



Facilitating Regional Trade: Lessons from WAEMU and EAC on How to Increase Trade in CEMAC

Nguenkwe Ronie Bertrand

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Abstract

This study explores the ways of facilitation and enhancing intra- Central African Economic and Monetary Community (CEMAC) trade, which has remained structurally weak over more than twenty years, by focusing on the East African Community and the West African Economic and Monetary Union (WAEMU). The study uses a descriptive analysis of trade and the indicators of facilitation of trade in those three communities. An econometric analysis of factors underlying the level of trade in those three communities is conducted using an augmented gravity model. The econometric results demonstrate that the number of

documents and the number of days required to export has a negative and significant impact on trade in EAC and WAEMU, but a positive impact in CEMAC. Infrastructure services, notably the use of the Internet have a negative impact on intra-zone trade in EAC.

Introduction

The phenomenon of regional integration is a process through which countries that are in close geographical proximity decide to set up an economic area where trade is conducted without any barriers. It has in recent years been presented as the path to Africa's development and especially to alleviate the increasing poverty levels on the continent (UNDP, 2011; ECA, 2012). However, Africa is characterized by a background of regional organizations that either dissolved, became outdated, or were replaced (Abdoulahi, 2005). The agenda of the African Union had to shift from 2050 to 2063 due to delay in the integration of Regional Economic Communities (RECs), as was directed by the Abuja Treaty of 1991.

The African Union Agenda 2063, in other words 50 years of the development of Africa from 2013 to 2063, is based on a structural transformation of economies. African economies have registered remarkable growth since the end of the 1990s, but structural transformation has been difficult to attain, with de-industrialization observed in 38 African countries between 1995 and 2012 (IAM, 2015). According to the latest reports from the United Nations Economic Commission for Africa, on average only 10% to 12% of intra-continental trade was carried out in countries of the continent, which is one of the weakest in the world. Intra-continental trade in Africa will also experience a substantial decrease in the short-term over the current decade due to the COVID-19 pandemic, which affected countries all over the world with a reduction in growth rate, and some sectors such as trade bearing the brunt. One could also consider the ongoing war between Russia and Ukraine as an additional crisis that is slowing exports towards those countries and works to illustrate the fragility of African countries, which largely depend on imports from those countries. According to Kudzai and Faizel (2021), the COVID-19 created a trade crisis in Southern Africa and reveal the weaknesses and the gaps in trade regime facilitation. The export structure of several African countries remains dominated by unprocessed primary commodities, and the business environment regarding cross-border trade is not friendly. Indeed, Africa remains the region where importers and exporters meet more significant trade barriers than anywhere else in the world. According to Seck (2017), it takes an average of 31 days to send a container from Africa to the rest of the world and 38 days from the rest of the world towards Africa, more time taken than in any other region of the world. Furthermore, while crossing over African borders, a higher number of documents is required, hence the average cost of cross-border movement of merchandise is much higher in Africa, notably 2.5 times and 3.2 times higher than

the cost of doing business in East Asia and the Pacific, respectively. All these costs lead not only to higher costs in Africa, but also to higher prices of goods, all which tend to discourage imports and exports, which further compromises the international competitiveness of African economies (Arvis et al., 2013).

For Clarke (2005), the reasons for which African countries do not export are more to do with trade and customs regulations, and poor administration. Indeed, the reduction in costs for trade transactions by only 1% due to trade facilitation would generate welfare gains of US\$ 40 billion, of which two-thirds would come from developing countries (NEPAD/OECD, 2009).

The World Trade Organization (WTO) defines trade facilitation as “simplifying and harmonising procedures of international trade.” These are “activities, practices and formalities related to the collection, presentation, communication and treatment of information required for international exchange of goods.” The facilitation of exchanges is beneficial to firms, governments, and consumers (ECA, 2012), essential to maintaining international supply chains (Eliason, 2015). Measures of facilitation have been defined in two major ways: the hard dimension related to tangible infrastructure such as ports, roads, and telecommunications; and the soft dimension related to institutional aspects such as regulations and the business environment (Portugal-Perez and Wilson, 2010).

The low-levels of intra-continental trade could be explained by factors such as the productive structure of countries in the zone, such as some countries being land-locked, but it mostly has to do with measures of the facilitation of the above-mentioned, notably untarmacked roads, which increase transaction costs. For example, it takes 116 days for a container to be cleared from a factory in the Central African Republic - CAR (including all the customs, administrative and port requirements), whereas it only takes 5 days to arrive from Denmark. The fact that CAR is landlocked is not the only factor that explains the difference in time required (Eliason, 2015). According to Guillaumont et al. (2012), intra-African continental trade is faced with numerous challenges related to high transaction costs, notably lack of communication and transport infrastructure, but also insecurity, and conflicts that lead to diversion of goods from their original route. The institutional environment, notably dealing with bureaucracy, administrative burden, and the difficulties in capturing various cross-border trade flows either because of fraudulent procedures that could develop at the borders or also due to internal conflicts in some countries prevent the declaration of some trade flows. It is also important to add to this the roadblocks all along transit corridors, which slow the development of trade relations. Recent statistics show that internal conflicts in some countries influence their exports within the Central African Economic and Monetary Community (CEMAC). In 2012, exports from CAR towards CEMAC were US\$ 57,375,300 dollars, and these dropped considerably to US\$ 27,343,240 in 2013, the year of the last coup d'état, or a drop by

52%. In 2014, these exports decreased to US\$ 895,600, or a drop of 84% as compared to 2012. The instability in CAR spread to other CEMAC countries, notably in the east of Cameroon, and to the north of Chad, thus reducing trade within the region.

Informal trade flows between countries also explain the low level of intra-continental trade in Africa. Nkendah (2012 and 2013) confirms that there are informal trade flows between Cameroon and her neighbours, and that this represents close to 38 billion FCFA francs and 0.4% of Cameroon's GDP. It also demonstrates that informal and unrecorded trade represents 96% of the official statistics and are mostly agricultural and horticultural goods, and 49% of the total trade. Intra-zone institutional failures are the main explanatory factors of informal trade in CEMAC.

However, economic theory is unanimous that international trade, notably intra-continental trade, is a crucial factor in integration, and in the development of a country (Grossman and Helpman, 1994; Dollar and Kraay, 2002; Baldwin, 2003; Krugman and Obstfeld, 2006). Viner (1950) states that free trade has benefits in a regional context, with the possibility of trade creation or trade divergence within the zone (Meade, 1955), and especially in the case of customs unions (Gbetnkom, 2004).

Central Africa, through the Economic Community of Central African States (ECCAS), and the Central African Economic and Monetary Community (CEMAC), which is found in the region, is the weakest link in the integration process in Africa, which is primarily based on trade. ECCAS considered to be the least integrated Regional Economic Community (REC) in the world (ECA, 2012). Intra-CEMAC trade was 2.3% in 2015 and is slightly higher than that of ECCAS (2%) but remains much lower than that of the West African 2015 and Monetary Union - WAEMU (12.4%), which however has several similarities with CEMAC. CEMAC and WAEMU are customs unions and members of the CFA franc zone, and use the same currency, the franc CFA. CEMAC and WAEMU were created in 1994 and replaced the Central African Customs and Economic Union (UDEAC) and the West African Monetary Union (WAMU), respectively. Similar measures were put in place in the two communities to allow for the development of internal trade. These two groupings have over the years pursued the fulfilment of various objectives such as the elimination of tariffs between member countries, customs duties, entry and exit quotas or levies having an equivalent effect and are likely to affect trade.

The East African Community (EAC) comprising five countries has over several years recorded the highest level of internal trade in Africa; 20.7% in 2012, 18.0% in 2015 and rising to 20.5% in 2018 (UNCTAD, 2020). It is becoming an example to follow in Africa. The Arusha protocol, which created the EAC, allowed for the creation of a common market with vast potential from 2009, with free movement of goods, people, services, and capital (Nyombayire, 2011). Exports within the zone mostly comprise agricultural products and some medium-technology products with an average level of competence (WITS, 2020).

Two reasons justify the choice of comparing CEMAC with WAEMU and EAC. First, visible progress has been noted over several years in EAC, which involves free movement of people, goods, and capital, and putting in place measures that facilitate trade. Secondly, CEMAC and WAEMU have several things in common. One country each in both WAEMU and CEMAC, Cameroon and the Republic of Côte d'Ivoire, respectively, have signed interim agreements within the framework of Economic Partnership Agreements (EPAs) with the European Union. Indeed, in the doing business ranking that demonstrates the ease of conducting business in 2017, the most highly ranked country from Africa is Rwanda at 56th, Kenya is categorized as the 92nd and 6th in Africa, followed by Uganda at 115th, and Tanzania at 132nd. Mali at 141st is the most highly ranked WAEMU country, followed by Ivory Coast at 142nd. Burkina Faso and Senegal are at 146th and 147th, respectively, Niger at 150th, and Togo and Benin at 154th and 155th, respectively. The most highly ranked CEMAC countries are Gabon at 164th and Cameroon at 166th. The CAR at 185th is the last country in our sample. The fact that EAC countries are not in a monetary union such as is the case in CEMAC and WAEMU countries will allow us to underscore the key factors in regional integration.

The objective of this study is to examine intra-CEMAC trade in comparison with intra-WAEMU and intra-EAC trade, to draw lessons that allow for boosting intra-CEMAC trade. More specifically, it is a comparative analysis which first of all examines the internal and external trade structures (exports and imports) of the three groupings (CEMAC, EAC, WAEMU), then examines the development of indicators of the facilitation of trade in the three groupings to finally determine the impact of these indicators on the level of intra-regional trade in the three groupings, in an aggregated and disaggregated manner (agricultural, manufactured and fuel products).

Data sources

As we stated earlier, the five countries of EAC, the six CEMAC countries, and the eight WAEMU countries are sampled in this study. Data relating to their GDP, population and economic infrastructure (ICT) is derived from the World Bank (WDI) data base, data in relation to distances, colonial history, borders, language and whether or not a country is landlocked is derived from The GeoDist database of "Le Centre d'études prospectives et d'informations internationales (CEPII), and finally those dealing with trade facilitation, notably the number of days required to export/import, the number of documents necessary to import/export are taken from the database on business climate (cross-border trade) Doing Business, of the World Bank and those addressing bilateral and multilateral imports from the database of World Integrated Trade Solutions (WITS). Ng and Yeats (2000) and Nkendah (2013) affirm that trade data on sub-Saharan African countries is not dependable. Indeed, Nkendah (2013) estimates that informal trade flows are significant for CEMAC countries. However, data from WITS and the World Bank on formal trade and from UNCTAD are most used. The study covers the period 2005-2015.

Conclusion and policy implications

The object of this study is to undertake a comparative analysis of the impact of the indicators of trade facilitation on intra-regional trade between EAC, WAEMU, and CEMAC to draw lessons on intensifying intra-CEMAC trade, which is structurally weak. We estimated three augmented gravity models of indicators of trade facilitation related to regulations and to infrastructure services. The econometric results show that the number of documents and the number of days required to export have a negative impact in WAEMU and EAC, but a positive impact in CEMAC when exports are aggregated or disaggregated, and regardless of the estimator used. Infrastructure services, notably the use of the Internet, have a negative impact on intra-zone trade in EAC.

On the strength of these results, strategies aimed at reducing the waiting period and the number of documents required to export, through the dynamic development of the administrative services using digitization, would allow for the facilitation of border transactions and intensify trade, which remains subject to extra costs in CEMAC. To do so, policies targeting the development of ICT, specifically high-speed Internet, would allow for a reduction in the waiting period, notably regarding the transfer of information using a one-stop shop framework. It is also necessary for CEMAC countries to diversify their economies to have them complementing each other at a regional level, and to strengthen integration through their market. Indeed, the policy defined in the Regional Economic Program (PER) of 2009, targeted towards creating poles of economic development as a function of the endowment of each country to make them complementary is yet to be implemented and steps towards doing so should be undertaken.

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Mission

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Nairobi 00200, Kenya
Tel: +254 (0) 20 273 4150
communications@ercafrica.org