



Focus Paper

Boosting Intra-African Trade

Hindrances, Opportunities
and the Continental Free Trade Area

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Contents

Acronyms	4
Executive Summary	5
1. Introduction: About this report	7
2. Trends Towards Regional Economic Cooperation in Africa	10
The East Asian Experience	11
Composition of Trade in Africa	12
<i>Intra-African Trade in the Informal Sector</i>	16
African Economic Community	17
The Proposed Continental Free Trade Area	24
Concluding Remarks	25
3. Hindrances and Opportunities	27
Institutional Capacity	27
Infrastructural Deficiency	28
Production Capacity: Industrialisation and Structural Transformation	31
<i>How a Successful Trade Facilitation Measure Can Address Intra-African Trade</i>	35
Concluding Remarks	36
4. Conclusion	37
References	41
Statistical Annex Tables	44
List of Tables and Figures	3

List of Tables and Figures

Tables

Table 2.1.	Regional Aggregates of Real GDP growth (annual %)	10
Table 2.2.	Intra-African Trade (as a percentage of total trade in Africa) (2006-2013)	14
Table 2.3.	Value of the Exports and Imports of the Top Ten African Intraregional Traders, 2015 (Million of U.S. Dollars)	23

Figures

Figure 2.1.	Regional average of transaction costs in international trade (2017)	13
Figure 2.2.	Intra-regional exports of five world regions as a percentage of total exports, 2000-2015	14
Figure 2.3.	Index of Intra-African Trade (% of total trade)	15
Figure 2.4.	Growth in Intra-REC trade, 1996-2015	22
Figure 2.5.	Initial Roadmap of Continental Free Trade Area	24
Figure 4.1	Merchandise exports from Africa, to Africa, China, and the United States, 2000-2015	39

Statistical Annex Tables

GDP Per Capita (Nominal) (US\$)	44
Africa's Largest Exporters, 2016	45

Acronyms

AEC	African Economic Community
AEO	African Economic Outlook
AfDB	African Development Bank
AMU	Arab Maghreb Union
AU	African Union
CEN-SAD	Community of Sahel-Saharan States
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of the Congo
EAC	East African Community
ECA	Economic Commission for Africa
ECB	European Central Bank
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
ICBT	Informal Cross Border Trade
IGAD	Intergovernmental Authority on Development
LPA	Lagos Plan of Action
MIC	Middle-Income Country
MVA	Manufacture-Value Added
NTB	Non-Tariff Barriers
OAU	Organisation of African Unity
PTA	Preferential Trade Area
RECs	Regional Economic Communities
SADC	Southern African Development Community
SADCC	Southern African Development Co-ordinating Conference
SME	Small-and-Medium Sized Enterprises
SSA	Sub-Saharan Africa
TFTA	Tripartite Free Trade Area
TMEA	Trade Mark East Africa
TRALAC	Trade Law Centre
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-Added Tax
WTO	World Trade Organisation

Executive Summary

Regional integration is imperative for Africa. It is required in order to enhance competition among firms and economies of scale, promote cross-border industrialisation and industrial demand, better position the continent in global trade agreements, incentivise foreign and domestic investment, prevent conflicts and consolidate transnational economic and political reforms that support sustainable economic growth and development including trade policy and the development of regional public goods. For the region, this objective is more important given its legacy of ill-conceived economic policies that limited the industrial capacities of several countries and, as a result, hindered the emergence of robust trade both regionally and between Africa and the rest of the world. Hence, collective efforts combined with strong institutional capacity are necessary in order to help overcome the region's integration challenges.

The importance of economic integration has been on the agenda of African governments since the 1980s when the Organisation of African Unity (OAU) (now African Union – AU) drafted the 1980 Lagos Plan of Action aimed at establishing an African Economic Community (AEC). This would include an economic union, a common currency, and a business environment that facilitated the free mobility of factors of production and persons among all African countries. This goal was reinstated in the 1991 Abuja Treaty as member states agreed to create five Regional Economic Communities (RECs): North Africa, East Africa, West Africa, South Africa and Central Africa, that would become the foundation of African regional integration. Yet, the configurations of the RECs recognised by the AU do not match the regions defined above. The presence of more RECs has birth overlapping memberships. The Democratic Republic of Congo (DRC), for instance, belongs to three RECs. Multiple memberships undermine integration as they often result in excessive formalities, having to unrealistically and simultaneously meet several deadlines, and so on. The Continental Free Trade Area (CFTA), however, provides a solution to this problem as it encompasses all 54 African countries within one economic union.

Other major factors behind the lack of progress in regional integration, especially intra-African trade, are the lack of independent institutional bodies that are instrumental in supporting political and economic objectives and accelerating progress on regional integration.

Integration is most effective when the necessary institutional frameworks needed to be put in place to attain and sustain this support political will. As this paper argues, they are needed in order to mediate and settle conflicts, enforce political commitment and intra-African trade-related policies, impose competition law, and create a platform for effective communication and bargaining. Furthermore, in order to facilitate regional integration especially in the expansion of manufacturing activities across borders, African governments must jointly develop and manage good physical infrastructure in transport, energy and communications.

The paper is organised as follows: *Part I* stresses the importance of intra-African trade and provides an overview of the East Asian experience in support of regional trade. It then discusses the AEC which comprises of the eight RECs recognised by the AU, and the proposed CFTA that is expected to provide regional integration across the continent once brought into full force. It briefly examines their roles and highlights the progress made in some RECs. *Part II* examines the requirements for the meaningful impact of CFTA, and places emphasis on the reversal of Africa's low industrial capacity in diversified manufactured goods as an element for successful intraregional trade. *Part III* summarises and concludes the report. Finally, it is important to note that different African countries have mixed experiences, therefore, this paper pulls examples from different sub-regions and countries in order to reflect such disparities.

1. Introduction: About this Report

It is no news that most African countries have not experienced the benefits of the unprecedented intensification of economic globalisation. The region continues to remain on the periphery of this integration, which is exacerbated by its small share of global trade and declining economic productivity. The continent's share of global trade has been floating around 2.5 percent since the early 2000s, and not only is this a drop from 3.1 percent in 1990, it is the lowest of any region in the world.¹ This share also declined by approximately 0.5 percent between 2015 and 2016 due to plunging international commodity prices. The heavy reliance on primary commodities (that are subject to world prices) in many African countries, and subsequently, the lack of a diverse and robust industrial sector plays a major role in the region's disappointing trade statistics. This is an important issue as it is increasingly evident that a significant determinant of a country's economic success is tied to its productivity, what it exports and its trading partners. As an illustration, one of the key drivers behind the performance of East Asian economies is the region's collaboration in developing cross-border production networks in which respective governments spearheaded economic planning that exploited their comparative advantages while promoting manufacturing activity that was supported by technology, research and development, and knowledge sharing across the region. This model has produced meaningful results as intraregional merchandise exports in East Asia increased as a share of total world exports from 4.6 percent in 1980 to 47.7 percent in 2001 (European Central Bank, 2005); in 2009, trade among member countries accounted for 40 percent of the region's total merchandise exports, while trade with the rest of the world (outside Asia) was only 24 percent. Moreover, growth in both intermediate and capital goods was exceptionally strong as they accounted for 86 percent of intraregional trade (Craig et al., 2011), thereby stressing the importance of the types of goods traded.

While the experience of East Asian countries indicates the potential benefits of intraregional trade, the African experience tells a different story. Despite being one of the world's fastest growing regions, the recent global price volatility in primary commodities – especially crude oil – has simply stressed that Africa's economic growth (measured as

¹ Calculated using UNCTAD data.

growth in real gross domestic product (GDP) at constant 2005 prices) is intrinsically volatile and remains rooted in commodity cycles in lieu of sound economic fundamentals based on improving productivity and intraregional (and global) trade as experienced in East Asia. Over 80 percent of the continent's resource-based exports are destined for markets in China, India, the European Union and the United States. Concurrently, the region imports more than 90 percent of its goods from the rest of the world in spite of its enormous resources and human endowments. The continued failure of this approach to achieve stable growth and sustainable development demands alternatives including regional economic cooperation and integration.

The benefits of regional trade in Africa have not been harnessed. This is an ironic situation as the uneven spread of natural resources and the similarity of export products in most African countries requires the need for collaboration through the strategic pooling of human, physical and natural resources. Also, integration is needed in order to better position the continent in global negotiations, improve productivity, and, in turn, global competitiveness. This is particularly important given that several African countries have small populations and small markets, often are landlocked economies, and contribute negligible manufacturing activity, which makes attracting non-resource-based foreign investment that can spur economic activity difficult. As a result, the giants of the continent enjoy the benefits of their large economies, large consumer base and large resource endowments. For example, Nigeria, Egypt, South Africa and Angola accounted for over 40 percent of total foreign investment into Africa in 2014. Meanwhile, as at 2016, 20 (out of 54) African countries have populations no more than 5 million, 9 have GDP per capita below US\$500 (Burundi, the Central African Republic, the Democratic Republic of the Congo, the Gambia, Liberia, Madagascar, Malawi, Niger and South Sudan), and the GDP of 15 states is less than US\$5 billion (see UNCTAD, 2016a).

Although regional integration is not a sufficient condition for economic prosperity across Africa, it is a necessary condition. Consequently, this paper critically analyses the role of intra-African trade and is intended as a contribution to its support. It considers four research questions:

1. What has the role of intra-African integration been?
2. What are its potential benefits?
3. What are the current hindrances to fostering effective

intraregional cooperation?

4. How can intra-African trade be exploited in order to improve economic productivity, especially industrial activity?

The paper argues that intra-African economic cooperation and integration has been poor as it fails to meet international standards. Yet, this is an issue given that it is widely accepted and established that trade, especially regional trade, is an engine for sustainable growth and development. Therefore, African countries must address issues that hinder intra-African trade including, but not limited to, falling industrial capacity, infrastructural deficiency and failing institutions. They must improve their manufacturing base and strengthen the institutional structures required for trade policy to optimally foster intra-African trade. In order to improve regional cooperation, the institutions must ensure coherent national policies especially in the areas of trade and industry and in the promotion of development strategies.

2. Trends Towards Regional Economic Cooperation in Africa

Since the turn of the present century, Africa has recorded high economic growth rates. While the continent grew at an annual average of 5.8 percent between 2000 and 2014, the rest of the world grew at just 2.5 percent. This growth was largely driven by the prolonged primary commodity boom as well as structural and political changes including the end of civil wars (in the case of Mali, Sudan and Mozambique). This attracted aid flows and debt reliefs, and created fiscal space that enabled the rapid expansion of both social spending and capital investment. Though Africa is one of the fastest growing regions in the world, the entire continent remains small in any international comparison of economic size. In 2016, its GDP was US\$2.19 trillion (with SSA accounting for about US\$1.5 trillion) compared to US\$5 trillion in Japan, US\$18 trillion in the United States and US\$2.2 trillion in India. Furthermore, the 2015-16 commodity price slump exposed the fragility of the region's performance as annual growth fell to 3.4 percent in 2015 and 2.2 percent in 2016 (see table below). Despite this sharp slowdown, growth is estimated to have improved to 3.4 percent in 2017 (World Bank, 2017).

Table 2.1. Regional Aggregates of Real GDP growth (annual %)

Region	2008-12	2013	2014	2015	2016 (e)	2017(p)
Central Africa	4.9	4.0	6.0	3.6	0.8	2.2
Eastern Africa	5.6	7.2	5.9	6.5	5.3	5.7
Northern Africa	4.4	1.7	1.5	3.3	3.0	3.4
Southern Africa	3.1	3.7	2.8	1.9	1.1	1.9
Western Africa	6.2	5.7	6.1	3.3	0.4	3.5
Africa	4.7	3.9	3.7	3.4	2.2*	3.4*
Africa (excluding Libya)	4.5	4.3	4.2	3.7	2.3	3.5
Africa (excluding Nigeria)	4.3	3.6	3.1	3.6	3.0	3.6
North Africa (including Sudan)	4.3	1.9	1.6	3.4	3.0	3.4
SSA	4.9	5.2	5.0	3.5	1.2*	3.4
Oil-exporting countries	5.0	3.5	3.6	3.3	1.6	3.0
Oil importing countries	4.2	4.6	3.9	3.6	3.0	4.0

Source: Adapted from the African Development Bank (AfDB), *Database* and The World Bank, *Database*.

Notes: (*) Actual growth figure (e) Estimate (p) Projections

Yet, there remains a huge discrepancy between the continent's growth and the daily reality its people face. The rate at which poverty is falling is below that of population growth, so the number of people living below the poverty line continues to grow. To illustrate this, SSA grew by 3.5 percent in 2015 and its population grew by 2.6 percent resulting in per capita income growth of only 0.9 percent, compared to 1.8 percent in the world as a whole. Also, the continent's GDP per capita was US\$1,871 in 2016,² in contrast to US\$8,156.60 in Latin America and the Caribbean and US\$6,586.10 in East Asia and Pacific (excluding high-income countries).

The economic performance of Africa, therefore, stresses the need to better position the region in the world economy and embark on the journey towards sustainable growth and development. This includes the strengthening of regional integration as part of the conditions for reversing lower living standards and volatile economic growth rates.

The East Asian Experience

The economic success of East Asian economies reveals how regional integration can be leveraged in order to strengthen economies. The driving force behind integration across the region is the evolution of intra-industry trade through cross-border production networks. This has been largely successful as the composition of productivity not only moved from traditional agriculture to manufacturing, but also fostered knowledge sharing across borders. Today, several products, in particular, electronic products, can be broken down into parts and components that are produced and assembled in different East Asian countries. Furthermore, this has boosted the region's role in global value chains, thereby opening greater opportunities to trade with the rest of the world. Today, the entire region significantly trades internally with Japan being the largest partner for most, followed by Singapore and China; intraregional exports have increased as a share of total world exports from 4.6 percent in 1980 to 11.8 percent in 2001, and as a share of total East Asian exports from 33.7 percent to 47.7 percent during the same period (European Central Bank, 2005). It is also important to note that the increase in high-technology productivity, in

² However, it is important to note that GDP per capita varies greatly from country to country. For example, while Malawi had GDP per capita of US\$294 in 2016, Seychelles boasted US\$15,319 in the same year.

both intermediate and capital exports through cross-border networks, is a major contributing factor to the direction and volume of trade in East Asia. In 2009, such exports accounted for 86 percent of intraregional trade (Craig et al., 2011), reflecting the important role of industrial activity.

Since the 2002 East Asian crisis, the region has experienced significant economic growth from improving intraregional exports and global exposure that is accompanied by its highly efficient cross-border production networks. For example, merchandise export as a percentage of GDP grew from 12.1 percent in 2002 to 43.9 percent in 2016 (World Bank, 2017). Such results echo the significance and impact of integration as this region strengthened production networks in different countries and created conducive market environments that make trade, foreign investment and intra-industry cooperation possible. As a result, annual GDP growth in the region was 4.1 percent in 2016 compared to a world average of 2.4 percent, while GDP per capita grew by 3.4 percent compared to 1.2 percent in the world.

Composition of Trade in Africa

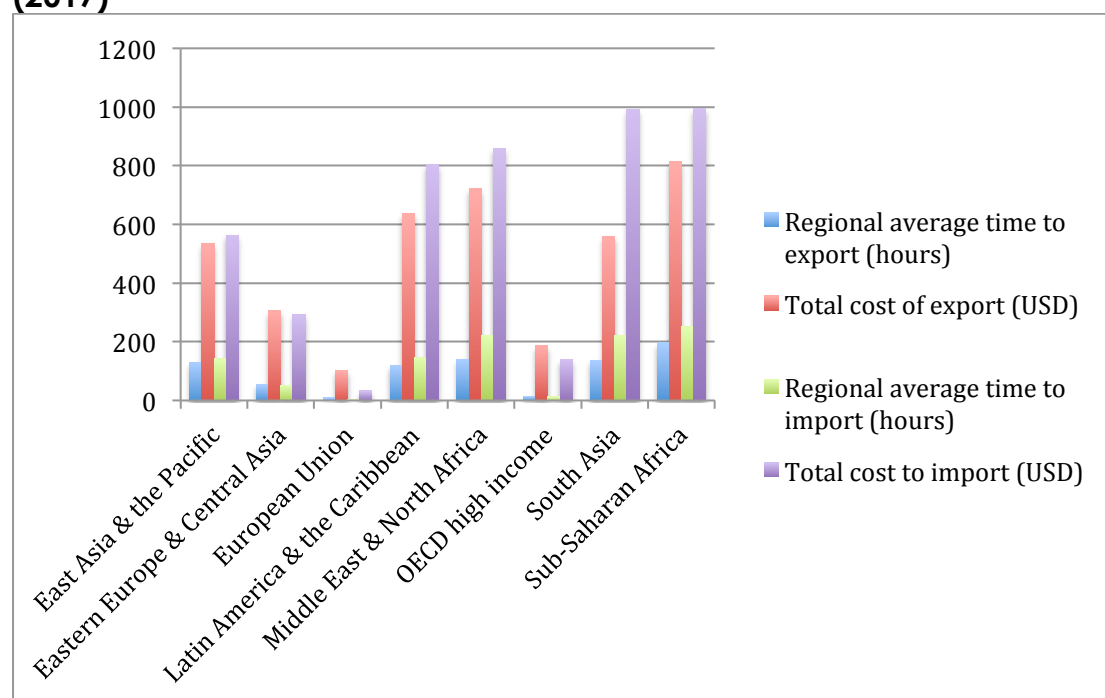
Trade, meanwhile, has played a minute role in achieving growth and in developing African economies. Much of the continent's trade occurs with countries beyond its borders. Trade in goods between Africa and rest of the world has quadrupled in two decades from US\$197 billion in 1995 to US\$852 billion in 2015. And, although the continent's share of global exports is only about 2.4 percent, trade between Africa and the rest of the world accounts for over 50 percent of its GDP.³ Also, it is important to note that while its exports are dominated by oil, gold, diamonds, timber, cocoa, and precious metals, most of its imports consist of processed foods and other industrial goods such as refined petroleum products, and machinery and equipment.

On the other hand, intra-African trade is low for reasons that this paper seeks to address. This includes the thickness of African borders as a result of high tariffs and non-tariff barriers (NTBs) including burdensome customs procedures, excessive documentation, inefficient ports, infrastructural deficits, all of which add to the cost of doing business regionally. Thus, it is no surprise that the continent is the world's weakest regional trade performer. From the figure below, trade among SSA countries costs 39 percent higher than in East Asia. On average,

³ Calculated using World Bank data (Trade % of GDP).

exportation takes about 8 days and costs US\$813 in SSA; that is 4 days and US\$279 more than East Asia and Pacific, 4 days and US\$175 more than Latin America and the Caribbean, and 2 days and US\$254 more than South Asia.

Figure 2.1. Regional average of transaction costs in international trade (2017)



Source: Adapted from World Bank, *Doing Business Database*.

To further demonstrate how dire the situation is, the Economic Commission for Africa (ECA) explained: “the reality on the ground is that transport costs in Africa are still among the world's highest. For example, shipping a car from Japan to Abidjan costs US\$1,500 (including insurance); shipping the same car from Addis Ababa to Abidjan would cost US\$5,000.” This illustrates the cost of transportation throughout the continent due to the low per capita density of rail and road networks that in colonial times were primarily designed to transport primary products to the ports. Consequently, much of the continent remains unconnected, thereby creating costly business transactions across borders.

This partly explains why trade among African countries is comparatively low – as a share of total African trade, regional trade is estimated between 10 and 12 percent. Elsewhere, it is 32.1 percent among developing countries in Asia, 30 percent in the Association of Southeast Asian Nations (ASEAN), 40 percent in North America, 21 percent in Latin

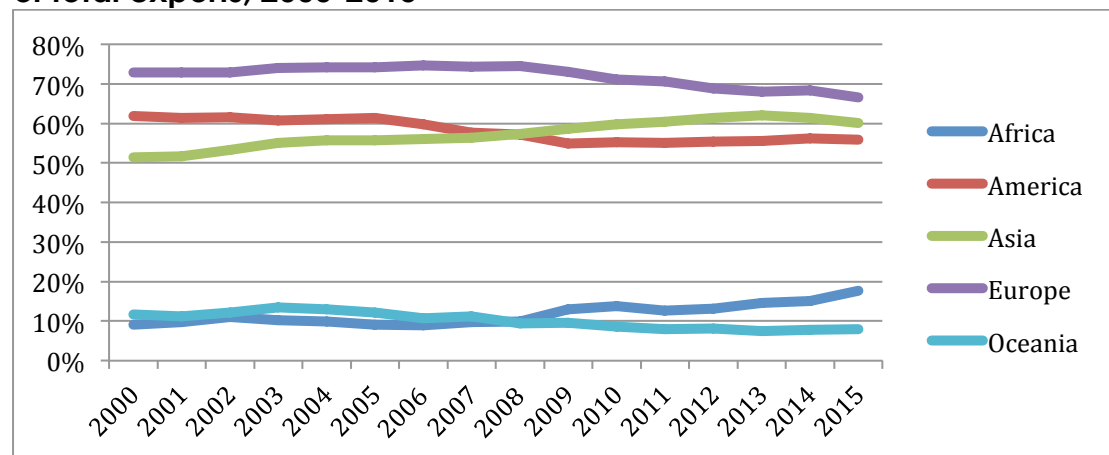
America and the Caribbean, and over 60 percent in Western Europe (see Tralac, 2017). Moreover, as shown in table and figure below, not only is intra-African trade stalling from reaching international levels, it is marked by marginal improvements.

Table 2.2. Intra-Africa Trade (as a percentage of total trade in Africa) (2006-2013)

Year	2006	2007	2008	2009	2010	2012	2013
Percentage	8-10	9	9-10	10-11	10-11	10	10-11

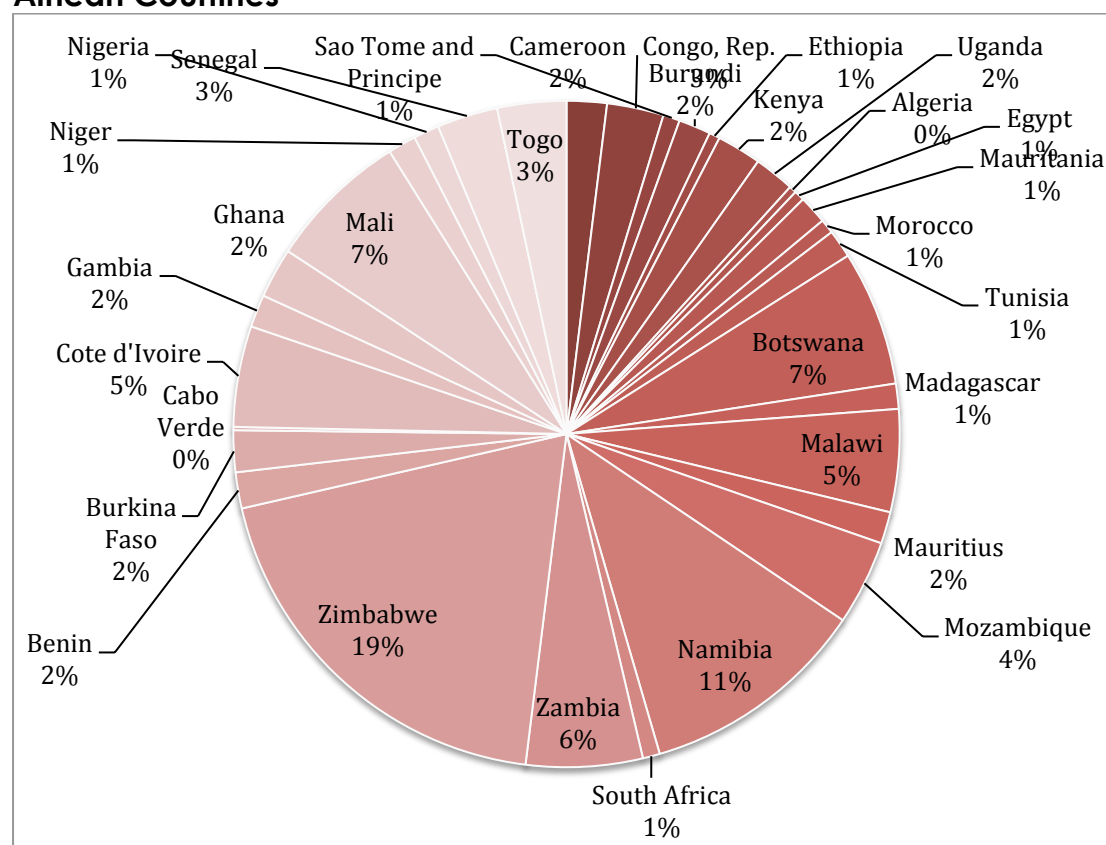
Source: Adapted from United Nations Conference on Trade and Development (UNCTAD), *Database*.

Figure 2.2. Intra-regional exports of five world regions as a percentage of total exports, 2000-2015



Source: Adapted from UNCTAD database.

Figure 2.3. Index of Intra-African Trade (% of total trade) by Selected African Countries



Source: Adapted from AfDB, Database.

Intra-African Trade in the Informal Sector

Informal cross-border trade (ICBT) is trade usually conducted by small businesses and individual traders, especially women, in “processed or non-processed merchandise which may be legal imports or exports on one side of the border and illicit on the other side and vice-versa, on account of not having been subjected to statutory border formalities such as customs clearance” (AfDB, 2012). The volume of ICBT in Africa reflects the implications of the associated costs incurred through formal channels. In a region where huge constraints in formal procedures exist, informal trade will continuously rise, hence, ICBT in Africa accounts for approximately 60 percent of regional trade.

In Uganda, such form of trade with its five neighbouring countries (including Kenya, Rwanda, Democratic Republic of Congo, Tanzania and South Sudan) were estimated to account for US\$231.7 million in 2006. This is 86 percent of Uganda’s formal export flows to these countries. Similarly, informal cross-border imports from Uganda’s neighbours were estimated at US\$80.6 million or approximately 19 percent of formal import flows (Lesser and Moise-Leeman, 2009). These trades were mostly small consignments by small-to-medium sized enterprises (SME) and individuals, and they were concentrated in staple food commodities such as maize, and low-quality consumer goods such as clothes, shoes and electronic appliances. According to the Uganda Bureau of Statistics, US\$118 million of these trades are accounted for industrial goods - this is 96 percent of Uganda’s official industrial exports or about 50 percent of total industrial exports to its neighbouring countries.

In Benin, ICBT is more striking for certain commodities as volumes correspond to 10 times official trade flows or over 90 percent of traded flows. For example, 3453 bicycle tyres were imported to Benin between October 1993 and February 1994, but only 291 tyres were formally recorded (Ibid). These informal trades were either under-invoiced, misclassified, undeclared or deliberately moved through channels that either avoid public authorities or bribe them. Moreover, in 2010, ICBT in Benin was estimated to account for 75 percent of the country’s GDP (AfDB, 2012), and it is estimated that 20 percent of the country’s GDP is based on ICBT with Nigeria alone.

Although ICBT constitutes an important part of people’s livelihood as it is a source of income to about 43 percent of Africa’s population (AfDB, 2012), it deprives governments of revenues via unpaid customs duty and value-added tax (VAT) needed to pursue developmental strategies. In SSA, for example, export VAT accounts for more than 50 percent of total VAT revenues. Unpaid VAT revenues can, therefore, hamper the formulation of regional trade policies. This emphasises the importance of formalising informal transactions and incentivising informal traders to switch to formal trades. As such players often do not have the necessary capacity and resources to absorb the associated costs from cross-border trade, there is the need to enhance compliance levels by increasing access to finance to cover high intra-African trade-related fees and reducing fees for cross-border trades, enhancing the predictability of cross-border requirements and charges, eliminating the incidence of bribery and corruption along trade corridors. Also, the documentation and formalities should be simplified alongside increasing dialogue between customs authorities and traders as individuals with low literacy levels, trading small amounts of low-value goods, and no formally registered firms, often search for and use unofficial routes with no border posts and are therefore likely to not declare their transactions (Ibid).

African Economic Community

Brief History

Though intra-African trade goes back a long way, the formal, political impetus towards regional integration dates from the 1960s. As African countries exited colonial rule, founding fathers of independence stressed the importance and advantage of aligning regional trade policies with wider national development strategies. They quickly realised that the way to improve their fragmented economies - fit for colonial exploitation, but not economic development - was to unify Africa's small markets that lacked economies of scale in the production and distribution of goods and services at a continental level. There was a strong political commitment to such economic planning, fuelled by the hopes that regional integration would accelerate industrialisation – a major driver of growth.

Subsequently, African leaders sought to integrate their economies through import-substitution industrialisation as noted in the Lagos Plan of Action (LPA) – an Organisation of African Unity (OAU) initiative - adopted by African Heads of State and Government in April 1980. Ten years after the LPA and the failure of this strategy, the Abuja Treaty was signed in 1991 (but activated in 1994) to re-emphasise the need for an endogenous development strategy whereby industrialisation would be achieved through regional integration. This was going to lead to what they called the AEC. The first stage, as outlined by the Treaty, is the elimination of tariffs within RECs – the building blocks of the intended AEC, followed by the elimination of NTBs and the introduction of a common external tariff to form a customs union. Today, there are eight recognised sub-regional bodies that constitute the RECs. Together, they present the frame for economic integration and regionalism in the various parts of Africa, and they include:

The **Arab Maghreb Union** (AMU) was established in February 1989 in Marrakech. Its main objective is to promote trade liberalisation among member states and a Maghreb economic union that harmonises trade facilitation policies including the removal of tariffs and NTBs, as well as the free movement of persons and transfer of services and capital.

AMU
GDP: US\$425.7 billion
GDP per capita: US\$4,518
Total population: 94.2 million
Member states: Algeria, Libya, Mauritania, Morocco, and Tunisia.

Of these objectives, only one member has fulfilled a part of the Treaty - Tunisia allows the free movement of member states' citizens into its territory, while the remainder still require travel visas for residents of member states. In 2015, over 90 percent of the REC's exports went to non-African countries, and only 3.4 percent to AMU member states.

This REC faces its own dynamic challenges, including the aftermath of the Arab spring, terrorism in Libya, heavy blockage of trade routes by national security guards, and the overlapping membership of Algeria, Libya, Morocco and Tunisia in the Greater Arab Free Trade Area of the Arab league, all of which have stalled the likelihood of a functioning economic union.

The **Community of Sahel-Saharan States** (CEN-SAD) was

created on 4 February 1998 in Tripoli, Libya. It consists of 24 member states. It was primarily established with the purpose of creating an economic union that would implement a coordinated developmental plan integrated into the national development plans of member states in the

agricultural, industrial, social, cultural and energy fields. It would also eliminate barriers that hamper the easy and free movement of goods, services and member states citizens. This plan also included the implementation of joint projects designed to improve transportation and communication infrastructure. To date, only 13 of the 15 members have ratified the Treaty. In 2015, its intra-REC exports accounted for 10 percent of its total value. Total exports to the African continent accounted for 15 percent and 85 percent of exports went to non-African countries (AEO, 2017).

CEN-SAD

GDP: US\$1,350.7 billion

GDP per capita: US\$1,363.8

Total population: 535 million

Member states: Benin, Burkina Faso, Central African Republic, Chad, the Comoros, Côte d'Ivoire, Djibouti, Egypt, Eritrea, the Gambia, Ghana, Guinea-Bissau, Libya, Mali, Mauritania, Morocco, Niger, Nigeria, Senegal, Sierra Leone, Somalia, the Sudan, Togo and Tunisia.

COMESA

GDP: US\$657.4 billion

GDP per capita: US\$1,335.0

Total population: 492.5 million

Member states: Burundi, the Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Swaziland, Seychelles, Uganda, Zambia and Zimbabwe.

The world's oldest Preferential Trade Area (PTA) was the precursor of the **Common Market for Eastern and Southern Africa (COMESA)**. The PTA, which covered Eastern and Southern Africa, was created during colonial rule for the seamless exploitation of natural resources across borders. It was changed to COMESA in 1994, and so was its main objective. The goal of COMESA has been the

formation of a unit to overcome trade barriers faced by member states. The plan for reaching this goal includes cooperation in all fields of economic activity, raising living standards, creating an enabling environment for foreign and domestic investment, promoting cross-border trade and investment, and so on. The PTA laid the foundation for free trade as it had already established supporting institutions that permit the free movement of labour, removal of tariff obstacles to free movements of goods, and the right of establishment and residence for investors in the COMESA region. The region currently operates as a free trade area (FTA). In 2015, only 11 percent of exports from COMESA stayed within the group while more than 80 percent of its exports went to non-African countries (AE0, 2017).

The **East African Community** (EAC) was formed in 1967 but dissolved in 1977, and then revived with a Treaty on the establishment of trade union in 1999. Its main objective is to create a common market, customs union, monetary union, and ultimately a political

federation of the East African states. Due to COMESA, overlapping member states already trade freely among themselves. The EAC established a common market in 2010 which is expected to facilitate the free movement of persons, services, goods and capital.

EAC

GDP: US\$159.5 billion

GDP per capita: US\$918

Total population: 168.5 million

Member states: Burundi, Kenya, Rwanda, South Sudan, Uganda and United Republic of Tanzania.

ECCAS

GDP: US\$257.8 billion

GDP per capita: US\$1,631.4

Total population: 158.3 million

Member states: Angola, Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Rwanda and Sao Tome and Principe.

The **Economic Community of Central African States** (ECCAS) was created in the 1980s with the core objective of trade and market integration, but it was inactive for several years due to conflicts in the Great Lakes area and financial constraints. Today, member states have reduced tariff lines by 34 percent and intra-ECCAS tariffs to zero. Yet, the ECCAS region has the lowest share of intraregional trade in terms of GDP compared to Africa's five sub-

regions.

The **Economic Community of West African States** was created in 1975 to promote cooperation and integration across West Africa as a way of raising the living standards of its people and reducing foreign dependency on trade and aid. The promotion of the West African region as a FTA (which was established in 1996) has been endorsed by an existing currency union between eight members (namely: Benin,

ECOWAS

GDP: US\$716.7 billion

GDP per capita: US\$2130.4

Total population: 339.8 million

Member states: Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal and Togo), the free movement of people across all member states, and the improvement of road networks including the World Bank sponsored Abidjan-Lagos Trade and Transportation Facilitation Programme and a similar scheme between Burkina Faso and Togo.

The region currently has a customs union which came into force in January 2015, and member countries are increasingly adopting the ECOWAS Single Customs Declaration Form which is aimed at simplifying and easing the movement of goods across borders. The region is the only REC to introduce a 0.5 percent levy on all imported goods into the region, which is used to fund the union's activities. In 2015, about 12 percent of the group's exports were traded within member states, 6 percent went to other African countries, and about 80 percent went to non-African countries (AEO, 2017).

The Intergovernmental Authority on Development (IGAD)

was established in 1996. It succeeded

the Intergovernmental Authority on Drought and Development which was founded in 1986 to deal with issues related to drought and desertification in the Horn of Africa. The IGAD

expanded the objectives of its predecessor to include economic integration, among other objectives. In comparison to the other RECs, the IGAD is lagging well behind. That said, the region has embarked on large-scale infrastructural projects in transportation, energy and communications in order to achieve better interconnectivity among member states. They include the Lamu Port and South-Sudan-Ethiopia Transport Corridor connecting Kenya, Ethiopia and South Sudan. The 2016 Africa Integration Index ranked the group number one in terms of infrastructure. In terms of trade, over 12 percent of its exports were traded among member states in 2015, 26 percent went to other African countries, while the remaining 74 percent went to non-African countries.

IGAD

GDP: US\$218.2 billion

GDP per capita: US\$874

Total population: 247.4 million

Member states: Djibouti, Ethiopia, Eritrea, Kenya, Somalia, the Sudan, South Sudan and Uganda.

The **Southern African Development Community (SADC)** was established in 1992, following the restructuring of the Southern African Development Coordinating Conference (SADCC) which was created

SADC

GDP: US\$678.8 billion

GDP per capita: US\$2,255.2

Total population: 312.7 million

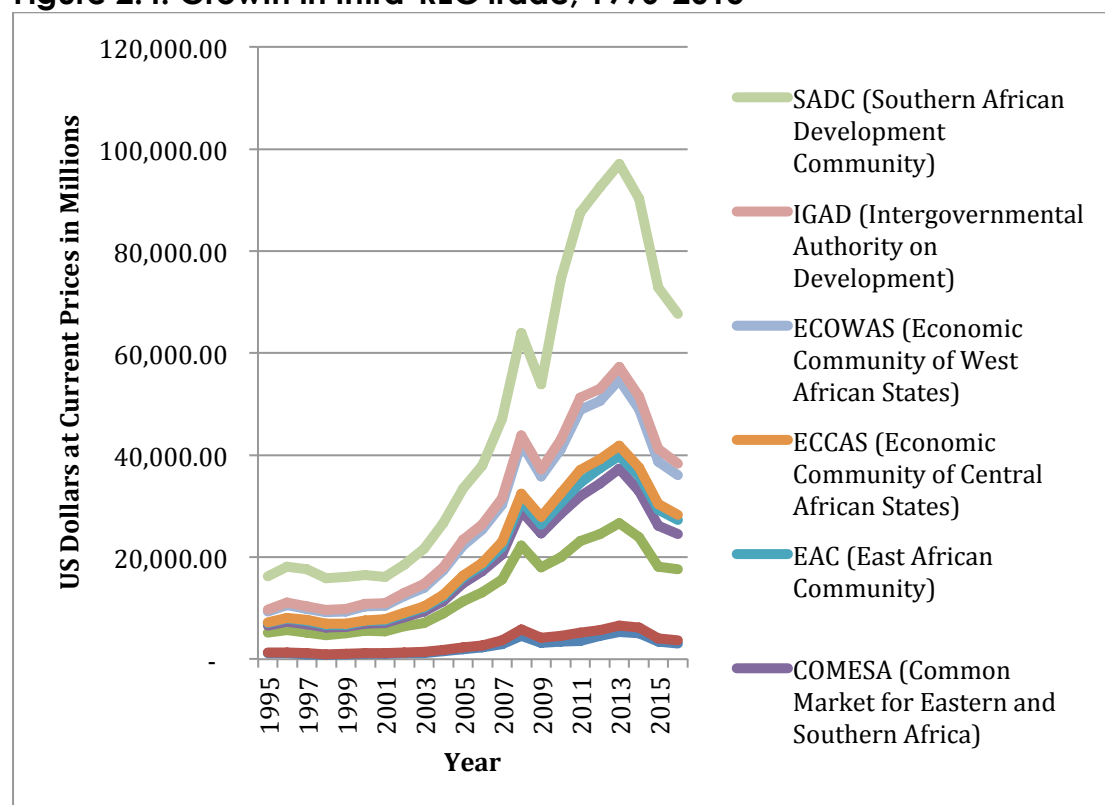
Member states: Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

in 1980. The SADCC aimed at reducing economic dependence on *apartheid* South Africa. This agenda was excluded from the AEC agenda. Following the transition of South Africa to democratic rule in the 1990s, the Heads of State and Government of SADCC member countries decided to deepen integration. This led to the transformation of the SADCC into the SADC. Similar to ECOWAS

and EAC, the SADC adopted a linear model of integration. This integration plan was detailed in the 2005-2020 Regional Indicative Strategic Development Plan (RISDP), which acts as the blueprint for achieving the goal of economic integration over the long run. The plan included the creation of an FTA by 2008, a customs union by 2010, a common market by 2015, the creation of a monetary union by 2016 and the introduction of a single currency and economic union by 2018. Of these, only the FTA was achieved in 2004.

The deadlines for most of the plans stated in the RISDP have been postponed due to many challenges including the customs union, common market and the monetary union. These challenges include multiple memberships of states in other RECs, revenue constraints, huge differences in the level of development of member states, poor infrastructure and inadequate trade facilitation systems. However, according to the 2016 Africa Integration Index, the SADC is ranked the second most integrated REC after the EAC.

Figure 2.4. Growth in Intra-REC trade, 1996-2015



Source: UNCTADStat, Data Center.

Although intraregional trade in Africa has been low compared to other regions of the world, intra-REC trade has improved in most unions since the early 2000s as shown in the diagram above. Between 2000 and 2009, for example, intra-REC exports accounted for an average of 5.3 percent in COMESA, 19.8 percent in EAC, 0.8 percent in ECCAS, 8.8 percent in ECOWAS, and 9.7 percent of total exports in SADC. Also, among the eight RECs, SADC has consistently recorded the highest share of growth in intra-REC trade as a share of GDP even though it does not have the lowest intraregional average-applied tariffs. This performance is attributed to the growth of industrialisation and accelerated trade liberalisation in the economically stronger member states such as South Africa and Mauritius: this has been accompanied by an increase in the trade of durable and non-durable manufactured products. However, between 70 to 80 percent of intra-SADC trade is dominated by South Africa and Mauritius (see ECA, 2015).

Table 2.3. Value of the Exports and Imports of the Top Ten African Intraregional Traders, 2015 (Million of U.S. Dollars)

Exports to the Rest of Africa		Imports from the Rest of Africa	
Country	Value	Country	Value
South Africa	23,551	South Africa	8,563.00
Nigeria	9,718.00	Tunisia	7,476.46
Cote D'Ivoire	3,421.36	Zambia	4,864.70
Egypt	2,649.00	Ghana	3,859.58
Kenya	2,616.40	Cote D'Ivoire	3,454.34
Morocco	1,776.00	DRC	3,116.58
Zambia	1,698.70	Mozambique	3,008.42
Algeria	1,609.00	Zimbabwe	2,815.72
Angola	1,426.00	Nigeria	2,423.00
Zimbabwe	1,171.31	Cameroon	1,751.190

Source: Adapted from [International Monetary Fund, Direction of Trade Statistics](#)

A few African countries dominate trade. As shown in the table above, the continent's biggest economies trade disproportionately with the rest of the continent – an attribute that characterises trade for much of the continent. These major exporters also account for the bulk of trade between the continent and the rest of the world. For example, South Africa, Nigeria and Angola accounted for 42.2 percent of the continent's total exports in 2016. This is a problem marked by the lack of product diversity in most African countries. Petroleum, for example, accounts for more than 30 percent of intra-African trade and 35 percent of trade between the continent and the rest of the world. Within Africa, cotton, live animals, maize and cocoa add a further 18 percent while manufactured goods account for 15 percent. Other products include fresh fish, vegetables, tea and sugar. For some countries, one product often makes up the bulk of exports to the rest of Africa. For example, over 90 percent of Angola's exports to the rest of the continent is petroleum products, while 98 percent of Seychelles exports to other African countries is seafood. (See Mutume, 2002).

The Proposed Continental Free Trade Area

The decision to establish the CFTA was adopted at an African Union (AU) Summit of the Heads of State and Government in January 2012. The Summit approved the creation of the FTA by an indicative date in 2017. The negotiations for the FTA's establishment were launched in June 2015, and since then, a number of meetings have been held with the goal of concluding negotiations on both tariff liberalisation and trade in services. Concluding the FTA is a crucial step in completing the AEC as laid out in the 1980 Lagos Plan of Action for the economic development of Africa and as envisaged in the 1991 Abuja Treaty.

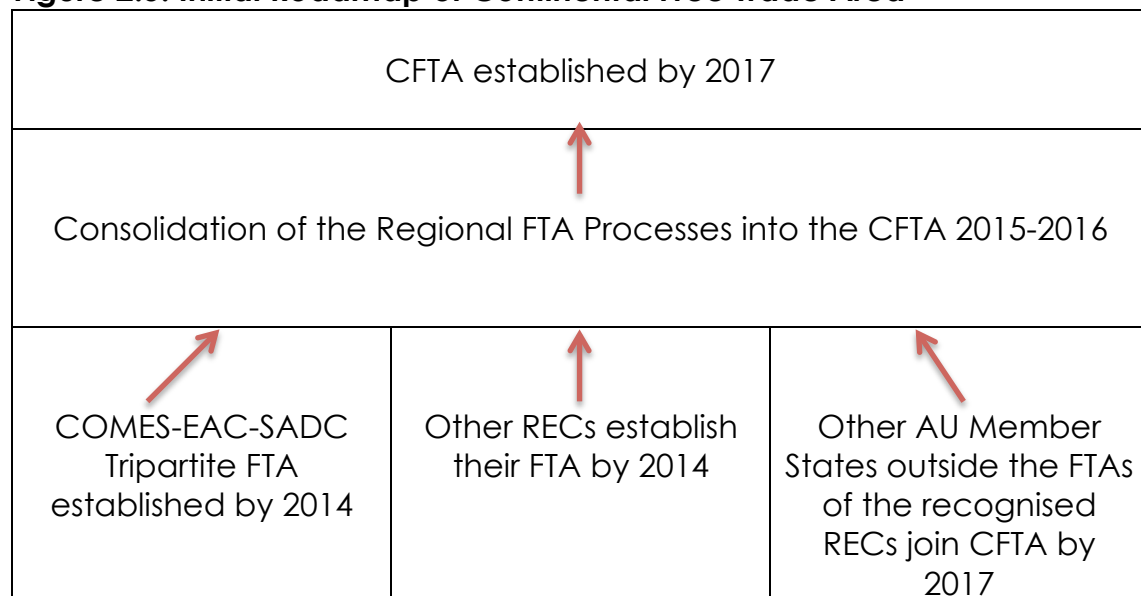
CFTA

About US\$2.19 trillion in combined GDP

More than 1 billion people

54 member states

Figure 2.5. Initial Roadmap of Continental Free Trade Area



Source: International Centre for Trade and Sustainable Development, 2014.

As shown in the figure above, the CFTA is expected to grow out of the Tripartite FTA (TFTA) negotiation that includes an FTA comprising the 26 member states of COMESA, EAC and SADC. Going by the number of member states, the CFTA is set to become the world's largest FTA as it would encompass all 54 African countries with a combined population of over a billion people and a combined GDP of about US\$2.19 trillion. Its objectives are to create a single market for goods and services; enhance the free movement of people; promote intra-African investment; improve economies of scale in production and develop (firm) competitiveness; coordinate trade liberalisation and facilitation

instruments across the RECs; accelerate the establishment of the Continental Customs Union, and so on.

At the last meeting of AU Ministers of Trade, held in June 2017 in Niamey, Niger, ministers adopted the modalities for trade liberalisation in goods and services. They agreed to liberalise 90 percent of tariff lines with additional flexibility accorded in the remaining 10 percent for sensitive and excluded goods. Though the CFTA would reduce revenues from tariffs, the losses are estimated to be modest and can be balanced by allowing for flexibilities, such as exclusion lists. However, this paper argues that such flexibilities must not be excessive so as not to undermine the benefits of free trade.

The CFTA is expected to generate several economic opportunities for members as shown by empirical analyses. According to the ECA, the CFTA could increase annual intra-African trade by as much as US\$35 billion, it can reduce imports from the rest of the world by US\$10 billion per year, and increase agricultural and industrial exports by US\$4 billion by 2022. Mevel and Karingi (2012) estimate that the FTA would increase trade by 52.3 percent compared to a baseline scenario without the CFTA.

Concluding Remarks

The RECs are moving at different speeds. Most have not only suffered poor implementation records but also achieved little in promoting intraregional trade across Africa. Part of this lies in their linear market integration approach that has proven largely fruitless. The stepwise focus on the integration of goods, labour and capital through the elimination of border measures such as import tariffs and the introduction of a free trade area, customs union and a common market, and then monetary and fiscal integration results in lesser focus placed on constraints that address deeper problems of both intra-REC trade and continental integration including infrastructural deficiency in transport, power and telecommunication, deindustrialisation, and other behind the border issues such as services, investment, government procurement and competition policy. If these constraints are not addressed, the RECs will end up being 'neighbourhood arrangements'.

Furthermore, the continent's web of overlapping memberships must be

addressed so as to avoid 'conflicts of interest' and excessive political bureaucracy caused by having to meet multiple obligations simultaneously. Transaction costs incurred from growing agreements should also be reduced. These factors are likely to weaken the performance of intra-REC trade as a result of counterproductive competition among policymakers and institutions, and undermine integration. Thus, it is important that RECs try to harmonise the rules of existing agreements, which can be done through the CFTA.

This larger market is expected to enable African economies to function better by promoting competition as well as solving the challenges posed by overlapping REC memberships. The harmonisation of modalities related to goods, services, and labour in one single market would further boost intra-REC trade and consolidate the RECs achievements. Also, it reduces the costs on governments in terms of time, energy and resources that they are forced to manage via competing treaties. However, it is important to stress that the CFTA should not replace these RECs.

In essence, intraregional trade remains very important. The experience of the RECs is that trade reform has been disappointing as they have not delivered their expected outcomes. Their activities have been examined with respect to their efforts in increasing intra-African trade, and are found to have only marginally improved over the last decade. Yet, the failure of the RECs should not discourage African governments and policymakers from including them as part of their development strategy. This is because they are not only crucial for strengthening African economies and building the region's resilience against global shocks, but for buttressing political solidarity. The CFTA presents an opportunity through which the potential benefits of intra-African trade can generate win-win gains for member states. Nevertheless, given the slow and often disappointing performance of the RECs in meeting targets and achieving its objectives, issues that may hinder the effective implementation and usefulness of the CFTA must be discussed.

3. Hindrances and Opportunities

While the removal of tariff barriers may reduce the cost of moving goods and services across borders, this paper argues that weak Institutions, infrastructural deficiencies, the lack of diversity in export products and premature deindustrialisation present greater impediments to intra-African trade.

Institutional Capacity

The lack of good policies or intelligent minds is not the issue in Africa, but rather the absence of effective implementation and enforcement. This is a key factor behind the lack of progress in regional cooperation. Sufficiently robust and independent institutional arrangements are instrumental when it comes to supporting the objectives of the AEC. Progress in regional integration depends on both the political and related institutional bodies that African countries put in place in order to transmute political drive into action. Therefore, regional institutional building needs to be distinguished from political will to establish and ensure the effectiveness of the CFTA. Irrespective of political momentum, well-designed regional institutions must be built so as to honour existing agreements, adjudicate conflicts and create room for fair bargaining between and among member countries. As such, regional institutions are needed to produce positive outcomes regarding economic cooperation and integration (see ECB, 2004).

Many of the RECs lack institutions capable of enforcing compliance. The case of the SADC Tribunal, a keystone to regional integration in that Community, provides a good example of why this is an issue. The Tribunal ensures that Treaty provisions and its legislative enactments are adhered to by member states. However, the effectiveness, credibility and independence of this Tribunal are questionable. In 2010, the Tribunal was suspended owing to Zimbabwe's refusal to recognise it had breached Article 6 of the Treaty as argued by the Tribunal (Afademeh-Adeyemi and Kalula, 2011). Such a case clearly shows that it is important that the continent establishes institutions that will independently enforce the rules of the CFTA, especially regarding dispute settlement, intellectual property rights, anti-dumping policy, competition policy, safeguards and countervailing measures, and so on. Competition policy, for example, is important for regulating trade

practices, and providing clarity to firms in the areas of mergers and acquisitions and pricing.

Therefore, the inclusion of independent institutional bodies that regulate competition will help build confidence in the CFTA and ensure its effective operation in this regard, especially for the private sector.

Infrastructural Deficiency

Transport

Since 2014, the average score for transport infrastructure has grown by about 4 percent. According to the World Economic Forum's index of the 144 countries rated, the top five African countries for transport infrastructure were South Africa (34), Namibia (35), Tunisia (40), the Gambia (55) and Egypt (56). Still, the continent has infrastructural deficiencies that continue to hamper trade between African countries and raise transportation costs. Infrastructural deficiency in Africa is estimated to reduce firms' productivity by 40 percent (UNCTAD, 2017). This deficiency is linked to increased production and distribution costs and lower competitiveness, which also deters the adoption of new technologies. Africa's infrastructural gap negatively affects the potential for firms, especially SMEs, to engage in intra-African trade.

Enabling the movement of goods will increase private sector participation as it increases market size for businesses and individual traders. This is especially true for road transportation as it accounts for over 80 percent of all passenger and freight movement in Africa, and is, therefore, a good proxy of how well-connected Africa is. Compared to a road density of 37 kilometers per 1,000 square kilometers in other low-income regions of the world, Africa has a road density of only 16.7 kilometers per 1,000 square kilometers. Just 34 percent of the rural population of SSA, for example, live within 2 kilometres of a passable road, while urban populations enjoy only 128 meters of road per 1,000 residents, compared with 700 meters per 1,000 residents in other low-income regions of the world (Brookings, 2012). Similarly, rail density in Africa is 2.8 kilometers per 1,000 square kilometers in contrast to 3.4 kilometers per 1,000 square kilometers in other low-income regions (Ibid).

This lack of connection is further compounded by the absence of competition and high costs in alternative modes of transportation including air transport from one end of the continent to another. Air

travel within Africa is problematic as intercontinental flights tend to be cheaper than intra-continental flights. For example, it costs an average of US\$1,350 to take a 17-hour flight to Guangzhou, China from Lagos, Nigeria during off peak periods, meanwhile it costs US\$1,000 for a 6-hour flight to Johannesburg, South Africa during the same period.

African countries must seize the opportunities presented by the CFTA by improving transportation linkages. Increasing numbers of and improving the state of both trade routes and road networks within countries is important in order to reduce the time and cost of doing business regionally. African governments must focus on replicating similar developments to the Maputo Development Corridor linking South Africa to Mozambique and the Lamu Port and South-Sudan-Ethiopia Transport Corridor connecting Kenya, Ethiopia and South Sudan in order to increase the density of intra-African trade.

Furthermore, transport infrastructure must be developed alongside the elimination of obstacles that may hamper the effectiveness to improved infrastructure to intra-African trade. This includes roadblocks and checkpoints, and lack of maintenance. For instance, there are about 47 roadblocks between Douala and Bertoua in Cameroon, and 27 police checkpoints between Mombasa, Kenya and the Ugandan border (Ibid). It is not uncommon to pay transit fees and bribes at each of these checkpoints and roadblocks, thereby increasing the cost of cross-border trade. Moreover, businesses are often unable to predict how many roadblocks they will encounter and how much they would need to pay to get through.

Much of the continent is known to have a poor maintenance culture. Unless African governments cultivate a culture of infrastructural maintenance, the continent will lose much of its transport network over the long run. Already, it has been estimated that half of the road networks in many countries were lost between 1968 and 2008 due to poor maintenance (Biau et al., 2008) and, according to a 2010 ECA report, only 30 percent of African roads are paved.

That said, increasing railway connectivity and maritime transport will help reduce the pressure on road transport and maintenance costs. Both forms of transport are critical for facilitating the movement of people and goods. Maritime transport, in particular, is perhaps the continent's greatest untapped transport solution. There are several major rivers (including the Limpopo, Congo, Niger, Orange, Zambezi

and Senegal), and five main lakes - Victoria, Albert, Tanganyika, Chad and Nyasa - that connect several African countries. These rivers and lakes present an opportunity to bridge the gap between cities and countries through inland waterways infrastructure.⁴ However, due to terrorism, social unrest and political instability in places such as Northern Nigeria, Africa's waterways remain largely under-utilised.

Addressing the continent's infrastructural gap requires the collective participation of a large number of agents including the private sector, foreign firms and investors (especially Chinese construction firms), government institutions, the RECs, National Corridor Coordination Agencies, and interregional transport authorities in leveraging China's growing interest in the region, increasing road, rail and waterway networks between countries, reducing the costs associated with air transport, improving existing infrastructure and prioritising maintenance and upkeep.

Even though collaborative efforts in improving transport infrastructure are in the interest of all member states, it does not arise spontaneously, which further stresses the importance of institutional capacity. This capacity is needed, for instance, to support public-private partnerships, regulate quality, enhance infrastructural investment, and so on.

Energy

Energy is part of the essential backbone support needed to promote most, if not all, economic activity, and it affects the competitiveness of economies. African countries have varying levels of electrification but most have an electrification level of less than 30 percent. SSA has a total energy generation capacity equivalent to that of Spain alone. South Africa's power capacity is two-thirds of the entire sub-region, 90 percent of which is generated from coal. In stark contrast to the continent's second largest power generator – Nigeria - South Africa produces 45,000 megawatts (MW) for its 50 million population, while Nigeria produces only 6000 MW for over 140 million people.

It is important that the region creates awareness of alternatives in energy production. There is huge potential for substitutes to fossil fuels given the abundance of natural resources including biomass, natural

⁴ It is important to note that such infrastructure must be carefully designed in order to preserve the biodiversity surrounding them, which in turn creates another opportunity for intra-African trade in the pharmaceutical industry, and intra-African tourism.

gas, hydropower, solar power and so on. Although natural gas reserves are heavily concentrated in Nigeria, significant discoveries have been made in a few countries including Angola and Mozambique (Eberhard, 2011). Solar power is another good alternative to conventional oil given Africa's climate and the associated low costs of construction as well as environmental benefits.

The development of energy infrastructure is required to improve economies of scale for firms, and collaboration is needed in establishing regional power pools that promote cross-border energy trading. Such power pools can aid diversification of power generation. There needs to be investment in other energy sources and technologies in order to reduce the region's dependence on crude oil, especially among smaller and poorer African countries, where over 80 percent of their total energy used comes from imported fossil fuels.

Production Capacity: Industrialisation and Structural Transformation

The lack of diversity in exports and low industrial capacity is a major limiting factor for intra-African trade. Yet, it presents the region's greatest opportunity for promoting intra-African trade. Most countries are heavily dependent on the production and export of raw materials, many of which can be found in their neighbours.

The possibility of specialisation in primary commodities, especially agricultural goods that are produced in almost all African countries, is a well-argued case. However, this is not simple. How can African countries deal with commodity-dependent, low-income countries that have little to gain from trading with countries that produce more or less the same goods? With few complementary merchandises to trade regionally, countries cannot fully exploit efficiency gains from comparative advantages as there is little interest or net gain in trading with one another. Kenyan farmers, for example, are held back by the prospect of freely trading with neighbours as they produce similar goods (Matfess, 2015). When it is, as here, not immediately apparent which country will have the comparative advantage in production, intraregional trade must allow for the diversification of production profiles, not only to pinpoint such advantage, but more importantly, to accelerate industrialisation and product value chains. This is important for the continent's small and landlocked countries that face remarkable challenges trading regionally and internationally.

Most of the continent's exports undergo little or no processing, and the region's experience with structural transformation (or change) has been unsatisfactory compared to East Asia. The economic success of East Asia's old and new economic miracles, such as South Korea and China, are supported by strong manufacturing sectors. Since the 1970s, and late 1990s in the case of China, these newly industrialised countries have been successful in using labour-intensive manufactured exports and export-oriented industrialisation as a route to achieving a stable pace of economic growth at an average of 5.5 percent. Furthermore, per capita growth between 2000 and 2014 averaged 7.71 percent, which was also heavily reinforced by the vigorous performance of manufacturing activities. So is the current economic performance of India, which continues to register high growth rates at an average of 7 percent that is sustained by a rapid expansion in manufacturing activities (especially agro-industry) and services exports (see World Bank, 2016b).

On the other hand, African countries moved in the opposite direction. Much of the continent has been growing without structural transformation, especially in the expansion of industrial activity. Today, we all have objects that point their origins to China, Japan, Taiwan and India, but rarely do we see similar objects with labels such as "Made in Tanzania or "Made in the Gambia". Africa has been growing without rapid industrialisation. This is supported by evidence from the region's manufacturing value-added (MVA). Page (2012) measured the extent to which structural change has occurred in SSA by comparing the region's economic structure (as of 2012) with that of lower-middle-income (MICs) Asia Pacific countries. This sounds like a reasonable comparison, given that 23 out of the total 48 SSA countries belong in the category of either lower-middle-income or upper-middle-income economies (World Bank, 2016a).⁵ Page's results indicate that the MVA share of a 'typical' low-income SSA economy is about half of the benchmark value of MICs in Asia Pacific, which signifies the existence of a large manufacturing gap between both regions. Furthermore, in 2014, Africa's average share of MVA in GDP was 9.8 percent, 3 percentage points less than the 12.8 percent in 1990. The share of the region's manufacturing exports also declined from 25.6 percent in 1995

⁵ According to the World Bank (2016b), LICs are defined as those with a GNI per capita of \$1,045 or less; MICs are those with a GNI per capita of more than \$1,045 but less than \$12,736; Lower-middle-income and upper-middle-income economies are separated at a GNI per capita of \$4,125.

to 18.9 percent in 2014.

Given that the majority of intra-African export is based on petroleum products, generated by a few countries, without structural changes the continent will continue to find it difficult to make the best use of regional integration. To illustrate this, the continent's exports experienced as much as a 30 percent decline in dollar terms in 2015. More than 40 percent of this decline originated with the eight oil-exporting SSA countries, thanks largely to the 60 percent fall in oil prices. However, among these oil and gas endowed countries, exports of manufactured goods continued to grow. In Algeria, for example, exports of manufactured goods represent a small fraction of the country's total exports as its trade is dominated by fuels, but its exports of manufactured chemicals grew by approximately 150 percent between 2013 and 2014 (Matfess, 2015).

Ultimately, there must be a change in the region's approach to integration. The existing RECs have done little in building a more competitive industrial sector. Firms are yet to develop competitive advantage in extra-regional markets despite Africa's large natural resource endowments. This is an important point as the manufacturing sector is a key driver of economic growth, which has been proven time and time again in the history of industrialised and industrialising countries. Countries that have successfully made the transition from low-income to high-income status have typically experienced significant structural changes as factors of production, labour and investment moved from lower productivity areas (especially, traditional agriculture) into higher productive activities in manufacturing (including, but not limited to, agro-processing). No country except for a few states that are remarkably abundant in oil (e.g., Qatar) or very small financial havens (e.g., Monaco) has achieved high, sustainable economic growth without developing a strong manufacturing base (Chang et al., 2015).

Following this analysis, the manufacturing sector can be seen as an economic powerhouse that has the ability to consistently outpace productivity in other sectors. It is, therefore, realistic to emphasise that no meaningful intra-African trade can be achieved in Africa without a robust industrial sector. This underlines the importance of building up production capacity as it can facilitate the efficient use of resources in the procurement of raw materials and in the production and distribution of manufactured goods across the continent. Besides,

manufactured goods suitable for exports are easily transferable across national borders and, as a result, could enhance foreign exchange earnings and the balance of payments, in turn, fostering sustainable and high growth rates.

Unless intra-African trade and investment are used to shift primary exports to the industrial sector, regional integration would not intensify as much as it should. This argument also applies to non-resource-rich countries. Industrialisation is equally important because, compared to agriculture and services, the manufacturing sector offers opportunities for capital accumulation. Capital accumulation, an important source of sustainable economic growth, can be more easily realised in spatially concentrated (clustered) manufacturing activities than in spatially dispersed agriculture. Thus, an increasing share of manufacturing will contribute to aggregate growth in this group of countries. Furthermore, capital intensity is higher in manufacturing, and much lower in services, hence the transfer of resources from manufacturing to services provides a structural change burden. To further clarify this, as the share of the service sector increases, aggregate per capita growth will tend to slow down without the development of a solid manufacturing sector, which the services sector heavily relies upon. In many service sectors, the possibilities for productivity growth are limited due to the inherently labour-intensive nature of services output such as hotels, restaurants, personal services (chauffeur) and retail shops. This implies that an increasing share of services without corresponding growth in manufacturing activities results in a productivity slowdown.

In order to seize the opportunity posed by intraregional trade, African countries should build industrial capacity based on the lessons learnt from the failure of the development strategies of previous eras as well as from the success of East Asian economies – a region that managed to benefit from inclusive growth by facilitating trade both internally and globally (AfDB, 2013). The CFTA can be used as a framework to drive industrialisation. By moving labour and other resources from lower- to higher-productivity activities and raising sectoral productivity growth, the CFTA can help contribute to economic transformation, which will be key to achieving economy-wide productivity improvements, job creation and sustained progress in generating growth and reducing poverty.

How a Successful Trade Facilitation Measure Can Address Intra-African Trade

The cost of transporting goods in East Africa is 60-70 percent higher compared to the United States and Europe, and 30 percent higher than Southern Africa. The associated costs of crossing borders, corruption at border posts, poor infrastructure, and excessive bureaucracy are estimated to reduce GDP growth by 1 percent annually. The red tape in Africa can be as excessive with the involvement of up to 15 government agencies when crossing the border between Zambia and Zimbabwe in Southern Africa.

Delays experienced at the borders and trade routes disrupts efficient trade logistics, discourages intra-African trade for firms and individuals that find such trips unbearable, and contributes to deteriorating trade competitiveness. The Busia one-stop border post between Uganda and Kenya illustrates how well thought-out and effective trade facilitation measures can help reverse such problems.

Busia is a busy border post connecting Eastern Uganda and Western Kenya. It handles most of the imports and exports between both countries with a daily average of 210 trucks crossing to Uganda and 30 trucks crossing to Kenya in 2013. As at 2014, the area was distinguished for long queues, and lengthy and duplicate processes leading to longer transit times for both people and cargo. According to a baseline Time and Traffic Survey undertaken by Trade Mark East Africa (TMEA) in 2012, 72 percent of the 894 vehicles that crossed into Uganda reported 'containerised traffic'. It was also reported that vehicles queued for as much as 38 minutes for traffic outbound from Uganda, and 78 minutes for vehicles inbound from Kenya into Uganda (WTO, 2017).

Efforts to reduce the time taken to cross the border was taken in June 2016 with the introduction of the one-stop cross-border post. This post aimed to reduce the time taken to cross both borders by combining border clearance activities of various government agencies in a single location, simplifying clearance procedures, increasing coordination of controls and sharing data. According to another Time and Traffic Survey conducted by TMEA in June 2016, this significantly streamlined procedures.

Reduction in Border Crossing Time

It resulted in an 80 percent reduction in border crossing times from Busia Uganda to Busia Kenya compared to 2011 – it took 17 minutes for trucks against a baseline of 86 minutes in 2011; while crossing in the opposite direction took 79 percent less time – 2 hours 57 minutes against a baseline of fourteen hours twenty minutes in 2011. Customs processing time also reduced by 98 percent in Busia Kenya and 69 percent in Busia Uganda. This has reduced the cost of transporting goods to final markets accruing trade benefits associated with better time management.

Increase in Revenue

According to an officer in charge of the Busia station, there has been an increase in revenue of 20 billion Ugandan shillings since April 2016. This is partly as a result of importers taking advantage of the easier customs process by making more round trips (Ibid).

Concluding Remarks

The expansion of intra-African trade cannot be achieved by the removal of tariff obstacles alone. The removal of tariffs and the creation of a free trade area will only provide a larger market for trade, but regional cooperation in spreading industrial know-how, building transnational institutions and closing infrastructural gaps, particularly in transport and energy, is needed to exploit the benefits of cross-border trade. In order to transform the AEC, more focus has to be placed on NTBs and trade facilitators as discussed above. This should be with the sole purpose of expanding market access for firms and individual entrepreneurs – the backbone of African economies. However, the expansion of market access without any corresponding capacity to produce goods and offer services is largely fruitless. Thus, supply-side constraints of economic activity must be addressed both internally and on a continental level, including improving access to finance and technical assistance, especially for low-income countries. What Africa needs, therefore, is not another sub-regional free trade agreement but rapid industrial growth that can foster intra-African trade. In the absence of widespread manufacturing growth, the expansion of trade in primary commodities is likely to be minimal.

There is no guarantee that intraregional trade between the more industrial countries and primary-producing countries will ensure that the demand for raw materials will expand as rapidly as that for industrial goods. This remains the case despite the scope of expansion in demand for raw materials because increasing production capacity may be confined to a few countries such as South Africa, Mauritius and Ethiopia. As such, the more even the spread of industrialisation in different African countries, the greater the gains of trade between the industrialising and primary-producing countries. This requires a high level of cooperation and technical know-how in the formulation of policies aimed at promoting regional economic cooperation and integration.

Furthermore, this should not translate into reducing the production and export of natural resources. So long as there is a demand, their production should be maintained, but revenues generated from trade should be invested in improving productivity in traditional export industries and creating cross-border value chains.

4. Conclusion

Widespread political support for regional economic cooperation and integration in Africa has been steadfast following the approval of the Lagos Plan of Action in 1980, and again in the 1991 Abuja Treaty. Though the continent has gone on to establish eight recognised RECs that aim to deepen trade links between African countries, their impact on improving trade has been minimal. Not only have the RECs missed several targets en route to setting up fully functional economic unions, many of their plans, and, thus, progress on intraregional trade, continue to stall for several reasons, including complexities arising from entangled memberships in more than one REC, non-independent institutions that are unable to effectively ensure the compliance of member states, and so on. Nevertheless, these RECs are still needed to strengthen African economies and their political environments on a sub-regional level, therefore, political support and greater compliance are still needed to accomplish the goals of the RECs. In the interim, the proposed CFTA presents a larger opportunity for greater gains from trade.

The CFTA cannot act as a substitute for the world market. It can only complement it. After all, the entire African economy is nearly equal to that of India alone. (While the former stands at about US\$2.19 trillion in GDP, the latter's GDP is about US\$2.2 trillion). That said, the CFTA presents an opportunity for increased manufacturing activity whereby producers can access cheaper materials for finished products regionally, as opposed to outside the continent's borders. For example, there is no reason why Nigeria, one of the world's largest tomato producers, should import most of its tomato by-products from China due to, among other issues, internal infrastructural deficiencies and the lack of agro-processing inputs when similar production inputs are made in African countries like South Africa. This reflects the potential for active agro-processing industries by enhancing cross-border trade corridors that improve linkages between production, distribution and consumption centres. Similarly, there is no reason why the continent should import most of its pharmaceutical drugs given that it has some of the world's largest plant species and biodiversity hotspots that can be used to establish a large pharmaceutical industry regionally. If planned and executed properly, this shows that the proposed CFTA can help to reduce import bills, build on the comparative advantages of African countries while improving industrial efficiency regionally, and

create viable economic zones that encourage the transfer and free flow of technology, knowledge and labour. When combined with the necessary institutions and infrastructure needed to deepen market integration, the CFTA would increase job creation, reduce the costs and time required to move goods and people across borders, promote foreign investment, improve the continent's position in global trade, and reduce its exposure to global commodity shocks. Thus, the main lesson for African countries, as expounded in this paper, is strategic, collaborative planning in order to boost intra-African trade.

Most African countries have failed to utilise trade as an instrument for the achievement of sustainable growth and development due to mainly two reasons: direction and failing industrial capacity.

In direction, the continent has highly external trade links as most of its trade occurs beyond its borders, while a relatively low level of trade occurs regionally – intra-African trade stands at 10-12 percent of total African trade compared to approximately 30 percent in ASEAN and 21 percent in Latin America and the Caribbean. Even if allowance is made for the continent's unrecorded ICBT, the total level of intra-African trade is not likely to be more than 20 percent, which is still lower than that of other major regions of the world (AfDB, 2012). The experience of East Asian countries points directions towards the effective use of trade as a powerful engine for developing economies and lifting people out of poverty. Using their primary-resource exports to import advanced technologies which in turn had to be paid for with foreign currencies acquired through trade, they developed their infrastructure, labour skills, and technology know-how within and between countries as they created cross-border production networks (see Chang et al., 2015).

However, will this work in Africa today? The continent may not reproduce the impressive results of East Asian countries, but it can improve its trade and economic performance by deepening its trade links regionally. To put this in perspective, intra-African trade is more resilient than trade with other regions of the world (see AEO, 2017). Figure 3.1. shows that since 2011, exports to China and the United States have suffered major declines by 48 percent and 65 percent respectively whereas intra-African trade was more resilient during the general slowdown in global trade. A similar trend was observed

following the 2007/8 financial crisis as intraregional trade suffered much less than trade between Africa and the rest of the world.

Figure 4.1. Merchandise exports from Africa, to Africa, China, and the United States, 2000-2015



Source: Adapted from UNCTAD data, <http://unctadstat.unctad.org/>.

Furthermore, intra-regional trade will better position the continent in major global trading agreements from which the continent is now absent. It may, for example, strengthen the continent's potential as a potential global participant in the Trans-Pacific Partnership following the exit of the United States.

In industrial capacity, the implementation of policies towards the achievement of economic integration that is pro-poor, people-centred, development-oriented and promotes sustainable economic growth is a key challenge facing African countries today. A strategic combination of a regional export-based economy and industrialisation can help boost intra-African trade and develop individuals economies. The power of the region lies in two things: its natural resources and people. Coordinated investment and efforts in fields such as knowledge sharing, the free flow of engineers, technologists and professional business persons, and technology transfer required in adding value to natural resources can help accelerate productivity and spur economic cooperation that translates into growth and development. African countries must, therefore, improve their productive capacity – they must consider what they produce and

what they export. Without industrial sophistication in adding value to raw materials, intraregional trade would not be as effective as elsewhere. The CFTA, in particular, has the potential to create and strengthen product value chains that offer the scope to engage in intra-African and international trade while promoting the structural transformation of African economies. This can, in turn, incentivise and attract foreign investment that can be used, for example, to develop the infrastructure needed to improve industry competitiveness.

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Statistical annex tables

GDP Per Capita (Nominal) (US\$)⁶

Country	2015	2016	Change
Algeria	4,175	4,129	-46
Angola	3,876	3,360	-516
Benin	780	803	22
Botswana	6,771	5,082	-1,689
Burkina Faso	615	652	37
Burundi	304	284	-20
Cabo Verde	3,056	3,170	113
Cameroon	1,235	1,303	68
Central African Republic	332	365	32
Chad	942	881	-62
Comoros	736	755	18
Côte d'Ivoire	1,325	1,424	99
Democratic Republic of the Congo	470	473	3
Djibouti	1,788	1,908	120
Egypt	3,710	3,806	96
Equatorial Guinea	17,287	14,176	-3,111
Eritrea	695	771	77
Ethiopia	687	759	72
Gabon	7,692	7,741	49
Ghana	1,402	1,551	149
Guinea	555	534	-21
Guinea-Bissau	594	643	48
Kenya	1,434	1,522	88
Lesotho	1,057	933	-125
Liberia	474	493	19
Libya	6,277	6,169	-107
Madagascar	402	391	-11
Malawi	354	294	-60
Mali	804	839	34
Mauritania	1,312	1,244	-68
Mauritius	9,142	9,322	180
Morocco	3,003	3,101	99
Mozambique	529	419	-110
Namibia	5,041	4,428	-613
Niger	407	416	9
Nigeria	2,763	2,260	-503

⁶ The fluctuations are linked to major economic and (socio)-political events, as well as their spillover effects, such as commodity export price downswings and social unrest in Nigeria, shifts in labour productivity and industrialisation in Ethiopia, unfavourable climate conditions, the exploitation of newly discovered mineral resources, and so on.

Republic of Congo	2,024	1,981	-44
Rwanda	718	723	6
Senegal	913	965	52
Seychelles	14,776	15,319	543
Sierra Leone	696	666	-30
South Africa	5,727	5,018	-709
South Sudan	785	210	-575
Sudan	2,119	2,381	262
Swaziland	3,597	3,029	-568
São Tomé and Príncipe	1,569	1,690	121
Tanzania	957	960	3
The Gambia	451	435	-15
Togo	570	602	32
Tunisia	3,923	3,777	-146
Uganda	609	623	14
Zambia	1,352	1,231	-121
Zimbabwe	1,002	979	-24

Source: International Monetary Fund Database

Africa's Largest Exporters, 2016

Rank	Country	Value of Exports	% of Africa's Total Exports
1	South Africa	\$74.1 billion	22.60%
2	Nigeria	\$35.5 billion	10.80%
3	Algeria	\$28.9 billion	8.80%
4	Angola	\$27.3 billion	8.30%
5	Morocco	\$22.8 billion	7%
6	Egypt	\$22.5 billion	6.90%
7	Tunisia	\$13.3 billion	4%
8	Côte d'Ivoire	\$9.9 billion	3%
9	Ghana	\$9.8 billion	3%
10	Botswana	\$7.3 billion	2.20%
11	Libya	\$6.8 billion	2.10%
12	Zambia	\$5.0 billion	1.50%
13	Congo	\$4.7 billion	1.40%
14	Equatorial Guinea	\$4.6 billion	1.40%
15	Democratic Rep. Congo	\$4.5 billion	1.40%
16	Gabon	\$3.9 billion	1.20%
17	Tanzania	\$3.7 billion	1.10%
18	Kenya	\$3.6 billion	1.10%
19	Mozambique	\$3.4 billion	1%
20	Namibia	\$3.0 billion	0.90%
21	Zimbabwe	\$2.8 billion	0.90%

22	Senegal	\$2.6 billion	0.80%
23	Burkina Faso	\$2.5 billion	0.80%
24	Mauritius	\$2.2 billion	0.70%
25	Madagascar	\$2.2 billion	0.70%
26	Guinea	\$2.1 billion	0.70%
27	Cameroon	\$2.1 billion	0.70%
28	Ethiopia	\$1.7 billion	0.50%
29	Mauritania	\$1.7 billion	0.50%
30	Chad	\$1.5 billion	0.50%
31	Swaziland	\$1.4 billion	0.40%
32	Uganda	\$1.1 billion	0.30%
33	Mali	\$1.1 billion	0.30%
34	Niger	\$929.9 million	0.30%
35	Lesotho	\$895.5 million	0.30%
36	Liberia	\$853.7 million	0.30%
37	Malawi	\$843.4 million	0.30%
38	Togo	\$714.9 million	0.20%
39	Rwanda	\$621.6 million	0.20%
40	Somalia	\$554.1 million	0.20%
41	Seychelles	\$551.6 million	0.20%
42	Sierra Leone	\$465.6 million	0.10%
43	Benin	\$409.8 million	0.10%
44	Eritrea	\$286.1 million	0.10%
45	Guinea-Bissau	\$263.3 million	0.10%
46	Burundi	\$125.4 million	0.04%
47	Djibouti	\$100.3 million	0.03%
48	Gambia	\$94.0 million	0.03%
49	Central African Rep.	\$88.5 million	0.03%
50	Comoros	\$62.9 million	0.02%
51	Cabo Verde	\$62.7 million	0.02%
52	Saint Helena	\$26.1 million	0.01%
53	French South Antarctic	\$21.2 million	0.01%
54	Sao Tome/Principe	\$19.4 million	0.01%
55	Br. Indian Ocean Territory	\$18.5 million	0.01%
56	Western Sahara	\$1.9 million	0.00%

Source: International Trade Centre, Statistics Database.

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