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Summary: As policymakers work to increase trade's use as a catalyst for development in Africa, one initiative that has gained a lot of attention in recent years is the pending Tripartite free trade area (FTA) between three African Regional Economic Communities (RECs). If realized, this FTA would consist of 26 nations, with nearly 600 million people and a combined GDP of about US$1 trillion. While undoubtedly important, however, this initiative faces a series of challenges on a number of fronts. This policy brief explores the status of and obstacles facing the Tripartite FTA, and discusses the ways transatlantic partners may be able to increase support for this ambitious effort, namely through aid for trade intended to bolster the three RECs and the development corridors that could help facilitate trade among Tripartite countries.

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Promoting African Trade and Regional Integration: The Tripartite FTA and the Role of Development Corridors

By Greg Gajewski

About the Tripartite

On June 12, 2011, the Common Market for Eastern and Southern Africa (COMESA),[1] the East African Community (EAC),[2] and the Southern African Development Community (SADC)[3] met in Johannesburg, South Africa, to declare their intention to form a free trade area. This announcement was the expected next step for the so-called Tripartite, which was formed in 2005 with regional integration as its key objective. Included in the Tripartite's agenda is to:

- Form a free trade area;
- Lower trade and transport costs;
- Promote infrastructure development; and
- Promote trade-related mechanisms.

According to an economic simulation, most of the gains from the Tripartite, when realized as an FTA, will go to South Africa and Mozambique. Egypt and Kenya also stand to gain from the FTA in their manufacturing sectors.[4] The largest gains, however, will be from the large common market. This will attract more investment in productive sectors, creating value chains in new upstream and downstream industries to serve this vast new market. While in regions like emerging Asia, nearly half of trade is within the region, intra-regional trade in Africa is only about 10 percent of the continent's total trade. This leaves a great deal of room for expanded intra-regional trade within the FTA.

Removing trade barriers may not be as difficult as some think. Two of the blocs, COMESA and EAC, already have tariff- and quota-free trade within their blocs. SADC has tariffs of only 15 percent facing nonmembers, and those are already slated for removal in 2012. Pessimists, however, note that for COMESA, some members have not adopted the common external tariff, while in SADC, some members have also not adopted the common external tariff and/or have not integrated into SADC's FTA.

[1] COMESA includes Burundi, Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, and Zambia.

[2] The EAC includes Burundi, Kenya, Rwanda, Tanzania, and Uganda.

[3] SADC includes Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

[4] From www.tralac.org.

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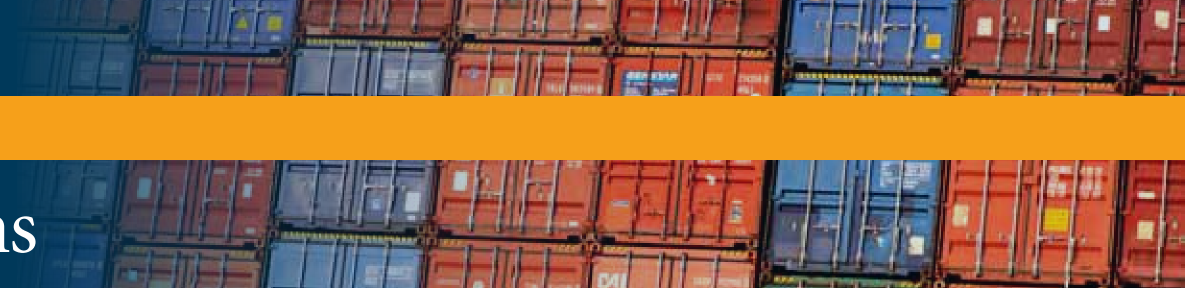

Challenges Facing the Tripartite FTA

According to the 2011 Tripartite Declaration, the FTA is to be achieved by 2013. Some observers consider the goal of integration in two years to be unrealistic, while others point out that the EAC is already a customs union, while COMESA is a free trade area, as is most of SADC.[5] Nonetheless, there are serious obstacles that need to be overcome. The most important obstacles include setting rules of origin, high transit costs, nontariff barriers to trade, financing, and political instability in and between some members.

Beyond implementation of tariff reductions, rules of origin are very important to the success of the grand FTA. Rules of origin define the process to be performed or inputs that are to be included in the final good in order for that good to receive preferential treatment in its export market — in this case, for goods from one Tripartite member to enter another Tripartite member country duty-free. Reasonable rules of origin will encourage foreign direct investment (FDI) and expansion of local markets to take advantage of the resources across the FTA and establish cross-border value chains. If the rules of origin are set too tightly in order to protect existing industries from competition, however, then the common market will not attract the same level of investments from foreign multinationals.

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Conversely, if the rules of origin are too liberal, this will attract many firms to make minimal or nominal investments simply to gain access to the large common market created by the FTA. Loose rules of origin would allow the final stages of production to be located in the FTA with minimal African labor inputs, blunting the agreement's development impact. As it stands, the EAC's and COMESA's rules of origin are relatively liberal and comparable, meaning that SADC's more stringent rules of origin may have to be liberalized as a compromise for the grand FTA to be formed.

Trade reform without lowering transport costs and addressing nontariff barriers to trade is not enough to spur growth in most African nations. Inadequate and poor roads, railways, ports, waterways, and airports, as well as insufficient energy and telecommunications systems, are serious obstacles to intra- and inter-regional trade in Africa.

Railways provide an illustrative case study: they are generally a failure in the Tripartite geographic area. Rail should be more competitive for heavy loads and long-distance hauls compared to roads. Yet they carry less than 5 percent of the region's cargo, compared to 40 percent in the United States. Most are concessions (i.e. public-private partnerships, or PPPs), and clearly many of the concessions need to be renegotiated because the investments needed to rehabilitate/upgrade the tracks were not properly taken into account. Indeed, some are being renegotiated now, as in Kenya and Uganda, where the private company holding the rail concession spanning both countries managed to attract new funds and can now carry out some of the needed rehabilitation of track and procure additional rolling stock. Additionally, a rail track assessment is needed for most of the rail links in the Tripartite area. Locomotives will need to be replaced and modern business practices implemented.[6]

A consequence of this underdeveloped rail system is that roads are subject to vehicle overloading because heavy loads cannot be reliably sent by rail. There is a push by African nations in the region to move to standard gauge rail track, but this is a hugely expensive proposition and unlikely to be realized before 2020. The best approach is to get the level of service up to par on existing lines, and then, say in 15 years, make the transition to standard gauge.

These and other infrastructure and transport barriers increase the cost of doing business, making current investments less profitable than they otherwise could be and deterring potential new investment. They also make it

[5] SADC is waiting for the DRC and Angola to join the FTA.

[6] PPP's take many forms, and whether the government or the private sector pays for improving tracks and locomotives depends on the specifics of the PPP.

more physically difficult and costly to move goods and labor across borders. Unless these barriers to trade are lifted, regional integration will remain a dream.

The same is true of the nontariff barriers often found at border crossings or in ports. Currently, much trade is blocked at borders as truckers wait for inspections, often paying informal fees to have the inspections waived. Much work has gone into creating one-stop border crossings by the Japanese International Cooperation Agency (JICA) and other donors, but much remains to be done to make border crossings less of an impediment to trade. Work is also being done in ports to introduce single window clearances and modern customs inspection techniques.

Lack of progress in forming the RECs and the slow progress in removing nontariff barriers to trade mean that the donors are left in a quandary. The regional integration effort must be African-led, yet the African regional institutions lack the capacity and the budget needed for meaningful progress. Donors are willing to support institutional strengthening at the national level, but support for regional institutions is less significant, in part because the money must be driven by the stated need of the host countries. African leaders spend their time on national concerns, and have less time for regional integration work. Furthermore, a significant part of the regional agreements are actually not entered into national legislation and are therefore not implemented.

Strengthened RECs would ease the negotiations for realization of the Tripartite's primary goal of forming the grand FTA. Strengthened corridor authorities (discussed below) would promote lower transit costs as well as regional economic development. Support from the top is critical if regional integration is to make more progress. Such support was critical in forming the Maputo Corridor, for example.

Though they are not addressed further in this paper, macroeconomic policies such as a heavy reliance on tariff revenues and political instability and civil strife also hinder or block trade integration. These considerations must be accounted for when designing the projects and interventions described below.

The Transit Corridors: Multitude of Initiatives

There appear to be over 60 transit corridors in various stages of development in Africa. Transit corridors refer to major paved roads, combined with parallel railroads and sometimes pipelines. Most people see the corridor approach as the best way to reduce the time and cost of shipping freight on a regional as well as at the international level.

If corridors are to play this role, it is critical to have a corridor governing body that is responsible for maintaining and improving the condition of the corridor as well as the logistics along it. Some, such as the Maputo Corridor, are operated as PPPs, meaning in this case that the government gives concessions to the private sector to operate the port and use tolls on the transit corridor to maintain it to a predetermined high level of service. PPPs are not identical in their structures: some have more public-sector involvement and others have more private sector involvement. Ideally the public sector remains the active regulator of monopolistic private sector-owned and/or operated infrastructure (i.e., the tolls are not set too high). But sometimes the government retains ownership and then grants concessions to the private sector operations, or the government retains ownership and operates, for example, the road, while the concession allows the private sector to operate the port. The Walvis Bay Corridor Group, which includes the Trans-Kalahari, Trans-Caprivi, the Trans-Cunene, and the Trans-Oranje Corridors, is also operated as a PPP.

At the other extreme, due to the relative lack of private-sector involvement, is the Northern Corridor (NC), which spans Kenya, through Uganda, down into Rwanda and Burundi. Out of Uganda, the NC stretches out into the DRC and Southern Sudan. When complete, it will provide seamless service to Kisangani in the DRC, which is a gateway to the Congo River. At best, the corridor is 40 percent complete, when considering the condition of the railroads. The NC is governed by a corridor authority, the Northern Corridor Transit Transport Coordination

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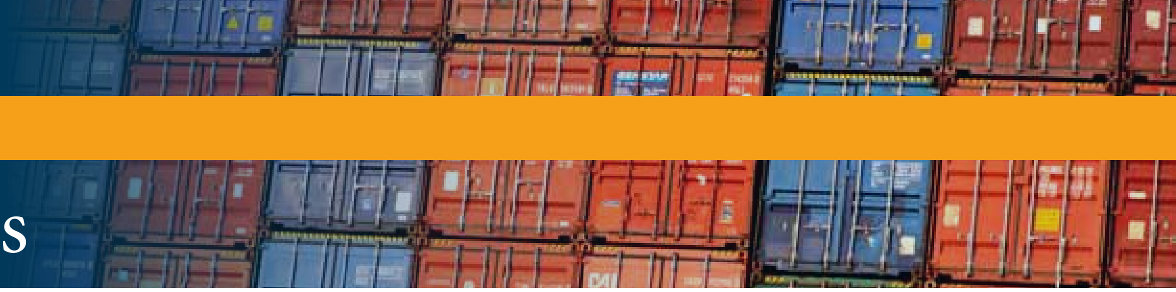


Authority (NCTTCA), which is supported financially by the member countries. The NCTTCA has the mission of lowering the cost and improving logistics for those using the corridor to move freight, and developing the corridor into an economic development zone under the Spatial Development Initiative (SDI).

The SDI was a vision of Nelson Mandela, and was implemented for the Maputo Corridor first. Large projects, named anchor projects, support the development of the transit infrastructure that forms the "trunk" of the corridor. Secondary and tertiary roads are then built out to reach otherwise isolated resource bases for economic development. This is the difference between a transit corridor, which has a more strictly trade focus, and a development corridor, which is intended to maximize the number of beneficiaries of increased trade. By linking the stranded resources via road or rail, developers are attracted to otherwise remote locations and will develop mining, manufacturing, or expanded agricultural production. Agricultural development along the corridors can provide critical business opportunities for Africa's smallholder farmers, possibly encouraged and facilitated by the corridor authorities. Some believe that all transit corridors should be transformed into economic development zones using the SDI.

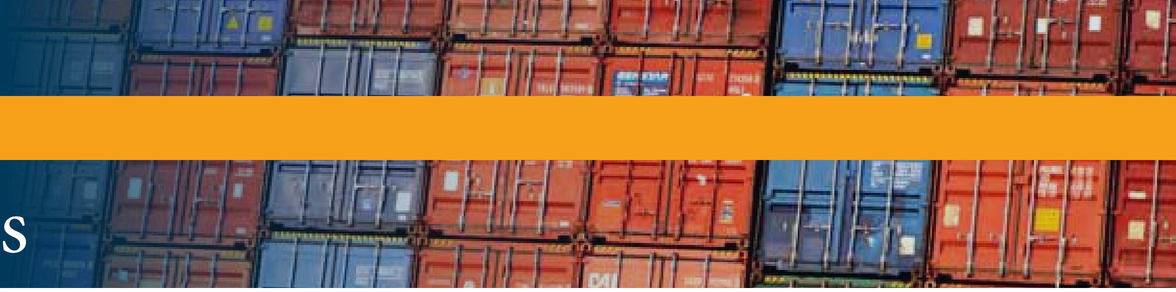
A key set of corridors for the Tripartite FTA falls under the rubric of the North-South Corridor (NSC). The NSC is a network of roads and rail systems that link the copper belt in the Democratic Republic of Congo and Zambia with the port at Dar es Salaam in Tanzania and ports in southern Africa. The corridor, with its spurs, serves eight countries: Tanzania, the Democratic Republic of Congo, Zambia, Malawi, Botswana, Zimbabwe, Mozambique, and South Africa. Parts of the corridor are quite old; TAZARA, the rail line from the copper belt in Zambia to Dar es Salaam, was built by the Chinese in the 1960s. Recently, this network of corridors as an aid for trade initiative has generated a great deal of support from donors, who pledged $1.2 billion in 2009 for its development. This program highlights improved logistics and removing nontariff barriers to trade, such as the complications of crossing borders. The Tripartite champions this initiative and views it as a pilot for developing other corridors.

Some believe that all transit corridors should be transformed into economic development zones using the Spatial Development Initiative (SDI).

Diagnostics have found that there is very limited investment in agriculture along these corridors. Operating costs remain higher than competitors; farming areas lack the last link in the road network to be commercially viable.

At least two of Africa's corridors, both agricultural in nature, should soon show the benefits of applying the SDI: the Southern Agricultural Corridor of Tanzania and the Beria Agricultural Corridor of Mozambique, which also serves Malawi, Zambia, Zimbabwe, and the DRC. These corridors both have corridor authorities, whose purpose is to attract and coordinate outside investors, using donor money to facilitate investment where necessary by providing the tertiary road network that is missing. The investments attracted are to be all along the agricultural value chain, from supplying farm inputs to processing and packaging product for sale overseas, and are meant to provide strong and direct benefits to smallholder farmers. Diagnostics have found, however, that there is very limited investment in agriculture along these corridors. Operating costs remain higher than competitors, such as from Asia; farming areas lack the last link in the road network — from the farm to the first secondary road — to be commercially viable. There is also a lack of credit for farmers.[7] But all these obstacles can be overcome with well-targeted interventions.

[7] From "Agricultural Growth Corridors: Making it Happen," presentation by Sean de Cleene, Vice President Global Business Development and Public Affairs, IFA Africa Forum, June 3, 2010.



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Policy: Need for Coordination

Aid for trade plays a large role in helping the Tripartite realize its primary goal of establishing a functioning FTA. Simply put, aid for trade is aid to nations that explicitly put trade liberalization in their policy reform agendas, and that is meant to help those nations capture the benefits of trade liberalization. Aid for trade encompasses making the necessary policy reforms and facilitating trade through improving logistics and investments in infrastructure, including along the corridors. Some examples of promising aid for trade and related projects are described below.

As a caveat, however, policymakers need to recognize that there is a risk that an expanded FTA will cause economic disruptions between some member countries. Kenya and South Africa, which both already have export-oriented industrial sectors, are likely to benefit more from a trade agreement than Malawi or Burundi, for instance, which are very far from having strong low-cost productive sectors. Liberalization of trade may actually constrain the development efforts of these less advanced countries, because it will be cheaper to import than to produce domestically. Ethiopia delayed its de facto accession to COMESA for this reason. Donor-assisted interventions must not interfere with the proper timing of integration if it is to work.

Donor coordination, in order to leverage different strengths among donors and avoid duplication, is critical to making aid for trade more effective. The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action call strongly for donor coordination. Donors pledged to work with host country governments and, where possible, manage aid through the host country government's budget. These are lofty goals, but moderate progress has been made to achieve them, as can be seen from the donor project matrix available on the Tripartite website. For example, the EU is implementing the Regional Infrastructure Development Plan, while the U.K. Department for International Development (DfID) is implementing the Trademark Southern Africa Programme and the Trademark Eastern Africa Programme. Even just assigning and publishing a division of labor is an encouraging sign.

Donor-assisted interventions must not interfere with the proper timing of integration if it is to work.

Corridor assistance is becoming better coordinated among donors as well as among donors and the host countries and the RECs. The World Bank is limited to dealing with individual nations, but has established a mechanism to transcend borders through its Sub-Saharan Africa Transport Policy team. This team works on an important subset of the corridors. Still, the World Bank could play a larger role in corridor development: examine, for instance, the donor matrix for the Tripartite and note that the World Bank is not among the donors listed.

DfID, JICA, the EU, and the U.S. Agency for International Development (USAID), however, are listed as the major donors. DfID is taking the lead on the NSC development. For that corridor, the financing from DfID is to the tune of £67 million in addition to funds from the Development Bank of Southern Africa (DBSA) to form a Tripartite Trust Account (TTA); other donors are interested in adding funds to this account. The African Development Bank is also quite active in promoting regional projects, as is the African Union, especially through its New Partnership for Africa's Development (NEPAD) program. There is also the COMESA Development Fund and a COMESA Infrastructure Fund, and the SADC Project Preparation and Development Fund, which should soon be operational and is intended to help fund project development, according to Trademark Southern Africa.

Much work has gone into creating one-stop border crossings by JICA and other donors, but much remains to be done to make border crossings less of an impediment to trade. More could be done by USAID in this arena.

New public-private partnerships have a large role to play, especially for port development. The World Bank could step in here and help these ports transition from the public sector (where many are today) to be concessioned and operated by private sector entities, as the port of Maputo has done. The World Bank has a tool kit for this type of transformation, which can be useful when applied with the right technical assistance.

When it comes to roads, tolling the highways is generally only an option with the high level of traffic found on some corridors and at some choke points. One such choke point is the entry to Nairobi from Mombasa. Once a bypass road is completed as an alternate route, entry into Nairobi should be tolled to reduce congestion to manageable levels.[8] Other roads in the corridor network need to be assessed at their choke points for the applicability of tolls. This type of assessment must be done for all corridors and tolls applied where there is heavy traffic or are choke points leading to major urban areas. Again, the technical expertise available at the World Bank and the EU would be enormously helpful in setting this up.

The absorptive capacity of the transnational African institutions is also a constraint to increasing aid to them. More skilled civil servants from African nations must be seconded to the REC governing bodies. Ultimately, however, the only solution is more long-term, that is, to build up the capacity of more African civil servants through additional schooling and on-the-job training. Here is another area where transatlantic aid — in the form of technical training and support for specialized education — could step in. USAID would be a good institution to fill this gap.

[8] Nairobi also needs a much improved public transport system to reduce congestion, as do many African cities.

About the Author

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