the transformation of the command economy inherited from the previous regime into a functioning market-based economy. The emphasis was to dismantle the perverse state intervention and to limit the role of the state in economic activity.

73. The first phase of the reform programme, the stabilization phase implemented since 1992, has sought to establish fiscal, monetary and exchange rate equilibria. Crucially, there has been a re-ordering of fiscal priorities, the tax structure has been rationalized to enhance revenues and both consumer and producer subsidies have been systematically eliminated.

74. The second phase of the programme of structural reform is aimed at stimulating a supply response to key reform variables, and the creation of the requisite enabling environment to foster private sector development. The emphasis here includes the elimination of controls on prices and distribution as well as reforms to the trade regime. The third phase of the reform involves the development of appropriate financial sector institutions and a comprehensive reform of the public sector. This is to include the restructuring/privatization of inefficient parastatals and the rationalization of the civil service. Over the medium term, the thrust of the government's economic policy is expected to focus on the deepening of the reform process, particularly in terms of liberalization, a further improvement in the enabling environment for private sector development and the acceleration in the pace as well as a broadening in the scope and extent of the country's privatization programme.

75. The government has made agricultural development its primary priority, as evidenced in the increasing share of capital expenditures devoted to agriculture. The NEP has also brought about a significant change in industrial policy, in favour of liberalization, privatization and internalization of the country's manufacturing sector. Underpinning this strategy is a commitment to replace the hitherto significant role of the public sector with greater domestic and foreign private participation.

76. Current industrial strategy is based explicitly on the "Agricultural Development Led Industrialization (ADLI)" which has its central tenet, the development of a domestic industrial sector that is labour intensive and utilizes local raw materials. Critically, the ADLI is intended to promote the unhindered participation of the private sector in industrial activity, within a framework of private property rights and competitive markets.

Trade Policy and Reform Measures

77. As part of the transition to a market economy, a number of reform measures have been taken to liberalize the trade regime. In a bid to promote and diversify exports, automatic granting of export licences was introduced in early 1992. Concurrently, automatic, non-discriminatory and transparent licensing of importers became effective. Thus, import licences are now automatically granted for all goods, except for a limited number of goods on a negative list. In order to be consistent with the on-going free market economic system and to consolidate the hitherto scattered licensing and negotiation proclamations into one, the new Commercial Registration and Business Licensing Proclamation was issued on 6 March 1997.[14]

78. Furthermore, all non-coffee export taxes were eliminated by end-1993, while as part of measures to stimulate exports, the licence fees for coffee exporters were sharply slashed. In order to streamline and simplify duty drawback scheme, import duty exemption for export oriented units have been introduced and the use of input-output coefficients for determining the extent of the duty drawback is in place. Since May 1,1993, the National Bank of Ethiopia has made foreign exchange available to licensed importers through bi-weekly auction, the negative list that limits the activities for which foreign exchange may be purchased in the bi-weekly auctions was virtually eliminated, and the auction market and the official exchange rates were unified.

79. The comprehensive process of import liberalization pursued by the government has led to the rationalization as well as reduction in the rate of effective protection. Notably, the maximum import duty rate has been lowered from 250 per cent to 50 per cent and the structure of import taxes simplified. Specifically, as a first step, the maximum tariff rate was reduced from 250 per cent to 60 per cent and at the same time the number of tariff bands was reduced from nine to eight. As a second step, the maximum tariff rate was reduced to 50 per cent. The tariff reform programme is envisaged to narrow down the number of tariff bands and a reduction of the average tariff level by 5 percentage points from the present 24.5 per cent.

80. A number of tax policy reforms and other government revenue enhancement measures were introduced; the rationalization of expenditures was initiated and included a substantially reduced share of defense. Public enterprises were sold. Moreover, a more active interest rate policy was pursued, treasury bill auctions were introduced, and there was an easing of market entry for new privately owned financial institutions.

81. Additionally, recognizing the need to partly cushion the impact of the Birr's devaluation on importers, import surcharges were eliminated in tandem with the devaluation of the currency. In the short-to-medium term, it is expected that trade policy will continue to focus expressly on promoting exports, but perhaps more importantly, on accelerating the removal of cost-price distortions. Specifically, it is envisaged that the government will aim to further reduce average

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[14]. Federal Democratic Republic of Ethiopia, Proclamation No. 67/1997, Commercial Registration and Business Licensing, Addis Ababa, 6 March 1997.

nominal tariff rates and the number of import duty exemptions. On the export side it is projected that the scope and pace of the government's coffee sector liberalization programme will be accelerated to enhance private sector participation. To help bring to fruition the programme of export diversification, the government is planning a substantial pro-active campaign to market the country's export potential in overseas markets.

Pattern of Trade

82. Merchandise exports are dominated by coffee, which typically accounts for about 60-70 per cent of total exports. World coffee prices tend to be volatile but even with the depressed prices of 1990-1993, coffee's share in total export receipts reached some 53 per cent in 1992/93. Secondary exports include leather goods and hides which on the average account for about 13 per cent of total exports, while other exports contribute a further five to ten per cent of total exports (see Table ET. 1).

83. On the import side, the share of food imports regularly exceed 10 per cent of aggregate imports. Another major import requirement is petroleum, whose share of total imports rose from 10 per cent in 1990-1992 to about 20 per cent in 1993-94 (see Table ET.2).

84. With regard to the geographic distribution of trade, trade with the industrialized countries forms the most significant proportion of the country's aggregate trade. The industrialized countries's share in Ethiopia's exports registered some 90 per cent in 1994. The two main export markets are Japan and Germany, each traditionally accounts for 20-25 per cent of total exports. In recent years exports to the United States have been buoyant, rising from a share of under five per cent in 1991 to 11 per cent of total exports in 1994. Export markets in Africa are Djibouti, Sudan, Egypt, Kenya and Tanzania. In 1994, of the total export to Africa almost 82% went to Djibouti. Of the total export of 1994, the share of Africa was only 9% (see Table ET. 3).

85. On the import side also, the industrialized countries predominate. Imports from industrialized countries accounted for 75 per cent in 1994. On a country-by-country basis, the United States is the principal source of imports, accounting for some 14 per cent of the total in 1994 (see Table ET.3).

86. Secondary sources of imports include Germany and the United Kingdom. The importance of the Middle East, primarily Saudi Arabia as a source of every supplies, is shown by their share in total imports at just under 10 per cent in 1994. Out of the total import of 1994, 8% was from Africa, of which 52% was from Djibouti and 32% from Kenya.

Trade Cooperation and Regional Integration

87. Ethiopia is a member of the African Economic Community, the Common Market for Eastern and Southern Africa (COMESA) as well as of IGAD.

88. On bilateral basis, Ethiopia has signed trade agreements with quite a number of African countries. As far as the IGAD sub-region is concerned, Ethiopia has entered into trade

agreements with all the members of the subregion, although in some of the cases like with Sudan and Somalia the agreements have ceased to be implementable. The free trade agreement between Eritrea and Ethiopia which was effective before the issuance of the Eritrean national currency at the moment is not functional. It is expected that once banking arrangements for a letter of credit trading system are well in place in the two countries, trade between the two will commence or normalize.

89. Ethiopia as a member of the ACP is signatory to the Lome IV Convention. Membership of the WTO is under consideration.

TABLE ET-1 Structure of Exports (percentage)

	1992/93	1993/94	1994/95	1995/96	1996/97
Coffee	53.0	52.2	61.0	62.4	66.4
Hides and Skins (including leather products)	14.1	14.0	13.0	14.0	12.1
Oil seeds and cereals	2.1	4.2	6.3	9.2	6.0
Khat	7.4	7.0	6.0	1.0	5.2
Gold	14.0	10.2	4.4	-	-
Others*	9.4	12.4	9.3	13.4	10.3
Total	100.0	100.0	100.0	100.0	100.0

* Include live animals, meat vegetable and fruits, textiles, spices, petroleum products, natural gum, cotton, molasses.

Source: Ministry of Trade and Industry

TABLE ET-2 Structure of imports
(percentage)

	1990/91	1991/92	1992/93	1993/94
Food and live animals	12.4	0.8	13.7	10.9
Petroleum	9.9	10.7	22.7	17.5
Chemicals	4.0	2.3	3.7	5.3
Textiles	2.1	4.1	3.6	4.1
Metal	7.2	2.7	4.8	7.3
Machinery (including air craft)	26.4	10.5	19.3	6.8
Road Vehicles	11.7	9.8	11.1	17.8
Medical and pharmaceutical	1.7	2.7	3.6	3.6
Other	20.6	54.1	13.8	21.4
Total	100.0	100.0	100.0	100.0

Source: Ethiopian Customs Authority

TABLE ET-3 Ethiopian Exports by Country of Destination (1989 - 1994) (Percentage of total)

Country	1989	1990	1991	1992	1993	1994
Africa	6.6	13.0	4.6	7.2	13.4	9.1
Europe	59.0	45.1	60.0	42.5	43.0	54.0
America	15.1	14.0	5.4	4.6	10.0	8.0
Asia	19.3	27.5	29.9	46.0	34.2	29.1
Australia	0.05	0.01	0.07	0.07	0.04	0.05
Others	0.02	1.1	-	-	-0.01	
	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ethiopian Customs Authority

TABLE ET-4 Origin of Imports (percentage)

	1991	1992	1993	1994
Industrial countries	65.7	72.1	76.0	74.7
United States	13.1	21.7	13.3	14.0
Germany	11.4	8.0	10.0	10.4
United Kingdom	5.5	8.2	8.3	7.2
Japan	9.5	4.0	6.9	7.1
France	3.0	3.4	3.3	5.5
Developing countries	32.0	27.1	23.0	24.4
Africa	9.5	3.9	5.9	7.5
Asia	2.1	6.3	6.5	6.6
Middle East	16.5	14.9	8.6	9.1
Saudi Arabia	10.0	11.7	7.5	7.7
Total ($million)	472	1,263	1,138	1,125

Source: Ethiopian Customs Authority

D. Kenya
Overview of economic policy directions

90. Since gaining independence in 1963, Kenya's economic performance has been mixed. From 1963 through the mid 1980s, the country followed a policy of market economy with strong government intervention and public-sector led growth and development. Policy in the early years also focused on import substitution. From 1986, however, policy switched to one of decreased direct government presence in the economy with government's main role being that of creating an enabling environment in which the private sector could flourish. In recent years this has included a move to reform the entire economic system.

91. Beginning 1986, and especially in the following years, a great deal of progress has been made in this direction. The trade regime has been liberalized, foreign exchange regulations have been abolished, the Shilling floated, reform of the financial sector has been started, the budget deficit as a per cent of GDP has been slashed, and the rationalization of the civil service and privatization and/or restructuring of the many state-owned enterprises has begun. Moves have also been made to ease the regulations and limits on foreign investment, and in fact to encourage such investments.

92. Ultimately, Kenya would like to adopt the East Asian model, like the Republic of Korea, Hong Kong and Singapore. It was with this model in mind that Sessional Paper No. 1 of 1994 on Recovery and Sustainable Development to the Year 2010, stated the government's endeavour to follow a strict macroeconomic management with tight control of budget deficits, money supply and inflation; establish an outward orientation which does not overvalue the Shilling but allows ready access to foreign exchange; establish trade policies which foster an export bias and stimulate private foreign investment; develop the country's human resources through education and training; liberalize the labour market to increase labour mobility; and especially to rely on the private sector to determine industrial expansion.

93. In addition to policies directed at economic factors, a large part of Kenya's recent efforts focus on the need to restore political stability and confidence at home and international credibility. In Sessional Paper No. 1 of 1994, the government acknowledged the need to address the political problems facing Kenya and pledged to create a tolerant society in which all Kenyans, regardless of their ethnic background, colour and creed are free to practise and profess their customs, cultures and religions beliefs.[15] To achieve this, the Government pledged to put an appropriate institutional framework in place.

Trade Policy and Reform Measures

94. During most of the post-independence period, Kenya's trade regime was oriented toward import substitution. Domestic industries were protected by tariffs and import quotas and several

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15. UNIDO, Kenya, paving the Road to NIC status Industrial Development Review Series, 17 June 1996, Austria, Vienna.

public sector enterprises enjoyed monopoly status in commercial activities including international trade. Not surprisingly, manufacturing exports declined significantly as a share of total exports even though external circumstances were generally favourable to these goods. Recent reforms have sought to encourage export development and improve the efficiency of domestic production by exposing domestic producers to foreign competition.

95. The fourth development plan (1974-84) subsequently recognized that the industrialization strategy would have to move to a more outward oriented approach. To that end it called for removing quantitative restrictions, reducing tariffs and their dispersion and establishing a flexible managed exchange rate to support import liberalization and export promotion. Under the industrial adjustment programme and export development programme, protection has been more transparent with tariffs replacing quantitative restrictions. There has also been a lowering of tariff rates, a reduction in tariff dispersion, and consequently, a fall in protection. For example, in 1987, 124 import items were subject to tariffs of 100 per cent or more and a further 109 items carried duties of 80-99 per cent.[16] With the June 1994 budget, the number of tariff rates was reduced from eight to seven and tariff rates were again reduced. The 50 per cent and 40 per cent bands were combined at 45 per cent, and the 25 per cent band was eliminated with all items falling under the 20 per cent rate, and a new 5 per cent band was established for certain primary commodities. At the same time the temporary 25 per cent surcharge which had been designed as a revenue generating means was revoked. The average tariff rate at present is below 30 per cent.

96. The reform induced declines in average tariffs are greater when imports previously protected by quotas are excluded. Though maximum tariff rates have fallen substantially, most of the reduction in the level of manufacturing protection has been accomplished through a reduction in the production coverage of quantitative import controls. For instance, the quantitative controls covered most manufacturing production in fiscal 1986. This coverage fell to 79% in 1988, 45% in 1990 and 28% in 1991.[17] The reduction in protection was not uniform across the manufacturing sector. In June 1989 reductions occurred mainly in the paper and iron and steel subsectors, in June 1990 in food manufacturing and in June 1991 in textiles and automobiles. However, the numbers understate the actual change in nominal protection relevant to domestic manufacturing.

97. As has been explained above, the fourth plan strategy formed the basis for two trade reforms - the phased replacement of quantitative restrictions with equivalent tariffs, and the subsequent tariff rationalization to provide a more uniform and moderate structure of tariff protection. Yet after an initial round of liberalization, the government halted its reform progress and actually regressed, reintroducing import controls for some items when the balance of payments deteriorated. Moreover, to the extent that quantitative restrictions were removed,

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16. World Bank, Regional and Sectoral studies, Adjustment in Africa, lessons from country studies, 1994, Washington D.C.

17. Ibid

tariffs were raised on restricted items, some to over 100%. In 1994 Kenya did experience some of the drawbacks in the form of increased dumping. In 1995 the government claimed that Kenya has been the victim of unfair trade practices by both its European and African trading partners such as the use of hidden subsidies by producers. In several cases, Kenya put countervailing duties in place. Such moves include duties on maize and sugar, iron and steel, and paper bags.

98. The government made some progress. The share of imports under the quote free category increased from 24% in 1980 to 48% in 1995. The average tariff rate was lowered by about 8%. A more transparent and less arbitrary system of import licensing was established, in which import items were allocated to either an unrestricted list or a restricted list.

99. With respect to the management of the exchange rate in Kenya in the 2nd half of the 1980s, the measure was effective. The Kenyan Shilling was pegged to the special drawing rights basket of currencies with weights reflecting Kenya's trading pattern. Since the outset of stabilization in the early 1980s, the government pursued a flexible exchange rate policy. In October 1991, taking a significant step toward creating a legal free market for foreign exchange, the government issued foreign exchange bearer certificates. In August 1992, a 100 per cent export retention scheme was introduced for exporters of non-traditional goods. In November 1992, this was expanded to cover exporters of traditional crops at a rate of retention of 50%. Later in 1993, they were allowed to keep the 100 per cent. Since October 1993, the Shilling has floated freely and exchange controls have been reduced through a series of legal notices granting exemptions from the Exchange Control Act. On 1 November 1995, Parliament voted unanimously to repeal the Act in its entirety. The Shilling value is determined by the interbank market. Residents and non-residents alike are permitted to buy and sell foreign currency at authorized dealers for most transactions, although purchases of foreign exchange in an amount greater than the equivalent of $5,000 must be supported by documentary evidence of a commercial transaction.

100. Since its liberalization in October 1993, the shilling has been relatively volatile. In 1993, just before the floating, the rate which was Ksh 58:$1 (March) fell to Ksh 80:$1 in June that year. In October 1994 the rate appreciated to Ksh 42.38:$1 and before the end of the year dropped to Ksh 51:$1. It remained steady until April 1995 and then dropped again to Ksh 55:$1. But in 1996, on average, the Kenya Shilling appreciated against all the selected currencies.

101. In an effort to promote exports in 1988, the government introduced the manufacturing under bond scheme, allowing customs authorities to waive import duties and taxes on imported materials used as input for the production of export goods. Because of the inattractiveness of this measure in 1990, a more general import duty/value added tax exemption was introduced.

102. These specific tax exemptions were complemented by regulatory reform to centralize and consolidate several licensing procedures for exports and general trade and by simplified procedures for new investments.

103. Kenya's major export promotion efforts, come under three important incentive schemes: duty/VAT exemption; Export Processing Zones; and Manufacturing Under Bond. These

schemes which initially were targeted only to manufacturing production have been expanded to include services and primary production as well.

Pattern of Trade

104. Kenya's primary exports are agricultural goods and agro-industry based goods. Food and beverages contributed 52.9 per cent of the total export earnings, while non-food industrial supplies made up 26.1 per cent. The share of consumer goods not elsewhere specified and of fuel and lubricants stood at 13.1 per cent and 6.6 per cent respectively (see Table K.1).

105. Coffee alone accounted for 14.9 per cent of exports, and tea made up 25.4 per cent of the total. Horticultural goods accounted for a further 10.6 per cent. Mineral fuels accounted for 10 per cent of exports and manufactured goods (excluding fuel, food processing, and machinery and transport equipment) were 9 per cent of total exports.

106. Non-food industrial supplies continue to have the largest share of total imports. In 1996, the share was 36.6 per cent of total imports, a decline from 39.2 per cent in 1995. There were notable rises in imports of food and beverages by 84.5 per cent as well as fuel and lubricants by 34.6 per cent. Imports of machinery and other capital equipment decreased by 39.1 per cent while parts and accessories increased by 110.4 per cent (see Table K.2).

107. Regional trade is extremely important in Kenya, with Africa accounting for 46.7 per cent of all its exports in 1996 (see Table K3).

108. Uganda is its single biggest export market, taking 13.0 per cent of total 1996 exports. The United Republic of Tanzania follows as the second largest of the African-based markets absorbing 11.0 per cent of exports.

109. The European Union (EU) is the second largest market for Kenyan exports at 33.0 per cent of total exports in 1996. Within the EU, the United Kingdom is the most important single market absorbing 12.0 per cent of total exports in 1996 and is, in fact, Kenya's second largest export market in the world. The United Kingdom is followed by Germany which accounted for 8.77 per cent of 1996 exports.

110. The Far East and Australia together make up 12.0 per cent of Kenya's total export market. The United States accounted for only 4.0 per cent of total 1996 exports.

111. In terms of imports, the European Union is the largest market providing 37.7 per cent of all 1996 imports. The United Kingdom was the single largest source of imports at 14.0 per cent, while Germany provided 7.0 per cent. Total African-sourced imports were only 9.6 per cent in 1996, with South Africa contributing 79.3 per cent.

112. Imports from the Middle East, largely crude oil, accounted for 16.3 per cent of the total, while imports from the Far East ad Australia were 25.6 per cent. Japan is the largest Far Eastern import source, providing 9.0 per cent of total 1996 imports.

113. Although the range of Kenyan exports is relatively wide, the heavy dependence on tea and coffee creates a variable and often uncontrollable trade balance situation. Deficits, however, while varying in magnitude are the norm. Since 1972, the price of Kenya's primary export products, coffee, tea, petroleum products and horticultural goods, have risen dramatically. At the same time, however, the price of imports have also gone up even more substantially. The terms of trade have declined from a figure of 153 in 1972 to a low of 71.0 in 1990 (1982-100) fluctuating widely in between. In 1994, the terms of trade were in Kenya's favour for the first time since 1986 at 101. In 1996 the terms of trade fell by 2 percentage points. The deterioration in the terms of trade was as usual attributed to the increase in import prices.[18]

114. On the other hand, the country has run a surplus on services every year since 1989 due to its large tourism sector. Kenyan tourism, centred around its vast wildlife and beautiful coastal resources, is also its largest producer of foreign exchange with gross receipts at K£1,250 million in 1995, and K£1,280 million in 1996, accounting for about 16 per cent of GDP and is a large employer.[19] In recent years, however, the number of tourists to Kenya appears to have peaked in the 600,000-750,000 range. In 1964, the number of tourists to Kenya was 65,400. To encourage increased growth and development of the sector, new initiatives are being made to develop the high level eco-tourist market and multi-destination packages. One part of this includes discussion with neighbouring countries to ease the regulations regarding border crossing, as well as undertake regional efforts in wildlife management and protection.

Trade Cooperation and Regional Integration

115. Kenya is a participant in the Lome IV Convention and member of the World Trade Organization as well as several trading blocs closer to home such as the Eastern African Cooperation Council (EACC) together with the United Republic of Tanzania and Uganda, the Common Market for Eastern and Southern Africa (COMESA), the Intergovernmental Authority on Development (IGAD), and the African Economic Community (AEC).

116. As a member of the Lome IV Convention, Kenyan industrial exports may enter European Union markets free of duty and quantitative restrictions provided certain rules of content are followed. Most agricultural products also benefit from Most Favoured-Nation treatment. As a member of WTO, Kenya is obliged to follow a programmed reduction in protectionist barriers. It has invoked its right to a five-year grace period in order to give its Customs Department and other affected agencies time to prepare for the change in valuation of imports that will be required but also expects to be in full compliance well before that period is up. It is already in compliance in terms of direct inward investment controls and is close on portfolio investment.

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18. Republic of Kenya, Economic Survey 1997.

19. Ibid, K... (Kenya Pound)= 20 Kenya Shillings

Table K1

TOTAL EXPORTS * BY BROAD ECONOMIC CATEGORY, 1992 - 1996

K£million

	1992	1993	1994	1995	1996**
1. FOOD AND BEVERAGES	929.12	1,986.10	2,147.65	2,381.03	3,011.41
Primary	758.14	1,608.13	1,632.07	1,775.41	2,172.72
For Industry	210.51	559.74	656.12	722.03	831.12
For Household Consumption	547.63	1,048.38	975.95	1,053.38	1,341.60
Processed	170.98	377.97	515.58	605.62	838.69
For Industry	10.14	21.91	79.46	180.34	234.21
For Household Consumption	160.84	356.06	436.12	425.28	604.48
2. INDUSTRIAL SUPPLIES (Non-Food)	371.51	877.68	1,099.54	1,252.58	1,484.61
Primary	127.99	224.60	248.96	372.33	943.24
Processed	243.52	653.08	850.58	880.25	541.37
3. FUEL AND LUBRICANTS	246.50	353.85	272.54	244.98	377.99
Primary	0.02	0.01	0.02	0.02	0.02
Processed	246.48	353.84	272.52	244.96	377.97
Motor Spirit	34.09	57.04	41.31	72.06	112.09
Other	212.39	296.80	231.21	172.90	265.88
4. MACHINERY & OTHER CAPITAL EQUIPMENT	13.76	23.43	37.30	64.47	50.96
Machinery & Other Capital Equipment	12.14	18.74	31.40	34.68	28.88
Parts and Accessories	1.63	4.69	5.90	29.79	22.09
5. TRANSPORT EQUIPMENT	8.06	30.59	47.00	24.88	26.14
Passenger Motor Vehicles	0.08	12.42	19.45	2.12	2.61
Other	1.44	8.34	10.82	8.72	6.09
For Industry	1.39	8.31	10.44	8.11	5.67
Non-Industrial	0.05	0.03	0.38	0.61	0.42
Parts and Accessories	6.54	9.83	16.73	14.04	17.44
6. CONSUMER GOODS NOT ELSEWHERE SPECIFIED	139.13	353.56	566.56	688.21	745.18
Durable	2.07	5.04	8.39	9.98	21.21
Semi-Durable	35.76	115.17	199.18	215.68	374.14
Non-Durable	101.31	233.35	358.99	462.55	349.82
7. GOODS NOT ELSEWHERE SPECIFIED	-	-	0.13	0.03	0.00
TOTAL	1,708.08	3,625.21	4,170.72	4,656.18	5,696.30
PERCENTAGE SHARES:					
1. Food and Beverages	54.40	54.79	51.49	51.14	52.87
2. Industrial Supplies (Non-Food)	21.75	24.21	29.36	26.90	26.06
3. Fuel and Lubricants	14.43	9.76	6.54	5.26	6.64
4. Machinery and other Capital Equipment	0.81	0.65	0.90	1.38	0.89
5. Transport Equipment	0.47	0.84	1.13	0.53	0.46
6. Consumer Goods not elsewhere specified	8.14	9.75	13.58	14.78	13.08
7. Goods not elsewhere specified	-	-	-	0.00	0.00
TOTAL	100.00	100.00	100.00	100.00	100.00

* Excluding Re-exports.

** Provisional.

Source: Republic of Kenya, Economic Survey 1997

Table K2

TOTAL IMPORTS BY BROAD ECONOMIC CATEGORY, 1992 - 1996

K£million

	1992	1993	1994	1995	1996*
1. FOOD AND BEVERAGES	225.07	315.61	577.83	351.13	647.84
Primary	49.42	169.81	146.89	152.00	343.09
For Industry	47.13	163.75	138.21	134.95	326.05
For Household Consumption	2.29	6.06	8.68	17.05	17.04
Processed	175.65	145.80	430.94	199.13	304.75
For Industry	107.44	84.81	303.60	113.89	142.95
For Household Consumption	68.21	60.99	127.34	85.24	161.80
2. INDUSTRIAL SUPPLIES (Non-Food)	1,109.97	1,922.24	2,265.32	3,042.52	3,083.57
Primary	173.71	99.96	382.27	112.71	213.45
Processed	936.26	1,822.28	1,883.05	2,929.81	2,870.13
3. FUEL AND LUBRICANTS	627.59	1,254.44	929.14	1,006.78	1,355.48
Primary	563.64	966.69	729.07	590.33	700.36
Processed	63.95	287.75	200.07	416.45	655.12
Motor Spirit	12.28	75.95	31.92	75.43	127.42
Other	51.67	211.80	168.15	341.02	527.70
4. MACHINERY AND OTHER CAPITAL EQUIPMENT	599.65	739.42	883.43	1,493.80	1,529.68
Machinery and Other Capital Equipment	453.15	533.38	622.81	1,079.01	656.97
Parts and Accessories	146.50	206.04	260.62	414.79	872.71
5. TRANSPORT EQUIPMENT	237.98	461.80	705.96	1,318.81	1,214.92
Passenger Motor Vehicles	79.36	122.34	222.02	394.94	605.46
Other	92.57	197.26	299.14	611.73	569.89
Industrial	82.28	181.90	267.44	578.60	543.48
Non-Industrial	10.29	15.36	31.69	33.13	26.41
Parts and Accessories	66.05	142.20	184.80	312.14	39.57
6. CONSUMER GOODS NOT ELSEWHERE SPECIFIE	149.07	357.89	385.08	533.55	575.42
Durable	20.68	42.88	53.99	110.08	174.86
Semi-Durable	22.50	32.75	46.25	99.64	265.00
Non-Durable	105.90	282.26	284.84	323.83	135.56
7. GOODS NOT ELSEWHERE SPECIFIED	5.53	5.02	7.23	11.82	17.39
TOTAL	2,954.86	5,056.42	5,753.99	7,758.41	8,424.31
PERCENTAGE SHARES:					
1. Food and Beverages	7.62	6.24	10.04	4.53	7.69
2. Industrial Supplies (Non-Food)	37.56	38.02	39.37	39.22	36.60
3. Fuel and Lubricants	21.24	24.81	16.15	12.98	16.09
4. Machinery and other Capital Equipment	20.29	14.62	15.35	19.25	18.16
5. Transport Equipment	8.05	9.13	12.27	17.00	14.42
6. Consumer Goods not elsewhere specified ..	5.05	7.08	6.69	6.88	6.83
7. Goods not elsewhere specified	0.19	0.10	0.13	0.15	0.21
TOTAL	100.00	100.00	100.00	100.00	100.00

* Provisional.

Source: Republic of Kenya Economic Survey 1997

Table K-3. Direction of Trade, 1993 - 1996
(Thousand Ksh)

Country	Imports				Country	Exports			
	1993	1994	1995	1996		1993	1994	1995	1996
European Union of which	1,746.5	1,936.4	3219.1	3,174.3	European Union of which	1,320.2	1,365.5	1,555.7	1,953.2
United Kingdom	602.4	757.6	980.5	1,113.2	United Kingdom	590.2	496.6	487.7	617.0
Germany	361.5	357.6	528.6	512.3	Germany	267.8	332.7	369.4	441.0
Middle East of which:	1,152.0	885.8	1,007.1	1,374.4	Netherlands	145.7	182.0	214.6	319.1
United Arab Emirates	759.1	643.6	520.3	693.1	Africa of which	1,274.5	1,909.1	2,37.7	2,761.0
Far East and Australia of which	949.0	1,393.5	2,104.9	2,154.1	United Rep. of Tanzania	270.5	454.8	631.0	758.3
Japan	383.0	496.8	852.9	652.4	Uganda	326.0	544.3	766.7	953.2
India	136.5	217.1	416.1	480.7	Zambia	8.5	8.9		
Australia	12.8	17.3	24.2	82.3	Far East and Australia of which	446.9	407.2	530.5	609.8
Africa of which	121.6	790.9	701.4	805.0	Japan	33.4	33.3	32.9	47.9
United Rep. of Tanzania	24.4	54.5	31.1	46.4	India	29.6	25.7	34.5	36.4
Uganda	16.0	9.3	8.0	1.5	Australia	12.8	16.2	11.6	20.6
Zambia	17.6	7.1	9.0	13.2	Middle East	105.0	74.3	115.8	197.7
United States	293.4	381.6	323.1	440.1	United States	137.2	146.8	131.7	158.8

Source: Republic of Kenya, Economic Survey, 1997, Central Bureau of Statistics.
** Provisional

E. Uganda

Overview of economic policy directions

117. Since the restoration of peace and institutional stability in 1986/87, Uganda has pursued a comprehensive reform programme. With the Economic Recovery Programme (ERP) of 1987, and the Rehabilitation and Development Plan (RDP) of 1993, Uganda has begun to capitalize on the country's national assets of fertile soils and a moderate climate, and to rehabilitate its once well-developed infrastructure.[20] The reform programme aims to promote prudent fiscal and monetary management, improve incentives to the private sector, reform the regulatory framework and develop human capital through investment in education and health. Accordingly, public expenditure has been disciplined and the tax system rationalized; a number of state enterprises divested and stripped of monopoly rights; the exchange rate brought into line with market realities and later allowed to float; and currency surrender requirements abolished. With the tightening of monetary policy, inflation has subsided and real interest rates have turned positive. Expropriated assets are being returned to previous owners and new investors attracted through liberal approval practices. Trade liberalization and internal deregulation, including the deregulation of farm prices, are contributing to restore balance in the incentive system and to inject a degree of competition into Uganda's limited manufacturing and service industries.

Trade Policy and Reform Measures

118. Uganda's trade policies are defined in the context of its overall economic development strategy. Trade liberalization and export promotion are considered as central to structural adjustment, economic rehabilitation and growth. Market opening, deregulation and privatization are expected to spur productivity, foster export competitiveness and improve resource allocation. Particular emphasis is placed on the promotion of non-traditional production and export activities to encourage sectoral diversification as well as the integration of Uganda's large informal sector into the formal economy.

119. In line with these general objectives, since the mid-1980s, Uganda liberalized import and export procedures and abolished licensing requirements, replaced import controls by tariff-based protection; removed an export tax on coffee; encouraged private investment through tariff and tax incentives; opened state-trading monopolies to competition; and sought to improve the commercial focus and efficiency of public enterprises. The removal of explicit export taxes (associated with a non-unified exchange regime) and import liberalization did not occur until 1990, making this year the earliest point to observe changes in trade, production and investment patterns.

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[20]. World Bank, Uganda, The challenge of Growth and Poverty Reduction, 1996 Washington D.C.

120. Fig.1 shows the trade and exchange rate reforms undertaken between 1987-1996.[21]

Fig.1	Chronology of Uganda's Trade and Exchange Rate Reforms 1987 - 1996 Reforms
1987 -	Dual trade licensing system introduced Exemptions on raw materials and capital goods suspended.
1988 -	Some protective tariffs (sugar, soap) raised. Open general license scheme for imports implemented.
1989 -	Retention account scheme for export earnings introduced.
1990 -	Export licensing system replaced with certification system. Foreign exchange bureau or parallel foreign exchange market legalized. Duty exemptions on raw materials reintroduced.
1991 -	Import licensing system replaced with certification system. Investment code introduced.
1992 -	Foreign exchange auction market created. Tariff structure rationalized (10-50% range). Several duties on raw materials abolished. Tax on coffee exports abolished. Coffee marketing boards monopoly removed.
1993 -	Unified interbank foreign exchange market/floating exchange rate. Surrender of coffee export receipts waived special import surcharges on Kenyan imports applied. Harmonized commodity coding system for imports introduced. System of trade documentation reformed, preshipment requirements introduced. Cross border initiative to promote regional trade introduced.
1994 -	Tariff structures (10-30% further rationalized) Import duties on some raw materials suspended Tax on Coffee exports reintroduced.
1996 -	Tariff structures further rationalized (5-30%).

121. As shown in Fig. 1, virtually all quantitative restrictions have gone since the introduction in 1991 of automatic licensing under an Import Certification System, which allows certificate holders to import all goods not specifically listed.

122. Improvements were also made in customs procedures, benefitting from the introduction of a Taxpayer Identification Number and review of the Customs and Excise

[21]. Source, Ibid.

Management Act. The Government hopes to phase out the existing preshipment inspection (PSI) requirement and plans to change the basis of customs valuation from the current Brussels Definition to the WTO valuation code. The relevant legislation is currently being aligned with the definition of the WTO Customs Value Agreement (Agreement on implementation of Article VII of the General Agreement on Tariffs and Trade 1994). Uganda has until 1 January 2000 to bring its valuation procedures in line with the Agreement. As far as customs clearance is concerned, the government has finalized the necessary preparations for the introduction of a new computer based document processing system namely, A system of Customs Documentation and Administration (ASYCUDA).

123. Uganda has no specific safeguards law although the Government plans to introduce such legislation based on the WTO Safeguards Agreement-and provisions for anti-dumping and countervailing actions have not been invoked for at least a decade. There are no import deposit or similar obligations. Importers have unlimited access to foreign exchange at market rates.

124. Uganda levies four types of charges on goods; while customs duties and an import commission apply to import only, sales and excise taxes also affect domestic production.

125. With non-tariff barriers disappearing, Uganda's customs tariff is the dominant protective instrument. After rationalization in recent years, the 1996/1997 schedule has five and ad valorem rates between zero and 30 per cent. More than 95 per cent of all tariff lines fall between 10 and 30 per cent, and the simple average rate stands at 17.1 per cent. Preferential rates on intra-COMESA imports, covering the whole product range, average 11.7 per cent. Higher tariffs are concentrated in sectors of interest to Ugandan producers such as farm products, fish, processed food, textiles and leather. Effective tariff protection is likely to be reinforced through the widespread use of duty and tax exemptions on basic inputs. Most agricultural inputs (fertilizers, pestudies, seeds, machinery and tools) pharmaceutical and medical equipment, representing 4 per cent of all tariff lines, enter duty free. The main features of the Ugandan tariff schedule, 1994/95 is shown in Table U1. Tariffs currently contribute about two fifths of government revenue; efforts are underway to shift the revenue base towards indirect and income taxes. In this connection, value-added tax was introduced in 1996.[22]

126. With regard to developments on the export side, many export related barriers and disincentives have disappeared. In 1990 export licensing requirements were replaced by a less restrictive export certification system, export taxes have also been abolished.

127. Coffee remains a special case. Exporters must be registered and shipments are subject to "indicative" prices and quality control. The Government has reserved the right to restrain export volumes "in line with the demands of international obligations" in particular the Coffee Retention Scheme agreed to by major producing countries in 1993.

128. A Coffee Stabilization Tax, introduced in 1994, is intended to ease upward pressure on the exchange rate resulting from coffee price increases and, thus, improve conditions for other exporting or import competing sectors.

129. The Investment code enacted in 1991 reversed long-standing official antipathy towards foreign investment and introduced standard provisions regarding investment incentives (eg.

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[22]. Uganda, Revenue Authority

tax holidays), profit repatriation and protection against expropriation of assets. These provisions together with the recent wave of privatization are creating new opportunities for both local and foreign investors. After years of virtual absence, foreign investment started to flow into Uganda in 1991, reflecting both increased business confidence in the country and its regained momentum. The Uganda Investment Authority had received, by April 1997, a cumulative total of 2,166 project proposals, amounting to a planned investment of US$3.6 billion and planned creation of 150,366 jobs.[23]

130. Foreign investment patterns largely reflect Uganda's external trade patterns. The bulk of foreign investment between July 1991 and Sept. 1996 came from member States of the European Union particularly the United Kingdom which alone accounted for one third of the commitments made. Neighbouring COMESA partners (eg. Sudan, Kenya and Tanzania) and India have also invested considerably in recent years.[24] The sectoral pattern of approved projects was dominated by the food processing, construction, insurance and business service sectors.

131. Since the government has indicated its commitment to the growth of the private sector, the privatization process is progressing considerably. By the end of May 1997, 6.8 transactions had been completed with a combined sales value of over US$140 million. In the fiscal year 1996/1997 alone 13 enterprises were divested with a total value of US$17 million.[25] Several of the privatized enterprises are already making immense contribution to economic growth through increased capacity utilization and expansion.

132. Past import-substitution policies for manufacturing have been abandoned. Uganda's small industrial sector accounts for some 6 per cent of GDP. It's current mainstays are farm-based processing industries such as coffee, beverages (beer and soda) textiles and leather. As in agriculture, the government has sought to enhance industrial efficiency through deregulation, privatization and trade liberalization. Again, however, a combination of high tariffs and duty exemptions-or in some cases, import bans under the negative list-is geared to promoting selected "infant" industries and may maintain substantial effective protection. In addition, under the Investment Code, investment incentives may be granted conditional upon the use of local inputs or export performance.

Pattern of Trade

133. Uganda's international trade is relatively small and lopsided. Exports are dominated by agricultural products, with coffee contributing over half of merchandise exports.[26] There has been a degree of recovery in other traditional areas, such as tea, cotton and tobacco, and diversification into non-traditional products, including cereals and fish. This trend has benefitted from the reduction of policy distortions, moves towards regional integration and until recently, improved relative private sector performance.

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23. Uganda, Budget Speech, 12 June 1997.

24. Ibid

25. Ibid.

26. WTO, Uganda, Trade Policy Review, June 1995.

134. Table U4 shows imports to Uganda for the years 1990-96 by region and country of region.

135. Merchandise imports have largely exceeded exports, with demand boosted by foreign donor funding in recent years; unrequited transfers represent over 10% of Uganda's GDP.[27] Reflecting the rehabilitation of infrastructure and industry, the import basket consists mainly of machinery transport, equipment and other manufactures. The European Union is by far the most important source; however, imports from Japan have shown rapidly. Imports from the COMESA subregion have also grown especially after 1993. Imports from the sub-region are dominated by Kenya.

136. With the substantial liberalization of external trade and the exchange rate system since 1987, particularly starting 1990, the ratio of Uganda's exports to GDP (at current market prices) has been growing at a stead rate. The composition of exports is sensitive to changes in the world price of coffee. In addition, there is evidence of a distinct increase in the importance of non-traditional agricultural exports, albeit from a very low base. The share of manufactures in total exports increased slightly in 1992 and 1993, but manufactured exports contributed a relatively small share (in 1989 2.3% and in 1993, 4 3%).[28] The disaggregated data indicate that manufactured exports are made up of a relatively large number of products sold in small quantities to neighbouring countries.

137. Published data do not show either an aggregate export or investment response to the reform programme as yet. Indeed, the investment and export to GDP ratios have been lower on average in 1990-94 than in 1987-90.[29] Most of the post 1991 investment has gone into the manufactures sector, which accounts for more than 70% of the on-ground investment. Ugandan manufacturers are largely import substitutes, but around 40% of manufacturing investment has been agro-based. Some of the food processing activities are non traditional export activities. The overall picture in 1991-94 however, is not one of investment being directed toward export oriented activities. This observation is confirmed by a recent survey of a large number of domestic firms. Only 8% of these firms output was exported in 1995 mainly to regional markets compared with 7% in 1991. In line with the production changes in this period a significant proportion of on ground investment has gone to the chemical and steel subsectors, while recorded exports of chemicals fell to zero by 1992.[30]

Trade Agreements and Regional Cooperation
Multilateral Framework

138. In October 1962, Uganda became a GATT contracting party under the "succession" procedures. Uganda has neither been a signatory to nor an observer in any of the Tokyo Round Agreements. Apart from tariff preferences for COMESA members it accords most favoured nation (M.F.N) treatment to all countries.

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27. UNIDO, Uganda, sustained stabilization and Industrial Growth, Industrial Development Review Series, September 1997, Vienna.

28. Opcit.

29. Opcit

139. On 29 September 1994, Uganda ratified the Marrakesh Agreement to become a founding member of the World Trade Organization. Uganda is among the 70 African, Caribbean and Pacific (ACP) states granted non-reciprocal preferences by the European Union. Under the Lome Convention Uganda participates in several international commodity arrangements as well.

Uganda and COMESA

140. Uganda is a founding member of the Common Market for Eastern and Southern Africa which came into force in December 1994. Reflecting its traditional trade patterns and, until the mid-1980s, its internal political problems, Uganda originally failed to benefit from the momentum of intra-PTA trade. However, starting from very low levels, some growth is now taking place. Since 1990, exports to PTA countries increased more than fourfold to reach US$60.5 million in 1993; imports, stood at US$83.4 million in 1993. Given Uganda's comparatively advanced level of liberalization, with a positive impact on resource allocation and economic efficiency, the authorities see a significant potential for further export expansion in the region. Like other participants in the COMESA, Uganda undertook to permit the free movement of capital to and from other member States. Controls on COMESA internal capital transfers are to be removed in accordance with a timetable determined by the Council of Minsters (COMESA Article 81).

- Uganda maintains a regional payments arrangement for intra-COMESA trade. According to the authorities, Uganda does not participate in any other bilateral or regional payments arrangements.

- The PTA/COMESA rates in Uganda's 1994/95 Tariff schedule provide for substantial preferences across almost all sectors, with the main exceptions of beverages, tobacco, furs, soaps, engines and turbines. Preferential rates averaged 11.7 per cent, some 5.5 percentage points below the average M.F.N. rates.

East African Co-operation

141. With a view to reviving the East African economic links, Uganda, Kenya and Tanzania recently agreed to establish the Commission for East African Cooperation, whose Secretariat started work in Arusha in 1995. Priority areas of cooperation and coordination include fiscal and financial policies, immigration controls; tariffs, customs procedures and other trade barriers; standards; air, road, rail and water transport; and post and telecommunications.

142. In 1981 Uganda joined the Kagera Basin Organization (KBO), founded in 1977 by Burundi, Rwanda and Tanzania. The organization, located in Kigali (Rwanda) mainly seeks to promote the integrated development of the Kagera River region through co-operation in the area of agriculture, energy, transport and telecommunications.

143. Uganda is member of the OAU, committed to the creation of an African Economic Community, and also of IGAD.

Table U.1

Main features of the Ugandan tariff schedule, 1994/95

	Simple average tariff (per cent)	Tariff dispersion		
		Tariff range (per cent)	Standard deviation[a]	Coefficient of variation[a]
All tariff lines	17.1	0-60	9.1	53.1
By sector[b]:				
Agriculture and fisheries	20.9	0-30	10.7	51.2
Mining	13.9	10-30	6.4	46.0
Industry	16.9	0-60	8.9	52.9
By degree of processing:				
Primary products	18.7	0-30	10.1	53.9
Semi-processed products	14.1	0-30	7.4	52.4
Finished goods	18.4	0-60	9.3	50.4

a The standard deviation measures the absolute dispersion of a distribution; the coefficient of variation is a measure of relative dispersion, defined as the standard deviation divided by the average.

b Based on ISIC classification.

Source: Uganda Revenue Authority

Table U.2

DOMESTIC EXPORTS BY VALUE: 1990-1996
('000 US$)

COMMODITY	1990	1991	1992	1993	1994	1995 (2)	1996 (3)
TRADITIONAL EXPORT CROPS							
Coffee	140,384	117,041	95,372	106,775	343,289	384,122	396,206
Cotton	5,795	11,731	8,218	5,505	3,485	9 697	15,329
Tea	3,566	6,780	7,721	11,141	11,804	8,744	17,059
Tobacco	2,941	4,533	4,204	7,011	8,269	7,395	7,391
NON-TRADITIONAL EXPORTS							
Maize	3,318	4,188	3,894	23,319	28,666	23 054	17,823
Beans and other Legumes	4,150	4,274	2,782	12,580	12,900	16 147	16,104
Fish and Fish products	1,386	5,313	6,498	8,943	10,403	32,262	39,056
Cattle hides	4,072	3,363	3,375	5,228	10,549	10,152	7,851
Sesame seeds	5,234	10,517	6,478	2,776	1,548	5 999	7,372
Soya beans	-	468	-	2,056	756	1 826	2,816
Soap	-	-	-	1,302	1,739	2 381	2,320
Electric Current	1,218	923	1,537	728	2,245	2,405	4,164
Cocoa beans	504	374	281	714	586	479	1,073
Goat and Sheep skins	2,064	968	664	619	344	37	0
Hoes and hand tools	109	445	462	381	1,018	1 588	587
Pepper	-	197	210	350	444	94	72
Vanilla	-	176	-	328	674	8	809
Live animals	106	-	-	285	150	36	113
Fruits	-	-	-	265	238	279	65
Groundnuts	-	121	34	251	365	395	14
Bananas	-	162	208	173	658	451	876
Roses and Cut flowers	-	-	-	158	531	343	2,128
Ginger	-	121	105	132	20	45	56
Gold	-	9,648	49	89	224	27 240	18,403
Gold Compounds	-	-	-	-	-	-	30,882
Other products (1)	2,811	2,320	4,675	10,122	19,034	39 838	76,697
TOTAL							
Traditional export crops	152,686	140,885	115,515	130,432	366,847	409,958	435,985
Non-traditional exports	24,972	43,578	31,252	70,799	93,092	165,909	229,281
All products	177,658	184,263	146,787	201,231	459,939	575,867	665,266

NOTE: (1) Includes some re-exports,and therefore overstates the true level.
(2) 1995 figures have been revised hence the difference from the 1996 Statistical Abstract.
(3) 1996 figures are provisional.

SOURCE: Uganda Revenue Authority, Uganda Coffee Development Authority, B.A.T. Cotton Development Organisation and Uganda Tea Authority.

Table U.3.

DOMESTIC EXPORTS BY PERCENTAGE: 1990-1996

COMMODITY	1990	1991	1992	1993	1994	1995	1996
TRADITIONAL EXPORT CROPS							
Coffee	80 3	64 2	65.0	53.1	74 6	66 7	59.6
Cotton	3.3	6 4	5 6	2.7	0.8	1 7	2.3
Tea	2 0	3 7	5 3	5.5	2 6	1 5	2.6
Tobacco	1 7	2 5	2 9	3 5	1 8	1 3	1.1
NON-TRADITIONAL EXPORTS							
Maize	1.9	2 3	2.7	11.6	6.2	4 0	2 7
Beans and other Legumes	2.4	2.3	1 9	6.3	2 8	2 8	2.4
Fish and Fish products	0 8	2.9	4 4	4.4	2 3	5 6	5 9
Cattle hides	2 3	1 8	2 3	2.6	2.3	1 8	1 2
Sesame seeds	3 0	5 7	4.4	1.4	0 3	1 0	1.1
Soya beans	-	0 3	-	1.0	0 2	0 3	0 4
Soap	-	-	-	0.6	0 4	0 5	0 3
Electric Current	0 7	0.5	1 0	0.4	0 5	0 4	0.6
Cocoa beans	0 3	0 2	0.2	0 4	0 1	0 1	0.2
Goat and Sheep skins	1 2	0.5	0.5	0 3	0 1	0 0	0.0
Hoes and hand tools	0.1	0.2	0.3	0 2	0 2	0 3	0.1
Pepper	-	0.1	0.1	0 2	0 1	0 0	0.0
Vanilla	-	0.1	-	0 2	0 1	0	0.1
Live animals	0 1	-	-	0 1	0 0	0 0	0.0
Fruits	-	-	-	0 1	0 1	0 0	0.0
Groundnuts	-	0 1	0 0	0 1	0 1	0 1	0.0
Bananas	-	0.1	0.1	0.1	0 1	-	0.1
Roses and Cut flowers	-	-	-	0 1	0 1	0 1	0 3
Ginger	-	0 1	0.1	0.1	0.0	0 0	0.0
Gold	-	5.3	0.0	0 0	0 0	4 7	2 8
Gold Compounds	-	-	-	-	-	-	4.6
Other products (1)	1 6	1 3	3 2	5.0	4 1	6 9	11.5
TOTAL							
Traditional export crops	85 9	76 4	78 7	64 8	79 8	71 2	65.5
Non-traditional exports	14.1	23 6	21 3	35 2	20.2	28.8	34.5
All products	100 0	100.0	100 0	100 0	100 0	100 0	100.0

NOTE: (1) Includes some re-exports,and therefore overstates the true level.

SOURCE: Uganda Revenue Authority, Uganda Coffee Development Authority, B.A.T. Cotton Development Organisation and

Table U.4

IMPORTS BY REGION AND COUNTRY OF ORIGIN :1985 -1996
(US$ '000)

REGION/COUNTRY	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
TOTAL IMPORTS	342,294	379,710	582,531	531,802	578,288	551,095	522,690	524,434	403,387	686,474	**********	729,410
IMPORTS BY REGION												
PTA	92,747	105,239	97,136	109,125	102,410	87,604	101,035	140,376	96,972	215,609	239,591	169,836
OTHER AFRICA	62	1,121	6,510	4,319	2,598	4,940	2,994	1,147	568	7,205	31,164	21,310
EUROPEAN UNION	130,212	137,203	225,832	182,504	221,600	225,904	192,110	148,440	142,928	208,325	331,657	229,781
OTHER EUROPE	6,973	12,076	48,948	23,394	14,616	23,355	24,994	16,774	8,628	8,337	10,513	15,952
ASIA	45,713	84,752	127,928	127,803	107,112	83,265	126,211	129,851	103,074	158,201	291,503	196,013
NORTH AMERICA	10,616	13,414	25,985	40,139	52,644	39,969	19,453	37,043	30,283	44,842	44,071	33,605
MIDDLE EAST	55,008	24,947	46,846	38,929	70,823	84,373	54,184	48,170	18,829	39,645	66,883	47,980
REST OF THE WORLD	963	958	3,346	5,589	6,485	1,685	1,709	2,633	2,105	4,310	32,267	14,933
IMPORTS FROM SELECTED COUNTRIES												
PTA												
KENYA	89,080	97,575	92,323	102,807	92,987	71,133	82,751	16,035	83,769	244,834	280,654	245,526
TANZANIA	1,972	2,130	3,290	4,583	6,927	9,541	13,162	16,959	9,003	23,810	23,149	15,597
ZIMBABWE	578	1,167	986	775	1,794	6,228	1,468	1,351	1,282	2,224	1,212	2,337
OTHER	1,117	4,367	537	960	701	702	3,655	3,708	2,918	7,793	13,351	5,285
EUROPEAN UNION												
BELGIUM	15,974	5,344	4,676	9,167	10,596	10,000	13,562	11,214	11,245	15,354	27,474	15,164
DENMARK	1,837	3,422	4,526	4,066	9,788	4,833	3,897	5,332	14,320	13,705	19,306	16,796
FRANCE	4,886	6,209	8,645	5,801	11,141	13,679	16,811	13,663	9,552	10,895	25,376	18,997
GERMANY	22,567	42,634	57,060	37,398	61,780	54,105	33,325	26,794	24,410	30,965	37,261	30,712
ITALY	18,968	20,293	68,354	36,593	23,892	58,713	28,235	14,985	11,397	21,891	46,845	22,745
NETHERLANDS	9,655	14,383	8,398	11,900	8,442	8,819	4,927	8,798	7,234	9,583	19,841	10,514
SPAIN	1,720	591	451	5,992	15,600	1,393	17,472	12,980	6,013	0	4,428	3,890
UK	58,824	43,470	72,565	68,701	73,731	61,312	72,572	52,186	50,540	91,116	126,922	103,500
OTHER	1,351	857	1,157	2,887	6,620	1,550	1,310	2,487	5,255	14,816	17,354	3,967
OTHER EUROPE												
AUSTRALIA	484	611	1,015	1,130	853	7,753	4,955	2,612	0	0	0	0
FINLAND	154	2,453	688	1,285	703	956	1,211	1,458	1,130	0	1,619	0
NORWAY	374	1,372	2,675	569	1,592	299	920	520	3,391	537	905	5,582
SWEDEN	1,619	2,149	2,395	2,443	2,604	2,197	4,018	3,311	1,832	0	5,231	3,496
SWITZERLAND	4,212	3,413	7,209	4,623	3,388	4,341	5,489	7,890	5,027	6,628	7,642	9,309
YUGOSLAVIA	77	1,788	34,661	12,054	1,586	2,415	1,548	183	0	0	926	0
OTHER	53	290	304	1,290	3,891	5,394	6,853	801	210	1,173	1,040	1,061
ASIA												
CHINA	2,832	3,422	13,570	21,240	11,411	5,256	19,683	20,521	7,727	9,216	20,146	9,953
HONKONG	708	1,182	3,422	5,335	8,596	8,539	9,408	7,671	9,109	15,893	30,060	21,800
INDIA	10,434	36,507	21,253	12,032	18,755	13,686	14,543	23,854	25,389	46,762	61,448	47,229
JAPAN	23,422	18,557	38,903	30,568	33,632	29,449	46,940	51,674	39,031	57,679	99,432	66,332
S KOREA	2,046	1,788	5,336	2,437	4,926	12,338	4,397	3,326	4,063	4,543	12,519	6,360
MALAYSIA	168	38	9,880	33,866	584	78	838	2,525	0	1,786	17,014	18,499
PAKISTAN	3,487	20,978	28,083	13,427	16,268	5,972	19,234	2,175	2,064	3,376	7,468	5,906
SINGAPORE	1,097	952	4,855	6,022	5,369	2,713	3,837	15,982	11,842	6,570	17,336	10,824
TAIWAN	948	309	1,359	1,509	1,703	3,534	2,165	398	0	1,165	0	1,957
OTHER	573	1,019	1,268	1,366	5,867	1,698	5,166	1,725	3,849	11,211	26,080	3,748
NORTH AMERICA												
CANADA	540	1,140	745	2,066	5,676	1,027	2,591	11,265	5,428	14,360	12,066	11,248
CUBA	4,373	7,211	2,889	19,000	16,900	5,630	1,431	390	0	0	0	0
USA	5,692	5,062	22,351	19,073	27,620	19,348	15,300	25,314	24,798	30,379	31,478	22,291
OTHER	11	1	0	0	347	0	131	75	57	103	527	66
MIDDLE EAST												
BAHRAIN	555	462	473	462	534		668	12,790	0	0	0	0
SAUDI ARABIA	0	250	454	1,250	5,044	964	1,306	1,473	2,071	1,232	3,283	2,130
UNITED EMIRATES	4,711	3,298	4,120	4,120	4,739	642	5,330	14,767	15,613	35,482	61,717	44,437
OTHER	49,742	20,937	41,799	33,096	60,506	0	46,880	19,139	1,145	2,933	1,883	1,415

NOTE: Petroleum imports are not included in the 1985 to 1993 import figures.

SOURCE: Statistics Department, MPED

F. Sudan
Brief Economic Overview

144. Sudan has a chequered history of development planning characterized by reversals of macro-economic policy and interrupted development plans.

145. During the 1960s and 1970s the government considered the private sector as the principal source of investment in the commodity sectors and public sector investment was restricted particularly in the area of infrastructure and large scale agricultural scheme mainly because of the low level of aid flows. It was only after the government had assumed an active role in the development of the productive sectors and the increase in the volume of aid transfers after the 1973/74 oil prices that the rate of growth accelerated. High commodity prices gave a further boost to the economy. Between 1970 and 1980 the annual growth increased to 2.4 per cent per year in real terms and in 1974, 1977 and 1978 growth rates exceeded 5 per cent.[31]

146. Unfortunately, this accepted but certainly not spectacular rate of economic growth proved unsustainable. In order to combat the deteriorating macro-economic position the government initiated an austerity regime in 1981 cutting back on government expenditures and tightening import controls.

147. These deflationary measures curtailed the development programme and restricted industry and agriculture's access to essential inputs. In addition, the agricultural sector which generated most of Sudan's exports, was afflicted by a prolonged drought in the mid-1980s. This led to a decline in agricultural production while a sharp drop in world cotton prices in 1985 further undermined the economy. Consequently, real GDP fell by more than 6 per cent between 1981 and 1985. The situation improved in 1986 and 1987, when the economy achieved growth rates of 3 and 2.5 per cent, respectively. But GDP declined by 6 per cent in real terms in 1988 due to the effects of the severe August floods.

Trade Policy and Reform Measures

148. The tight import policy adopted in the mid eighties continued in the last years of the 1980s due to the low level of foreign currency inflows. The system of importation through own foreign resources was stopped in the last quarter of 1988, except for some limited cases. In 1988 a new foreign exchange policy was introduced whereby certain designated items were to be imported at the official rate of LS 4.5 = US$1. Other imports were to be converted at the free market rate fixed by the commercial banks. Import licences for all imports were required and issued by the Ministry of Foreign Trade.

149. In the 1980s, policies encouraging exports of gum arabic, sesame, groundnuts and cakes and meal were adopted. Back-to back deals were stopped in 1988 except for some deals of a special nature. Countertrade deals were confined largely to non-traditional and non-marketable exports. The surrender requirements for export proceeds in convertible currencies were changed. 70 per cent was required to be surrendered at the official market rate and 30 per cent at the free market rate. Except when exporting cotton, gum arabic and livestock, all exporters must submit export contracts accompanied by an export licence and obtain approval from the Bank of Sudan through an authorized commercial bank handling the transaction.

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31. Bank of Sudan, Twenty Ninth Annual Report, 1988, Khartoum, Republic of Sudan.

Pattern of Trade

150. Virtually all of Sudan's export earnings were generated by commodity exports-cotton, gum arabic, groundnuts, sesame, sorghum-from the agricultural sector which, characteristically varied in volume and price from year to year. Since the establishment of the Gezira project in 1925, in response to the needs of the cotton mills in Britain, cotton has dominated Sudan's exports. Similarly, bumper crops of groundnuts and vegetable oils in the USA in the mid-1980s cut deeply into Sudan's exports of these traditional products.

151. By 1986 exports of groundnuts were valued at only SL 2.3 million compared with SL 57.4 million in 1981. However, the exports of groundnuts started to revive in 1988 with a value of SL 86.5 million. Exports of sesame increased from SL 28.5 million in 1980 to SL 134.8 million in 1987 and SL 269.0 million in 1988 (see Table S-1).

152. While exports were primarily agricultural products, imports were largely manufactured goods consisting of vehicles, other transportation equipment, machinery, appliances and pharmaceutical dominate other imports. Together they accounted for about 70 per cent of total imports (see Table S-2) in 1982-1988. Oil was the main import commodity, accounting for 19.3 per cent during the 1980-89 period and absorbing 43.8 per cent of export proceeds. Sugar was the main food import, accounting for 14.9 per cent of total imports in 1980, but as domestic production expanded during the 1980s imports dwindled to SL 20,000 in 1986 rising to SL 52.6 million in 1987 and falling again to SL 10.3 million in 1988. Food stuff imports doubled between 1984 and 1985 as a result of the drought.

153. Since independence the direction of trade has undergone a marked change. In the colonial period Britain used to be Sudan's main trading partner accounting for about 40 per cent of Sudanese trade but by 1987 Britain's share had decreased to only 8.2 per cent of imports and 10.4 per cent of imports. As trade with Britain declined, centrally planned economies took a leading role, though trade with these countries tailed off after 1971. Saudi Arabia has been Sudan's main trading partner accounting for 21 per cent of imports mainly oil - in 1987 and 9.5 of exports-sorghum, sesame, sheep and goats. Other major trading partners were industrialised nations such as the EEC, USA and Japan (see Table S-3).

154. At the regional level, Sudan is a member of COMESA and of IGAD. However, information on the status of the country's subregional trade is not available. Nonetheless, there is potential for Sudan's active participation in the trading arrangements of the subregion.

Table S-1. Composition of Exports, 1982-1988
(SL million)

Main Commodities	1982	1983	1984	1985	1986	1987	1988
Cotton	121.1	396.0	405.0	374.3	366.7	455.2	978.4
Gum Arabic	40.1	76.2	66.4	66.0	141.7	267.1	281.6
Ground nuts	33.2	17.5	26.8	23.1	2.5	10.0	86.5
Sesame	38.1	70.2	96.1	97.8	58.9	134.8	269.0
Sheep and lamb	59.0	72.6	80.9	145.0	66.8	38.9	128.0
Cake and meal	12.3	22.4	23.1	1.8	8.1	15.5	103.0
Total	483.1	810.7	817.7	844.7	833.2	1,497.1	2,290.9

Source: Bank of Sudan, Twenty Ninth Annual Report 1988.

Table S-2 Composition of Imports, 1982-1988
(SL million)

Main Commodities	1982	1983	1984	1985	1986	1987	1988
Tea	17.0	40.2	30.0	94.7	71.9	39.8	68.6
Wheat	22.3	52.2	38.2	78.6	57.0	199.5	649.1
Sugar	66.0	31.5	18.7	1.0	0.02	52.6	10.3
Other Food Stuffs	96.1	128.5	109.1	214.0	236.2	121.6	172.4
Machinery & Equipment	186.4	266.8	217.2	354.0	405.7	484.9	776.6
Vehicles & Equipment	160.5	173.5	148.8	241.6	434.1	369.0	509.3
Medicines & Chemicals	99.1	213.9	182.2	261.8	341.2	248.1	475.8
Textiles	30.1	30.7	23.9	34.2	71.1	84.9	125.9
Petroleum Products	328.8	448.0	409.1	298.7	257.6	483.4	1093.1
Manufactured goods	180.9	344.3	279.0	514.6	481.4	501.0	930.1
Drink and Tobacco	17.4	20.7	28.5	15.8	14.3	13.7	56.9
Total	1,213.8	1,760.9	1,490.8	2,128.2	2,402.2	2,612.7	4,892.8

Source: Bank of Sudan, Twenty Ninth Annual Report, 1988

Table S-3 Sudan's main trading partners, 1985-1987 percentages

	Exports to			Imports from		
Country	1985	1986	1987	1985	1986	1987
Saudi Arabia	20.1	13.5	9.5	14.0	14.9	21.0
United Kingdom	2.7	4.1	8.2	11.3	11.8	10.4
FDR Germany	5.7	5.7	7.3	8.7	8.5	7.3
USA	3.3	5.4	4.7	7.6	7.7	10.4
Netherlands	0.3	1.6	10.4	5.2	7.1	4.5
Japan	7.2	6.7	6.3	8.9	5.0	7.4
Belgium	1.6	1.6	5.1	4.0	4.4	4.8
Egypt	10.0	8.1	3.5	1.8	4.2	6.5
France	2.5	5.7	4.0	5.0	3.6	3.5
Italy	5.5	7.1	10.8	3.7	3.3	3.4

Source: Bank of Sudan, Twenty Ninth Annual Report, 1988.

G. Somalia
Brief Economic Overview and Pattern of Trade in the 1980s

155. The economy of Somalia grew at an annual average rate of 2.5 per cent during 1965-1980[32]. Growth of real GDP fluctuated considerably in the 1970s, leading to large budgetary and balance of payments deficits, high rates of inflation, near zero domestic savings and large external debts and debt service arrears. The then government made a major shift in policy in the early 1980s and launched a stabilization programme to curtail demand expansion, provide incentives to productive sectors by exchange rate adjustments, fiscal and monetary restraint, increased interest rates and substantial increases in producer prices. Real GDP recorded a 6.4 per cent increase between 1981 and 1982[33]. In the wake of drought conditions adversely affecting the agricultural sector coupled with a Saudi ban on cattle imports from Somalia, growth of real GDP faltered to 2 per cent in 1983 and plunged to a negative growth rate of 1.5 per cent in 1984. As a result, the budgetary deficit widened, the external position deteriorated and rate of inflation rose from 36 per cent in 1983 to 91.1 per cent in 1984. Despite some improvements in terms of growth in the following years, the economy remained weak.

156. The main contribution to GDP stemmed from the country's livestock sector, accounting for 37.2 per cent of GDP in 1986. Approximately two-thirds of Somali population was engaged in livestock rearing and about 73 per cent of export earnings were derived from its exports.

157. Despite the country's potential to produce all the food required, Somalia was increasingly dependent on food imports since 1975. Food aid flooded the market with rice and wheat at below market prices, leaving no incentives for farmers to produce the traditional food crops such as maize and sorghum. Although Somalia has a long coastline of 3,300 km with high concentration of fish resources on the North East Coast, fishing accounted for less than 1 per cent of GDP in 1986. The contribution of the manufacturing sector to GDP was relatively small accounting for around 5 per cent in 1986. Apart from livestock exports, bananas used to occupy a dominant position in export trade. So did myrsh and fish products.

Principal exports of Somalia in 1985 (in So.Sh million, 1 US$=39.49 Somalia Shillings)		
Live animals	-	2,604
Bananas	-	533
Hyrrh	-	173
Fish Products	-	169

32. UNIDO, Somalia, Industrial Revitalisation through Privatisation, Industrial Development.

33. Ibid.

Main export destinations in 1986 (in percentages)
Saudi Arabia - 28.6 Yemen Arab Republic - 8.6 Italy - 17.5 Hong Kong - 6.7

158. The country depended heavily on imports due to limitations on food supplies, medicines and manufactured commodities. Import requirements of the public investment programmes were mainly financed by donors. Food and petroleum accounted for 21 per cent of imports, while public investment programme absorbed 45 per cent of imports during 1986.

Principal imports in 1988 [34] (in million US$)
Imports for public investment programme - 227. Petroleum - 55 Food - 50 Machinery and Equipment - 32 Raw Materials - 26 Agricultural Inputs - 19
Origins of imports in 1986 (percentages)
Italy - 28.3 USA - 15.1 Saudi Arabia - 8.0 FRG - 7.1 Japan - 6.5 Britain - 6.0

On the continental level Somalia is a member of COMESA and IGAD.

The Trend of Subregional trade policies and reform measures

159. All the countries of the subregion covered by this study have realized the importance of trade policy as a vehicle for influencing the pace and pattern of industrial development, in particular, and the whole development process, in general. Accordingly, the selected countries of the IGAD subregion are moving towards the creation of liberal economic and

[34]. Ibid

trade policies. Although each of the countries under consideration is at a different stage in the realization of the objectives of a market economy, trade liberalization is the core element in all the development plans of the countries. Kenya, Uganda and to some extent Djibouti have made significant progress in liberalizing import, and export procedures, abolishing licensing requirements, replacing import controls by tariff-based protection and introducing explicit export liberalization. Ethiopia and Eritrea initiated the liberalization and reform process after 1991. They have also adopted comprehensive procedures in accelerating the pace of the market orientation of their economies.

160. In all the cases, efforts are being made to deepen the reform process, to improve the enabling environment for private sector development and to continue with the privatization programme. In connection with the creation and improvement of the enabling environment for private sector participation, the investment codes of the countries have introduced standard provisions regarding investment incentives, profit repatriation and protection. In all the countries, these provisions create opportunities for both local and foreign investors. The attractiveness of the investment environment in Kenya, Uganda and Djibouti is evidenced by the growth rates in new local and foreign investments.

161. One important issue with import liberalization and the rationalization and reduction of the rate of protection is the replacement of trade taxes by alternative systems of taxation. Since overall trade policy reform should include not just reductions in tariffs, the reforms in Uganda and Kenya have introduced the value added taxation system, while the replacement is under consideration in the other countries. In Djibouti, for instance, a detailed study on alternative sources of revenue is expected to be carried out soon. Of the total tax revenue of Djibouti, about 60% is from indirect taxes, and the government has been increasing the rates of tariffs on some items for revenue purposes. At this juncture, it would be pertinent to mention that one of the reasons for Djibouti not signing the Treaty of COMESA is the fear of the reduction in the level of revenue that could arise due to the expected reductions in tariff rates.

162. All the countries covered by the study have plans to change the basis of customs valuation from the current Brussels Definition to the WTO valuation code and simplifications of customs procedures are under consideration. Even Ethiopia and Eritrea, the countries that have not yet signed the WTO agreement are moving towards that end. With the exception of Djibouti, all countries of the subregion which are members of COMESA will introduce a new computer based customs document processing system (ASYCUDA).

A. Export promotion strategy

163. As far as the selection of trade strategy is concerned, all the countries covered by the study have chosen export promotion strategy as a linkage to the world economy through exports and enhanced import capacity. Although in adopting outward oriented trade strategy the countries have accepted the principle of neutrality of incentives between production for home and export markets, they have not ruled out the need for government intervention. Kenya, for example, is trying to adopt the model of the NICs of East Asia that relied heavily on government intervention to achieve export market orientation through export promotion policies. The same is being tried by the other countries.

164. The efforts that are being made by the countries of the subregion in reducing and rationalizing import protection have a direct bearing on the promotion of outward orientation through:

- moderation of the anti-export bias resulting from import protection;
- a more efficient allocation of resources through closer alignment of domestic prices with international opportunity costs;
- reducing rent - seeking and unproductive activities associated with controls; and
- exposure of domestic firms to the positive efforts of world competition.

B. Pattern of Trade

165. Trade among the countries of the IGAD subregion is very low despite the closeness of the countries to each other. Trade exchanges are the highest between bordering countries provided that there is accessible communication facility and the goods and services to exchange. The highest trade exchange is between Uganda and Kenya. Even though these two countries depend on Europe and Asia for exportation as well as importation, in relative terms, their trade exchange within the subregion is significant.

166. The considerable trade exchange between Ethiopia and Eritrea is presently on hold because after the issuance of the Eritrean currency trading arrangements between the two countries are yet unclear. Trade between the two countries is almost non-existent at present. In the area of services, Ethiopia is still the major user of the Eritrean port. Road communication as well as the air link is excellent.

167. The other significant trade exchange is between Ethiopia and Djibouti. Djibouti imports much of its consumer goods from Ethiopia and Ethiopia also imports manufactured goods from Djibouti. Transportation of goods is essentially through the railways. In the past, Ethiopia used the port of Djibouti mainly for aid and relief consignments. Recently, however, Ethiopia started to use the Djibouti port regularly. Ethiopia also imports consumer and manufactured goods from Kenya but the volume is small. This is mainly due to the missing link between the Kenyan northern town of Assail and Southern Ethiopian town of Moyale. According to the report of the Ethiopian authorities, the road that links the borders is not yet well constructed from the Kenyan side.

168. As is the case with most African countries, the structure of export of the countries of the subregion is similar. Almost all the countries export the same kinds of products. Agricultural goods and agro-processes dominate the crossborder trade. This could be one of the reasons why the largest markets for the subregion's exports are outside Africa.

C. Constraints to intra-subregional trade

169. The following are some of the problems and constraints to the low level of intra-subregional trade:

Lack of Physical Infrastructure and Communication

170. The required infrastructure for intra-subregional trade is generally lacking.

i) Road Links - Good road links are only between Uganda and Kenya and Ethiopia and Eritrea. The road links between Sudan and Ethiopia, and Somalia and Ethiopia are accessible.

171. When it comes to communication within the subregion by road, the centre of focus is Ethiopia because the countries in the western and northern parts of the subregion have to pass through Ethiopia to go to the southern and eastern parts of the subregion and vice

versa. For instance, Ugandan products destined for the Eritrean market have to pass through Kenya and then through Ethiopia. Similarly Djiboutian products have to pass through Ethiopia to reach all the other member countries. Unfortunately, however, road links are only available between neighbouring countries and in some of the cases the available ones are not accessible.

ii) Air Link - Transportation by air is relatively expensive. Besides, there are no direct routes from one end of the subregion to the other, adding on the already higher cost. For instance, to go to Djibouti from Uganda, there is a one day stop over in Addis Ababa, Ethiopia.

iii) Railway Links - The only railway links within the subregion are the Addis - Djibouti, and Mombassa - Kampala railways.

iv) Sea Links - The countries of the subregion bordering the Red Sea and the Indian Ocean, respectively, are Eritrea, Djibouti and Somalia and Kenya. However, the sea has not yet been used as an effective communication route.

Diversification of Exports and Production

172. As already mentioned, because of the similarities of exportable items of the subregion, the volume of trade is higher with the outside world. And on the import side, since the countries of the subregion are not yet well developed in the manufacture of intermediate and capital goods they again depend on the outside world. In this regard, the low level of production of goods limits the volume of intra-subregional trade.

Peace and Stability

173. The subregion in general is prone to conflict and civil strife. The prevailing situation in Sudan and Somalia is a testimony to this fact. Although to a lesser degree, there are signs of conflict in Uganda and Kenya as well. These destabilizing factors have a direct impact on intra-subregional trade.

Environmental and Weather Factors

174. More than half of the subregion is classified as arid and semi-arid, and sub-humid lowland. Almost half of the total area is considered to be unproductive because of severe environmental degradation. The subregion is thus highly susceptible to recurrent and severe drought. The recurrence of drought and the continuous degradation of the environment have considerable impact on intra-subregional trade.

Non-compliance with Agreements

175. In most of the cases, bilateral agreements are not well followed or respected. The countries of the subregion have signed various trade and related agreements with each other on bilateral basis but implementation has not been effective. Specially, the landlocked countries of the subregion are the victims of the non-compliance with agreements. For instance, the bureaucratic port procedures tend to hamper trade between the countries of the subregion.

Harmonization in Customs Valuation and Procedures

176. The dissimilarities in the systems of customs classification, valuation and procedures have contributed to the low level of trade within the subregion.

Information and marketing techniques

177. There is lack of information on the production and trade opportunities available within the countries of the subregion. Instead there is more information about opportunities in the outside world. Related to lack of information, countries of the subregion do not have modern techniques of marketing.

C. Trade Cooperation and Regional Integration

178. The countries of the sub-region have attached a high degree of importance to regional cooperation and integration and endeavour to establish good relations with each other.

At the Multilateral Level

179. Except Eritrea and Ethiopia, all the countries of the subregion covered by the study have signed and ratified the Marrakesh Agreement on the World Trade Organization. Ethiopia and Eritrea are currently considering the signing of the agreement.

180. All the countries of the subregion are signatories to the Lome Convention within the framework of ACP and EU.

At the Regional Level

181. The countries of the subregion are members of the OAU and hence of the African Economic Community.

At the Subregional Level

182. All countries of the subregion with the exception of Djibouti are members of the Common Market for Eastern and Southern Africa (COMESA). It is envisioned that free trade will be attained within COMESA's geographical space by the year 2000.

PART II. IGAD - AN ECONOMIC INTEGRATION SCHEME WITHIN THE FRAMEWORK OF THE AFRICAN ECONOMIC COMMUNITY AND THE WORLD TRADE ORGANIZATION

183. The early success of the European Union (EU) dramatized how effective economic integration can be. This example of the EU prompted a number of third world countries to seek similar gains through economic integration within their own regions. The fragmented and weak economies of these nations pose serious barriers to industrial growth. The need for larger markets in order to withstand greater competition could not be greater.

184. The subject of integration continues to be dominated by the Balassa thesis. [35] Regional integration stimulates trade among member countries and thus makes it possible for the countries to consume more and to enjoy higher welfare. Regional integration has an impact through trade diversion as well as trade creation. Trade creation is tied to the increase in trade due to the lower tariff within the region, while trade diversion may result from the shift of trading partners from the best available to member countries due to differential tariff rates. Thus, welfare comparison arising from trade creation and trade diversion should be made to gauge the net benefits of regional integration. Potential benefits of regional integration include the reduction of obstacles to crossborder economic activities, which will enhance efficiency through the utilization of economies of scale and opportunities for vertical and horizontal integration.

185. Regional integration provides a good opportunity for the development of the manufacturing sector in member developing countries by providing a larger and more easily accessible market for their manufactured goods. This is one of the attractive benefits from regional integration. Global trade liberalization could provide similar benefits such as a larger market. However, the larger market may not be accessible for countries without international competitiveness.

186. Derived from a neo-classical perspective, the Balassa thesis recommends that integration proceed by successive stages, following a given logic. [36] The thesis constitutes a point of reference both for economic theorists and policy makers dealing with matters of cooperation and development.

187. According to this approach, four successive stages characterize the process of integration.

a) Free Trade Area - in constituting a free trade area, member countries of an integration grouping, eliminate trade barriers among themselves but keep their own barriers against trade with non-member countries. In such an area, however, intra-regional coordination for the implementation of complex rules of origin would be required to tax or prohibit trade that might otherwise avoid some members' higher barriers by entering or leaving the area through lower-barrier countries.

b) Customs Union - at this stage of integration, a common external trade policy is required in addition to abolishing trade barriers among member countries, thereby eliminating the need for customs inspection at international borders.

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[35]. Balassa, B. Towards a Theory of Economic Integration, Kyklos Vol XIV No. 1, 1961.

[36] Ibid

c) Common Market - a common market is a customs union which in addition allows full freedom of factor movement among member countries.

d) Economic Union - in addition to a common market arrangement, an economic union further requires that all member countries unify their economic policies, including monetary, fiscal, trade and social policies.

188. Because of the revenue implications, perhaps the most difficult task for developing nations integration units has been achieving the desired tariff structure. The often painful adjustments involved can produce resistance every step along the way. To eliminate duties, basically three different approaches are available.

- Internal duties may be eliminated at once;
- Negotiations on tariff reductions may be conducted on a product by product basis; and
- Tariff reduction may be done on a linear or across the board basis which means that apart form goods specifically excluded, duties would be cut by a specified percentage on all products. For example, members of a customs union might agree to an annual 20 per cent reduction of tariffs, under such an across the board or linear system, intra regional duties would then end in five years.

189. The European Economic Community treaty adopted systematic across the board tariff cuts, for example, a 10 per cent reduction in duties for the first year. By the end of a fixed time period, all internal tariff and quota barriers were to cease. In fact the EEC accelerated its tariff reductions and was able to meet the treaty goals prior to the due dates. Similarly, in the case of the Common Market for Eastern and Southern Africa (COMESA), member countries are to reduce and ultimately eliminate by the year 2000 customs duties and other charges of equivalent effect; based on an across the board reduction of tariffs whereby rates of reduction have been fixed for consecutive years until the year 2000.

190. When one closely considers the objectives and envisaged areas of cooperation of the Agreement Establishing the Intergovernmental Authority on Development (IGAD), it becomes evident that IGAD's underlying goal is the gradual formation of an economic community of the sub-region. This is thus the rationale behind considering IGAD as one of the regional economic communities in Africa, whose final target has its profound basis in the Treaty Establishing the African Economic Community.

The African Economic Community (AEC)

191. The African Economic Community Treaty that has entered into force in May 1993, has a number of objectives for the establishment of an African Economic Community which include:

- the promotion of economic, social and cultural development and integration of African economies in order to enhance economic self-reliance and endogenous and self-sustained development;

- the coordination and harmonization of policies among existing and future economic communities in order to foster the gradual establishment of the community; and

- the establishment of a framework at the continental level for the development, mobilization and utilization of human and material resources for achieving a self-reliant development.

192. The Treaty has drawn up the modalities for the establishment of the African Economic Community over a transitional and maximum period of thirty four years subdivided into six stages of varying duration. For each stage a set of specific activities to be carried out has been assigned.

193. The first four stages, by far the most decisive ones concern the strengthening, coordination, harmonization and integration of the regional economic communities. These activities at the level of each Regional Economic Community will lead to the establishment of a free trade area and a customs union. The fourth stage concerns the coordination and harmonization of tariff and non-tariff systems between the different regional economic communities with a view to establishing a customs union at the continental level through the adoption of a common external tariff. The fifth stage is on the establishment of an African Common Market with the adoption of a common policy in several areas of development and the application of the principle for the free movement of persons as well as the rights of residence and establishment. The sixth and the last stage is the setting up of the structures of the executive organs of the community.

World Trade Organization's (WTO) Rules and Procedures on Regional Integration

194. Even if the raison d'etre of the WTO and the multilateral trading system it establishes is to encourage non discrimination in the application of trade policy by member countries, both the General Agreement on Trade and Tariff (GATT) and the newly negotiated General Agreement on Trade in Services (GATS) make explicit allowance for free trade, customs union and more far-reaching economic integration agreements among a subset of WTO members. However, as such agreements violate the most favoured nation (MFN) principle, both GATT and GATS impose conditions that must be met for an agreement to be legal.[37]

GATT Article XXIV: Customs Union and Free Trade Areas

195. Although drafted before the economic literature in this area was developed, Article XXIV of the GATT appears to be consistent with theoretical prescriptions by requiring that,

a) trade barriers after integration not rise on average, i.e, no increase in explicit discrimination; and

b) agreements eliminate all duties and other restrictions on commerce on "substantially all" trade in products originating in the relevant territories. The elimination of intra-area trade must occur " within a reasonable length of time". The allowance made for a transition period of unspecified length has implied that virtually all regional arrangements subjected to GATT approval have been essentially "interim agreements".

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[37]. World Bank, Trade Laws and Institutions, Good Practices and WTO, World Bank Discussion Papers - 282, 1995, Washington D.C.

196. Developing countries may invoke provisions of the GATT allowing them to establish 'free' trade agreements that do not meet the conditions of Article XXIV. The 1979 Decision on Differential and More Favourable Treatment of Developing Countries (the so-called Enabling Clause) allows for regional arrangements between developing countries that discriminate against imports originating in non- members. Therefore, if a government so desires, agreements that clearly do not meet Article XXIV's requirements, e.g. pertain to a limited set of products, or entail reductions in tariffs rather than elimination, can be and have been justified under the Enabling Clause of GATT.

PART III. CONSIDERATION OF ALTERNATIVE TRADING STRATEGIES FOR THE IGAD SUBREGION

197. In the light of the objectives and principles establishing the African Economic Community on which the aims and objectives of IGAD on the formation of a subregional economic community are founded, and in the context of the rules and regulations of the new multilateral trading arrangements on regional and economic integration instituted by the WTO, there are possibilities of considering a number of marketing or trading systems for the IGAD space within the framework of the successive stages involved in an integration process. These arrangements vary from the creation of a preferential trade area to the formation of an economic community, all having effects on trade creation and diversion.

Creation of a Preferential Trade Area for the IGAD Subregion

198. The main objective of a preferential trade area is the promotion of trade among member countries by reducing and eventually eliminating customs duties and non-tariff barriers. The member countries could trade on a common list of selected export and import commodities of interest to each of the countries. The list could be amended from time to time and the number of commodities to be traded would progressively increase. The reduction of tariff would be done on a product by product basis or across-the board on similar group of products, which ever is appropriate.

199. The preferential trade arrangement also provides room for integration in other sectors with a step-by-step sectoral and inter-sectoral mechanism aimed at the gradual integration of all sectors. However, the key mechanism for the promotion of inter-project and inter-sectoral programmes is trade as the catalyst in cementing inter-project, inter-sectoral and inter-country relations. Except for the limited number of commodities to be traded among member countries within the common list and the limited scope in sectoral cooperation, other requirements like the rules of origin, system for the settlement of payments and trade development programmes are almost similar to the free trade area type of an arrangement.

200. All the member States of IGAD were members of the Preferential Trade Area for Eastern and Southern Africa (PTA) which has been transformed into the Common Market for Eastern and Southern Africa (COMESA). The PTA was considered as a first step towards the creation of a common market and eventually an economic community for Eastern and Southern Africa.

201. IGAD member States have had experience as members of the PTA for Eastern and Southern Africa. Under WTO rules the PTA arrangement comes within the purview of the enabling clause of Article XXIV of GATT. Therefore, from the point of view of the spirit and level of economic integration that prevails within the Eastern and Southern Africa subregion, adopting a preferential trade area arrangement for the IGAD subregion would be a step backward. The member States of IGAD who were members of the PTA and now members of COMESA had agreed to pass onto a higher level of integration scheme that would allow them to consolidate their economic cooperation through the implementation of common policies and programmes aimed at achieving sustainable growth and development.

202. With the exception of Djibouti, all member States of IGAD are members of the COMESA which envisions the creation of a free trade area by year 2000 and a customs union by year 2004.

203. Therefore, it would be pertinent to examine the COMESA Treaty and the progress it has achieved specifically in the area of trade so as to come up with a clear understanding as to whether IGAD would need a new marketing arrangement or could adopt and jointly manage the marketing arrangement of the COMESA.

Common Market for Eastern and Southern Africa (COMESA) : AS A REFERENCE POINT FOR IGAD

204. The Common Market for Eastern and Southern Africa (COMESA) which replaces the Preferential Trade Area for Eastern and Southern Africa States (PTA) came into force in December 1994.

205. The salient features of the Treaty establishing the COMESA are:

- wide coverage, encompassing trade liberalization for goods, steps towards the free movement of capital, labour and services; and cooperation in various policy areas, including finance, money, industry, agriculture, transport, communications, energy, health, environment and tourism;

- Objectives ranging from a free-trade area by year 2000, to a customs union by year 2004 and, ultimately, an Economic Community for Eastern and Southern Africa with which persons including labour, capital and services may more freely; and

- relatively strict enforcement mechanisms, including regular monitoring of member States performance under the Treaty, a dispute settlement body (court of Justice), and the possibility of sanctions.

206. The main trade-related elements of the COMESA are presented in the following table:

Main-trade-related elements of the COMESA trade

Chapter	Content
Cooperation in Trade Liberalization and Development (chapter 6)	- Reduction and elimination of tariff and non-tariff barriers, - Establishment of a common external tariff and rules of origin, - Rules on dumping, subsidies, safeguard measures, and anti-competitive practices, - m.f.n. principle and national treatment, - trade promotion.
Monetary and Financial Cooperation (Chapter 10)	- Clearing and payment system (e.g. Clearing House) - Harmonization of monetary and fiscal policies, - Formation of an exchange rate union, - free movement of capital,

Common Market Customs Cooperation (Chapter 7)	-	Customs co-operation, harmonization of customs procedures and suppression of illicit traffic.
Simplification and Harmonization of Trade Documents and Procedures (Chapter 9)	-	Simplification and harmonization of trade documents.
Least Developed Countries and Economically Depressed Area (Chapter 22)	-	Measures to strengthen the capacity of the least-developed member States and economically depressed areas, particularly through encouraging investment, promoting new technologies, and supporting the activities of chambers of commerce and industry.
Development of the Private Sector (Chapter 23)	-	Strengthening of the private sector;
	-	Co-operation among chambers of commerce.
Investment Promotion and Protection (Chapter 26)	-	Promotion and protection of private investment,
	-	double taxation agreements
	-	multilateral investment agreements.
Free Movement of Persons, Labour, Services, Rights of establishment and Residence (Chapter 28)	-	Progressive liberalization of movement of persons, labour and services within the COMESA area.
Sanctions (Chapter 31)	-	Enforcement of obligations under the Treaty.
Implementation and Monitoring Arrangements (Chapter 32)	-	Periodical monitoring of the implementation of the Treaty.
Economic Community for Eastern and Southern Africa	-	Progressive transformation of Economies into an Economic Community.

Source: Treaty Establishing the Common Market for Eastern and Southern Africa

Implementation of the COMESA Treaty in the Area of Trade and Customs

207. The progress in the implementation of the main trade-related elements of the COMESA Treaty as per the report of the Fourth Meeting of the Council of Ministers of COMESA of November 1997 is as follows:

COMESA Tariff Reduction

208. Most member States of the COMESA have published the COMESA tariff reductions by 60% in 1993, 70% in 1994 and 1995, and 80% in 1996 and 1997.

209. Among those member States of COMESA which are also members of IGAD;

- Sudan has published all tariff reductions;
- Uganda has published the 80% reductions;
- Kenya has published all tariff reductions;
- Eritrea has published the 70% reductions and is in the process of publishing the 80% reductions; and
- Ethiopia has not yet published the tariff reductions.

210. Out of the seven member States of IGAD, of which only six are active members, four have wholly or partially published the COMESA tariff reductions. In the case of Ethiopia, even though the tariff reductions have not yet been published, the country has been reducing customs tariff since 1991. The published tariff reductions will be distributed to all members of COMESA.

211. According to the report of the Acting Secretary General of COMESA, the average tariff rates of COMESA are 14% while comparable average tariffs on goods originating from non-COMESA countries are 26%. This has given COMESA products a competitive advantage hence increased level of intra-COMESA trade including the diversification of manufactured products traded within the region.[38]

Elimination of Non-Tariff Barriers (NTBs)

212. Conventional and conspicuous non-tariff barriers such as restrictive exchange controls, export and import licensing, quota's foreign exchange allocations, etc. had been eliminated. However, there are still various non-tariff barriers and other obstacles, impediments, restrictions and constraints among the member States which need to be addressed and resolved.

213. According to the status of implementation on the removal of NTBs and obstacles to intra-COMESA trade, Eritrea, Ethiopia, Uganda, Kenya and Sudan (five out of the seven IGAD member States) have liberalized import licensing and foreign exchange allocation for COMESA goods; have removed taxes on foreign exchange; quotes have been eliminated; advance deposit requirement waived; prohibition on COMESA goods lifted; border posts have been opened as required; with the exception of Eritrea, business travel allowances have been provided; and except for Ethiopia and Sudan which issue visa at entry points selectively, the other member States issue visas at entry points.

214. In this regard, the Secretariat of COMESA is in the process of publishing a catalogue of NTBs on a country by country basis to be distributed to governments and stakeholders.

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[38]. The Report of the Acting Secretary General of COMESA to the Fourth Meeting of the Council of Ministers, November 1997,

Automated System for Customs Data and Management (ASYCUDA) and Eurotrace

215. ASYCUDA has been installed in nine countries and the second round will include eight member States. Ethiopia, Kenya and Uganda were included in the first round and the rest of IGAD member States will be included in the second round.

216. The programme has developed:

- The COMESA Customs Declaration Document,
- Common Statistical Rules and Regulations,
- COMESA Transit Module,
- Programme on the harmonization of Tariff Nomenclature (in process)

COMESA Customs Declaration Document (C-D)

217. The Secretariat has prepared a legal/legislation model to be adopted by member States to legalise the COMESA C-D expeditiously. Moreover, a completion guide has been produced to facilitate the use of COMESA C-D and initial stocks of the C-D to be distributed to member States have been printed.

Common Statistical Rules and Regulations

218. With the aim of harmonizing common statistics in trading activities, the COMESA Secretariat has printed a handbook on common statistical rules and regulations to facilitate implementation by member States.

COMESA Transit Module

219. In order to minimize diversion of cargo in transit member States, a module has been developed to monitor transit goods from the port of entry/exit to the office of the final customs clearance. The module is being tested in Zimbabwe.

Study on the Harmonization of Member States Tariff Nomenclature

220. The study on the harmonization of tariff nomenclature of member States at 8 digit level is in progress. When completed, the study would enable member States to produce statistics that are comparable.

Trade Development and Promotion Programme of COMESA

221. The programme has three components, namely, market and production development and promotion; trade information services; and trade support services.

222. Within the market and production development and promotion sub-programme, supply and demand surveys on trade opportunities were undertaken and results published. Buyers and sellers meetings on various areas convened. Through the assistance provided in the marketing of pharmaceuticals, the pharmaceuticals Manufacturers Association of COMESA, PHARMESA, has been established. Assistance in the marketing of agricultural implements within the COMESA market was provided. Marketing missions within the COMESA were also sponsored. The above are only a few of the areas covered by the marketing and production development and promotion sub-programme.

223. Within the Trade Information Services (TINET) sub-programme, progress is being made to expand the capacity and consolidation of TINET services for regional networking. TINET is believed to facilitate trade through the medium of trade directories, computerized databases and the monthly bulletins and trade inquiries. The TINET information is disseminated through national focal points in member States.

224. The major activity within the Trade Support Services sub-programme is the strengthening of the Eastern and Southern African Business Organization (ESABO), individual chambers of commerce, trade promotion organizations and other business sector institutions through the provision of advisory services, organization of trade missions and seminars, and arranging sub-contracts.

COMESA Customs Bond Guarantee Scheme

225. The Agreement on the COMESA Customs Bond Guarantee Scheme was signed in 1990 and ratification by member States is awaited. The scheme once operational will facilitate intra-COMESA trade and transit traffic carrying goods from and to non COMESA countries.

Study on Alternative Sources of Revenue

226. The study on alternative sources of revenue for countries which may lose substantial revenue arising from reduction of tariffs of COMESA is underway by the Secretariat.

Creation of a Customs Union for the IGAD Subregion

227. A customs union also presupposes the elimination of tariffs as between member States. For goods coming from outside the region, however, members of a customs union are obligated to replace their own individual duties with a uniform tariff applicable to the entire region. This uniform duty structure is referred to as the "common external tariff" the "common customs tariff", or in some cases the "equalization of duties".

228. The COMESA Treaty aims at the creation of a customs union of the Eastern and Southern Africa Subregion by the year 2004. In line with this objective, a study on the operationalisation of the common external tariff for COMESA is underway. Accordingly, the first phase of the study on the categorization of member States imports into the recommended common external tariff structure of 0% for capital goods, 5% for raw materials, 15% for intermediate goods and 30% for final goods is in progress. Given the international trends where all regional blocks are establishing free trade zones with common external tariffs, and the trends towards globalization, it is urgent for COMESA to form a large single market that would be attractive to foreign direct investment, crossborder and domestic investment by expediting the operationalisation of the COMESA common external tariff.[39]

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[39]. Ibid

ROLES OF IGAD AND MEMBER STATES

Roles of IGAD

229. The IGAD Secretariat should negotiate and prepare an agreement or memorandum of understanding (MOU) to enable member States enter into trading cooperation arrangements with COMESA. Such an agreement will enable the IGAD Secretariat to follow up the implementation of the COMESA trade regime with respect to its member States and would also provide an opportunity for closer networking between the two secretariats in the area of trade.

230. It is worth mentioning here that COMESA has already signed a MOU with the Eastern African Cooperation. Discussions are underway between COMESA and SADC for ensuring complementarity between the COMESA trade regime and the SADC Trade Protocol. The process of identification of programmes that could be jointly implemented has already started. This kind of agreement and understanding will facilitate and expedite unification of the integration schemes of subregional economic communities as envisaged by the AEC.

231. In adopting the COMESA trade regime, the IGAD Secretariat should closely follow up outstanding issues with its member States in compliance with the requirements of the trade regime. This, among others, should include facilitating and encouraging member States on the publication of COMESA tariff reductions, elimination of non-tariff barriers and on the use of the customs documents and statistical rules in order to operationalise them.

232. In connection with the follow up of the implementation of the COMESA trade regime, IGAD could collaborate with COMESA on the ongoing study on alternative sources of revenue for countries which may lose substantial revenue arising from reduction of tariffs. Djibouti has not yet signed the COMESA Treaty because of expected losses in revenue. Eritrea and Ethiopia have implicitly indicated the negative effects of market integration. There is need to have statistics on the implications of tariff reductions and revenue tradeoffs in IGAD member States.

233. The question of uneven distribution of benefits must be carefully examined. In any economic integration scheme, member states differ in terms of size and capabilities. They will thus demonstrate dissimilar abilities to take advantage of specialization, economies of scale, augmentation of factor inputs, and opportunities to improve market structures. Economic integration then tends to yield unequal benefits.

234. One school of thought [40] is of the opinion that given the role of economic integration and trade liberalization as indispensable strategies for subregional economic recovery and growth, it is essential that the momentum should be maintained and that progress should not be determined by the ability of the weakest member States to move in unison with the strongest. This raises the fundamental question of the degree of political will and commitment exhibited by the leaders of the member States of the integration scheme.

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[40]. In Guy Martin, The PTA Achievements, Problems and Prospects, Regional Integration in Africa, Unfinished Agenda, 1990, Nairobi, Kenya.

235. Authur Hazlewood and others argue that a particular country's participation in an integration scheme rests on the benefits that the country itself will obtain from integration. [41] The case for integration is not a case for helping others, it is a case for helping oneself. Integration will not succeed unless every partner benefits. Those who think that they will not benefit will not participate, and there will then be no integration.

236. The movement towards regional economic integration and the liberalisation process taking place world-wide inevitably entail a reduction of revenue especially in a small country like Djibouti. In view of the globalization of the world economy, it would also be impossible for the small African states to survive as independent political and economic units if they act individually. With the adoption of the COMESA trade regime, therefore, Djibouti could be encouraged to join the COMESA. Thus, the study being undertaken by the Secretariat of COMESA should be completed as soon as possible so that membership of Djibouti to the COMESA could be encouraged.

Improvements in physical, institutional and social infrastructures

237. The concept of regional integration should contain not only trade liberalization but also cooperation in improving physical, institutional and social infrastructures; harmonization of production structures; and the creation of a favourable environment for private enterprises and for free factor movements across the borders supported by a stable and credible political climate. Given that current intra-subregional trade share is small and that production and infrastructure facilities for expanding trade are limited, benefits from the reduction of tariff rates would be long term rather than short-term. Therefore, the overall emphasis would be to tackle infrastructure and production bottlenecks while pursuing intra-regional trade liberalization through the COMESA trade regime.

238. The IGAD sub-region lacks developed infrastructure to enhance and promote sub-regional economic cooperation. Thus, there is urgent need for upgrading and constructing all weather road networks, railways and telecommunications to inter-link the seven countries and support sub-regional trade, movement of people and reliable channels of communication and exchange of data and information. In this regard, the IGAD Secretariat should take aggressive promotional measures in relation to soliciting the required funds to implement the identified projects in the area of infrastructure for which detailed studies and designs have already been completed. The projects in the priority list are:

a) The construction of the missing link between the Kenyan northern town of Isiolo and Southern Ethiopian town of Moyale (part of the Trans-African Highway).

b) The construction of the road network between North Western Ethiopia, South Western Eritrea and Eastern Sudan (part of the Trans-African Highway).

c) The improvement of the road link between Ethiopia and Djibouti.

d) The rehabilitation of railway telecommunication services between Kenya and Uganda, based on an optical fibre cable.

e) Improvement and construction of railway container terminals in Ethiopia and Djibouti.

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41. In S.K.B. Asante, Regional Economic Cooperation and Integration, the Experience of ECOWAS, Ibid.

f) Rehabilitation of the Assab and Massawa seaports with the installation of modern cargo handling equipment.

g) Rehabilitation of Berths Nos 16 and 17 of the Port of Mombassa and refencing the container terminal.

h) Upgrading the existing telecommunication link as part of the PANAFTEL microwave network.

Conflict prevention, management and humanitarian affairs

239. IGAD is pursuing, as one of its priority areas, Conflict Prevention, Management and Resolution and Humanitarian Affairs. This commendable effort is expected to bring about stable and credible political environment of the subregion and foster the attainment of sustainable development within the framework of regional integration.

Information on production and trade opportunities

240. Since one of the reasons for the low level of intra-subregional trade is the lack of information development and dissemination on production and trade opportunities, the IGAD Secretariat should have a trade promotion network by which opportunities and potentials of the subregion could well be disseminated within the subregion.

Strengthening the private sector

241. In order to promote trade within the subregion, the private sector needs to be assisted and advised in every respect. The private sector of the subregion, represented by the respective chambers of commerce and industry should be able to discuss problems and constraints that hinder trade relations among the countries of the subregion and call for policy improvements and measures to be taken by member States. In this regard, the IGAD Secretariat should establish a regular forum by which the representatives of the chambers of commerce of the subregion could meet. Such a forum, in addition to recommending policy measures, could as well be used as a means of trade promotion. The IGAD Secretariat in close cooperation with concerned public and private institutions of the subregion should be able to initiate the organization of trade fairs and exhibitions on a regular basis.

Roles of member States

242. The success of IGAD in attaining its objectives in the area of trade depends on the commitment and support of the member States. Since embarking on an economic integration scheme of the subregion implies the acceptance of economic regionalism as a development tool, each country of IGAD should have a well structured national apparatus for monitoring and coordinating its involvement in the different intergovernmental organizations. Therefore, IGAD member States could reflect all the programmes of IGAD in their national policies and development programmes. In adopting the COMESA trading strategy member States should within the given timeframes undertake obligations and commitments in relation to the trade and customs regime of the COMESA. This would mean not only attaining the objectives of IGAD but also those of the AEC at the regional level.

243. All member States of IGAD have chosen export-led growth and export oriented trade strategy as a linkage to the rest of the world. However, export-led growth remains seriously

constrained by the persistence of weak production structures and heavy reliance on a narrow range of primary exports. In such a situation, the immediate effect of the removal of tariffs, quantitative restrictions and other constraints to trade between member States could not be greater. This calls for the expansion of production capacities, improvement of productivity in all sectors and full exploitation of the potentials of the subregion. There is thus a vital need to develop more effective instruments and arrangements for industrial cooperation. The ability to use effective instruments for industrial cooperation is likely to be the most crucial determinant of the future contribution of integration to the sub-regions economic development. In this connection, member States in the pursuit of developing the private sector should also create conducive and attractive environment for foreign direct investment. Since the member States of IGAD individually or collectively are part of the new world trading system, they should as well continue with the liberalisation and reform processes.

244. Member States should regularly notify the progress in the implementation of the COMESA trade region to the Secretariats of COMESA as well as to IGAD. This would enable the IGAD Secretariat to follow matters accordingly.

245. Member States should seriously consider alternative sources of revenue other than customs duties and taxes. In this regard, it is worth mentioning the efforts made by Kenya and Uganda in the introduction of the value added tax. The remaining member States of IGAD should undertake relevant studies on this line. Djibouti, for instance, needs to look into possible and alternative means of improving revenue. One of the means for Djibouti could be improving tax collection through a well strengthened tax administration.

246.Some of the measures to improve and strengthen revenue sources could include the creation of a unified income tax system where salaries and individual business profits would be treated on the same basis, subject to the same income tax rates; transformation of certain specific import surtaxes into ad-valorem surtaxes; review of yearly fees resulting from offshore corporation activities; and the establishment of a Revenue Authority.

PART IV. CONCLUSIONS AND RECOMMENDATION

247. A trading or marketing strategy to be adopted for a given regional economic entity should necessarily depend on the objective socio-economic realities and circumstances of that particular region or countries in the subregion.

248. From the theoretical point of view, regional economic integration is conceptualized as a process with major stages or forms beginning with a free trade area and the liberalization of the movement of goods regionally produced to be followed by the establishment of a customs union, and so on, where the validity of the market approach and incrementalism is taken for granted.

249. The experiences of the matured economies of Europe on the formation of economic groupings strictly follow the theoretical prescriptions recommended for regional integration. The countries of Europe needed a wider market to increase the competitiveness of their established industrial structures. Developing countries, and especially African countries, are faced with the problem of developing on a collective basis a viable industrial structure which they cannot develop individually because of their small size and poor economic and social infrastructures. The upsurge of globalization and liberalisation of the world economy have also encouraged the emergence and consolidation of regional trading blocks world-wide both as a response to and as an instrument of managing the resulting impacts and implications.

250. It hardly needs to be stressed then that, in Africa as in other developing countries, economic cooperation in whatever form - customs union, common market or economic unity - has little chance of contributing effectively to economic development and structural change without the concerted effort of the participating countries to coordinate their sectoral plans and programmes.

Expansion of production capacity

251. It has become more evident that without substantial efforts to expand production capacities and improve productivity in all sectors, the integration of markets alone will be mostly ineffective. It is important that the two endeavours - attempt to integrate markets, and effort to promote a joint approach to the expansion of production capacities - should proceed simultaneously and be mutually reinforcing.

252. Experience in African integration schemes has shown that the main reason why trade might not rapidly increase is the lack of very much to trade. As a recent African Development Bank report rightly notes,[42] "even though economic development in most African countries has not gone far enough, or been an appropriate character to produce a large volume of goods for intra-African trade, complementarities exist based on differences in factor endowments and levels of development that provide potential for a much higher volume of trade than now takes place. Nevertheless, it is basically the low level of production of goods that would be tradeable in African markets that accounts for the small volume of intra-African trade and the likelihood that a mere removal of trade barriers would not produce a rapid expansion of trade."

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[42]. African Development Bank, African Development Report, 1990, Abdijan, Cote D'Ivoire.

253. The same holds true for the IGAD subregion where the main reason for the low level of intra-subregional trade would seem to be found in the economic structure of the member countries and in the fact that the infrastructure for intra-subregional trade is generally lacking.

Recommendation

254. Before recommending an appropriate trading strategy for the IGAD space, the following actual facts that could substantiate the recommendation were looked into:

- The objectives and aims of the Agreement establishing the IGAD; the priority areas of cooperation; and the underlying goal which is the gradual creation of an economic community of the subregion that is in line with the objectives of the African Economic Community whose implementation strategy is essentially based on the gradual unification of the integration schemes of the subregional economic communities. In this regard, in order to attain its general objectives, IGAD has emphasised the promotion of the objectives and aims of AEC as well as those of COMESA. It therefore follows that the strategy to be proposed for achieving IGAD's objectives in the area of trade should at the same time be a strategy that promotes the attainment of the objectives of AEC and COMESA in the field of trade.

- In view of the level of integration that the Eastern and Southern Africa subregion, which includes almost all of the member States of IGAD, has achieved, of all the alternative strategies considered for attaining IGAD's trading objectives, the creation of a preferential trade area would be a step backward. This is due to the fact that, out of the seven member States of IGAD, six of them that are members of COMESA are in the process of fulfilling the necessary requirements of a higher level integration scheme.

255. Therefore, it is essential to take into consideration:

- the extensive experience of COMESA and its comparative advantage in integration activities specifically through market integration and investment;

- the need to eliminate and avoid potential duplications and to enhance the effective implementation of the COMESA trading regime;

- the complex institutional, legal and other systems that would be required to be established for the IGAD subregion if an independent trading strategy is recommended; and

- the need to avoid the complicating factors of adherence to two regional organizations with two separate trading strategies.

256. The study proposes and recommends that IGAD adopts the COMESA trading and marketing system in the context and as an integral part of the understanding relating to the planning of production improvements on a subregional level. In trade and customs matters, therefore, COMESA documentation, monetary and fiscal harmonization, intra-subregional liberalization, customs union, payments, immigration and migrant labor regulations could be adapted to the realities of IGAD member States eliminate duplication of functions, competition and potential rivalry within the RECs in the sub-region. This will enable IGAD

to devote more attention to physical cohesion and the promotion of economic linkages through the integration of production base and infrastructure.

Capacity building on trade and marketing management

257. The development and building of capacity on modern trade and marketing strategies must be one of the priorities in subregional cooperation. Expertise and practical skills are required in the field of export and import trade; customs and excise; marketing and trade information database (for instance, ASYSCUDA); documents and documentation mechanisms mentioned not only in this report but also related to the World Trade Organisation (WTO), Lome IV Convention, Trade Fairs and Exhibitions. Collaboration between government institutions and the private sector/business community would ensure that capacity building is both relevant and cost-effective in promoting subregional trade.

Terms of reference for the study

Building on the objectives assigned to IGAD in the field of trade, the study would:

(a) Analyze national trading policies;
(b) Identify alternative strategies for achieving IGAD's trading objectives: (i) the establishment of an IGAD marketing system with a view to creating a preferential trade area, free trade are or customs union; (ii) the adoption and joint management of the COMESA marketing system: (iii) other alternatives:
(c) Analyze and highlight the advantages and constraints of each alternative scenario;
(d) Propose the most workable approach for the IGAD space and identify the major implications relating to: (i) national strategies: (ii) national commitments under World Trading Organization (WTO) agreements, the COMESA Treaty and the Abuja Treaty;
(e) Identify the legal, fiscal, commercial, institutional and other instruments/machinery to be forged in pursuit of the strategy: (i) negotiated preferential regime: (ii) linear or gradual tariff removal: (iii) total or partial community taxation: (iv) rules of origin: (v) tariff and statistician nomenclature; (vi) transit regime; (vii) compensation fund; (viii) documents and formalities to be harmonized or standardized (customs codes and regimes, customs declaration forms, certificates of origin); (ix) promotional activities (trade fairs, salons, exhibitions, trade missions); (x) sharing of trade and other information;
(f) Define the respective roles of the IGAD secretariat and the member States in the implementation of the strategy and the management of the proposed instruments and machinery;
(g) Submit an indicative time-frame for implementation, taking into account national commitments under the COMESA Treaty, the Abuja Treaty and WTO agreements; and
(h) Formulate draft protocols on implementation strategy and instruments.