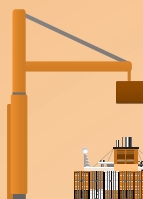


# Harmonizing Policies to Transform the Trading Environment



## Assessing Regional Integration in Africa VI



# Harmonizing Policies to Transform the Trading Environment

Assessing Regional Integration in Africa VI

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# Foreword

More than ever there is now a sense of strong political commitment giving impetus to regional integration in Africa. As countries continue pursuing programmes and activities to accelerate regional integration and cooperation arrangements inspired by the Abuja Treaty, they are making steady progress towards creating an African Economic Community.

The Tripartite Initiative among the members of the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community alone seeks to create a single free trade area that brings together 26 African countries with a combined gross domestic product of more than US\$630 billion and more than half a billion people. The Decision and Declaration of the African Union Assembly of Heads of State and Government in January 2012 on boosting intra-African trade and fast-tracking the establishment of a Continental Free Trade Area by 2017 has also set an important foundation for the renaissance of pan-Africanism.


These are among several recent examples of the bold steps Africa's political leaders have taken to strengthen the benefits from regional arrangements through market enlargement and other efforts to promote production at scale as well as competitiveness. These efforts are needed to boost intraregional trade, lessen Africa's heavy external dependence and enhance its resilience to global shocks.

The road to completely dismantling barriers to trade is strewn with obstacles, however, and requires a thorough understanding of regional integration and trade policies. For example, harmonized rules of origin and a trade facilitation environment across the continent would greatly improve the means and cost of doing business across borders. Tangible progress is seen in one-stop border posts in some member States under initiatives led by regional economic communities. The Tripartite and Continental Free Trade Area initiatives and associated decisions compel persevering efforts to establish a harmonized and seamless trading environment across the continent—working for the transformation of Africa.

In support of progress towards regional integration in Africa, the Economic Commission for Africa, African Union Commission and African Development Bank jointly produce *Assessing Regional Integration in Africa (ARIA)*. The first issue (ARIA I), published in 2004, provided a comprehensive assessment of the status of regional integration in Africa, with subsequent editions focusing on thematic areas. Thus ARIA II examined rationalization of regional economic communities and their overlapping memberships. ARIA III addressed macroeconomic policy convergence, as well as monetary and financial integration in the regional economic communities. ARIA IV focused on enhancing intra-African trade. ARIA V provided analytical research and empirical evidence to support the establishment of the Continental Free Trade Area and the benefits that African countries stand to gain from it.

ARIA VI, “Harmonizing Policies to Transform the Trading Environment,” carries forward the momentum of January 2012’s Decision and Declaration by addressing the issue of harmonizing rules of origin and trade facilitation instruments to facilitate Continental Free Trade Area negotiations by member States. The report starts with a brief overview of progress in regional integration, followed by discussions on the harmonization of three key prerequisites to pave the way for a meaningful continental market—namely rules of origin, trade facilitation instruments and cross-border linkages for information and communications technology.

It is our sincere hope that ARIA VI provides policy guidance to member States in their eventual negotiations on the rules of origin and ancillary trade facilitation instruments to kick start the continental market.



**Carlos Lopes**  
*UN Under Secretary General and Executive Secretary*  
Economic Commission for Africa



**Nkosazana Clarice Dlamini Zuma**  
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# Chapter 1

## A Brief Overview of Progress in Regional Integration in Africa

This section reviews key developments in Africa's regional integration in the free movement of people; peace and security; financial and monetary cooperation; infrastructure; Tripartite free trade; and the mainstreaming of decisions and protocols in national development.

### Regional integration in Africa: Increasing momentum

The free movement of people is a critical component of regional integration, which could greatly affect millions of Africans. Member States of regional economic communities (RECs)—the building blocks of the African integration agenda—have adopted protocols bilaterally and regionally on the free movement of people, right of residence and right of establishment and have implemented them to varying degrees. For instance, the Economic Community of West African States (ECOWAS) and the East African Community (EAC) are adopting common passports, which could eventually replace current national passports. A few RECs have made strides towards eliminating visa requirements, and some countries are still pursuing policies to eliminate entry visas bilaterally. Overall, however, short-term visa restrictions prevail, owing to security and other concerns. Progress to liberalize rights of residence and establishment is also slow, mainly because of inadequate transposition of existing protocols into national law. Various sectors remain closed or limited to foreigners.

In 2001, the Assembly of Heads of State and Government agreed to create a strategic framework for a migration policy in Africa. In addition, a Common African Position on Migration and Development was adopted at the African Union Summit in 2006, followed by the African Union Convention for the Protection and Assistance of Internally Displaced Persons in Africa in 2009, known as the Kampala Convention. It is expected that full implementation of these instruments will

substantially improve progress on the free movement of people.

Peace and security remain a top priority of the integration agenda. African countries, and regional and pan-African bodies, sustain the African Peace and Security Architecture through the Peace and Security Council, 15,000 troops of the African Standby Force, a Special Peace Fund, a Panel of the Wise and a Continental Early Warning System. Development partners have supported these peace-building efforts, including with assistance to some peace programmes such as the African Union Mission in Somalia.

The African Union has adopted a common position to combat terrorism, arms trafficking and organized transnational crime. Regional efforts to suppress trans-border crimes are also under way, including a memorandum of understanding among RECs in West and Central Africa to explore means to suppress piracy, armed robbery and illicit maritime activities.

To strengthen financial and monetary cooperation, the Common Market for Eastern and Southern Africa (COMESA) has established a regional payment system to facilitate intraregional trade using local currencies, a Multilateral Fiscal Surveillance Framework, a Financial System Development and Stability Plan and an Assessment Framework for Financial System Stability. Preparations for the EAC Monetary Union have also advanced on negotiating protocols and reviewing macroeconomic convergence criteria.

ECOWAS plans to launch a second monetary zone by 2015 and a larger monetary zone by merging it with the CFA zone by 2020, while the Southern African Development Community (SADC) is assisting its member States in formulating their macroeconomic convergence programmes.

In line with the Abuja Treaty, the Heads of State and Government have approved the hosting of the African Central Bank by Nigeria, the African Monetary Fund by Cameroon and the African Investment Bank by Libya. These institutions will set the basis for the financial governance structure of the continent.

Inadequate infrastructure remains a major obstacle towards Africa achieving its full economic growth potential. Physical integration is focusing on road transport, including the completion of missing links of Trans-African Highway networks as well as transport facilitation programmes of RECs, with the aid of development partners. RECs are also helping maintain and manage roads in Central, East, Southern and West Africa. In North Africa, the countries of the Arab Maghreb Union (UMA) have a fairly dense but diverse and constantly developing road network, with norms and standards essentially the same. The network embraces national and local roads (between major cities and towns in the countries) and regional roads (across borders). It also services major ports, airports and production facilities in UMA countries.

Many of the new rail projects are based on the framework of the Union of African Railways. Some planned networks in Eastern, Southern and Central Africa link to ports, in an effort to connect landlocked countries to their transit neighbours and to ports. RECs are cooperating in energy development, policy and regulatory frameworks. These efforts have led to power pools in Central, East, Southern and West Africa. The Maghreb rail network is 8,383 km long, of which 5,587 km are standard gauge, serving major cities and ports in the region. The network is helping move people and goods, especially across Morocco, Algeria and Tunisia.

Various initiatives are under way to implement the Yamoussoukro Decision on air transport liberalization. Progress has been made thanks to, for example, Ethiopian Airlines, South African Airways, Royal Air Maroc, Kenya Airways and Egypt Air. The Decision will be operationalized further once a dedicated executing agency, overseen by a steering committee of the African Union Commission, is set up. UMA countries have signed two draft conventions on air search and rescue and on coordination and cooperation in aviation.

The Programme for Infrastructure Development in Africa, adopted during the 18th Assembly of Heads of State and

Government in January 2012 in Addis Ababa, aims to promote the development of regional and continental infrastructure projects in transport, energy and information and communications technology, as well as in trans-boundary water. Delivery of the Priority Action Plan, with 51 projects and programmes, will require resources of about US\$68 billion by 2020. Most of the projects are to be administered by RECs.

Work to establish a Tripartite Free Trade Area (FTA) among the members of COMESA, EAC and SADC is aimed at strengthening and deepening market integration, as the three RECs harmonize policies and programmes in trade, customs and infrastructure.

This Tripartite Initiative will establish an FTA of 26 countries with a population of more than half a billion and GDP of more than US\$630 billion. It is a key stepping stone to the Continental Free Trade Area (CFTA) by 2017, as determined by African Heads of State and Government in January 2012. Moves towards implementing the CFTA and boosting intra-African trade include operationalizing the High-Level African Trade Committee (comprising the chairs of the RECs) and holding consultations of the Committee of Seven Heads of State and Government on the challenges of low intra-African trade and infrastructure density.

## **Mainstreaming regional integration at the national level: Slow progress but some encouraging developments**

Mainstreaming regional integration nationally remains a major challenge. Domestication of decisions and protocols is weak in many countries, which have yet to fully integrate them into their national development strategies. Factors limiting domestication are lack of financial resources, shortage of human resources, poor coordination of programmes at the national level and few consultations among stakeholders (ECA, 2012). Overlapping memberships also strain member States' resources and implementation capacity.

To take forward regional integration commitments at the national level, the African Union has enjoyed its membership to establish and strengthen national mechanisms, including a ministry in charge of regional integration where possible, for coordinating and advancing

the integration process. The Conference of Ministers in Charge of Regional Integration has also been a regular statutory body to spearhead integration. Nonetheless, coordination with other line ministries and sectors remains weak in some countries. Hence the need for strengthening multi-stakeholder participation in domesticating regional integration at the national level.

A framework for mainstreaming would assist in the coordination and consultation among line ministries in bringing key decisions to bear. There should be strong links between the coordinating mechanisms and the Ministry of Finance to ensure that regional integration activities are included in the national budget, bolstering them at the national level.



# Chapter 2

## Harmonizing Rules of Origin across Africa: Principles and Options

### What are rules of origin?

Rules of origin are used to determine the country of origin (“economic nationality”) of a product for purposes of international trade. Establishing the country of origin of a product is a fundamental requirement in trade policy formulation and an integral part of preferential trade agreements, including FTAs. Countries can apply their trade policy measures (duty free privileges, quotas, tariffs and antidumping duties on products from certain countries) effectively only if they can determine the origin of goods being imported. There are two common types of rules of origin—preferential and non-preferential.

Preferential rules of origin are part of an FTA or preferential trading arrangement that has tariff concessions. The rules of origin determine what products can benefit from the tariff concession or preference. In an FTA, rules of origin help avoid trade diversion or transshipment because in the absence of such rules, a participating country could simply import goods from a country outside the FTA and then re-export the goods within the FTA free of import duty.

Non-preferential rules of origin are used generally in international trade for quotas, antidumping, statistics and origin labelling. These rules of origin are essentially derived from the Kyoto Convention, which stipulates that a product shall be deemed to have origin in the country if it is wholly obtained or produced within that country. If the product has been produced in two or more countries, the product shall be deemed to have originated in the country where the last substantial transformation occurred. A product always has to have one country of origin.

### Rules of origin in selected African RECs

Rules of origin in ECOWAS are based on the following criteria. The goods have been wholly produced in member States with a minimum of 60 per cent raw materials local content in accord with the provisions of Article 3 of the protocol. The goods are not wholly produced in member States, but their production requires the exclusive use of materials that are classified under a tariff subheading different from that of the finished product. And the goods are not wholly produced in member States and their production requires use of materials that have received a value added of at least 30 per cent of the ex-factory price of the finished goods. These rules of origin are among the simplest and less restrictive (Estevadeordal et al., 2009; Choi, 2009). However, there is a sensitive product exclusion list designed to protect infant industries, which tends to lessen the simplicity of the rules.

The Economic Community of Central African States (ECCAS) applies rules of origin, which are based on the following criteria: wholly produced goods such as products in the crude state of animal, vegetable or mineral extraction and products of traditional crafts; a minimum raw materials local content in goods of 40 per cent; and goods that are produced with raw materials entirely or partially of foreign origin and that generate a value added of at least 30 per cent of the ex-factory price of the finished goods.

The rules of origin in COMESA have five independent criteria under which goods can be accepted in the importing country as having been produced or manufactured in the common market:

- *Wholly produced rule* – the goods should be produced totally in the exporting member State such that there are no foreign materials added to the manufacturing process.
- *Material content rule* – when the goods are being made with some foreign materials added to the manufacturing process, those foreign materials should not be more than 60 per cent of the cost, insurance and freight value.
- *Value addition rule* – when the goods are being made and the raw materials are foreign, then during manufacturing there should at least be 35 per cent value addition.
- *Change in tariff heading rule* – when the companies manufacture the goods and the raw materials are foreign, during manufacturing the tariff heading of the final product should be different from the tariff heading of the foreign raw materials.
- *Goods of particular economic importance rule* – the goods are in the list that was approved by the ministers in charge of trade in COMESA member States and are regarded as very important in the economic development of either the exporting member or the region and that, during manufacturing, there should be at least 25 per cent value addition.

In EAC, goods shall be accepted as originating in a partner state where they are consigned directly from a partner state to a consignee in another partner state and where: they have been wholly produced; or they have been produced in a partner state wholly or partially from materials imported from outside the partner state or of undetermined origin by a process of production that results in a substantial transformation of those materials. EAC rules of origin (and indeed those of COMESA and ECOWAS) also include a cumulative treatment stipulating that for the purposes of implementing these rules, the partner states shall be considered one territory and raw materials or semi-finished goods originating in any of the partner states shall be deemed to have originated in the partner state where the final processing or manufacturing took place.

The rules of origin in SADC are very different. Initially, they were as simple as those of COMESA and EAC, but when the SADC FTA Protocol was launched they became tighter and were crafted under the principle of encouraging optimum utilization of regional resources and promoting backward and forward linkages in the various production chains. Hence SADC adopted rules of origin that are largely product-specific, with much-increased value-added requirements and much-decreased import content. A review of the community's rules of origin in 2004 have resulted in some reform of these rules to relax some of the product-specific criteria.

Among UMA countries, a draft agreement on an FTA was signed by Ministers of Commerce in June 2010. The agreement provides for the adoption of a Maghreb Protocol on rules of origin that will form an integral part of the FTA. A working group, meeting since 2011 to develop the draft protocol, is looking into various rules of origin scenarios. It is examining these rules based on an existing multiplicity of rules of origin applied by UMA countries compared with their Maghreb and other trading partners.

#### *Recommendations for harmonizing rules of origin*

From the review of the rules of origin in the RECs and judging from the work by the three Tripartite secretariats on rules of origin, easy consensus on the criteria relating to wholly produced goods may be anticipated. The wholly produced criterion applies to goods that are not manufactured but extracted from the ground (such as minerals) or grown from the soil (such as maize and wheat). There is also very little controversy about the fact that certain simple operations such as labelling, repackaging or simple mixing of chemicals cannot be sufficient to confer origin. The challenge arises where a good is manufactured using imported components—a complex issue likely to generate some hard negotiating stances in the run-up to the CFTA.

The following seven steps are therefore put forward as guiding principles for negotiating harmonized rules of origin for the CFTA (figure 1).

Figure 1  
 Steps for negotiating harmonized rules of origin



### *Step 1*

Negotiations should consider the imperative for Africa's structural transformation through upscaling value addition to Africa's abundant natural resource endowments that are predominantly exported in raw form. Several AU decisions and initiatives enjoin African countries to lay a solid foundation for industrial development and integration at the subregional and regional levels. The key message is that instead of exporting raw materials in an unprocessed form, processing, upgrading and diversification of products will ensure maximum use of Africa's indigenous factor endowments and natural resources. Taking into account the comparative strengths of countries in natural and other enabling resources and infrastructures, as well as the existing and potential linkages of these resources across national frontiers, such an industrial development and integration strategy can help trigger a transformation by promoting linkages among various industrial subsectors and between industry and other sectors at both the national and regional levels.

### *Step 2*

At the same time, CFTA rules of origin should consider the reality of Africa's overwhelming dependence on imports—particularly capital and intermediate goods for manufacturing—as well as imbalances in development stages and productive capacities. Some African countries are more industrialized and can produce many of the components that go into the manufacture of goods (assembly for vehicles, for instance) and would want to insist on a high percentage of value addition as an originating criterion. The same argument could apply to textiles, where a country may like to forestall the possibility of trade deflection. Other countries are less endowed with production capacity and could be hard pressed to benefit from rules of origin that insist on very high value addition and local content requirements. Priority should therefore be given to affording adequate industrial policy space to those countries that may benefit from existing preferential treatment only if they are unable to source materials from their domestic market or a wider regional space. Furthermore, all efforts should be made for ensuring that such countries are linked to production in regional value chains.

The rules of origin need to be realistic and fair by matching the existing manufacturing capacity of both the least and most industrialized members on a complementarity and comparative advantage basis to ensure that the rules are “owned” and so implementable. They should focus not on the protection of customs revenue but on regional integration, trade and partnership-development results, to ensure that they help harmonize free trade agreement and development partnerships. And they should be business-friendly, making sufficient provisions for full participation of small-scale industries that form the large majority of Africa's businesses, thus enhancing vertical and horizontal business integration.

### *Step 3*

Countries should encourage private sector interests to shape negotiating positions. In some countries, the views of the private sector are consistently sought to shape the national negotiating position. One should therefore expect vested interests not only at COMESA–EAC–SADC negotiations, but also at the continental level.

### *Step 4*

CFTA rules of origin should be simple, transparent and less restrictive. They should not be used directly or indirectly as instruments to pursue protectionist objectives, and they should not have a distortive or disruptive influence on trade.

### *Step 5*

Generic rules of origin should be the entry point in negotiations and draw on the arrangements in RECs in Eastern, Southern and Western Africa, because consensus is likely to be less contentious. The wholly produced goods rules would certainly fall under this category; these will be goods whose production does not involve any relation with any third country outside the CFTA (plants, minerals and live animals). It is in this area where the potential for exploiting the creation of regional value chains along corridors should be explored.

### *Step 6*

The “wholly produced” rule can be combined with product-specific rules of origin that would cover a



list of products whose production involve countries outside the CFTA. In this case, the CFTA negotiating countries could agree and establish for each product defined by its tariff classification and its description the required processing to be carried out in the FTA to consider the product as originating. To determine if a product is sufficiently transformed in the region, it will be incumbent upon the negotiating partners to agree on the value-added percentage of the value of all the materials used relative to the total value of the product. The determination of this value-added percentage needs to strike a balance between the structural transformation objectives and the imbalances in countries' development and productive capacities (as mentioned above).

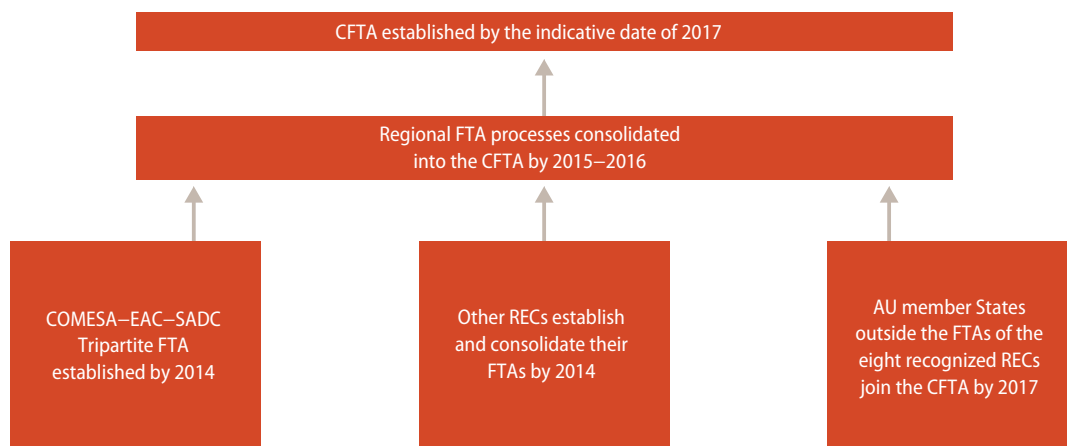
*Step 7*

The use of de minimis and cumulation provisions could be applied within agreed thresholds (normally 10 per cent or 15 per cent of the ex-factory price of the good). Such provisions could provide some flexibility for non-originating materials to qualify. Empirical studies and their theoretical predictions suggest that

full convergence/cumulation (as opposed to bilateral and/or diagonal cumulation) should be the instrument of choice for harmonizing rules of origin. This would allow for the sourcing of goods continentally through cumulation of origin whereby a commodity may be progressively processed in more than one CFTA partner state before being exported. Unfortunately, with the exception of the new draft EAC rules of origin (September 2012), de minimis and cumulation beyond REC members are not widely used in Africa. There are, however, indications that the draft rules of origin of the COMESA–EAC–SADC Tripartite FTA are likely to address the issue of cumulation to encourage deeper integration by introducing an “outward process” provision.

Indeed, the continental rules of origin can use the negotiated Tripartite rules of origin as a starting point. The FTAs of the other RECs would be consolidated into a second trade bloc, which would then merge with the COMESA–EAC–SADC Tripartite FTA into a single CFTA. Based on the principle of the “acquis,” the negotiated Tripartite rules of origin would be the building block for the fusion between the Tripartite and the second trade bloc (figure 2).

Figure 2  
Roadmap for the CFTA



Source: Authors' illustration.



# Chapter 3

## Harmonizing Trade Facilitation Measures

### Unlocking intra-African trade

Africa's dependence on overseas trade of more than 80 per cent contrasts sharply with other regions. If Africa trades with itself more, it can take advantage of shorter travel distances, but to make good of this advantage, it must do more to remove tariff and non-tariff barriers and boost its industrial base.

The cost of transport in Africa is the highest in the world. According to research presented in ARIA IV, the ratio of trade costs to production costs could be more than 12 per cent (ECA, 2010). The ratios for Western Europe and Latin America are 4 per cent and 7 per cent. It costs US\$5,000 to ship a 20-foot container from Durban to Lusaka, compared with US\$1,500 to ship the same container from Japan to Durban (TradeMark Southern Africa, 2011). Similarly, the World Bank's *Doing Business* report found that a trader in Juba would have to spend US\$9,429 to import a standardized container through the Port of Mombasa and wait for up to 60 days for the goods to reach Juba (World Bank, 2011).

ARIA IV and V looked closely at trade facilitation issues. ARIA IV identified the key non-tariff barriers and trade facilitation gaps that still impede intra-African trade. ARIA V, using computable general equilibrium modelling, found that in a CFTA scenario intra-African trade would increase from 10.2 per cent in 2010 to 15.5 per cent in 2022. Improved trade facilitation and tariff reductions would more than double such trade in the period, to 21.9 per cent.

Analysis of trade and transport facilitation programmes in the RECs identifies areas of convergence and differences—"work in progress" may be the best characterization, underlining the importance of the action plan for boosting intra-African trade adopted in January 2012 (AU, 2012). Trade-related infrastructure deficiencies in Africa touch on the whole spectrum of

infrastructure: ports, railways, roads, communications and energy generation. Missing transport links are felt acutely in Central and Eastern Africa.

The effective implementation of the CFTA, expected to be launched in 2017, will depend not only on the tariff reductions and uniform rules of origin to be negotiated but also on good infrastructure and the strengthening and harmonization of RECs' trade facilitation instruments.

### Physical infrastructure in Africa is inadequate but improving

Physical infrastructure in Africa is improving within the framework of continental programmes, notably the Programme for Infrastructure Development in Africa, the Trans-African Highway Network and regional programmes that are increasingly being harmonized (such as the infrastructure programme in West Africa and the Tripartite Infrastructure programme in Eastern and Southern Africa and the Horn of Africa).

Inter-REC transport corridors are another way forward but are undermined by their inability to improve corridor infrastructure and facilities, which remain under the responsibility of individual member States. A spatial concept views corridor development in a comprehensive and integrated manner, upgrading transport corridors with simultaneous exploitation of various other development opportunities. SADC has identified eight corridors for priority development and investment. Identified priority infrastructure projects during 2012–2017 cost US\$50 billion.

The corridor concept, viewed as a platform to address logistical issues or a framework for investments, blends well with the notion of regional trade and integration because both concepts focus on the interests of more than one country, making the corridor approach highly relevant to the CFTA.

## **A continent-wide customs transit regime is necessary—and within reach**

Successful regional customs transit systems would yield tangible benefits to national economies, traders and transporters. Replacing national customs documents and security systems by a single regional system would simplify formalities and reduce delays and administrative costs, thus providing incentives for increased trade. Such a system benefits landlocked developing countries especially, because of their positive impacts on both intraregional and overseas trade.

Any of the existing schemes—the Inter-State Transit Regime, Customs Convention on Inter-State Transit of Goods and the trial runs of national sureties by COMESA—can provide the basis for a customs transit regime. The technical model is set. It is the political will to act that is missing.

## **The regulatory framework for regional transport markets and services is unsettled**

Transport is an important sector recognized in all the treaties establishing RECs. Policy convergence among the RECs embraces licencing of vehicles engaging in cross-border trade (generally left to member States) and regional regulatory instruments (such as third-party motor vehicle insurance and common technical vehicle standards). These schemes serve the same purpose but are confined to their subregions, creating non-tariff barriers between neighbouring countries in different RECs—a situation not conducive to the CFTA.

## **Technical standards and vehicle load controls need to be brought more into line**

Moves to harmonize vehicle technical standards (permissible axle-loads, maximum laden weights and vehicle dimensions) have long received attention in the RECs. All of them have established regional vehicle technical standards. The main area of divergence relates to maximum laden weights.

## **One-stop border posts**

Goods in transit traditionally stop at both sides of the border—to comply with the exit procedures in one country and the import or transit procedures in the other. One-stop border posts are intended to provide space and facilities where transit traffic stops once for both inspection and clearance by the authorities of the two countries.

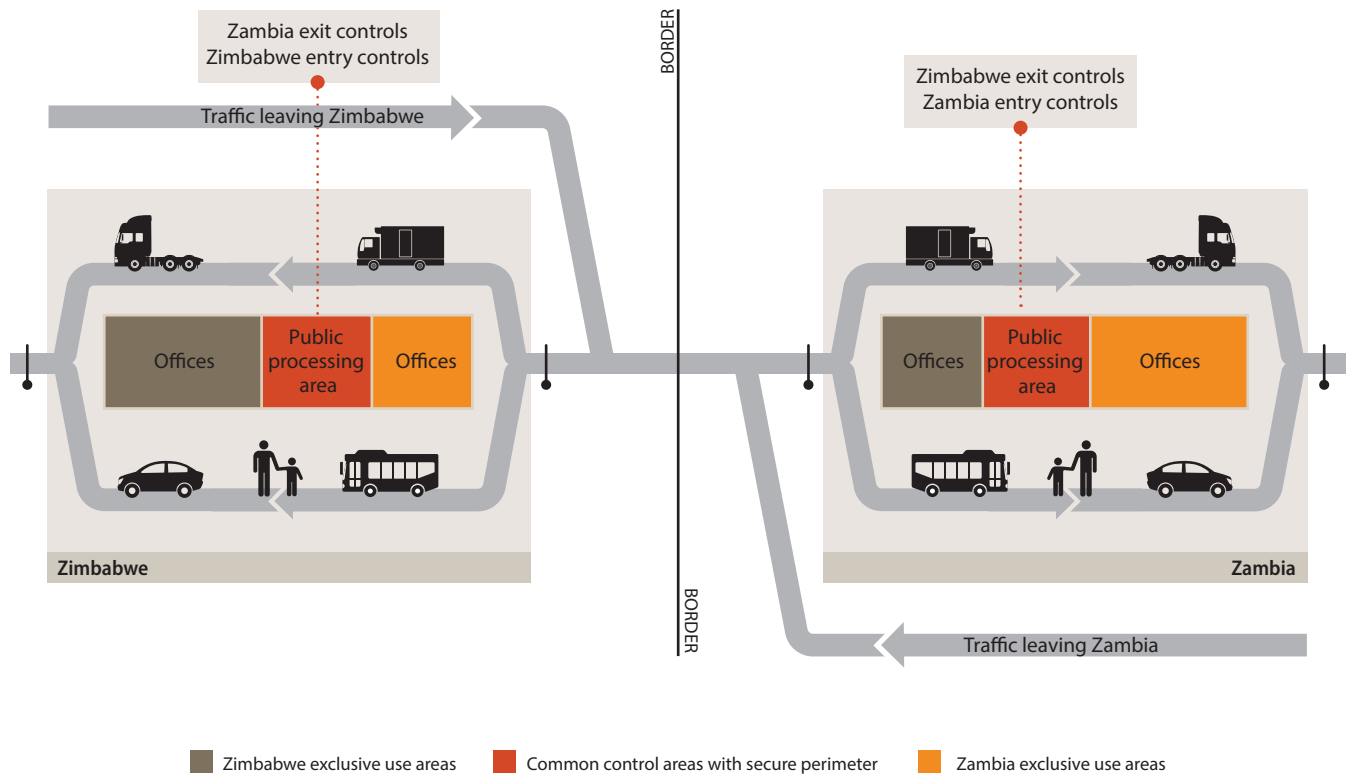
In Africa, SADC's Protocol on Transport, Communications and Meteorology foresees the establishment of one-stop border posts and provided for the Chirundu post between Zambia and Zimbabwe—one of the first such initiatives in Africa—to open in 2009 (figure 3). Since then, strong momentum has been palpable, with similar posts operating or under construction in Western, Eastern and Southern Africa. Detailed engineering designs have been prepared for five such border posts, namely Noepe (Ghana/Togo), Seme-Krake (Nigeria/Benin), Malanville (Benin/Niger), Paga (Ghana/Burkina Faso) and Kouramalé (Mali/Guinea). However, for budgetary reasons, only the first three initiatives have been funded. In West Africa, the REC is mobilizing more funds for other one-stop border posts.

These posts should be regarded not only as an exercise in infrastructure provision but as a unique opportunity to simplify border-crossing procedures. They should be accompanied by border post management systems with simultaneous clearance by the control agents of the two countries. Skills and automation (to permit preclearance, risk management and post-audit clearance) need to be strengthened.

## **The task ahead**

The components of trade facilitation to underpin the CFTA have already been designed by RECs. However, as RECs operate independently and as their levels of implementation differ from one element to another, the point of departure for the CFTA is to borrow from the best that RECs can offer, harmonizing and enhancing the instruments—often in the field of information and communications technology (ICT)—that are needed for the CFTA.

Figure 3  
Impact of Chirundu OSBP



Source: Adapted from [www.translogafrica.com/page/border\\_posts\\_osbp](http://www.translogafrica.com/page/border_posts_osbp).



# Chapter 4

## ICT for Regional Integration and Trade in Africa

### Africa's ICT decade

ICT has the potential to transform business in Africa, driving entrepreneurship, trade, innovation and economic growth. The emergence of cheaper and faster connectivity has created the conditions for increased trade while reducing costs related to transport and logistics, particularly for landlocked developing countries. Under the CFTA, the idea is to establish a network of interoperable automated and standardized customs-clearance systems that connect all participants, enabling the seamless flow of information with few manual interventions.

The majority of African countries have begun introducing ICT in facilitating customs clearance and logistics across borders, in an attempt to improve efficiency and coordination nationally and regionally. The deployment of broadband networks and the availability of web-based applications have increased access to trade information for both business and government agents.

The explosive growth of mobile technology in Africa over the past decade demonstrates the transformative power of ICT. In 2000, Africa, excluding North Africa, had fewer than 9 million fixed lines, with a penetration rate of just over 2 per cent (Williams, Mayer, and Minges, 2011). In 2012, there were more than 650 million mobile subscriptions in Africa (AT Kearney, 2011), more than in the United States or the European Union, making Africa the fastest growing mobile phone market in the world (Yonazi et al., 2012). Few imagined that such demand existed, let alone that it could be afforded.

Africa's "mobile decade" has inspired the continent's economic growth, which averaged 5 per cent (AfDB et al., 2012). Between 2000 and 2008, Africa's early ICT reformers enjoyed an extra 1.2 per cent GDP growth compared with later reformers (Williams, Mayer, and Minges, 2011; Waverman, Meschi, and Fuss, 2005; Qiang and Rossotto,

2009). Between 2000 and 2010, investment in ICT jumped from US\$27 billion to US\$122 billion, though it subsequently declined in North Africa due to the fall-out from the Arab Spring (AfDB et al., 2011). Improved connectivity has made it easier to do business, and today ICT contributes around 7 per cent of Africa's GDP, higher than the global average.

### Tracking cargo

ICT can help remove trade barriers along transport corridors in various ways (though as seen later, it is no panacea on its own). For example, advance information on shipments (coupled with tracking processes) eliminates the need for multiple inspections. African countries are increasing their deployment of integrated and automated border management systems and electronic cargo-tracking systems. These systems help focus limited inspection and control resources, resulting in fewer delays for transit cargo. (For example, Senegal has the Electronic Cargo Tracking System, run by COTECNA Inspection, a global company that provides customs inspection and transit-monitoring services.) Officials can use targeted intelligence-based inspections as opposed to random or universal examination of consignments, heavily cutting the time it takes to clear goods across borders.

### Regional single windows are the future

Regional single windows to facilitate cross-border trade take time to set up, as they require regional coordination. However, they can cut the costs of regional transport—through shorter dwell times, faster clearance and fewer delays along the route—and cut down on corruption. Single-window processes have greater value regionally (than nationally), where transport costs are much higher and a single point of data entry and data sharing can cover the entire transit route for goods.

Some RECs, depending on capacity, are better placed to move towards ICT-enabled trade, such as COMESA, EAC, ECOWAS and SADC. Their progress can provide a model for other economic and social sectors, particularly where progress builds on improvements in regional communications infrastructure.

## ICT could be costly but transformative

The upfront costs of introducing ICT solutions to customs and trade facilitation could be high in the initial phase, because dual systems are needed during the transition from paper-based to largely paperless trade. High costs are also incurred in retraining staff, not just by government agencies but also by enterprises.

The shortage of funding for trade automation projects is often apparent when projects that were initially financed by support agencies need to be upgraded. The dependence of many African countries on support funding for deploying the ASYCUDA<sup>1</sup> customs management system, which was often initially installed through development partner finance, is illustrated by the difficulties that governments have had in funding the upgrading of their systems to the latest standard, ASYCUDA World.

ICT and integrated border management for customs and trade facilitation may well be costly, as they entail physical facilities, equipment (such as weighbridges and scanners), software for single windows and electronic customs forms, and training. Experiences in Ghana and Mozambique point to public-private partnerships as useful vehicles to meet the upfront capital and operations and maintenance costs. Generally, the involvement of the private sector requires a

convergence of interests with government on the need for trade facilitation reforms. This means that the government has to be active in championing reforms. Where both the private sector and government have limited resources, development partners can help fill the gap.

## Development partner support for ICT-driven customs management

The World Customs Organization has committed itself to promoting ICT-driven customs management systems, which include communications, connectivity and enhanced cooperation. For this commitment, SADC ICT officials met in Mauritius in October 2012 to develop a customs ICT strategy that would prioritize and harmonize regional ICT activities in accord with SADC's Protocol on Trade. This represents a shift from the present approach, which involves national or bilateral initiatives.

## A supporting environment is needed for Africa to reap the benefits of ICT

The last decade has focused on building African connectivity and access to ICT. Future policy ought to shift to applying ICT to boost structural transformation and improve business processes, especially as ICT penetration deepens across the continent. But ICT cannot transform trade on its own: its benefits depend on such factors as the modernization of administrative systems, compliance of trading businesses and quality of data. Further, ICT's value can be realized only if it is integrated with governments' and development partners' broader cross-cutting activities (figure 4).

Figure 4

### ICT and trade: The supporting environment



Source: Authors' illustration.



# Chapter 5

## Conclusions and Policy Recommendations

Regional integration initiatives require heavy public management and implementation at the national level, for without them subregional progress will be minimal—the RECs are only as strong or weak as their members. If member States proclaim a strong political commitment for integration, they should demonstrate it nationally through serious measures and be seen to be implementing RECs' decisions. Member States are expected to ensure efficient coordination between the objectives and instruments of regional integration and national economic policy making—and to speedily ratify and implement decisions, agreed protocols and instruments. Member States also have other obligations, for example, in completing missing transport links attributed to them as part of cross-border physical networks, adhering to sound macroeconomic policy convergence parameters and encouraging or institutionalizing national parliamentary and public debate on integration.

They therefore have to develop a coherent national strategy to ensure that all groups—civil society, the private sector, political parties, parliamentarians, and immigration and customs officials—are fully consulted and participate in formulating and implementing regional integration policies. These key responsibilities—fulfilled—will help ensure that these policies succeed, but capacity deficits and resource constraints (among other elements) make this very challenging.

During the last meeting of the Conference of Ministers of Trade in Addis Ababa in November 2012, ministers made it clear that the CFTA Trade Protocol, including rules of origin, tariff reductions and ancillary trade liberalization measures, will all be a matter of negotiations among participating countries. These negotiations are expected to benefit from this report: ARIA VI shows that there is some scope for harmonizing rules of origin among RECs, except in a few areas. EAC rules of origin are similar to COMESA's and thus represent a great stride towards a harmonized

set in the COMESA–EAC–SADC Tripartite FTA. This report tries to present the current position—similarities and differences—and puts forward recommendations along two dimensions: generic straightforward rules of origin, on which there should be not much difficulty in reaching consensus given current similarities (such as wholly produced goods), and more complex and differentiated rules of origin.

Trade facilitation measures, too, in the RECs have many areas of convergence but some differences—what this report terms “work in progress.” The directive of the Heads of State and Government calling on RECs to strengthen and harmonize their programmes ahead of the CFTA is therefore sound and must be implemented without delay.

ICT is a key element in these programmes. Crucial in e-commerce and in disseminating trade and product information, its greater use here can help boost intra-African trade. While ensuring successful administration of trade-related institutions and instruments, when harmonized under a regional setting (with single-window systems, for example) ICT should also help reduce the cost of doing business through freer exchange of information between government institutions and business people.

The starting point for government engagement with ICT and trade should be a national policy framework based on a critical assessment of trade barriers and opportunities, through which the most effective points of implementation for ICT can be identified—and it is hoped that this report contributes to this. Governments should also invest in infrastructure improvements, without which ICT-based trade facilitation will have limited impact. Finally, RECs need to play a catalytic role in mobilizing resources and monitoring progress in introducing and strengthening ICT-enabled trade within countries.



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# Note

1 ASYCUDA (Automated System for Customs Data) is a computerized customs management system that covers most foreign trade procedures. It handles manifests and customs declarations, accounting procedures, and transit and suspense procedures.

# Acronyms

CEN-SAD	Community of Sahel-Saharan States
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
FTA	Free Trade Area
ICT	Information and communications technology
IGAD	Intergovernmental Authority on Development
RECs	Regional economic communities
SADC	Southern African Development Community
UMA	Arab Maghreb Union

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