(i) Africa is home to more landlocked countries than any other continent. Fifteen African countries, representing about one-third of Africa's population, are landlocked. These countries face daunting challenges to integrate both regional and global markets.

(ii) Africa has more countries with low population densities than other developing regions. Nineteen African countries have fewer than 5 million people; only one country (Nigeria) has a population exceeding 100 million. Income levels are very low across countries, irrespective of their size. As a result, the continent comprises mainly countries that have small domestic markets with low purchasing power.

(iii) Most African countries are far from major markets of Europe and the USA. They are also far from busy shipping routes to these markets.

It is therefore crucial for African countries to address the barriers to regional trade and integration. Investment in physical infrastructure (roads, power plants, ITC) is likely to generate the largest impacts on trade. Greater political commitment to regional integration – as reflected in fuller implementation of tariff liberalization schedules and concerted efforts to tackle non-tariff barriers – and longer-term strategies to address export supply capacity constraints at the national level are also critically needed. These measures will help boost both intra-African as well as international trade since many of the constraints to intra-regional trade also affect Africa's capacity to integrate the global economy. Multilateral institutions and international donors can play a key role in supporting Africa's endeavor.

This note discusses the main impediments to intra-African trade, and hence deeper trade integration on the continent, after reviewing the recent developments in intra-regional trade. It then lays out options that policymakers can adopt to overcome these obstacles. The note concludes by highlighting the role of the African Development Bank in supporting deeper and mutually beneficial trade linkages among its regional member countries (RMCs).

II Trends in Intra-African and Regional Trade

Despite the long history of regional integration on the continent, the level of intra-African trade remains low in comparison with other developing regions. Intra-African exports represent 9.6 percent of the region's total exports, compared to 20 percent for Latin America and 48 percent for developing Asia (Table 1). This proportion is substantially higher for sub-Saharan Africa (around 12 percent) than for North Africa (around 3 percent), which has systematically featured very low levels of intra-regional trade.

Africa, however, is over-crowded with often overlapping regional trade arrangements (RTAs). Overall implementation of RTAs and reduction of tariff and non-tariff barriers to trade has been slow. Many countries have also drawn up long lists of sensitive products as exceptions to intra-RTA trade liberalization. Even in RTAs where progress with integration was more rapid, trade flows have not necessarily increased (e.g., CEMAC, COMESA). Accordingly, the intra-regional African trade flows have been low in comparison to other regions (Table 1, Annex).

Most empirical studies have been inconclusive about the impact of RTAs on intra-bloc trade. However, this should not be interpreted as ineffectiveness of African RTAs in boosting intra-bloc trade. Instead, it suggests that Africa as a region may be facing far t [illegible] are underestimated since official statistics do not record the informal trade that takes place within Africa. In West Africa, for example, the share of the informal sector in the national economy is estimated to range from 20 percent for Nigeria to 75 percent for Benin. Informal trade between countries such as Benin, Togo and The Gambia, and between these countries and Nigeria, far exceeds the official trade. Informal trade is also high in East Africa. For example, at $206 million, Uganda's informal exports to the EAC in 2009 were estimated to reach more than half of the country's official trade with these partners.

- Aggregate trade shares hide important country-level variations. Some countries, especially the smaller ones (e.g., Lesotho and Swaziland) trade more regionally than others. Conversely, Africa's largest economies (except South Africa) and the oil exporters are – in relative terms – the least involved in regional trade. Similarly, some RECs such as EAC engage more in regional trade than others (Table 2, Annex).

III Impediments to Intra-African Trade

At a fundamental level, the low degree of intra-African trade is due to a lack of product diversification and poor trade complementarity among African countries. These structural constraints are compounded by inadequate and inefficient infrastructure, both hard (such as roads, transportation and energy) and soft (such as ICT and customs systems). Moreover, a number of factors that reduce firm-level productivity, raise costs and erode export competitiveness also end up impeding trade beyond the borders. These factors include a lack of access to working capital and trade finance, outdated technology, lack of worker training, unreliable and costly utilities, and a generally poor macroeconomic environment that results in low levels of investment and a lack of impetus to exporting.

While regional integration efforts could offset some of the above constraints, in practice this has not been the case.

Infrastructure

Cross-border infrastructure such as transport, energy and telecommunications are essential to move goods, services, people, and information between countries. Such linkages expand market access; reduce economic distance; and facilitate trade, investment and labor mobility. However, Africa's poor transport and communications infrastructure and unreliable power raise trade costs and ne interests, results in high operating costs. Road freight tariffs in SSA range from $ 0.04 to $ 0.14 per ton/km, compared to US$0.01-0.04 per ton/km in other developing regions (Foster, 2008).

Energy

Electricity supply is now a more serious infrastructure problem driving up exporters' costs. It is by far Africa's largest infrastructure challenge. At 124 KWh per capita, power consumption in Africa is about one-tenth of the developing-world average. More than 30 countries experience power shortages and regular outages, which, among other things, disrupt economic activity and drive up firms' operating costs. African firms report that frequent power cuts cause them to lose 5 percent of their sales. For firms in the informal sector that cannot afford backup generators – which is 3 to 5 times more expensive than electricity from the grid – the loss is even higher, at 20 percent (AICD, 2009). Dealing with high electricity costs and reliability of supply is thus a priority issue in most countries. Addressing the problem in most cases will require significant investments in capacity that has lagged behind demand due to rapid growth in Africa in recent years or depleted by conflicts in fragile states.

ICT

Poor telecommunications service and high cost are one of the main constraints to private sector and export development. Africa exhibits very low levels of landline density, internet penetration and mobile phone usage (Table 3, Annex). Africa's telecommunications infrastructure is, by any measure, the most deficient in the world – the result of lack of competition in the ICT sector and low levels of investment by state-owned telecommunication companies. Consequently, telecommunication costs are very high. For example, in 2007, the average cost of a 3-minute phone call to the US was $0.14 for Africa compared to the world average of $0.09.

Trade facilitation

Challenges due to weak physical infrastructure are often compounded by bad policies and a poor regulatory environment. Constraints include poorly developed financial markets; the absence of cross-border financial instruments; complex and lengthy procedures regulating private business activity; high trade tariffs; complex customs arrangements; and limited regional harmonization of policies, regulations, and procedures. Poor transit systems and numerous informal roadblocks along trade corridors create additional obstacles.

Inefficient customs at border posts often result in long delays and high trade costs, including unofficial payments. Delays at African customs are the longest in the world. For example, clearing the customs at the Victoria Falls border post from Zambia into Zimbabwe along the North-South Corridor can take up to 36 hours. Such delays tend to have a significant depressing effect on trade volumes, especially for landlocked countries.

Crossing a transit territory adds another 4 percent to trade costs irrespective of the distance covered. Multiple roadblocks on major roads cause further delays. As an extreme example, the highway between Lagos and Abidjan has 69 official checkpoints, specifically 7 checkpoints per 100 km. In the EAC, intra-bloc trade is hampered by significant barriers in transit, as illustrated by the 27 police control posts between the Ugandan border and the Kenyan port in Mombasa.

At the regional level, regulations relating to customs procedures, axle loads, vehicle dimensions, carrier's license, and third-party vehicle insurance, for example, can present formidable challenges to the movement of goods. There is a pressing need to harmonize these regulations and to implement trade facilitation measures designed to reduce the 'hassle' costs of doing trade and business in the region.

Well-functioning trade finance systems are also crucial since they support intra-regional trade by helping African producers obtain inputs and exporters fund their exports smoothly within the region. Specifically, for exporters, trade credit bridges the period between receiving the export order and being paid for the goods and services produced.

Limited access to trade finance was a key constraint to intra-regional (and international) trade before the financial crisis. However, the crisis exacerbated the limited availability of trade credit, as some African countries (e.g., Nigeria) had their trade credit lines interrupted when the crisis hit in 2008. Access to trade finance generally remained tight in 2009 but eased up in 2010. Nevertheless, increased risk perceptions and volatile markets can reduce the supply of trade finance in the future. Indeed, evidence suggests that international commercial banks that historically provided confirmation lines for trade instruments remained risk averse in 2010 (Turner et. al., 2010).

The tight trade finance in the run up to the crisis has been in part related to implementation of the existing capital adequacy regime. The Basel II rules increased the capital intensity of trade finance, thus constraining the banks in extending trade credit. The inherent pro-cyclicality of the framework was amplified during the crisis (International Chamber of Commerce, 2010). Since Basel III still does not allow sufficient room for trade finance transactions, African countries may consider other venues,such as creation of Export-Import banks.

Supply-side constraints

A number of constraints at the firm level and behind the border affect African trade, both regional as well as international. These include high utility costs, unreliable power supply, poorly trained workers, and low levels of technological knowhow and investment, resulting in low levels of export competitiveness. Excessive documentary requirements for setting up a business or for exporting also dampen the export drive. For example, it takes about 8 documents in SSA in order to export, compared to 4.5 documents in the OECD (World Bank, 2009). African countries are the most in need of trade-related assistance; yet institutional support for trade promotion, private sector development and business and investment facilitation are critically lacking in these countries.

Many African countries lack production facilities for a diversified manufacturing base – and depend on exports of primary products – due to low investments in manufacturing, as investors do not see them as profitable enough locations. Nevertheless, countries have made significant strides towards creating an enabling environment for investment and trade according to the 2010 Doing Business report by the World Bank. Rwanda was one of the top reformers in the world in terms of trading across borders, and other structural bottlenecks. Still, firms in Africa face greater regulatory and administrative burdens and less protected investor rights than in other regions, pointing to room for further improvement.

IV Policies to Support Intra-African Trade

There are a number of steps that African countries can take to address the above impediments and encourage intra-African trade. The African Development Bank (AfDB) can make significant contributions to its regional member countries in this endeavor.

African countries need to diversify their production bases and export markets. This could be achieved by encouraging further private sector development and removing remaining barriers to trade. Effective trade liberalization within RECs can significantly boost intra-regional trade. If the key reforms are well designed and implemented as well as supported by social safety nets and mitigating revenue measures, major social costs (loss of revenues) can be avoided. Some suggested measures are highlighted below.

- Given the numerous and intertwined RTAs that characterize the complex institutional framework for regional integration in Africa that is costly for business, RTAs should be streamlined. At the same time, stronger implementation of political commitments under the key existing regional trade agreements is needed.
- As trade tariffs in Africa have declined with RTA-driven trade liberalization, supply side bottlenecks such as infrastructure have become the most binding constraints to intra-African trade. Africa needs to generate substantial funds to bridge the vast infrastructure gap to boost trade, through both new investments and maintenance.
  - o In the transport sector, there is need to expand and upgrade selected trade corridors and road networks; invest in highways, ports and border-crossing facilities; and build one-stop border posts along major corridors.
  - o In the energy sector, greater support should be given to the development of regional power pools and to national projects that have a regional impact. Unlocking Africa's potential for hydro-power with a view to filling the continent's huge energy deficit will require substantial investments and coordination among donors.
  - o In the ICT sector, regional collaboration in ICT development is critical to strengthen-ing regional interconnectivity. Efforts in this direction as well as greater investments in international connectivity and broadband access will reduce telecommunications costs for businesses and the wider community.
- Intra-African trade would also be [illegible]

finance. Moreover, the revised Basel framework needs to increase the ability of banks to lend short-term trade credit by reducing the capital intensity of trad

Trade Liquidity Program in 2010, serving as a catalyst to mobilize some USD15 billion of revolving trade finance operations over a 3-year period for the benefit of RMCs. By providing liquidity and sharing risk with African financial institutions, the GTLP will help sustain Africa's trade momentum by alleviating critical trade finance constraints.

V.4 Private sector development

Private sector development is a key component of trade facilitation in Africa, where trade opportunities are often limited by lack of industrial diversification and low levels of private investment. The Bank is a fervent supporter of private sector development in Africa, and this is increasingly manifest in its operations. Gross approvals of private sector projects increased 22 percent in 2010 to USD 6.2 billion. Lending to the private sector is
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intra-regional trade to expand. Trade facilitation, by complementing hard infrastructure projects, will further enhance the impact on trade, growth, and poverty reduction on the continent. The AfDB can help their RMCs in this endeavor, including through implementing its 2009-2012 Regional Integration Strategy, which is centered on institutional capacity building and regional physical infrastructure.

The G20 Community has been very supportive of the Bank's efforts so far. The Bank has designed new instruments – including the highly successful Trade Finance Initiative and the newly established Aid-for-Trade Trust Fund – to tackle Africa's impediments to trade, regional as well as international, and hopes that the G20 will continue to support these efforts – with added impetus.

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Table 1, Annex Intra-regional exports, selected years (% of total exports)

Region	1995	2000	2005	Average 2006-2008
Africa	17.87	9.46	9.57	9.64
North Africa	4.85	2.62	2.78	3.02
Sub-Saharan Africa	22.74	12.61	12.48	12.33
Developing Asia	42.16	41.69	46.21	47.93
Developing America	19.67	17.71	18.51	20.00
Developed America	35.87	39.56	40.64	36.72
Developed Europe	54.84	44.76	45.54	54.67

Source: UNCTAD.

Table 2, Annex Intra-regional and intra-Africa exports by RECs (% of total exports)

	2000	2003	2005	2007	2000-07
Intra-EAC exports	22.6	21.3	18.0	17.8	20.0
EAC exports to Africa	32.0	32.3	29.1	31.1	31.1
Intra-UMA exports	2.2	2.4	1.9	2.2	2.3
UMA exports to Africa	2.4	2.5	2.1	3.5	2.7
Intra-SADC exports	9.0	9.8	8.4	8.7	8.8
SADC exports to Africa	11.6	13.1	11.4	11.5	11.8
Intra-WAEMU exports	11.1	10.9	11.0	12.7	11.0
WAEMU exports to Africa	25.3	23.0	25.8	30.9	25.9
Intra-CEMAC exports	1.1	1.3	0.9	1.0	1.1
CEMAC exports to Africa	3.8	3.7	3.0	3.0	3.6

Source: ECA, AfDB and AUC, 2010.

Table 3, Annex ICT Indicators, regional averages (2007)

	Main telephone lines (per 100 inhabitants)	Telephone subscribers (per 100 inhabitants)	Internet users (per 100 inhabitants)	Mobile phone users (per 100 inhabitants)	Cost of call to US (USD per 3 minutes)
Africa	3.21	30.94	5.46	28.44	0.14
Americas	31.14	103.01	43.23	72.21	0.03
Asia	15.64	53.21	14.43	37.64	0.06
World	19.11	68.89	20.86	50.10	0.09

Source: ITU (2007)