African Regional Trade Arrangements: Conditions, Requirements and Implications for Regional Integration

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Abstract

Almost all African countries have embraced Regional Trade Arrangements (RTAs) since attaining political independence in the 1950s and 1960s. These arrangements have been used as vehicles for enhancing policy credibility and accelerating trade to overcome the economic disadvantages of fragmentation of many small-nation economies in the continent. Today, there is virtually no country in Africa that is not a member of at least one regional economic group. Even though many explanations have been given about the necessity of establishing RTAs in Africa, there is still considerable vagueness on whether or not the circumstances and conditions required for a useful RTA are actually met by African RTAs.

This paper examines the usefulness of RTAs. It analyses the experience of Common Market for Eastern and Southern Africa (COMESA) as one of the 13 existing African RTAs, to see how far African RTAs have met expectations. Through both theoretical and empirical analyses, it is established that many of the African RTAs do not fulfil most of the circumstances and conditions that are normally associated with successful RTAs. The study shows that the dismal outcome of African RTAs can be attributed to many factors, which include low share of intra-RTA trade in total trade; dependence on basic minerals and primary products as main exports; low level of

* The views expressed in this paper are entirely those of the author.
1. I have deliberately referred to African Regional Economic Communities (RECs) as Regional Trade Arrangements (RTAs) in this paper. In reality, RECs are the main mechanisms for the implementation of RTAs.
structural complementarity of the African economies; multiple, duplicative, and overlapping protocols, structures, mandates and membership of African RTAs, leading to inefficient use of resources; recurrent political instability and conflicts; overambitious goals and unrealistic timeframes for achieving their objectives; and weak infrastructure and communication linkages, among others. Even the only condition of high pre-RTA tariffs as met by African RTAs poses constraints to the expansion of trade in the region.

This paper concludes that formal RTAs in Africa are not likely to ensure greater integration of member countries into the global economy. Perhaps trade on a most favoured nation (MFN) basis can be a far more promising option for Africa. If African RTAs want to avoid the problems of the past and achieve potential gains of a useful RTA, the actions that need to be taken are identified as follows:

- Lay more emphasis on areas where African RTAs have comparative advantages
- Reduce the multiplicity of objectives and membership of RTAs
- Lay more emphasis on policy co-ordination rather than on trade integration
- Adapt reforms to each member country’s specific economic and social characteristics, priorities and level of development
- Broaden the objectives of RTAs beyond trade integration to include free movement of people and capital within realistic timeframe
- Develop infrastructure
- Harmonise trade policy instruments.

1. Introduction

Trade has always been a major component of the economic development of nations (see for instance, Krueger 1999, and Grossman and Helpman, 1990). It enhances the rate of economic growth, natural resources usage, and income distribution of countries. It also influences the bearing of economic and political relationships between states. Through international trade, new opportunities are opened up for labour and fresh markets. Poor countries import technology and machinery, which they cannot produce, from the industrialised states.

Trade also creates several challenges for developing countries, including increased competition from foreign firms (which is good for consumers in poor countries, but bad for competitive producers), instability in global market prices for import and export products, and structural changes associated with the transformation of goods from primary items to manufactured products (see Perkins et al. 2001). By and large, it is generally believed that poor countries have more to gain from free trade (see Krueger 1999 and Stiglitz 2000). This is because their development requires economic growth
to reduce poverty, and their increased access to global markets is seen as a condition for the former.

One of the reasons for the failure of the ministerial conference of WTO in 1999 was its expansion to 130 members, which made it difficult for the organisation to reach consensus on issues. This did not only make it difficult for developing countries (which grew in membership faster than during the time of General Agreements on Tariffs and Trade – GATT) to voice their concerns, but also led to a loss of optimism about the prospect of achieving multilateral change. Consequently, countries became more interested in regional integrations as more feasible alternatives. Many governments have subsequently been concentrating on negotiating regional treaties.

Although regional trade arrangements (RTAs) are not in concert with WTO’s most favoured nation (MFN) principle, which preaches non-discrimination, they are supported by WTO. Some of these RTAs have been in existence before the transformation of GATT to WTO. Between 1948 and 1994, GATT received 124 notifications of RTAs (relating to trade in goods), and since the creation of the WTO in 1995, over 100 additional RTAs covering trade in goods or services have been notified. Currently, over 150 RTAs are in force, and there is hardly any country in the world that is not a member of an RTA.

Much of literature on regionalism tend to assume that RTAs are similar to one another. This is partly because in analytical discussion, it is common to analyse the symmetric case in which countries are of equal size (Krugman 1991). Therefore, it is important to emphasise that RTAs take wide varieties of forms, which reflect varying degrees of economic integration among their member countries as follows: First, a free trade area in which member countries eliminate all trade barriers among themselves, but each retains its individual tariffs against non-member countries: second, a customs union in which intra-trade barriers are removed among members and common external tariffs are imposed on imports from non-members; third, a common market that constitutes a higher degree of economic integration than the customs unions in which factors of production also move freely within the markets, in addition to the free flow of goods and non-factor services, and the adoption of common external tariffs; fourth, an economic union that assumes a deeper form of regional economic integration arrangement in which countries within a common market agree to co-ordinate and harmonise their domestic economic policies on trade, monetary, fiscal and welfare; fifth, a political union that is the deepest end of the regional integration spectrum, in which the participating countries agree to unify all of their policies and virtually become a single country.

Since attaining independence between the 1950s and 1960s, almost all African countries have embraced RTAs as means to enhancing policy credibility and accelerating trade to overcome the economic disadvantages of fragmentation of its many small-nation economies. Today, there is no country in Africa that is not a member of at least one regional economic group. As
reflected in their number, both in the continent (13 at the last count) and world-wide, RTAs continue to occupy a centre-stage in the economic agenda of countries.

In addition to agreements at regional levels, attempts have also been made to create continent-wide economic co-operation and integration among African countries. The OAU Summit of 1980, which led to the birth of Lagos Plan of Action and the Final Act of Lagos, was the first effort towards this goal. It led to the signing of the African Economic Community Treaty (or The Abuja Treaty) in 1991. The broad aim of the Treaty was to establish a single market in the continent by 2025. Furthermore, the Abuja Treaty announced more specific phases for creating and/or strengthening economic integration at the sub-regional level. In particular, its ultimate objective of a continent-wide integration was to be achieved through the building blocks of the lower level RTAs. The treaty anticipated that one RTA would exist in each of Africa’s five sub-regions (i.e., Central, Eastern, North, Southern, and West). These challenges can be seen to have culminated into the creation of the African Union Commission.

What calls for concern is whether the circumstances and conditions required for a useful RTA are actually met by African RTAs or not. This paper investigates this issue using COMESA as a case study. It is the largest RTA in Africa and as its name suggests, it straddles the two sub-regions of Eastern and Southern Africa. The rest of the paper is structured as follows: The next section explores the circumstances and conditions under which RTAs are beneficial or useful, through a review of literature. Section three starts with the analysis of African RTAs, and goes further to examine how far African RTAs have met many of the circumstances and conditions required for a useful RTA, through a case study of COMESA. The last section concludes.

2. Circumstances and Conditions under which RTAs are Beneficial

The rationale for RTAs is drawn from the standard trade theory, which states that free trade is superior to all other trade policies. Both economic theory and a vast body of empirical evidence on RTAs tend to point towards static and dynamic gains as the potential economic gains members of RTAs stand to benefit from (de Melo et al. 1993; de la Torre and Kelly 1992; Langhammer and Hiemenz 1990; Robson 1987; Balassa 1961). The static gains and dynamic gains are discussed below.

2. It is important to emphasise that the Abuja model of integration shows a marked departure from previous models in that it is no longer a narrow trade agreement (the other issues embedded in the model included long-term development strategy, the eradication of poverty and ignorance, and the fostering of democratic principles, etc.)
2.1. Static Gains

Static gains result in the form of one-time improvements in allocation of economic resources, such as land, labour, capital, or natural resources. The static effects have been justified in terms of relative sizes of trade creation and trade diversion. Viner (1950) first made the distinction between the effects of trade creation and trade diversion from RTAs. Trade creation takes place when a member country switches from consumption of goods produced domestically at relatively high cost, to goods imported from a lower cost firm located in a partner country. In other words, trade is created when an RTA allows a member country A to export more to another member country B by displacing the production of country B’s own industries/firms. For example, assuming a domestic textile company is protected by a 50 percent tariff (which is sufficient to preclude textile imports) following introduction of RTA, the tariff on textile from member countries is eliminated. Then, if a second member country can produce textile at a lower cost, trade can be created when the first member country imports textile from the second country.

Viner (1950) shows that trade creation is welfare enhancing, providing gains on both the supply side and the demand side (see also de la Torre and Kelly 1992; and Balassa 1961). Supply side benefits accrue from the reallocation of resources away from protected industries and towards firms producing goods for the regional market (assuming full employment), once protection in other member countries is reduced. On the demand side, consumers benefit from being able to buy from the lowest-cost producer in the region.

On the other hand, trade diversion takes place when a member country switches from consumption of lower cost goods imported from outside the region to higher cost goods produced within the region (which face lower tariffs after integration). In simple words, trade diversion happens if partner country production displaces lower cost imports from the rest of the world. Trade diversion is generally welfare reducing, although this may not always be the case. The loss from trade diversion stems from the reduction in government revenue as imports from outside the region (with high tariffs) are replaced by imports from within the region (with lower tariffs). Although there is an offsetting gain because consumers face lower prices (with an increase in consumer surplus), a portion of the price they pay effectively subsidizes producers in other member countries, rather than accruing to the government for reallocation within their own country. This cross-border subsidy represents a decrease in aggregate economic welfare (Ohyama 1972; Radelet 1999).

The key question about a free trade arrangement is whether the benefits of trade creation exceed the costs of trade diversion. A free trade arrangement is likely to be beneficial if, on balance, it gives rise to greater trade creation than trade diversion. The possibility of this is likely if member countries of, say a custom union, have different relative resource endowments, or if their
consumers have different tastes, so that the member countries have comparative advantages in the export of different commodities (Perkins et al. 2001). For example, to oversimplify, if Nigeria, with comparative advantages in petroleum and cocoa, were to join in an RTA with Senegal, with comparative advantages in fresh fish and vegetables, there is likely to be trade creation and both countries would benefit. But the reality on the whole is that neighbouring developing countries tend to export similar goods. Therefore, three cases are likely to happen. First, imports might displace domestic production (trade creation). Second, preferred imports might displace intra-RTA imports (trade diversion). Third, no RTA member might be producing (hence exporting) the goods and services that the RTA members import, leading to neither trade creation nor diversion. In such a circumstance, the RTA does not increase trade at all.

Furthermore, the higher the pre-arranged tariffs for member countries of RTA, the more likely it is for the pressure for trade diversion to be great in the aftermath of RTA creation (Meade, 1995). It is also possible for RTA to bring together countries that were previously major trading partners, and in such circumstances, opportunities for trade creation is likely to be enhanced, whilst trade diversion is minimised (Lipsy 1957). Researchers such as Summers (1991) and Wonnacott and Lutz (1989) have also argued that member countries of RTA can also benefit from the reallocation of factors of production across the borders as long as barriers to capital and labour mobility are removed by the agreement that establishes the RTA. The mobility of factors of production is assumed to lead to efficient use of resources when there is an expansion from country to regional markets. However, the mobility of factors of production may face natural obstacles, or what is called “natural trading bloc”, due to transportation costs in the supply expenditure, incomplete information, and psychological and sociological costs of displacement (Radelet 1999).

2.2. Dynamic Gains

Most students of RTAs tend to argue that major benefits derived from RTAs by developing countries are dynamic gains and not static gains. The dynamic gains are about stimulation of investment in production for export and linked industries. Radelet (1999) argues that the dynamic gains from RTAs stem from their impacts on productive capacity and potential output, and the resulting impact on income growth.

The first issue to understand on dynamic gains of RTAs is that economies of scale may be achieved by firms/industries in member countries through enlarged and more diversified markets (Langhammer and Hiemenz 1990; Robson 1987). Viner (1950) first proposes the significant gains associated with economies of scale in the creation of RTAs, and Corden (1972) formalises this theory in terms of the importance of economies of scale to trade and welfare under customs unions. Corden argues that cost reduction effect and
enhanced intra-regional trade, resulting from greater internal demand and reduced barriers to trade, are expected to provide opportunities for firms/industries to achieve greater economies of scale and reduce output prices. This is because firms operating within RTAs capture larger markets for their products, both domestically and abroad.

Similarly, transportation and communication networks are likely to be cheaper on a per unit basis in the region where RTA exists. Larger markets may also facilitate spill-over effects, such as transfer of knowledge from producers to users. Mutual gains can be realised from the joint production of public goods of common interest. For example, member countries can co-operate in the construction of connecting roads or rail networks, or from joint management of natural resources (Radelet 1999).

The second issue on dynamic gains of RTAs is that they also increase competition among producers in the member countries, which could lead to greater production and marketing efficiencies (Lyakurwa 1997). Large-scale firms that would otherwise monopolise domestic markets at efficient levels of output tend to benefit mostly from increased competition among producers. This is because a large competitive market will induce firms to produce specialised products, thereby sharpening entrepreneurial and managerial performance in all firms. For instance, the European Common Market is thought to have benefited from such intensified competition after its formation.

On the other hand, RTAs can also lead to less competition. This may happen either because in some RTAs, member countries earmark control of different sectors to different member countries or because of cartel-like co-operation between firms in the region. A feasible manifestation of increased competition in RTAs is that much of the new trade by member countries tends to be in similar or identical products, which may imply specialisation to some extent. It can happen, for instance, when one textile firm trims its products to concentrate on the few things it does very well. Since the large portion of trade in similar products may indicate greater competition and possibly a wider range of choice for consumers, the trade creation theory of static gains of RTAs is refuted because the latter argues that nations will benefit only if they export products that are not similar (Baldwin and Venables 1995).

The third issue to bear in mind on dynamic gains is that RTAs boost greater investment, both domestic and foreign, and result in growth acceleration (Baldwin 1992). As the size of the market enlarges and internal trade barriers decline, returns to some factors of production is likely to increase. This could lead to increased capital stock, if we assume that the cost of capital remains unchanged. In turn, the increase in capital stock could lead to a transient acceleration of growth rates as capital accumulation shifts the economy towards a higher growth path (Amponsah 2001). Furthermore, RTAs may stimulate investment by reducing uncertainty and enhancing policy credibility. In a nutshell, RTAs may attract foreign direct investment (FDI),
depending on the degree to which trade barriers are reduced, and on transportion costs (Stevens 2002).

An important factor as Baldwin (1997, p. 46) points out is “the effect of a trade arrangement on the region’s economic geography”. It is hinged on Krugman’s (1991) “economic geography” model, and attempts to explain the determinants of regional concentration of economic activity. The literature on economic geography suggests that economies of scale and location specific costs can provide justification for regional integration (Baldwin 1995). In particular, Puga and Venables (1997) argue that agglomeration benefits accrue to firms that are located close to one another. It is reasonable to expect that as one firm relocates, the action provides incentives for other firms to follow in lockstep due to externalities generated from such activities. By and large, it is expected that the size of the integrated countries and markets will influence the degree and speed of industrialisation.

Some analysts (Radelet 1999, for instance) have also argued that the dynamic gains of RTAs could be especially large if the RTAs are designed as intermediate steps towards global integration rather than as an end. This is referred to as an infant industry argument – that firms/industries can move from being domestically competitive to regionally competitive, and eventually to being globally competitive. This argument assumes that extension of protection to a regional basis will have useful impacts on marketing techniques, quality control and management capabilities. These will enhance the ability of firms/industries to eventually compete globally (Langhammer and Hiemenz 1990; Krugman 1984). Another assumption of the argument is that member countries of RTAs will actually be willing to eventually expose firms to world competition (Bhagwati and Panagariya 1995; Bhagwati 1992).

On the other hand, RTAs may obstruct or slow further global integration of its member countries if they believe that the regional market in an RTA is large enough to meet their goals or if the principal motivating factor behind the RTA’s formation is for politically influential firms to grab opportunities created by trade diversion, or to extend their protected market to a regional basis. Grossman and Helpman (1995) suggest that in these circumstances, there may be few political incentives for further global integration. Thus, regional integration is viewed as establishing a long-term dynamic gain towards more complete global integration. Accordingly, it is likely to be beneficial in the long run (Summers 1991). It is also believed that RTAs are easier to negotiate than full multilateral agreements because they involve fewer members, hence a more rapid integration process.

### 2.3. Other Benefits of RTAs

RTAs may promote policy credibility by “locking in” uniform trade and investment reforms (Whalley 1996; Baldwin et al. 1997). Whereas individual member nations may do well in embarking on policy reforms, group action can influence all members to abide by a common reform agenda. According
to Langhammer and Hiemenz (1990), there are three non-economic benefits that member countries may derive from RTAs.

The first one is that RTAs can improve the collective bargaining of member countries, enabling the members to demand access to markets, to withstand demands from non-members for access to the region, or to ensure that their voting power in international forums is increased. The second is that RTAs may enhance the commitment of member countries to political goals of common interest. Through RTAs, regional dialogue and discussion may increase. This can help prevent conflicts and diffuse tensions between potentially antagonistic countries, since political support is necessary for the creation of RTAs. Some analysts (See for instance, Mansfield 1993) have supported this argument by saying that RTAs tend to be viewed as an instrument for fostering diplomacy and regional stability. The third point stems from the fact that membership in RTA entails some loss of sovereignty, which can be either positive or negative. RTAs can serve as a check on unpopular policy decisions of governments, particularly those in newly independent countries, which might not want to surrender any of their newly acquired power. For instance, member governments of an RTA may be co-opted to committing to a schedule of tariff reductions, which might make them abandon some of their national policy options to abide by the regional policies.

In their own analysis, Schiff and Winters (1998) argue that trade among neighbouring countries provide security in a number of ways. It could do so by raising the level of interaction and trust among the people of those countries, by increasing the stake that each country has in the welfare of its neighbour, or by increasing access to the neighbours’ strategic raw materials. Nevertheless, free trade does not guarantee peace. The justification of RTAs on political ground needs confidence that trade preferences would lead to valuable political development and that it would not take place if RTA is not established.

2.4. Some General Guidelines on Benefits of RTAs

General guidelines about the relationship between the characteristics of RTAs and the possibility of net gains for member nations can be adapted from the canon of trade theory described above, since the scope of this paper cannot allow one to prove or disprove all the circumstances and conditions in the context of African RTAs. However, there are circumstances under which the guidelines may not be correct. The guidelines, most of which the rest of this paper will focus on, include the following:

- The larger the share of intra-regional trade in total trade for the member nations before the formation of RTA, the more likely that trade creation will exceed trade diversion (Langhammer 1992). However, Bhagwati (1992) points out that neighbouring countries may actually have only a small share
of their total trade within the region because of factors such as former colonial ties and history, geo-strategic alliances and production complementarity.

– The higher the initial tariffs between partner countries, the greater the scope for trade creation.

– The lower the tariffs facing non-members after the formation of RTA, the lesser the potential for detrimental trade diversion, and the greater the benefits of the RTA.

– If goods produced by member countries are not close substitutes for products previously imported from non-members, trade diversion will be smaller (Bhagwati 1992).

– The greater the membership, economic size, and share in world trade of RTA, the greater the scope for trade creation, and the smaller the tendency for trade diversion (Langhammer 1992; Robson 1987). Moreover, the broader the sectoral coverage of RTA, the greater the likelihood that all member countries will enjoy comparative advantage in some goods.

– The lower the transportation and communication costs among member countries of RTAs, the higher the potential gains from trade creation (Langhammer and Hiemenz 1990; Balassa 1961).

– Countries that do not produce similar goods may make better partners because their economies are potentially complementary rather than competitive (de Melo and Panagariya 1992). A conflicting hypothesis to this argument is that countries with similar income levels and consumer demand patterns may be better placed to reap gains from intra-industry specialisation and product differentiation (de Melo and Panagariya 1992). This argument is most relevant to developed countries, where demand for more specialised products increases with income. To this end, some analysts (McCarthy 1994; Hazelwood 1979) have suggested that the economic gains from RTAs are likely to accrue more rapidly in richer countries. This implies that industries are likely to be located in the richer countries where the prospects of better transportation and communication infrastructure and better developed financial markets and larger product markets exist.

– Since negotiation and compromise are needed for the formation of RTAs, the greater the history of political harmony between member countries, the better the scope for integration.

3. How far have African RTAs met the circumstances and conditions under which RTAs are useful? A Case Study of COMESA

3.1. Analysis of African RTAs

Contrary to the design envisaged in the 1980 Lagos Plan of Action and articulated in the 1991 Abuja Treaty, most African sub-regions have more than one RTA. Subsequently, most African countries belong to more than...
one RTA (see Table 1 for the five core African RTAs and their member states). The major reason adduced to this fact is that many of the African RTAs were formed before the Abuja model, and their mandates were not adjusted accordingly (Oyejide and Njinkeu 2001). A lot of literature on African RTAs exists (See for instance, World Bank 1991; de la Torrey and Kelley 1992; Foroutan 1993 and OECD 1993).

The last count indicates that there are 13 RTAs in Africa. ECOWAS, MRU and UEMOA are RTAs existing in West Africa. In Central Africa, there are CEMAC, CEPGL and ECCAS, while SACU, SADC and COMESA are in Southern Africa,. East Africa has EAC, IGAD and IOC, and AMU is the only RTA in North Africa. Brief descriptions of the objectives, membership and achievements of these RTAs are presented below.

**West African RTAs**

**ECOWAS:** This RTA, which was formed in 1975 and had 16 member countries until Mauritania withdrew its membership in 1999, has the most inclusive membership of the three RTAs in West Africa. The importance of Nigeria in the success of the RTA is vital because of its huge population. ECOWAS started with the expectation of evolving through three stages into a full economic union. Its objectives were to eliminate all tariff and non-tariff restriction on intra-ECOWAS trade, establish a common external tariff and commercial policy against non-ECOWAS countries, abolish all obstacles to the free movement of factors of production, and harmonise the domestic policies across its member countries. Virtually none of the objectives of ECOWAS has been met due to an implementation lag.

<table>
<thead>
<tr>
<th>Regional Economic Communities</th>
<th>Member States</th>
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<tbody>
<tr>
<td>Arab Maghreb Union (AMU)</td>
<td>Algeria, Libya, Mauritania, Morocco, and Tunisia</td>
</tr>
<tr>
<td>Common Market for Eastern and Southern Africa (COMESA)</td>
<td>Burundi, Comoros, Congo (DRC), Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe</td>
</tr>
<tr>
<td>Economic Community of Central African States (ECCAS)</td>
<td>Angola, Burundi, Cameroon, Central African Republic, Chad, Republic of Congo (Congo), Democratic Republic of Congo (DRC), Equatorial Guinea, Gabon, Rwanda, and Sao Tome and Principe</td>
</tr>
<tr>
<td>Economic Community of West African States (ECOWAS)</td>
<td>Benin, Burkina Faso, Cape Verde, Côte d’Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo</td>
</tr>
<tr>
<td>Southern African Development Community (SADC)</td>
<td>Angola, Botswana, Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe</td>
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MRU: This RTA was established in 1973 by Sierra Leone and Liberia, with Guinea joining in 1980. The three member countries of MRU are also members of ECOWAS. MRU’s primary objective was to accelerate economic co-operation among its membership through the formation of a customs union and then an economic union. It has failed to achieve this aim. The RTA has not been able to eliminate tariff and non-tariff barriers against intra-MRU trade, and it is yet to establish a common external tariff against non-member countries. The political instability and conflict that confronted Sierra Leone and Liberia for many years has impacted negatively on the RTA.

UEMOA: This RTA came into existence in 1994 from the fusion of two older RTAs, WAMU (monetary integration) and CEAO (trade integration). It is comprised of six member-countries, which are also members of ECOWAS. Concerning trade integration, UEMOA was conceived to progress rapidly through the free trade area and customs union stages to that of a common market. It appears that there has been a rapid success in the implementation of the trade liberalisation objective of the RTA.

Central African RTAs

CEMAC: This RTA evolved in 1994 as a replacement for UDEAC, which was formed in 1973. It is also comprised of six member countries, with Cameroon dominating in terms of population. From the genesis, it was designed to be a customs union. The common external tariff of UDEAC was adopted and reformed under CEMAC in 1994. Two problems associated with this common external tariff are that it covers only import duties and allows its members to adjust trade-related taxes that are not covered by the common external tariff. This allows countries to vary the protection level offered to their domestic producers.

CEPGL: This RTA was formed in 1976 with Burundi, Rwanda, and Democratic Republic of Congo as members. Its objectives were to remove trade barriers and promote free movement of labour and other factors of production. However, it has not achieved any of its objectives. The member countries are relatively poor and have experienced prolonged political instability for several years. The political uncertainty in the member-countries led to the virtual collapse of the RTA.

ECCAS: ECCAS was formed in 1983. It is inclusive in membership with all the Central African sub-region countries being members. It was conceived to become a customs union over a 20-year period. Within the first eight years of its creation, it adopted a trade liberalisation objective of gradual tariff reduction and elimination of non-tariff barriers to intra-ECCAS trade in stages. It has, however, not made any significant progress in this direction. Moreover, large parts of the area covered by ECCAS have been engulfed in prolonged socio-political crisis, which has almost grounded economic integration.
Southern African RTAs

SACU: This is the oldest RTA in Africa. Its establishment dates back to 1910. Currently, it is operating under agreements reached in 1969. It is the richest RTA scheme in Africa, with gross national income per capita standing at $2040 in 1999/2000. However, it is dominated by South Africa, which accounts for about 87 percent of the custom union’s population. It is an effective customs union, having successfully achieved its objectives of removing all barriers against intra-SACU trade flows, and adopted a common external tariff with a common customs organisation in place. It has also achieved the free movement of factors of production among its member countries. The domination of SACU by South Africa raises concern for the RTA’s future. This is because the unilateral trade policy of South Africa in signing bilateral free trade areas with Zimbabwe (1997), Zambia (1999) and the EU (1999) violate a customs union membership, particularly if these agreements have been entered into by South Africa on behalf of the entire membership of SACU.

SADC: SADC was formed in 1992 from SADCC, which was created in 1980, for the primary objective of reducing dependence on South Africa through regional economic integration. It is comprised of 14 member-countries. It did not accelerate its market integration process until 1996, when it articulated the objective of creating a free trade area within 8 years. Its trade protocol was ratified in 2000, and it fully became a free trade area in 2008, with the possibility of progressing into a custom union after this. It has shown considerable success in promoting regional development projects, particularly in the areas of transport, communication, environment, and industry.

COMESA: It is the largest RTA in Africa in terms of population with. It has a membership of 19 countries. Five of the member countries of COMESA (Madagascar, Malawi, Mauritius, Zambia and Zimbabwe) are also Members of SADC. An additional five are also members of East African Community (Burundi, Kenya, Rwanda, Tanzania and Uganda). Unveiled in December 1994, COMESA metamorphosed from PTA, which was established in 1981. It was established to promote trade in the areas of its coverage. It is one of the RTAs recognised as a building bloc of the African Economic Community under the Abuja Treaty. Its trade liberalisation objective envisaged a progression from a preferential trade liberalisation through a free trade area and a customs union and finally, to a common market. It intended to create a customs union by removing all barriers against intra-COMESA trade and implementing a common external tariff.

East African RTAs

EAG: The East African Co-operation was formed to replace the East African Community, which collapsed in 1977. The resurrected EAC was formally launched in November 1999 with the signing of a new treaty. The agreement mandates it to transform the region from a free trade area to a
customs union, and eventually to a common market. This would lead to the removal of all barriers against intra-EAC trade as well as the establishment of a common external tariff combined with a common regime of excise duties.

**IGAD:** This RTA came into existence in 1996 for the Horn of Africa countries. Virtually all its member countries are also members of COMESA. It has been involved in the implementation of the trade liberalisation objectives of COMESA. However, many of its member countries are plagued with endemic food insecurity and recurrent political instability.

**IOC:** This RTA was established in 1982, but its secretariat was set up in 1989. It is built around the African island states in the Indian Ocean and Reunion (France), making it the only RTA that includes a developed country. It was primarily formed to promote regional co-operation in trade and industrial development, which included a programme of tariff reductions. However, the economies of its member countries are too small to allow for economies of scale, and the intra-IOC trade is low.

**North African RTAs**

AMU is the only RTA existing in North Africa. It is comprised of all the countries in North Africa, except Egypt and Sudan. It came into being in 1989, with the objective of progressing from a free trade area to a customs union, and then to a common market. This objective has not been achieved. Much of its trade liberalisation objectives have been replicated in bilateral trade agreements, particularly European markets, but they have not been fully regionalised.

As the analysis of the existing 13 African RTAs shows, most of the RTAs have failed to fulfil their objectives and to promote trade/industrialisation. Neither have they resulted in significant economic gains for member countries. Most African RTAs have not achieved any significant integration of goods markets and positive impact on intra-regional trade due to their lack of complementarity in trade structure, and their narrow focus on intra-regional tariff reductions. The share of intra-trade within major African RTAs has either been small, stagnant, or has even declined over the past four decades. Consequently, the direct contribution of any trade diversion to overall trade performance is likely to be limited. This supports the arguments by Langhammer and Heimenz (1990), who in their comprehensive survey, could find no case in which an RTA made up solely of developing countries had made a significant contribution to trade expansion or economic development. (See also analysis of Ariyo and Raheem 1991; Roelfson 1989; Lyakurwa et al. 1993; Foroutan 1993; etc).

### 3.2. A Case Study of COMESA

It is important to emphasise that accurate information on the level and composition of trade flow is essential in the analysis of RTAs. However, data sources on intra-African trade are limiting.
Intra-Regional Trade in Total Trade for the Member Countries of COMESA

Figure 1 shows intra-regional agricultural trade structure of COMESA in 2006. Global agricultural exports from the region increased from US$4.8 billion in 2002 to US$6.5 billion in 2006. Intra-African trade accounts for over 80 percent of COMESA exports, which indicates that trade is highly concentrated within the region. COMESA’s global agricultural imports in 2006 amounted to US$8.6 billion. A large share of these imports originated from outside Africa, resulting in a huge food import bill for the COMESA region.

A cursory look at trends of values and intra-trade of individual COMESA country’s exports and imports as well as COMESA’s exports to and imports from the rest of the world reveals that the share of intra-COMESA trade in total COMESA exports and imports has increased steadily. Looking beyond these aggregate figures for COMESA, there are substantial national variations that need attention. For example, the share of Egypt in intra-COMESA exports and imports modestly vary from year to year, suggesting that in spite of the country’s large share in total COMESA exports and imports, it seems that it has been actively engaged in trade with other countries that are not members of COMESA. The result, of course, is a hampered growth of intra-COMESA trade. Furthermore, if we remove Angola and DRC from the analysis, given that they were both affected by severe conflict in recent times, the share of intra-COMESA exports in total COMESA exports will appear to
have increased. Similarly, the share of intra-COMESA imports in total COMESA imports, without Angola and DRC, will suggest that there was virtually no difference in the earlier analysis with Angola and DRC inclusive.

Worthy of note is that while Djibouti, Kenya, and Zimbabwe tend to dominate intra-COMESA exports, Uganda, Rwanda and Malawi were prominent in intra-COMESA imports. All these countries, in addition to Burundi and Zambia, seem to be active participants in intra-COMESA trade.

Turning to our condition that there should be substantial intra-regional trade prior to the formation of an RTA, it is evident that COMESA did not meet this condition, since it was established in December 1994 through a transformation of the old PTA. Intra-COMESA trade fluctuated between 4 and 4.6 percent before the formation of COMESA\(^3\). An interesting perspective on the origins of intra-COMESA trade on the basis of each COMESA country’s average export and import values shows that five countries (Kenya, Egypt, Uganda, Zambia, and Malawi) originated two-thirds of all intra-COMESA trade. The message to be learnt here is that a relatively few countries dominate the exchange of trade within COMESA. In fact, Kenya alone accounts for well above one-fifth of all COMESA trade. Virtually all the other COMESA countries show very insignificant share of intra-COMESA trade’s concentration. Again, this shows that regional integration has not effectively taken place among COMESA countries.

Membership, Economic Size and other Economic Indicators of COMESA countries

With the exception of Egypt and Uganda, all the other member countries of COMESA are also members of other African RTAs (Table 1). Such overlapping membership of RTAs has made many analysts (Lyakurwa 1997; Yeats 1999) describe African RTAs as the stumbling blocks of their own progress. On economic size being a vital condition for higher trade creation and lower trade diversion, COMESA does not meet this as well. Using GDP as a measure of economic size (see Elbadawi 1997), the GDP of all the member countries of COMESA increased substantially between 1996 and 2006 (Annex 4A). If we focus on the immediate period after the establishment of COMESA, these figures are very small, given that the GDP of Hong Kong in 1997 was $8 billion higher than the aggregate GDP of all COMESA countries in the same year. The same time, the GDP of Korea Republic and Indonesia were respectively $313 billion and $53 billion higher than the GDP of all the COMESA countries combined. With the exception of Sudan, Kenya, and Egypt, which recorded substantial GDP in 1997, 1999 and 2001, the GDP of many COMESA countries were too low to allow any substantial

\(^3\) Although in 1980 the intra-PTA trade as a share of its total trade before the creation of PTA in 1981 was 5.7 percent, this is also too small, as it cannot be compared with intra-European Community (EC) trade as a share of its total trade, which increased from 35 percent in 1960 to 49 percent in 1970, and then to 52 percent in 1981.
regional integration or trade creation within COMESA. If we remove the GDP of Sudan, Egypt, and Kenya from the analysis, the GDP of all the other COMESA member countries would decline substantially. Looking at the GNP/capita of the countries (Annex 4A), only five COMESA countries (Egypt, Mauritius, Seychelles, Namibia, and Swaziland) had GNP/capita of at least $1000 over the 1997-2001 period. For the whole COMESA, it was about $1025 and $1321 in 1997 and 2004 respectively. The average annual GDP growth rates of COMESA countries were also too low to allow for trade creation (Annex 4A). The latter shows that the dynamic effect of growth acceleration was not met by COMESA.

**Tariffs of COMESA member-countries**

COMESA member-countries, and indeed African countries, tend to have higher import tariffs than the rest of the world. Import duties of COMESA countries on broad groups of production equipment and other goods that are often employed as key inputs in agricultural or manufacturing activity reflect additional direct costs a potential exporter within the region (who used these items as inputs) would have to absorb to compete in both regional and external markets. The average tariffs of import duties for many COMESA countries were above 10 percent. Countries like Sudan had tariffs as high as about 60 percent during 1992-94 period. The average tariffs for sub-Saharan Africa during the 1992-94 period were about 27 percent, compared with 10 percent for the fast-growing exporters, such as Malaysia, Korea, and Singapore, and 6 percent in OECD countries (Yeats et al. 1997). This implies that the condition that pre-RTA tariffs should be high was met by COMESA, which was initiated in 1995.

It is important to mention that even after the Uruguay Round, tariffs for most African RTAs, which were already high by global standards, have remained relatively unaltered. The high tariffs for COMESA member-countries and indeed African countries, make domestic producers stand the risk of being placed at a substantial direct cost disadvantage vis-à-vis the fast growing exporters. The high tariffs may also generate substantial indirect costs to the extent that they inflate output prices of sectors like transport or utilities. Finally, the high tariffs on these goods could be a major obstacle to the expansion of regional agricultural output, which could raise living conditions and income in the region (Yeats 1999).

**Complementarity in Goods**

What products are COMESA countries trading with one another? Any relevant response to this question may be drawn from available COM-

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4. Even in cases where tariffs have been reduced, scope for trade expansion have been reduced due to limited progress in the removal of other barriers, such as those to do with entry, and administrative and legal obstacles (Langhammer, 1992).
TRADE data, which reports trade by product and by-origin. Using an aggregate profile of intra-COMESA trade from available information in the 1970s, 1980s, and 1990s for this analysis, summary statistics on the broad composition of intra-COMESA trade along with the share of this exchange are classified in eight broad categories. Closer examination of COMESA data shows that member countries are generally exporters of basic minerals and primary commodities. Food and feeds are by far the major component of intra-COMESA trade, although considerable variation is evident in their share.

In the 1970s, food and feeds accounted for almost 62 percent of COMESA’s regional exports. The share dropped to 31 percent in the 1980s, and rose again to 38 percent in the 1990s. Apart from food and feeds, only mineral fuels, agricultural products, and other manufactured items account for fairly high percentage of intra-COMESA trade. In fact, only two countries (Kenya and Mauritius) tend to be atypical of other COMESA countries in terms of manufactures’ exportation. This is not surprising. Exports of African countries continue to be highly dependent on primary commodities despite efforts to diversify. For instance, in Sub-Saharan Africa, 29 countries depend on three primary commodities to provide at least 50 percent of their export revenues. Furthermore, COMESA countries tend to rely on a few primary commodities as their key exports. Apart from Mauritius, which recorded substantial share of manufacture exports in its top five global exports in the 1990s (about 64.1 percent for Clothing Not of Fur), other COMESA countries’ global exports were predominantly primary products. In fact, crude petroleum accounts for almost 90 percent of Angola exports to the world.

By and large, the analysis so far shows that apart from the fact the many COMESA member-countries export primary products to themselves and the world, their exports seem also to be similar. This indicates that COMESA countries may not make better partners in their RTA since their economies are non-complementary, hence the presumption that trade diversion would be large, unless value is added to their similar products. This suggests that the participating countries of COMESA do not have substantially different factor endowments, which prevent them from having comparative advantages in the export of different commodities.\footnote{The implication of this is that they have relatively little to trade with one another, hence the non-complementarity problem in COMESA trade cannot be resolved quickly.} Therefore, the condition that countries that do not produce similar goods may make better partners because their economies are potentially complementary rather than competitive does not seem to have been fulfilled by COMESA.

**Transportation and Communication Costs among COMESA Countries**

The condition that the lower the transportation and communication costs among member countries of RTAs, the higher the potential gains from
trade creation does not seem to have been fulfilled by COMESA. The region has a poor roads and railways network, which is crucial for the movement of goods. While that is the case, the percentage of COMESA population using Internet is also low. Since poor countries, like many of COMESA states, are likely to have weak infrastructure than rich countries, the absolute level of trade in a rich country or RTA will often be greater. However, absolute aggregate national figures on infrastructure could be deceiving. Of importance is whether the infrastructure supports intra-COMESA trade or not. Several analysts (for example, Langhammer and Hiemenz 1990) have argued that for many African RTAs, rail, road, and port facilities were designed to strengthen trade ties with their former colonial power and not for trade with neighbouring countries in Africa. If the argument by these analysts is tenable, then it is more likely for trade diversion to be higher than trade creation within COMESA. Yeats (1997) has also shown how inappropriate anti-competitive transport policies adopted by many African countries have inflated their international transport costs, which, in turn, adversely influence their export prospects.

The conclusion from this general review is that inadequate transport and communication infrastructure is a deterrent to trade within COMESA, and indeed African RTAs. Therefore, the condition that the lower the transportation and communication costs among member countries of RTAs, the higher the potential gains from trade creation, is not fulfilled by COMESA.

4. Conclusions and the Way Forward

This paper has comprehensively examined the circumstances and conditions under which RTAs are useful. The paper has also analysed the experience of the 13 existing RTAs in Africa, and has streamlined the analysis down to one RTA (COMESA) to see how far African RTAs have met the conditions and circumstances.

The paper has established that African RTAs do not show most of the circumstances and conditions that are normally associated with successful RTAs. The dismal outcome of African RTAs can be attributed to many factors, such as low share of intra-RTA trade in total trade; dependence on basic minerals and primary products as main exports; low level of structural complementarity of the African economies; multiple, duplicative, and overlapping protocols, structures, mandates and membership of the RTAs, leading to inefficient use of resources; recurrent political instability and conflicts; over-ambitious goals and unrealistic time frame for achieving their objectives; and weaker infrastructure and communications linkages. Even the only condition of high pre-RTA tariffs, which was met by African RTAs, poses constraints to the expansion of trade in the region. It is therefore safe to conclude that formal RTAs in Africa are not likely to ensure greater integration of member countries into the global economy, raising doubts about their
benefits to member countries. Perhaps trade on a MFN basis can be a far more promising option for the region.

The question that one might then reasonably ask is why African RTAs are still maintained despite their economic inefficiency. Although the answer to this question requires further research, it is safe to reiterate that African RTAs are still being maintained because they hold the key to Africa’s integration into the global markets and overall trade policy environment. If African RTAs want to avoid the problems of the past and achieve potential gains of integrating Africa into the global markets, the way forward is to focus on comparative advantages; reduce the multiplicity of objectives and membership of RTAs; lay more emphasis on policy co-ordination rather than on trade integration; adapt reforms to each member country’s specific economic and social characteristics, and priorities and level of development; broaden the objectives of RTAs beyond trade integration to include free movement of people and capital within realistic timeframe; develop infrastructure; redefine the role of state; and harmonise trade policy instruments, such as tariff reductions, among others.

References


6. The advantage of this is that it recognises that countries differ in terms of size, level of development, and the needs and extent of reforms, and hence allows the member countries of RTAs to pursue integration at different paces in a manner that is consistent with the applicable treaties.


OECD (1993), Regional Integration and Developing Countries, Paris.


Stevens C. (2002), Regional Trade Agreements, Trade& Investment Background, Briefing No. 2, Brighton: IDS.


### Annexe 4A

**FOOD AND AGRICULTURE INDICATORS**

**Country:** COMESA (Common market for Eastern and Southern Africa)

<table>
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<td>Density people / km²</td>
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<td>28</td>
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<td>Total Land</td>
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<td>1 160 332</td>
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<td>Arable Land + Permanents</td>
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<td>69 991</td>
<td>70 359</td>
<td>70 285</td>
<td>70 793</td>
<td>70 654</td>
<td>71 872</td>
<td>71 392</td>
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<tr>
<td>Crops</td>
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<tr>
<td>Arable Land</td>
<td>1 000 HA</td>
<td>57 593</td>
<td>62 992</td>
<td>63 302</td>
<td>63 215</td>
<td>63 561</td>
<td>63 369</td>
<td>64 535</td>
<td>64 060</td>
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<td>Irrigated Land</td>
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<td>5 427</td>
<td>7 535</td>
<td>7 552</td>
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<td>Agricultural Production – Selected items</td>
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<tr>
<td>Roots and tubers</td>
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<td>31 889</td>
<td>45 935</td>
<td>48 475</td>
<td>50 016</td>
<td>48 984</td>
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<td>39 158</td>
<td>39 041</td>
<td>41 427</td>
<td>44 353</td>
<td>46 810</td>
<td>49 595</td>
<td>45 890</td>
<td>45 937</td>
<td>48 204</td>
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<td>Rice, paddy</td>
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<td>19 112</td>
<td>24 482</td>
<td>24 072</td>
<td>25 820</td>
<td>27 548</td>
<td>29 096</td>
<td>29 824</td>
<td>27 783</td>
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<td>28 528</td>
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<td>Cassava</td>
<td>1 000 MT</td>
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<td>8 030</td>
<td>8 654</td>
<td>7 559</td>
<td>9 088</td>
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<td>9 685</td>
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<td>Food Production</td>
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<td>102</td>
<td>101</td>
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## FOOD AND AGRICULTURE INDICATORS

**Country:** COMESA (Common market for Eastern and Southern Africa)

### Foreign Trade – Exports

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<tr>
<td>Total</td>
<td>MLN US$</td>
<td>28,446</td>
<td>26,515</td>
<td>25,691</td>
<td>22,327</td>
<td>22,879</td>
<td>27,935</td>
<td>27,435</td>
<td>27,014</td>
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<td>MLN US$</td>
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<td>5,970</td>
<td>5,783</td>
<td>5,988</td>
<td>5,128</td>
<td>4,969</td>
<td>4,595</td>
<td>4,137</td>
<td>5,382</td>
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</table>

### Major Imports (share in Agriculture)

- Sugar, centrifugal (raw) percent: 10.9, 13.1, 11.7, 10.9, 11.2, 8.7, 11.5, 11.4, 10.5, 9.5
- Rice, milled percent: 0.9, 2.0, 1.3, 2.3, 1.8, 2.3, 2.9, 2.6, 2.8, 3.7
- Molasses percent: 0.9, 0.6, 0.3, 0.4, 0.3, 0.5, 0.6, 1.2, 0.8, 1.1

### Foreign Trade – Imports

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<th>INDICATORS</th>
<th>UNIT</th>
<th>23,059</th>
<th>38,062</th>
<th>38,927</th>
<th>40,807</th>
<th>39,609</th>
<th>38,115</th>
<th>38,482</th>
<th>35,854</th>
<th>40,324</th>
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<td>Total</td>
<td>MLN US$</td>
<td>5,182</td>
<td>7,658</td>
<td>7,374</td>
<td>7,534</td>
<td>6,941</td>
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<td>7,640</td>
<td>7,483</td>
<td>7,001</td>
<td>7,970</td>
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</table>

### Major Imports (share in Agriculture)

- Wheat percent: 18.7, 22.9, 16.5, 16.5, 14.3, 18.0, 15.9, 19.2, 20.2, 20.0
- Maize percent: 6.0, 7.7, 9.6, 9.7, 11.1, 10.1, 8.9, 12.9, 10.8, 8.3
- Oil of palm percent: 0.9, 6.1, 5.0, 5.5, 4.3, 3.4, 2.9, 4.1, 4.1, 5.4

### Agriculture trade balance


### Lands & Inputs

- Total Population/Arable Land People / HA 3 5 5 5 5 5 5 6 6 ...
- Fertilizer Use/Arable Land kg nutrients/HA 21 32 29 30 31 31 31 33 ...
- Tractors/Arable Land no / 1,000 HA 2 3 3 3 3 3 3 3 ...

### Food Supply

- Per caput Dietary Energy Supply kcal/day 2,283 2,166 2,159 2,165 2,180 2,207 2,214 2,204 2,217 ...
- Per caput Dietary Protein Supply g/day 59 56 56 56 57 57 58 57 ...
## FOOD AND AGRICULTURE INDICATORS

### Country: COMESA (Common market for Eastern and Southern Africa)

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<td>Gross Domestic Product (GDP)</td>
<td>MLN US$</td>
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<td>8,507</td>
<td>9,513</td>
<td>9,595</td>
<td>9,839</td>
<td>10,786</td>
<td>10,761</td>
<td>9,754</td>
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<td>Agricultural GDP as share of total GDP</td>
<td>percent</td>
<td>30.6</td>
<td>29.2</td>
<td>29.4</td>
<td>29.5</td>
<td>29.3</td>
<td>29.0</td>
<td>30.1</td>
<td>29.0</td>
<td>27.2</td>
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<tr>
<td>Gross National Income per caput</td>
<td>US$</td>
<td>1,314</td>
<td>963</td>
<td>1,025</td>
<td>1,007</td>
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<td>994</td>
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<td>1,321</td>
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<tr>
<td>GDP&lt;sup&gt;3&lt;/sup&gt; - Ann. Growth rate</td>
<td>percent</td>
<td>3.7</td>
<td>4.7</td>
<td>4.3</td>
<td>3.4</td>
<td>2.6</td>
<td>1.4</td>
<td>3.4</td>
<td>2.2</td>
<td>2.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Agricultural GDP&lt;sup&gt;3&lt;/sup&gt;-&lt;sup&gt;1&lt;/sup&gt;,&lt;sup&gt;2&lt;/sup&gt; - Ann. Growth rate</td>
<td>percent</td>
<td>2.6</td>
<td>8.2</td>
<td>2.3</td>
<td>6.3</td>
<td>4.2</td>
<td>0.6</td>
<td>5.0</td>
<td>0.4</td>
<td>3.4</td>
<td></td>
</tr>
</tbody>
</table>


Note: Data may not be comprehensive.

Agricultural GDP and Labour Force include Forestry & Fisheries. Agricultural production and trade refer to crop and livestock products only.


Source: LData from FAOSTAT except GDP and GNP, which have been derived from World Development Indicators (World Bank).