TRADE POLICY DEVELOPMENT IN EAST AFRICAN COMMUNITY, THE CASE OF THE NORTHERN CORRIDOR, 2000 – 2013.

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DECLARATION

This is to declare that this research project is my original work and has not been presented to any other university for similar or any other degree award

Thomas Makuor Ruop

Signature………………… Date ………………

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This research project has been submitted for examination with my approval as the University Supervisor

Signature …………………………………………….…………. Date…………

Gerrishon Ikiara

DEDICATION

This project is dedicated to the East African Community for the endearing effort for the development of the people of East African.

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ABSTRACT

The purpose of this study is to make a critical analysis of trade policy development in east African community; the case study of the northern corridor, the specific objectives is to evaluate whether the northern corridor has enhanced trade cooperation between member countries, to assess how the Northern Corridor is influencing trade among member states, to explore how the Northern corridor has influenced market accessibility by the member states, to find out how the Northern corridor has influenced economic growth and challenges among the member states.

The literature review focused on the research objectives and problems, thus, the areas largely explored in the literature review were on trade liberalizations in EAC region and the study will use a descriptive research design using secondary data.

The researcher presents data analysis and interpretation of collected data; this is done in form of tables that clearly show the correlation the variables. The study targeted the areas of the northern corridor is utilised among the EAC and the data was collected using desktop research and analysis through content analysis.

Finally, the study found that trade is growing rapidly among the countries of the East African Community (EAC)—Burundi, Kenya, Rwanda, Tanzania, and Uganda by expanding the volumes of goods crossing their borders and members of the EAC, and beyond other African countries. The study gives conclusion and recommendation, in this part, it is clear that EAC, s policy makers have to strengthen policies that encourage simplified customs procedures and upgrades transportation infrastructures to enable countries compete in international markets and create more investment in the region.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

ACP	African, Caribbean and Pacific States
AGOA	African Growth and Opportunity Act
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EAC	East African Community
EBA	Everything But Arms
ECCAS	Economic Community of Central African States
EU	European Union
GSP	Generalized System of Preferences
HGVs	Heavy Goods Vehicles
ICORs	Incremental Capital-Output Ratios
KPH	Km per Hour
LDCs	Least-Developed Countries
MFN	most- favoured-nation
NAFTA	North American Free Trade Agreement
NFIDCs	Net Food Importing Developing Countries
RVR	Rift Valley Railways

SADC	Southern African Development Community
TFP	Total factor productivity
TPRs	Trade Policy Reviews
TRQs	Tariff-rate quotas
UNCTAD	United Nations Conference on Trade and Development
US	United States
WTO	World Trade Organization
CPIA	Country policy and institutional assessment

DEFINITION OF TERMS

Trade Openness - refers to the degree to which nationals and foreigners can transact trade without artificial (that is, governmentally imposed) costs (including delays and uncertainty.

East African Community: A regional intergovernmental organization composed of Burundi, Kenya, Rwanda, Tanzania, and Uganda, founded as a vehicle toward increased economic, political, social, and cultural integration among member nations.

Northern Corridor: East African transport corridor originating at the Port of Mombasa, Kenya, and transiting through Kenya to Uganda, Rwanda, and Burundi in the EAC. The main nodes of the corridor include the Port of Mombasa, road network, rail and ferry infrastructure, and border crossings at Malaba (Kenya-Uganda), Gatuna-Katuna (Uganda-Rwanda), and Akyaru-Kinyaru Haut (Rwanda-Burundi.

RADDEx: Revenue Authorities Digital Data Exchange, a software platform designed to relay customs declaration data, in or from the point of initial lodging through all affected transit points to the final destination, including across country borders, effectively integrating customs data between countries. Although RADDEx was initially designed as an electronic communication between the Kenyan and Ugandan revenue authorities, all countries in the EAC currently operate RADDEx at some level. However, the system operates on a bilateral basis and not at the regional level. The development of RADDEx 2.0, a region wide platform, is currently underway.

Risk-based customs inspections: Customs inspection framework characterized by the physical inspection of cargo in proportion to the potential risk it poses based on previously assessed risk profiles. This framework results in fewer overall inspections and leads to faster cargo processing times.

Simba: Kenya's electronic customs data interchange system, introduced in 2005.

TEU: A twenty-foot equivalent unit, an approximate measure defining the capacity of the standard intermodal container.

Transit cargo: Cargo with a final destination in a country other than the original port of disembarkation, i.e., cargo unloaded at the Port of Mombasa bound for Kigali, Rwanda, that must first cross Kenya and Uganda.

Policy: is typically described as a principle or set of rules to guide decision and achieves rational and predicable outcome.

CHAPTER ONE: INTRODUCTION

This chapter covers: the background of the study, statement of the problem,purpose of this study, objectives of the study, justification of the study, literature review, theoretical framework, hypotheses, and research methodology.

1.1 Background of the Study

Krueger observes that ‘‘the improvement in living standards, life expectancy and economic growth prospects in developing countries ranks among the most important economic success stories since the Second World War.’’ Although there are prospects that the future may be have better performance, growth trends in some of the developing countries has been inconsistent with dramatic occurrences. This is due to the improved understanding and adoption of economic policies much more conducive with satisfying economic progress than was in the 1950’s and 1960’s. as Krueger adds ‘‘a better understanding of the environmental dynamics of economic growth comes from a combination and interaction of policy formulation and experience with development and its related policies’’. [1]

Ideas with regard to trade policy and economic development are among those that have changed radically. Then and now, it was recognized that trade policy was central to the overall design of policies for economic development. But in the early days, there was a broad consensus that trade policy for development should be based on “import substitution”. This meant that domestic production of import-competing goods should be started and increased to satisfy the domestic market under incentives provided through whatever level of protection against imports, or even import prohibition, was necessary to achieve it. It was thought that import substitution in

[1] Krueger, A.O (1997) Trade policy and Development, How we learn. *The American Economic Review;* Mar 1997; 87, 1; ABI/INFORM Global pg. 0-6

manufacturers would be synonymous with industrialization, which in turn was seen as the key to development.

According to Krueger, ''the contrast with views today is striking. It is now widely accepted that growth prospects for developing countries are greatly enhanced through an outer-oriented trade regime and fairly uniform incentives (primarily through the exchange rate) for production a cross exporting and importing goods. Some countries have achieved high rates of growth with outer-oriented trade strategies. Policy reform efforts removing protection and shifting to an outer-oriented trade strategy are under way in a number of countries. It is generally believed that import substitution at a minimum outlived its usefulness and that liberalization of trade and payments is crucial for both industrialization and economic development. While other policy changes are also the essential ingredients if there is to be hope for improved economic performance.''[2]

Trade policies are a way to promote openness between trading countries because trade openness is a necessary condition to lasting economic development as observed by Rodríguez and Rodrik. The added that, the rise of emerging economies like India, China and Brazil demonstrates the potential of trade-driven growth to lift millions out of poverty. Developing countries have become new drivers of trade, accounting for over half of world exports.[3] South-South trade has outstripped North-South trade since 2007 – and this despite the fact that barriers to trade between developing countries are still much higher than between developed and developing countries. While all developing countries are trading more, most of the gains in the last decade have been

[2]Krueger, A.O (1997) Trade policy and Development, How we learn.*The American Economic Review;* Mar 1997; 87, 1; ABI/INFORM Global pg. 0-6

[3] Rodríguez, F and Rodrik, D (1999), *Trade Policy and Economic Growth: a skeptic's guide to the cross-national evidence*, Centre for Economic Policy Research Discussion Paper No. 2143, May 1999

realized by emerging economies. Least-Developed Countries (LDCs) and other countries most in need have remained marginalized, as they are often held back by lack of productive capacity, economic diversification and infrastructure, but also poor governance.[4]

Africa today, recognizes that trade and investment, and not aid, are pillars of development and understands that an important aspect is the pioneering orientation is the elaboration of a comprehensive trade policy as a complement to the positive macro-economic and sectoral reforms.[5] However, trade liberalization in Africa has not been reciprocated in terms of better access to markets of African producers and manufacturers in industrial countries.[6] Massive subsidies afforded to agricultural producers in some developed countries and other forms of protection have hindered Africa's efforts to upgrade capacities and alleviate poverty.

The Northern corridor is the transport corridor linking the land locked countries of Uganda, Rwanda and Burundi with Kenya's maritime port of Mombasa. Similarly, the Northern Corridor serves Eastern part of the Democratic Republic of Congo, South Sudan and Northern Tanzania. Thus, Northern Corridor infrastructure connects all the five countries of the East African Community and beyond. Because of their heavy reliance of the Northern Corridor for their overseas trade, as well as the trade among themselves, Burundi, Democratic Republic of Congo, Kenya, Rwanda and Uganda are contracting parties to the Northern Corridor Agreement. The Agreement provides the legal framework for collaboration among these countries on matters to do with transit transport; customs control; documentation and procedures; as well as the

[4]Rodrik, D (2001), *The Global Governance of Trade As If Development Really Mattered*, October 2001, United Nations Development Programme

[5]Sahn, D.E. 2006.*Economic Reform and the Poor in Africa.* Oxford, Clarendon Press; Jayne, T.S. & Jones, S. 1997. Food Marketing and Pricing Policy in Eastern and southern Africa: A Survey. *World Development* 25.9: 1505-1527.

[6]UNCTAD. 2002. The Least Developed Countries Report 2002: Escaping the Poverty Trap, Geneva, UNCTAD.

development of infrastructure and facilities relating to sea ports, inland ports and waterways, roads, railways, pipelines and border posts.

1.2 Statement of the problem.

Transportation regulations and policy play key roles in shaping the efficiency of the entire transport system. Certain transportation regulations, such as the effective use of weighbridges to help prevent vehicle overloading, make roads safer and lower highway maintenance costs. However, overuse of such measures can hinder trade, while unauthorized roadblocks and passage fees drive up total transport costs. One study estimated that roadblocks in West Africa, which can occur every 30 kilometers, raised transport costs by 10 percent; for goods transported between Lomé, Togo, and Ouagadougou, Burkina Faso, 57 percent of the fees paid were avoidable costs composed of unnecessary public procedures, private services, and speed payments. Required trade documents and inspections are numerous and unpredictable, but targeted for harmonization.[7]Compared to global best practices, the EAC countries require large numbers of trade documents and inspections. Moreover, variation in required documents reflects the differing import procedures and inspection requirements among EAC members. Inspection issues include repeat inspections of products already certified by accredited laboratories, inspections of products originating within the EAC and bearing the certification mark issued by a national standards bureau, and non-standardized testing procedures across countries.

[7]UNCTAD, Review of Maritime Transport 2011. Geneva, Switzerland: UNCTAD, November 2011.

The Northern Corridor connects all the five countries of the East African Community and beyond which are mainly land locked. The main purpose is to promote overseas trade between these EAC countries and provide the legal framework for collaboration among these countries on matters to do with transit transport; customs control; documentation and procedures; as well as the development of infrastructure and facilities relating to sea ports, inland ports and waterways, roads, railways, pipelines and border posts. This paper therefore is an assessment of specific aim of checking the validity of the early finding on the role and performance of trade policy in the Northern Corridor since its establishment.

1.3 Purpose of the study

The purpose of this study is to make a critical analysis of trade policy development in east African community, the case study of the northern corridor.

1.3.1 Objectives of the study

The main objective of this study was to examine the role of the Northern Corridor in trade development in East African Community.

1.3.2 Specific Objectives

1. To evaluate whether the northern corridor has enhanced trade cooperation between member countries
2. To assess how the Northern Corridor is influencing trade among member states
3. To explore how the Northern corridor has influenced market accessibility by the member states
4. To find out how the Northern corridor has influenced economic growth among the member states.

1.4 Justification of the study

This study provides more evidence on the performance of the EAC trade policies especially the role and performance of the Northern Corridor. The study findings assess the outcome of the EAC programme since it was introduced, the challenges that have occurred and the way forward to improve on the goals of the programme.

This study adds onto the existing knowledge on trade policy development for future researchers and academicians.

1.5 Literature Review

This section presents a critical analysis of previous studies, dissertations and theses on the study area and the research gaps that have been identified. This analysis has been done from a global, continental, regional and local perspective and presented in the following order.

1.5.1 Trade Policies

The rise and decline of free trade in the 19th century and the attendant economic and political consequences of these trends have always intrigued historians and economists.[8] In light of subsequent developments in international trade relations, it is interesting to note that no multilateral conference or international institution underpinned the de facto network of multilateral, non- discriminatory trade arrangements that emerged from the bilateral treaties among the leading trading nations in the late nineteenth century.[9]Since the early 1980's many developing countries have been implementing, in varying degrees, fairly comprehensive packages of policy reforms under the general umbrella of Structural Adjustment Programs (SAPs) that were initiated, in most cases, and actively supported and funded by the Breton Woods Institutions as a means for reducing poverty. One of the prominent components of these packages is Trade liberalization policies. Yet, the main conviction for recommending trade liberalization to such economies is based on the fact that the original diagnostic study (World Bank, 1981), which prepared the way for the SAP initiative attributed much of the fault for Africa's poor economic performance in the 1970s to misguided trade policies.

Since the early 2000s, developments in international trade have been important for both developed and developing countries. Developing countries are becoming ever more open, but certain barriers, which must be quantified still remain.[10] The trade restrictiveness index is a suitable indicator in the welfare distortions to determine degree of domestic inefficiency caused by the domestic trade regime. Measuring trade restrictions and the economic impact of the trade measures a country adopts depends on the most suitable indicators and empirical methods of

[8] Adler, E. (2002) 'Constructivism in International Relations', in Carlsnaes, W., Simmons, B. and Risse, T. (eds) Handbook of International Relations, London, Thousand Oaks, New Delhi: Sage. pp. 95-118

[9] Adler, E. (2002) 'Constructivism in International Relations', in Carlsnaes, W., Simmons, B. and Risse, T. (eds) Handbook of International Relations, London, Thousand Oaks, New Delhi: Sage. pp. 95-118

[10]Africa Growth Initiative, Accelerating Growth through Improved Intra-African Trade, January 2012, BROOKINGS 1775 Massachusetts Ave., NW Washington, D.C. 20036

analysis. The world economy has undergone significant changes in terms of international facts and international policy issues. One important consequence of this evolution is that developing countries are implementing important tariff reductions and trade liberalization policies which favor trade integration even if barriers on some sectors, as the agriculture sector, remain significant. A successful agreement must be flexible and governments need to accept that it will need to evolve.[11] Trade agreements must generate relevant reforms in areas such as customs documentation, but also more fundamentally in relaxing rules for cross-border transportation, selling to new markets requires adequate finance, poor or wrong infrastructure can restrict trade and governments can support producers or traders in other ways[12].

Bineau and Montalbano, presents the results of a review of the economic literature on selected developmental aspects of international trade trends and trade policies in less developed countries between 2000 and 2011.[13] Noting that since the early 2000s, developments in international trade have been important for both developed and developing countries, they begin by showing that developing countries are becoming ever more open, but certain barriers, which must be quantified still remain. One important conclusion is that a single indicator cannot provide a measure of the trade distortions a country imposes on itself whilst simultaneously capturing the trade distortions imposed on its trading partners.

Bineau and Montalbano outline three major trade indicators in the literature; - the trade restrictiveness index is a suitable indicator if one is interested in the welfare distortions that a

[11] Krishna, P. and Mitra, D. (1999) 'Reciprocated Unilateralism: A political Economy Perspective', mimeo, Brown University.

[12] Krasner, S. D. (1976) 'State Power and the Structure of International Trade', World Politics 28, 2: 317-347.

[13] Bineau Y and Montalbano, P, (2011) Selected Developmental Aspects of Trade and Trade Policies, Final Report Project No. 2011/265311, HTSPE Limited, Thames Field House, Boundary Way, Hemel Hempstead, Herts HP2 7SR, United Kingdom

country imposes on itself. However, while the Trade Restrictiveness Index is an excellent indicator of the degree of domestic inefficiency caused by the domestic trade regime, it provides little information regarding the trade restrictiveness faced by exporters.[14]

The report shows that measuring trade restrictions and the economic impact of the trade measures a country adopts depends on the most suitable indicators and empirical methods of analysis. This is, in turn, linked to the long standing debate on openness in practice versus openness in policy. Indeed, each of these indicators captures a particular effect. Then any analysis should use several indicators. The Mercantilist Trade Restrictiveness Index is a more appropriate indicator if one is interested in the extent to which trade distortions limit imports. The Market Access Overall Trade Restrictiveness Index appears to be a better indicator if one is interested in the barriers faced by each country's exporters when selling in other countries. The report also points out that during the last decades; the world economy has undergone significant changes in terms of international facts and international policy issues. One important consequence of this evolution is that developing countries are implementing important tariff reductions and trade liberalization policies which favor trade integration even if barriers on some sectors, as the agriculture sector, remain significant.

Sahn, Dorosh and Younger (1997), and Dorosh and Sahn, (2000) use the SAM's for the period 1989 – 93 to investigate the poverty and income distribution impact of trade and exchange rate liberalization in Cameroon, Gambia, Madagascar and Niger. The households were disaggregated into the urban non-poor, urban poor, rural non-poor and the rural poor. Four simulations were carried. The first consists of setting implicit tariff on imports high enough to keep real exchange

[14] Ibid Bineau and Montalbano, pg 201

rate fixed. The second simulation involved real exchange rate depreciation. The third was exchange rate depreciation and a reduction in government spending. The final simulation involved maintaining government revenue through increased taxes. Generally, the outcome of the study shows that trade and exchange rate liberalization benefits the poor households in both urban and rural areas.

According to the Africa Growth Initiative report ''Africa is characterized by a large number of very small, landlocked markets, which are highly dependent on neighboring countries and this is economically one very significant reason for the need for regional integration''. Regional economic communities (RECs) have sprung up to address this need; at present, every country in Africa is a member of at least one REC, and most belong to two or more.[15] However these proliferation of memberships have a number of hindering factors. According to some observers, ironically these multiple memberships might be hindering regional integration and intraregional trade rather than enhancing it to some extent. Multiple memberships impose high costs in time, energy and resources on African governments and force them to juggle competing regulations. Nonetheless, some RECs have had success in achieving their stated goals.

First, trade policy in Europe was a feature of more liberal, market-oriented domestic economic policy regimes. Second, the United Kingdom offered the largest import market and even although trade barriers were low, the prospect of reducing them further and binding them through a treaty proved a worthwhile objective.[16]Africa is characterized by a large number of

[15]Africa Growth Initiative, Accelerating Growth through Improved Intra-African Trade, January 2012, BROOKINGS 1775 Massachusetts Ave., NW Washington, D.C. 20036

[16]Kindleberger, C. P (2009) Commercial Policy between the Wars', in Mathias, P. and Pollard, S. (eds), The Cambridge Economic History of Europe, Volume VIII, The Industrial Economies: The Development of Economic and Social Policies, New York: Cambridge University Press. pp. 161-196.

very small, landlocked markets, which are highly dependent on neighboring countries and this is economically one very significant reason for the need for regional integration.[17]

Regional economic communities (RECs) have sprung up to address this need; at present, every country in Africa is a member of at least one REC, and most belong to two or more.[18] The report stresses that the Southern African Customs Union, has made significant headway in allowing for the free movement of the factors of production, in creating a common tariff on goods from external countries and in removing intraregional barriers.[19] At the same time, the West African Economic and Monetary Union has created a system whereby the macroeconomic policies of its member states are reviewed regularly, put in place a shared accounting structure, and instituted a stock exchange that spans the region. On the contrary, the Economic Community of the Great Lakes Countries and the Economic Community of Central African States have not been very successful. This is because they have failed in their attempts to eliminate tariffs on products made within their respective regions. ‘‘These policy outcomes (or lack thereof) have had significant effect on the level of intra-REC trade and consequently, on intra-African trade as a whole’’.[20] Under the rules-based international trading system centered in the WTO, trade policies have become more stable, more transparent, and more open. And the WTO is a key reason why the global financial crisis did not spark widespread protectionism.[21]

[17] Africa Growth Initiative, Accelerating Growth through Improved Intra-African Trade, January 2012, BROOKINGS 1775 Massachusetts Ave., NW Washington, D.C. 20036

[18] Africa Growth Initiative, Accelerating Growth through Improved Intra-African Trade, January 2012, BROOKINGS 1775 Massachusetts Ave., NW Washington, D.C. 20036

[19] Ibid African Growth Initiative, pg 5.

[20] Ibid African Growth Initiative, pg 6

[21] Kimberley E, A [2009] "Opening Markets for Poor Countries: Are We There Yet?" Center for Global Development Working Paper 184 (Washington).

1.5.2 Reasons for Developing Trade Policies

Currently there is consensus on intimate link in trade, development, and poverty reduction and sustained strong growth over longer periods. Countries that develop invariably increase their integration with the global economy through trade policies as export-led growth has been a key part of many countries' successful development strategies.[22]Policies aimed at low value-added, price stability[23]and sustainability are stepping stones in the path to economic development. A combination of better market access, and domestic reforms and foreign aid to enhance the ability of developing countries to take advantage of it, could have a significant impact on poverty reduction, and help to meet the Millennium Development Goals.[24]When a firm or an individual buys a good or a service produced more cheaply abroad, living standards in both countries increase.[25]

Given the importance of trade for poverty reduction, additional policies and institutional capacity are needed to ensure an effective supply response to market incentives provide by better market access. Rural infrastructure is particularly important in enabling exports and imports in developing countries.[26] Sufficient credit at competitive conditions is important for private sector investment in storage, transportation and marketing of products. Investment in skills and education in rural areas is needed to bolster productivity. Trade policy reforms must address any

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[22]Bairoch, P. (2006) Commerce extérieur et development economies de l'Europe au XIX siècle, Mouton, Paris La Haye: Écoles des HautesÉtudes en Sciences Socials'

[24]Rodrik, D (2001), *The Global Governance of Trade As If Development Really Mattered*, October 2001, United Nations Development Programme

[25]*Kimberley E, A [2009*] "Opening Markets for Poor Countries: Are We There Yet?" Center for Global Development *Working Paper 184 (Washington).*

[26]Kindleberger, C. P (2009) 'Commercial Policy between the Wars', in Mathias, P. and Pollard, S. (eds), The Cambridge Economic History of Europe, Volume VIII, The Industrial Economies: The Development of Economic and Social Policies, New York: Cambridge University Press. pp. 161-196.

remaining anti-export bias. Efficient policies are needed to ensure the functioning of land markets, property rights, and efficient structures.[27]

Under the Cobden-Chevalier treaty, France benefited from guaranteed free entry for a specified list of manufactured goods, an 80 per cent duty reduction for wine and an exemption from the British export tax on coal.[28] The United Kingdom secured the elimination of import prohibitions in France and their replacement by tariffs (with an upper limit of 30 per cent ad valorem).

The influx of overseas grain into Europe caused a widespread price decline.[29]

1.5.3 What is Trade?

Trade involves the transfer of the ownership of goods or services from one person or entity to another in exchange for other goods or services or for money. Possible synonyms of "trade" include "commerce" and "financial transaction". Types of trade include barter. A network that allows trade is called a market.[30]

The original form of trade, barter, saw the direct exchange of goods and services for other goods and services. Later one side of the barter started to involve precious metals, which gained symbolic as well as practical importance. Modern traders generally negotiate through a medium of exchange, such as money. As a result, buying can be separated from selling, or earning. The invention of money (and later credit, paper money and non-physical money) greatly simplified

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[28] Mansfield, E. D. and Reinhardt, E. (2003) 'Multilateral Determinants of Regionalism: The Effects of GATT/WTO on the Formation of Preferential Trading Arrangements', International Organization 57, 3: 829-862.

[29] Bagwell, K. and Staiger, R. W. (1999) 'An Economic Theory of GATT', American Economic Review 89, 1: 215-248

[30] Smith, R,L [2012] *Pre-modern Trade in World History*, Taylor & Francis, 2009, ISBN 0415424763, retrieved 2012-06-15

and promoted trade. Trade between two traders is called bilateral trade, while trade between more than two traders is called multilateral trade.[31]

Trade exists due to the specialization and division of labor, in which most people concentrate on a small aspect of production, trading for other products. Trade exists between regions because different regions may have a comparative advantage (perceived or real) in the production of some trade-able commodity, or because different regions' size may encourage mass production. As such, trade at market prices between locations can benefit both locations.[32]

Retail trade consists of the sale of goods or merchandise from a very fixed location, such as a department store, boutique or kiosk, online or by mail, in small or individual lots for direct consumption or use by the purchaser. Wholesale trade is defined as the sale of goods that are sold as merchandise to retailers, and/or industrial, commercial, institutional, or other professional business users, or to other wholesalers and related subordinated services.[33]

Trading is a value-added function: it is the economic process by which a product finds its end user, in which specific risks are borne by the trader. Trading can also refer to the action performed by traders and other market agents in the financial markets. [34]

International trade is the exchange of goods and services across national borders. In most countries, it represents a significant part of GDP. While international trade has been present

[31]Robb, J [2007] *The Early Mediterranean Village: Agency, Material Culture, and Social Change in Neolithic Italy*, Cambridge University Press, 23, ISBN 0521842417

[32]Blake, E and Knapp A B [2012] *The Archaeology Of Mediterranean Prehistory*, John Wiley & Sons, 21 Feb 2005, ISBN 0631232680, retrieved 2012-06-22

[33]Smith, R,L [2012] *Pre-modern Trade in World History*, Taylor & Francis, 2009, ISBN 0415424763, retrieved 2012-06-15

[34]Blake, E and Knapp A B [2012] *The Archaeology Of Mediterranean Prehistory*, John Wiley & Sons, 21 Feb 2005, ISBN 0631232680, retrieved 2012-06-22

throughout much of history, its economic, social, and political importance have increased in recent centuries, mainly because of industrialization, advanced transportation, globalization, multinational corporations, and outsourcing.[35]Empirical evidence for the success of trade can be seen in the contrast between countries such as South Korea, which adopted a policy of export-oriented industrialization, and India, which historically had a more closed policy. South Korea has done much better by economic criteria than India over the past fifty years, though its success also has to do with effective state institutions.[36]

1.5.4 Trade sanctions

Trade sanctions against a specific country are sometimes imposed, in order to punish that country for some action. An embargo, a severe form of externally imposed isolation, is a blockade of all trade by one country on another. For example, the United States has had an embargo against Cuba for over 40 years.[37]

1.5.5 Trade Barriers

International trade, which is governed by the World Trade Organization, can be restricted by both tariff and non-tariff barriers. International trade is usually regulated by governmental quotas and restrictions, and often taxed by tariffs. Tariffs are usually on imports, but sometimes countries may impose export tariffs or subsidies.[38] Non-tariff barriers include Sanitary and Phytosanitary rules, labeling requirements and food safety regulations. All of these are called trade barriers. If a government removes all trade barriers, a condition of free trade exists. A government that implements a protectionist policy establishes trade barriers. There are usually

[35]Wilkinson T. A. H. [2001] - Early Dynastic Egypt: Strategies, Society and Security Routledge, 8 Aug 2001Retrieved 2012-07-03

[36] Adler, E. (2002) 'Constructivism in International Relations', in Carlsnaes, W., Simmons, B. and Risse, T. (eds) Handbook of International Relations, London, Thousand Oaks, New Delhi: Sage. pp. 95-118

[37]Dumper M and Stanley B E [2007] *Cities of The Middle East and North Africa: A Historical Encyclopedia,* ABC-CLIO, 2007, ISBN 1576079198, retrieved 2012-06-28

[38]Ibid Wilkinson [2001] –pg-07-23

few trade restrictions within countries although a common feature of many developing countries is police and other road blocks along main highways that primarily exist to extract bribes.[39]

1.5.6 Fair Trade

The fair trade movement, also known as the trade justice movement, promotes the use of labour, environmental and social standards for the production of commodities, particularly those exported from the Third and Second Worlds to the First World. Such ideas have also sparked a debate on whether trade itself should be codified as a human right.[40]Importing firms voluntarily adhere to fair trade standards or governments may enforce them through a combination of employment and commercial law. Proposed and practiced fair trade policies vary widely, ranging from the common prohibition of goods made using slave labour to minimum price support schemes such as those for coffee in the 1980s. Non-governmental organizations also play a role in promoting fair trade standards by serving as independent monitors of compliance with labeling requirements. As such, it is a form of Protectionism.[41]

1.5.7 Why Countries Trade

In one of the most important concepts in economics, Ricardo observed that trade was driven by comparative rather than absolute costs (of producing a good). One country may be more productive than others in all goods, in the sense that it can produce any good using fewer inputs (such as capital and labor) than other countries require producing the same good. Ricardo's insight was that such a country would still benefit from trading according to its comparative

[39]Robb, J [2007] *The Early Mediterranean Village: Agency, Material Culture, and Social Change in Neolithic Italy*, Cambridge University Press, 23, ISBN 0521842417

[40]Blake, E and Knapp A B [2012] *The Archaeology Of Mediterranean Prehistory*, John Wiley & Sons, 21 Feb 2005, ISBN 0631232680, retrieved 2012-06-22

[41]Smith, R,L [2012] *Pre-modern Trade in World History*, Taylor & Francis, 2009, ISBN 0415424763, retrieved 2012-06-15

advantage - exporting products in which its absolute advantage was greatest, and importing products in which its absolute advantage was comparatively less (even if still positive).[42]

Though a country may be twice as productive as its trading partners in making clothing, if it is three times as productive in making steel or building airplanes, it will benefit from making and exporting these products and importing clothes. Its partner will gain by exporting clothes in which it has a comparative but not absolute advantage in exchange for these other product. The notion of comparative advantage also extends beyond physical goods to trade in services such as writing computer code or providing financial products.[43]

Because of comparative advantage, trade raises the living standards of both countries. Irwin calls comparative advantage "good news" for economic development. "Even if a developing country lacks an absolute advantage in any field, it will always have a comparative advantage in the production of some goods," and will trade profitably with advanced economies.

In the early 20th century, Swedish economists Eli Heckscher and Bertil Ohlin identified the role of labor and capital, so-called factor endowments, as a determinant of advantage. The Heckscher-Ohlin proposition maintains that countries tend to export goods whose production uses intensively the factor of production that is relatively abundant in the country. Countries well-endowed with capital such as factories and machinery should export capital-intensive products, while those well-endowed with labor should export labor-intensive products.

[42] *Kee, H L, Nicita, A and Olarreaga, M [2006] "Estimating Trade Restrictiveness Indices,"* World Bank *Policy Research Working Paper No. 3840 (Washington).*

[43] Adler, E. (2002) 'Constructivism in International Relations', in Carlsnaes, W., Simmons, B. and Risse, T. (eds) Handbook of International Relations, London, Thousand Oaks, New Delhi: Sage. pp. 95-118

Economists today think that factor endowments matter, but that there are also other important influences on trade patterns.

Recent research finds that episodes of trade opening are followed by adjustment not only across industries, but within them as well. The increase in competition coming from foreign firms puts pressure on profits, forcing less efficient firms to contract and making room for more efficient firms. Expansion and new entry bring with them better technologies and new product varieties. Likely the most important is that trade enables greater selection across different types of goods (say refrigerators). This explains why there is a lot of intra-industry trade (for example, countries that export household refrigerators may import industrial coolers), which is something that the factor endowment approach does not encompass.

There are clear efficiency benefits from trade those results in more products not only more of the same products, but greater product variety. For example, the United States imports four times as many varieties (such as different types of cars) as it did in the 1970s, while the number of countries supplying each good has doubled. An even greater benefit may be the more efficient investment spending that results from firms having access to a wider variety and quality of intermediate and capital inputs (think industrial optical lenses rather than cars). By enhancing overall investment and facilitating innovation, trade can bring sustained higher growth.[44]

Indeed, economic models used to assess the impact of trade typically neglect influences involving technology transfer and pro-competitive forces such as the expansion of product

[44]Kee, H L, Nicita, A and Olarreaga, M [2006]"Estimating Trade Restrictiveness Indices," World Bank Policy Research Working Paper No. 3840 (Washington(

varieties. That is because these influences are difficult to model, and results that do incorporate them are subject to greater uncertainty. Where this has been done, however, researchers have concluded that the benefits of trade reforms such as reducing tariffs and other nontariff barriers to trade are much larger than suggested by conventional models.

1.5.8 Influence of Trade Policies on Trade

Trade involves the transfer of the ownership of goods or services from one person or entity to another in exchange for other goods or services or for money. Possible synonyms of "trade" include "commerce" and "financial transaction". Types of trade include barter. A network that allows trade is called a market.[45]Trade between two traders is called bilateral trade, while trade between more than two traders is called multilateral trade.[46]Trade exists between regions because different regions may have a comparative advantage (perceived or real) in the production of some trade-able commodity, or because different regions' size may encourage mass production. As such, trade at market prices between locations can benefit both locations.[47]Because of comparative advantage, trade raises the living standards of both countries. International trade is the exchange of goods and services across national borders. In most countries, it represents a significant part of GDP. While international trade has been present throughout much of history, its economic, social, and political importance have increased in recent centuries, mainly because of industrialization, advanced transportation, globalization, multinational corporations, and outsourcing.[48]

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[45]Smith, R,L [2012] *Pre-modern Trade in World History*, Taylor & Francis, 2009, ISBN 0415424763, retrieved 2012-06-15

[46]Robb, J [2007] *The Early Mediterranean Village: Agency, Material Culture, and Social Change in Neolithic Italy*, Cambridge University Press, 23, ISBN 0521842417

[47]Blake, E and Knapp A B [2012] *The Archaeology Of Mediterranean Prehistory*, John Wiley & Sons, 21 Feb 2005, ISBN 0631232680, retrieved 2012-06-22

[48]Wilkinson T. A. H. [2001] - Early Dynastic Egypt: Strategies, Society and Security Routledge, 8 Aug 2001Retrieved 2012-07-03

Free trade agreements (FTAs) are credited for enhancing economic linkages between countries, creating more efficient production processes, increasing the availability of lower-priced consumer goods, and improving living standards and working conditions. Others have blamed FTAs for disappointing employment trends and for not having done enough to improve competitiveness, labor standards and environmental conditions abroad.[49]If a government removes all trade barriers, a condition of free trade exists. A government that implements a protectionist policy establishes trade barriers. There are usually few trade restrictions within countries although a common feature of many developing countries is police and other road blocks along main highways that primarily exist to extract bribes.[50] New generations of trade agreements in many parts of the world, have influenced negotiations in areas such as market access, rules of origin, intellectual property rights, foreign investment, dispute resolution, worker rights, and environmental protection. These trade agreements have often been supported or criticized on similar arguments related to jobs.

Rising number of regional trade agreements throughout the world can have implications in specific countries' trade policies'. Deepening of economic relations with other countries helps promote a common trade agenda with shared values. In addition to economic effects, forming deeper trade and investment ties would have positive implications for corporate governance, labor rights, environmental protection and democratic governance. Governments of member countries should improve cooperation in their area and invest more in improving border infrastructure.[51] Traders and potential traders must know about an agreement and its details,

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[49]Villarreal, M, A and Fergusson, I, F (2014) NAFTA at 20: Overview and Trade Effects, CRS Report, Congressional Research Service

[50]Robb, J [2007] *The Early Mediterranean Village: Agency, Material Culture, and Social Change in Neolithic Italy,* Cambridge University Press, 23, ISBN 0521842417

[51] Ibid Villarreal, M, A and Fergusson,pg 31. .

however, the interests and skills of good producers lie in production and not in legal rules, only the largest firms can afford policy advisers.[52]

In Africa, Ghana is one of the countries that have implemented trade policy reforms to open-up their economies. Beginning from 1984, when Ghana began to open up its economy to participate in international trade as part of the Economic Recovery Programme (ERP), the trade intensity index (defined as the ratio of exports plus imports to gross domestic product, which indicates the openness or otherwise of an economy) began to rise again, followed by a rise in per capita income (ISSER, 2002)[53]. To achieve the objectives of the Ghana Poverty Reduction Strategy, there was the need to ascertain how trade liberalization can improve export earnings, stimulate growth and accelerate poverty reduction. Elimination of trade related import and export taxes could reduce the incidence, depth, and severity of poverty in low-income countries. Although trade liberalization can lead to poverty reduction, over-liberalization can be harmful to local producers since already established foreign products out-compete local manufacturers. Secondly, liberalization should ensure that no dumping of products occur; the situation where developed countries subsidize products, particularly agricultural products which are sold on developing countries' markets should be discouraged. Many developing countries in temperate zones have the potential of competing as lower-cost producers in temperate commodities. Thus liberalization could open up new development-through-trade possibilities.[54]

[52]Lang, A. T. F. (2006) 'Reconstructing Embedded Liberalism: John Gerard Ruggie and Constructivist Approaches to the Study of the International Trade Regime', Journal of International Economic Law 9, 1: 81-116

[53]ISSER, (2002), "The State of the Ghanaian Economy" University of Ghana, Legon.

[54] Krasner, S. D. (1976) 'State Power and the Structure of International Trade', World Politics 28, 2: 317-347.

1.6 .Trade Policies of Developing Countries

In the early postwar period, the dominant development strategy pursued by the developing countries involved import substitution in the manufacturing sector behind high protective barriers. This strategy favored manufacturing activities producing for domestic markets and discriminated against manufactured as well as primary exports and against primary production in general. In the first half of the 1960s, Korea, Singapore, and Taiwan joined Hong Kong in pursuing an outward-oriented development strategy. Under this strategy, similar incentives are provided to exports and to import substitution as well as to primary and to manufacturing activities.

As the possibilities for import replacement in the narrow markets of developing countries were increasingly exhausted, and the high economic cost of continued import substitution came to be recognized, several large African and Latin American countries, including Argentina, Brazil, and Mexico, began to promote manufactured exports. Nevertheless, discrimination against primary activities was generally maintained and import substitution continued to be favored, albeit to a lesser extent than beforehand, in these countries. Furthermore, several other countries, such as India, Chile, and Uruguay, continued to pursue an inward-oriented development strategy. Available information for the decade prior to the quadrupling of oil prices in 1 973-74 indicates the effects of alternative development strategies on exports and on economic performance in the countries under consideration.

The first mentioned group of Far Eastern countries exhibited rapid growth in the exports of both primary and manufactured goods. Export expansion, together with low incremental capital-output ratios (ICORs) associated with efficient resource allocation, further led to rapid economic growth in these countries. The second group of Latin American countries improved their export performance in manufactured, but generally not in primary, products; they were successful in reducing the ICORs, although these ratios remained above the levels observed in Far Eastern countries; and they accelerated their economic growth without, however, attaining the growth rates observed in the Far East. Finally, countries which continued to pursue import substitution oriented policies exhibited low export growth rates, low investment efficiency, and poor economic performance in general. The adverse effects of external shocks, in the form of the quadrupling of oil prices of 1973-74 and the world recession of 1974-75, were especially pronounced in the Far Eastern newly-industrializing countries that had higher than average export and import shares in national income.[55]

These countries nevertheless continued to apply outward-oriented policies and were able to surmount the effects of external shocks within a relatively short time. Thus, they increased their export market shares and reached economic growth rates even higher than in the period prior to 1973. The outward-oriented NlCs also limited reliance on external borrowing, thereby avoiding excessive foreign indebtedness. In an effort to maintain past economic growth rates, most other newly- industrializing countries relied greatly on external borrowing after 1 973 while increasing the protection of their domestic industries. With higher protection leading to losses in export market shares and to deterioration in the efficiency of investment, the borrowed funds were generally not used productively. Correspondingly, these inward-oriented NlCs experienced a decline in GNP growth rates while their debt burden increased to a considerable extent[56]. Similar conclusions apply to the oil-importing less developed countries. On the whole, countries

[55]World Bank, (2013], World Development Report (Washington, D.C.).
[56]Balassa, B., (2014), "Adjustment Policies in Developing Countries: A Reassessment", World Development Journal

following relatively outward-oriented development strategies relied to a lesser extent on foreign borrowing, put the borrowed funds to better use, and reached higher rates of export and GNP growth than countries pursuing an inward-oriented development strategy.

Various considerations explain these results. Given their high export and import shares, countries pursuing an outward-oriented development strategy had greater latitude in reducing imports. By contrast, under inward orientation imports had already been limited to an absolutely necessary minimum, with further reductions leading of a decline in output. The flexibility of the national economy is also greater under an outward- oriented, than under an inward-oriented, development strategy. In the former case, firms have been exposed to competition in world markets and have acquired experience in changing their product composition in response to shifts in foreign demand. By contrast, under inward orientation, there is generally limited competition in the confines of domestic markets and firms have little inducement to innovate, which is necessary under outward orientation in order to meet competition from abroad.

1.6.1 Influence of Trade Policies on Economic Growth

Free trade gave room for advancement and development of communication and transport systems (railway networks) which made international transportation not only cheaper but also more secure and faster.[57] Markets for bulk commodities which had been separated in the past by insurmountable transport costs came increasingly into the reach of traders and stimulated production in various regions. These new opportunities attract foreign investments and immigrants which accelerate the integration of markets on a global scale.[58] Government

[57] Abbott, K. and Snidal, D. (1998) 'Why States Act through Formal International Organizations', The Journal of Conflict Resolution 42,

[58] Magelby, D. B. and Nelson, C. J. (1990) 'The Money Case: Congressional Campaign Finance Reform', Washington, DC: Brooking Institution.

intervention and trade policy is recommended to protect emerging domestic industry.[59] A government has not the foresight or the information to identify the industries worth supporting and is often not strong and independent enough to restrict protection only to those industries for which protection could lead to an increase in national welfare.[60]

1.6.2 Influence of Trade Policies on Market Accessibility

The issue of market access especially to high-income countries is crucial and falls into three main groups. First, those relating to deliberately imposed barriers to trade such as tariffs, quotas, and tariff escalations. Second, barriers to trade resulting from domestic and external producer support, primarily in the form of subsidies, but also including, for example, export credits.[61]Third, those relating to indirect barriers to trade resulting from developing countries, lack of institutional capacity to engage in the global economy and in multilateral institutions on equal terms.[62] Average applied tariffs in agriculture are higher in developing countries (although most of the very high rates, over 100%, are found in developed countries).[63] With an increasing share of agricultural exports directed toward other developing countries, high levels of tariff protection may impede prospects for export-led growth. This may be particularly true for the export opportunities of low-income countries, which have increased export market share in agriculture.[64]

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[59]Magelby, D. B. and Nelson, C. J. (1990) the Money Case: Congressional Campaign Finance Reform', Washington, DC: Brooking Institution.

[60] Abbott, K. and Snidal, D. (1998) 'Why States Act through Formal International Organizations', The Journal of Conflict Resolution 42, 1: 3-32.

[61] Grossman, G. M. and Helpman, E. (1994) 'Protection for Sale', American Economic Review 84, September: 833-50.

[62] Baldwin, D. A. (ed) (1993) Neorealism and Neoliberalism: The Contemporary Debate, New York: Columbia University Press.

[63]World Bank (2005), "Global Agricultural Trade and the Developing Countries"

[64]World Trade Organization (2001), *Market Access: Unfinished Business*, Special Studies 6 Trade Organization.org/english/res_e/booksp_e/special_study_6_e.pdf

Open regionalism - holds the potential to stimulate global trade and improve the efficiency of regional producers. But regional arrangements can also become a vehicle for protection, trade diversion, and unintended inefficiency.[65] Agreements in particular between richer and poorer developing countries risk generating trade losses for the poorer ones when their imports are diverted toward the richer members whose firms are not internationally competitive. However, where regional arrangements lead to the reduction of non-tariff barriers, trade creation is likely, and the dynamic benefits of effective regional integration in terms of improved governance and regional stability are likely to outweigh diversion concerns.[66] The World Bank suggests that key conditions to benefit from expanded trade and investment include lowering common external trade barriers, stimulating competition, reducing transaction costs, and reinforcing nondiscriminatory investment and services policies.[67] World Bank suggests that trade liberalization leads to unilateral reduction in barriers that can produce the greatest and the quickest gains like domestic policies.[68]

Integration of the low developed countries into the multilateral trading system requires meaningful market access, support for the diversification of their production and export base, and trade-related technical assistance and capacity building.[69] So while the further development of middle-income countries, and in particular the tackling of rural poverty in these countries, can

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[65]Grieco, J. M. and Ikenberry, G.J. (2003) State Power and World Markets: The International Political Economy, New York and London: W.W. Norton and Company

[66] Grossman, G. M. and Helpman, E. (1994) 'Protection for Sale', American Economic Review 84, September: 833-50.

[67]Grieco, J. M. and Ikenberry, G.J. (2003) State Power and World Markets: The International Political Economy, New York and London: W.W. Norton and Company

[68]Ikenberry, G .J. (2001) After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars, Princeton and Oxford: Princeton University Press.

[69] Irwin, D. A. (1993) 'Multilateral and Bilateral Trade Policies in the World Trading System: An Historical Perspective', in de Melo, J. and Panagariya, A. (eds) New Dimensions in Regional Integration, New York: Cambridge University Press. pp. 90-119.

be achieved most importantly through increased market access in agriculture, lower-income countries need additional help, not only to take advantage of new opportunities, but to be able to adapt to changing conditions due to the loss of preferences. This additional help must take three main forms: support for developing-country production; support for participation in trade; and support for good policies and good governance.[70]

1.6.3 Challenges of Trade Policies

The rise of many Regional economic communities (RECs) has seen countries join many. These multiple memberships might be hindering regional integration and intraregional trade rather than enhancing it to some extent. Multiple memberships impose high costs in time, energy and resources on African governments and force them to juggle competing regulations. Nonetheless, some RECs have had success in achieving their stated goals[71].

Liberalization when institutions and the economy are not strong enough to face risks and opportunities can be harmful. And while reforms may be beneficial in the long run, for example by reducing possibilities for customs corruption, in the short run they create both winners and losers. Low-income consumers, unskilled workers in sheltered industries, and previously shielded producers may suffer in the transition period as the economy adapts to changed incentive structures. Temporary safety nets can help cushion the blow and ensure trade-led growth is pro-poor. Specific assistance to meet costs of adaptation – for example of switching to an alternative source of income may be necessary.[72]

[70]Grieco, J. M. and Ikenberry, G.J. (2003) State Power and World Markets: The International Political Economy, New York and London: W.W. Norton and Company

[71]Africa Growth Initiative, Accelerating Growth through Improved Intra-African Trade, January 2012, BROOKINGS 1775 Massachusetts Ave., NW Washington, D.C. 20036

[72] Irwin, D. A. (1993) 'Multilateral and Bilateral Trade Policies in the World Trading System: An Historical Perspective', in de Melo, J. and Panagariya, A. (eds) New Dimensions in Regional Integration, New York: Cambridge University Press. pp. 90-119.

For the middle-income countries, the primary issue is market access. Many of the world's poor live in these countries, and so market access alone can have significant poverty-reducing effects in these countries. However, for the least developed countries, the principal problem is not market access, but lack of production capacity to achieve new trading opportunities.[73]

Other issues are more specific to exports: developing countries and their exporters may have difficulty with both the implementation of, and showing compliance with, international product standards and other multilateral agreements. Low-income developing countries need both technical and financial assistance in this area.[74]

Opportunities created by liberalization may not be taken advantage of if macroeconomic policies, institutions, and the investment climate are not favorable.[75] This includes trade-related infrastructure: the cost of exporting must be low enough to ensure competitiveness in rapidly expanding high-value markets where competition is stiff. It also includes related issues that are part of the general investment climate but can be particularly important for exports, such as a weak financial sector.[76] Technical Assistance for negotiations is also needed to further developing-country interests in multilateral and bilateral arenas and ensure the success of future negotiations and agreements. Marketing of exports is also a challenge for low-income countries: product and country brands need to be built, and quality concerns met.[77]

[73] Ibid, Irwin, (1993) 'Multilateral and Bilateral Trade Policies in the World Trading System: An Historical Perspective', in de Melo, J. and Panagariya, A. (eds) New Dimensions in Regional Integration, New York: Cambridge University Press. pp. 90-119.

[74] Keohane, R. O (2002) Power and Governance in a Partially Globalized World, London and New York: Routledge

[75] Keohane, R. O (2005) After Hegemony: Cooperation and Discord in the World Political Economy (with a new preface by the author), Princeton and Oxford: Princeton University Press

[76] Ikenberry, G .J. (2001) After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars, Princeton and Oxford: Princeton University Press.

[77] Keohane, R. O (2005) After Hegemony: Cooperation and Discord in the World Political Economy (with a new preface by the author), Princeton and Oxford: Princeton University Press

Tariff-rate quotas (TRQs) introduced with the aim of securing minimum levels of market access are reported to perform poorly hence not resulting to increased market access in developing countries as hoped for.[78]

The benefits of trade agreements for developing countries are not automatic, especially for SMEs whether or not they are already exporting as the costs of entering a new market are greater for them than for large companies when compared to their potential revenue.[79]

In Ghana, the elimination of export taxes was accompanied by an increase in VAT by 100% which increased the incidence, depth, and severity of poverty[80].

Supporters of free trade joined and united the protectionist forces in the hope that higher tariffs would increase central government revenues.

1.7 Theoretical Framework

This section presents the theories of the study. The theories include Adam Smith, s theory of international trade.

1.7.1 Adam Smith's theory of international trade

According to Adam Smith, international trade has the underlying cause as all kinds of trade. in the wealth nations, trade is the consequence of the human "propensity to truck, barter and exchange one thing for another .for this matter therefore merchants carry on commerce internationally as from it they earn profit, however Smith endeavors to show that the society as a whole benefit from international trade and not an individual merchants ,according to him the division of labor constitutes the basis for his theory of international trade and the greatest

[78] Krishna, P. and Mitra, D. (1999) 'Reciprocated Unilateralism: A political Economy Perspective', mimeo, Brown University.

[79] Krasner, S. D. (1976) 'State Power and the Structure of International Trade', World Politics 28, 2: 317-347.

[80]ISSER, (2002), "The State of the Ghanaian Economy" University of Ghana, Legon.

improvement in the productive powers of labor are results of labor division . the division of labor leads to quantitative and qualitative production improvement indicating that output is increased, technological development is stimulated ,and workers ‘skill and productivity are enhanced.

As spelt out by Smith, international trade is beneficial for the nations because it gives values to their accomplishments, by exchanging goods and services that satisfying theirs wants and needs. Trade theory also draws attention to the indirect gains from trade and consequently increased growth rates in the medium and long term whilst the new trade theory relaxes all the restrictive assumptions of the existence of a perfect competition and concludes that, under conditions of an imperfect competition and existence of externalities (spillovers), trade might be welfare-improving. The existence of spillovers in production is able to lead to an increase in the long-run of growth and therefore permanent growth becomes possible. According to the neoclassical models trade policy has only a level effect on per capita income. Liberalization does increase the long – run level of per capita income but not its long-run rate of growth.

Put in the context of this study, many developing countries including EAC,s member state have since the early 1980’s, been implementing, in varying degrees, fairly comprehensive packages of policy reforms under the general umbrella of Structural Adjustment Programs (SAPs) that were initiated, in most cases, and actively supported and funded by the Breton Woods Institutions as a means for reducing poverty.

One of the prominent components of these packages is Trade liberalization policies. According Rodrik (1988), trade reforms “carried great weight in many of the reform packages proposed to be implemented by African governments." This could result to exposure to developments in the world markets. Yet, the main conviction for recommending trade liberalization to such economies is based on the fact that the original diagnostic study (World Bank, 1981), which prepared the way for the SAP initiative attributed much of the fault for Africa's poor economic performance in the 1970s to misguided trade policies.

1.6 Hypotheses

The study will test the following null hypotheses;

H_1= The Northern Corridor has not influenced trade among the EAC members.

$H_{2=}$The Northern Corridor has not influenced market accessibility among the EAC members.

$H_{3=}$The Northern Corridor has not improved economic growth among the EAC members.

1.7 Research Methodology

1.7.1 Introduction

This section contains the research design, target population, sampling techniques, research instruments, validity of the instruments, reliability of the instruments, data collection procedures and data analysis techniques.

1.7.2 Research Design

The research design is largely a descriptive case study which is used in analysing the impact of the Northern Corridor on the East African Community. The choice of this design has been influenced by its effectiveness in obtaining data related to all existing situations or current conditions, identifying standards or norms with which to compare present conditions in order to determine how to take the next step having determined where we are and where we wish to go in attaining goals.

1.7.3 Scope of the study

The scope of this study was limited to trade policy development in East African community with the main focus on the Northern corridor.

1.7.4 Target Population

The data for this study was obtained through desktop research on the EAC secretariat, IGAD trade policies, WTO trade development policies, FAO records on trade policies and other donor policies on development programmes in the EAC.

1.7.5 Data Collection instrument and procedure

The study mainly relied on secondary data collected from various sources which includes the internet, review of published and unpublished materials, journals, academic paper, periodicals and statistical information maintained by the relevant stakeholders (EAC secretariat) and general literature.

The method is documentary research that involves the use of texts and documents as source materials; government publications, electronic data e.t.c.[81] where the process involved conceptualization and assessment of documents. The analyses of these documents were both quantitative and qualitative. These will be done through intensive and critical analysis on trade policies and various aspects that relate to the influence of the Northern Corridor on Trade and trade cooperation in the EAC, the influence of the Northern corridor on market accessibility

[81] Kothari (2008) *Research methodology* U.K New Age International

among EAC member states and the influence of the Northern Corridor on economic growth among EAC member states.

1.7.6 Data of Analysis

The study will collect qualitative data which will be analyzed through content analysis, content analysis involves systematic and objectives identification of special characteristics of a message gathered from documents and other official records. The unit of analysis the Northern Corridor and its impact on the EAC. This is centered on the influence of the Northern Corridor on trade cooperation in the EAC, the influence of the Northern Corridor on trade among the EAC members states, the influence of the EAC on market accessibility among the EAC member states and the how the northern Corridor has influence economic growth among the EAC member states.

1.7.7 Chapters Outline.

Chapter one: presents the introduction to the study which includes the background of study, the statement of the research problem, objectives of the study, justification of the study, literature review, theoretical framework, hypotheses and the research methodology.

Chapter two: covers a discussion on the northern corridor, its integration agreement and its transportation system, which includes the Port of Mombasa, road infrastructure in Kenya and Uganda, rail transport, air transport, and inland waterway and border posts and also the role of the northern corridor in enhancing trade, market accessibility and economic growth among the member states.

Chapter three: presents an overview and performance of trade development in the northern corridor, s five member states.

Chapter Four: presents and describes the results of the study based on recent data/information from official sources and with finding specific to EAC -Northern corridor;

Chapter Five: will discuss the study findings on trade policy development in EAC member states.

Chapter Six: will present a conclusion and recommendations of the study.

CHAPTER TWO: THE NORTHREN CORRODOR AND ITS TRANSPORTATION SYSTEM.

2.0 Introduction

This chapter covers a discussion on the northern corridor, its integration agreement and its transportation system, which includes the Port of Mombasa, road infrastructure in Kenya and Uganda, rail transport, air transport, and inland waterway and border posts and also the role of the northern corridor in enhancing trade, market accessibility and economic growth among the member states.

2.1 Northern corridor

The Northern corridor is the transport corridor linking the land locked countries of Uganda, Rwanda and Burundi with Kenya's maritime port of Mombasa. In 2009, it was estimated that the Northern corridor carried 75 percent of region, s traffic tonnage. Similarly, the Northern Corridor serves Eastern part of the Democratic Republic of Congo, South Sudan and Northern Tanzania. Thus, Northern Corridor infrastructure connects all the five countries of the East African Community and beyond. This problem erodes the profits of businesses all over sub-Saharan Africa.[82] Variability in transport times also discourages African businesses from exporting goods that are sensitive to delays, such as fresh horticultural products times.[83]The northern corridor has enabled shorter and more predictable transport times which have cut costs, raised profits, and allowed product diversification. Because of their heavy reliance of the Northern Corridor for their overseas trade, as well as the trade among themselves, Burundi, Democratic Republic of

[82]Shkaratan, Maria. "Tanzania's Infrastructure: A Continental Perspective." World Bank Policy Research Working Paper 5962, February 2012
[83]Ranganathan, Rupa, and Vivien Foster. "East Africa's Infrastructure: A Continental Perspective." World Bank Policy Research Working Paper 5844, September 2011

28 percent of the ,s total imports ,in 2009 ,the bulk of transit cargo through Mombasa was destined for Uganda .

In 2011, the port handled about 770,000 bTEUs, despite the fact that its original design envisioned handling only 250,000 TEUs.74. These added trade volumes have been accompanied by few port capacity improvements. In 2009, ships waited an average of 2.3 days before coming into port, and containerized vessels spent 3.1 days on average at berth.75 A small container yard, complex clearance procedures, and an overreliance on physical container inspections (rather than risk-based inspections) caused clearance bottlenecks at the port and increased average dwell time (the number of days that cargo spends at the port site).

The introduction of an automated terminal operating system tracking container movements and marine operations in 2008 helped to reduce container dwell time. In addition, to alleviate port congestion, some containers are transferred to privately run inland container depots for storage and clearance. These transfers, combined with the automated tracking system, helped to reduce average container dwell time at the port from 11.3 days in 2007 to 5.9 days in 2009. [84] However, dwell time differs between domestic and transit cargo. While domestic cargo averages just 3.7 days at port, containers then typically wait an additional 11 days at the offsite depot. Transit cargo destined for other EAC countries is not transferred to offsite container depots because Kenyan government procedures mandate that they be cleared at the port site instead, resulting in an average dwell time of 7.5 days for this type of cargo. Rail links in and around the port are generally in disrepair. Less than 4 percent of cargo entering through Mombasa leaves the port by rail. Under reliance on rail intermodal links has led to higher truck traffic congestion, with

[84]World Bank, Running on One Engine, June 2010, 16–17.

insufficient corresponding upgrades of local roads. Given the increasing trade volumes moving through the port, along with forecasts for future growth, the Kenya Ports Authority has planned a number of improvements, many of which are already underway. The Japanese International Cooperation Agency (JICA) is providing funding for a new container terminal at the port, with a capacity of 450,000 TEUs. Additional Supporting upgrades are also envisioned, including dredging the channel and extending rail access to the new terminal. As of September 2011, a Japanese firm had been contracted for construction of the new terminal. In June 2012, JICA and Kenya signed an additional agreement for road upgrades around the Port of Mombasa. Additionally, the Government of Kenya has begun construction on a new, higher-capacity port north of Mombasa at Lamu as part of a new "Lamu-Southern Sudan-Ethiopia Transport Corridor" (Lapsset). Initial funding for the project is being provided by the governments of Ethiopia, Kenya, and South Sudan, but additional investment is being solicited. The African Development Bank (AfDB) is funding an environmental impact assessment and detailed engineering designs of the priority sections of the corridor. This port is intended to handle trade transiting to and from South Sudan and Ethiopia, as well as some domestic cargo currently entering through Mombasa. Given its location and orientation, however, the future port will do little to enhance the integration and trade efficiency of the current EAC.

2.3 Road Infrastructure

Northern Corridor roads are in "good" to "fair" condition, but administrative problems raise shippers' costs. A 2010 inventory of the Northern Corridor's roads conducted by the engineering firm Aurecon rated about half of them as delivering at least an "acceptable" level of service (moderate average speeds and ability to overtake slower traffic). Nearly the entire corridor stretching from Mombasa to Bujumbura is paved. Logistics efficiency on road segments from Mombasa to Nairobi, Kampala, and Kigali was rated “good” (time, cost, and reliability is efficient and competitive according to global standards), while the final segment to Bujumbura rated as only “fair.”

In the last decade, around 500 km of the Corridor’s total 3,026 km of roads were rehabilitated and more than 500 additional km were paved; as a result, 86 percent of Northern Corridor roads are now paved overall. Nearly the entire corridor through Tanzania was rated by Aurecon Engineering as “sound” (acceptable riding quality based on pavement roughness) in 2010, but portions of the route through Rwanda and Burundi need to be either paved or thoroughly rehabilitated, particularly the road segment through Burundi to Bujumbura, which was rated “poor” (time, cost, and reliability is inefficient and uncompetitive according to global standards.

From Kenya outward to Uganda, Rwanda, and Burundi, Northern Corridor roads are mostly in good condition, and nearly the entire corridor stretching 1,898 km from Mombasa to Bujumbura is paved.[85]A 2010 inventory of the Corridor’s roads conducted by Aurecon Engineering for the East African Transport Strategy and Regional Road Sector Development Program rated about half of them as delivering at least an “acceptable” level of service (moderate average speeds and ability to overtake slower traffic).[86] The same inventory rated logistics efficiency on road segments from Mombasa to Nairobi, Kampala, and Kigali as “good” (time, cost, and reliability is efficient and competitive according to global standards), while the final segment to Bujumbura

[85]Samatar, “Kenya Ports Authority,” September 29, 2011, 18–26, 33–49

[86]Nathan Associates, Corridor Diagnostic Study, vol. 1, April 2011, table ES-4.

was rated as only "fair."[87]although the overall condition are mostly 'good," capacity is limited, as nearly the entire route (92 percent) is composed factor that complicates road-building along this corridor and slows goods transit—roughly91 percent of the route is considered hilly and uneven, nearly 7 percent considered level, and the remainder considered mountainous. Even though road conditions were rated as "acceptable," the prevalence of weighbridges and roadblocks increases overall transport time and cost.

2.4 Railways transport

Rail transport costs along the route are estimated at $0.05 per ton-km, Compared with $0.07-0.09 per ton-km for road transport.

Since 2006, the Northern Corridor railway network has been run by Rift Valley Railways (RVR) under a private concession granted by the governments of Kenya and Uganda.[88] The rail system extends from Mombasa through Nairobi to the Ugandan border at Malaba, where it continues onward to Kampala. From Mombasa to Malaba, the tracks are in fair to good condition, although spot rehabilitation is necessary. With the Kenyan ferry in operation, RVR has been successful at reviving service between Kisumu, Kenya, and Port Bell, Uganda, providing another transport option for cargo moving into Uganda. Rehabilitation of two Ugandan ships was underway in September 2011, with one expected to return to service soon.[89]

From 2010 to 2011, performance on the line improved: freight volumes increased an estimated 7 percent, while accidents fell by an estimated 30 percent. A revitalization project is underway to

[87] JICA, "Signing of a Japanese ODA Loan Agreement," June 4, 2012
[88]Pozzo di Borgo, "Africa Railway Concessions," March 2011, 4.
[89] COMESA-EAC-SADC Tripartite, "Kenya-Uganda Railway," September 2011, 7

improve reliability, with hopes that further railway capacity improvements will follow. The AfDB has pledged $40 million to a capital reinvestment project for RVR. Transportation infrastructure enhances countries' ability to compete in international markets by. Despite the cost Advantage, estimates are that less than 4 percent of Northern Corridor traffic moves by rail due to the delays, breakdowns, and service disruptions that makerail transport more unpredictable than roadways. Rail cargo volumes in Kenya fell nearly 25 percent between 2005 and 2010. Several factors contributed to this performance decline, including deregulation of regional road systems (which improved competition by lowering freight rates for road transport), poor Management, underinvestment in infrastructure, and a flawed rail concession process. The restructuring of Rift Valley Railways led to some improvement in rail service between 2010 and 2011,

2.5 Air Transport

However, air freight in East Africa currently moves a small share of trade, but it is expected to grow as the region's economies expand. Some of the region's highest-value exports (cut flowers, fish, and miscellaneous horticultural products) are highly perishable and require air transport to remain salable. Nonetheless, EAC air freight volumes are comparatively low. One reason for this is the current state of East African airport infrastructure. Although there are 378 airports in the region, less than 10 percent have paved runways. Kenya accounts for the largest share of the EAC's air freight cargo volume—74 percent in 2010. This is largely due to the well-developed facilities found in Nairobi's Jomo Kenyatta International Airport, which is a major regional air hub. The major regional airline, Kenya Airways, is investing millions of dollars in air freighters to better serve EAC markets.

Air freight in East Africa is a small component of trade, it is expected to grow as the region's economies expand. Some of the region's highest-value exports (cut flowers, fish, and miscellaneous horticultural products) are highly perishable and must transit by air freight to ensure product integrity. Major regional airline Kenya Airways is investing millions of dollars in air freighters to better serve these markets.181 Multiple firms offer cold storage capabilities at Kenyatta International Airport, and principal airports in Rwanda, Tanzania, and Uganda also have some cold storage capacity.182 Burundi's Bujumbura airport has only extremely limited cold storage capability

Air freight currently moves a small share of trade, while 335,000 tons of air cargo was transported in the EAC by air freight in2010, more than 21 million tons of goods were moved via the Northern Corridor alone. The World Bank reports that total Kenyan air freight levels reached257.7 million ton-km in 2010, with Ugandan freight measured at32.2 million, Tanzanian at 2.3 million, and no figures reported for Rwanda or Burundi. EAC air cargo transport accounted for 12 percent of total sub-Saharan African air freight in 2010. The EU alone accounted for two thirds of total African air cargo in 2011. Throughout sub-Saharan Africa, intercontinental traffic dominates the air transport sector due to greater competition among airlines along those routes that reduce per km transport costs. However, domestic and intra-African international traffic have been on an upward trend since the late1990's. Nonetheless, EAC air freight volumes are comparatively low. One reason for this is the current state of East African airport infrastructure. Although there are 378 airports in the region, less than10 percent have paved runways. Kenya accounts for the largest share of the

EAC's air freight cargo volume—74 percent in 2010. This is largely due to the Well-developed facilities found in Nairobi's Jomo Kenyatta International Airport, which is a major regional air hub. The major regional airline, Kenya Airways is investing millions of dollars in air freighters to better serve EAC market.

2.5.1 **Inland waterways**

River transport is second smallest component of trade after air Freight in EAC is northern corridor, a network of wagon-ferries previously operated on Lake Victoria. As the quality of ferries service declined over the past few decades, however, ferry service decreased as well. Of the five wagon-ferry vessels constructed in the period from 1964 through 1979, only two remain operational today (one in Kenya and one in Tanzania).98 With the Kenyan ferry in operation, RVR has been successful at reviving service between Kisumu, Kenya, and Port Bell, Uganda, providing another transport option for cargo moving into Uganda.99 Rehabilitation of two Ugandan ships was underway in September 2011, with one expected to return to service soon.

2.6 **Border crossing and posts.**

Border crossings have traditionally been one of the major checkpoints along the Northern Corridor, due largely to uncoordinated and complicated customs procedures. Recent reforms in procedures (specifically, the EAC-wide effort to establish OSBPs at all crossings) and general upgrades have helped improve processing times and reduce wait time uncertainty, but these initiatives and their implementation status vary by crossing in both northern and central corridors, most goods imported to Rwanda or Burundi are not cleared in the border posts, but instead must be escorted to Kigali or Bujumbura ,respectively for clearance ,this results in additional time and costs for goods being cleared to either enter into those two countries .

There are three main border crossing points between EAC member states alone the northern corridor, The Malaba border post between Kenya and Uganda ,the Gatuna/Katuna border post between Uganda and Rwanda ,third is Akinyaru-kinyaru Haut between Rwanda and Burundi.

2.7 Malaba

Malaba is a border post for both road and rail transit between Kenya and Uganda. A USAID-funded rail OSBP is already operational at this crossing, and the World Bank is working toward upgrading the road crossing to a full-scale OSBP. Traffic is estimated at 200 heavy goods vehicles (HGVs) per direction per day, the highest volume at any crossing in the EAC.[90] On the other hand, the implementation of the RADDEx harmonized customs information sharing system has greatly facilitated processing times at this crossing.[91] In 2005, the World Bank estimated average total border processing time at 45 hours. By April 2011, crossing times were reduced to 7 hours, with an additional 3-hour decrease in crossing time targeted by September 2014 (ostensibly after a new bridge is completed).[92]

2.8 Gatuna/Katuna

Gatuna/Katuna border post between Uganda and Rwanda serves average traffic of 90 HGVs per direction per day. Physical inspection import clearances for Rwanda are not conducted at the crossing at present. Instead, vehicles are escorted 80 km to Kigali to be cleared. In contrast, vehicles bound for Uganda can be cleared at this location. This crossing has been recently upgraded to round-the-clock operations, and an OSBP is being introduced. RADDEx has also helped improve processing times at this crossing. The Rwandan Revenue Authority reports that

[90] World Bank, Implementation Status and Results, September 2011, 5

[91] Yasui, "Case Studies on Systematic Exchange of Commercial Information," February 2011, 27

[92] Ligami, Christabel. "Clearance of Goods at Malaba Border to Get Better, Faster."East African Community Customs Union. Press report, August 14, 2011. http://www.eac.int/customs/index.php?option=com_content&view=article&id=131&catid=131.com.

entry procedures can be completed in 30 minutes or less if no cargo inspection is needed. Crossing times for Rwanda-bound trucks averaged 3.19 hours in January 2012, while Uganda bound truck crossing times averaged 2.17 hours. As at Malaba, there is insufficient parking at Gatuna/Katuna. This crossing from Rwanda to Burundi has average daily traffic of 57 HGVs per direction.[93]

2.8.1 Akinyaru-Kinyaru Haut

Akinyaru- Kinyaru Haut is a border post between Rwanda and Burundi, This crossing from Rwanda to Burundi has average daily traffic of 57 HGVs per direction. With the completion of several road improvement projects on the Central Corridor from Tanzania, traffic at this crossing fell slightly in 2011.

2.9 The Role of the Northern Corridor in Enhancing Trade among the EAC.

Trade is growing rapidly among the countries of the East African Community (EAC)—Burundi, Kenya, Rwanda, Tanzania, and Uganda by expanding the volumes of goods crossing their borders and members of the EAC, together with other African countries. “Trade facilitation” includes many of the policies, procedures, and conditions that shipper’s encounter when moving goods along the supply chain. Broadly, these elements fall into two categories: *border policies and procedures related to customs*, such as documentation and inspection requirements, *and the transport of goods to their final destination before or after they clear the border*, involving such

[93] USAID representative, personal communication with USITC staff, May 30, 2012

factors as infrastructure conditions, the prevalence of roadblocks and weighbridges (truck scales), and transportation regulations and standards.[94]

Improving efficiency and predictability throughout this system reduces delays and uncertainty, thereby lowering costs for both importers and exporters. Lower trading costs can lead to a whole host of positive outcomes, including expanded trade and investment, improved tariff collections, more trade diversification, and economic growth. The benefits of trade facilitation are greatest when countries make improvements in more than one area at the same time. For example, undertaking customs administration reforms at the same time that they are upgrading transportation infrastructure improves that overall efficiency of movement of goods. In 2009, it was estimated that the Northern Corridor carried 75 percent of the region's traffic tonnage.[95]

Trade facilitation encompassing both simplified customs procedures and upgrades to trade reducing shipping delays and risk, and lowering the cost of trading.[96] Kenya Ports Authority reports that the track between Mombasa and Malaba is scheduled to be replaced by standard gauge track by 2017, which should make it much easier to ship containers.[97] The long transit times drive up costs, while their unpredictability hinders businesses from adequately estimating expenses. Thus, an infrastructure improvement that both shortens transit times and reduces uncertainty has greatly improved the regional business climate.[98]

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[94] Christ, Nannette, and Michael Ferrantino. "Land Transport for Export: The Effects of Cost, Time, and Uncertainty in Sub-Saharan Africa." World Development 39, no. 10 (2011): 1749–1759

[95] Kenya Ports Authority (KPA). Kenya Ports Authority Handbook: 2012–13, 2012. http://issuu.com/landmarine/docs/kpa2012-13?mode=window&backgroundColor=%23222222.

[96] U.S. International Trade Commission Trade Facilitation in the East African Community: Recent Developments and Potential Benefits, Investigation No. 332-530, Publication No. 4335, July 2012, Washington, DC 20436

[97] KPA, Kenya Ports Authority Handbook, 2012, 37

[98] Webber, C. Martin. Enabling an Inclusive Private Sector in Burundi: Opportunities and Constraints . Nathan Associates Working Paper prepared for USAID Regional Economic Development Services Office for East and Southern Africa, May 2006

Markets and suppliers must share information - producer associations, industrial organizations, and chambers of commerce exchange information among their members and this information exchange must then take place across borders (as seen between Brazil and Argentina after Mercosur). A successful agreement must be flexible and governments need to accept that it will need to evolve.[99]Trade agreements must generate relevant reforms in areas such as customs documentation, but also more fundamentally in relaxing rules for cross-border transportation, selling to new markets requires adequate finance, poor or wrong infrastructure can restrict trade and governments can support producers or traders in other ways. The benefits of trade agreements for developing countries are not automatic, especially for SMEs whether or not they are already exporting as the costs of entering a new market are greater for them than for large companies when compared to their potential revenue.[100]

2.10 The Role of the Northern Corridor on Economic Growth among the EAC

Costs for rail transport in the Northern Corridor are lower than those for road, but rail is much more unpredictable Rail transport costs along the route are estimated at $0.05 per ton-km, compared with $0.07-0.09 per ton-km for road transport. The restructuring of Rift Valley Railways led to some improvement in rail service between 2010 and 2011.[101]Two improvements generated the largest benefits, streamlining import/export procedures, including the introduction of electronic single window systems, pre-arrival processing, fewer physical inspections, and post-clearance audits, and advance rulings.[102]Other research showed that shortening long, costly border procedures promotes economic development; a survey of member companies of the

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[99] Krishna, P. and Mitra, D. (1999) 'Reciprocated Unilateralism: A political Economy Perspective', mimeo, Brown University.
[100] Krasner, S. D. (1976) 'State Power and the Structure of International Trade', World Politics 28, 2: 317-347.
[101]KPA, Kenya Ports Authority Handbook, 2012, 18.
[102]Teravaninthorn, Supee, and GaëlRaballand, Transport Prices and Costs in Africa: A Review of the International Corridors. Washington, DC: World Bank, 2009

European Round Table of Industrialists found that 80 percent of member companies would consider new investment in developing countries if substantial improvements were made in this area.

The northern corridor is a reform on trade regulations and customs operations which has significantly lowered trade costs and increased trade. Researchers have also studied the relationships between customs policy reforms, patterns of bilateral trade, and trade costs.[103]
The same study also found that moving to electronic customs data interchange systems had the potential to decrease trade costs by 2.7 percent. For example, research suggests that if Tanzania improved the time to clear customs to levels encountered in Zambia, the average Tanzanian firm would increase its share of production for export by over 4 percentage points, potentially stimulating economic growth.

2.11 Market Access

The issue of market access to high-income countries is a thorny but crucial one. The issues fall into three main groups. First, those relating to deliberately imposed barriers to trade, such as tariffs, quotas, and tariff escalation. Second, barriers to trade resulting from domestic and external producer support, primarily in the form of subsidies, but also including, for example, export credits.[104] Third, those relating to indirect barriers to trade resulting from developing countries' lack of institutional capacity to engage in the global economy and in multilateral institutions (the World Trade Organization) on equal terms.[105]

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[103] Society for International Development (SID). The State of East Africa 2012: Deepening Integration, Intensifying Challenges. Nairobi, Kenya: SID, April 2012.
[104] Grossman, G. M. and Helpman, E. (1994) 'Protection for Sale', American Economic Review 84, September: 833-50.
[105] Baldwin, D. A. (ed) (1993) Neorealism and Neoliberalism: The Contemporary Debate, New York: Columbia University Press.

Average applied tariffs in agriculture are higher in developing countries (although most of the very high rates, over 100%, are found in developed countries).[106] With an increasing share of agricultural exports directed toward other developing countries, high levels of tariff protection in the South may impede prospects for export-led growth. This may be particularly true for the export opportunities of low-income countries, which have increased export market share in agriculture.[107]

Open regionalism - holds the potential to stimulate global trade and improve the efficiency of regional producers. But regional arrangements can also become a vehicle for protection, trade diversion, and unintended inefficiency.[108] Agreements in particular between richer and poorer developing countries risk generating trade losses for the poorer ones when their imports are diverted toward the richer members whose firms are not internationally competitive. However, where regional arrangements lead to the reduction of non-tariff barriers, trade creation is likely, and the dynamic benefits of effective regional integration in terms of improved governance and regional stability are likely to outweigh diversion concerns.[109]

The World Bank suggests that key conditions to benefit from expanded trade and investment include lowering common external trade barriers, stimulating competition, reducing transaction costs, and reinforcing nondiscriminatory investment and services policies.

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[106] World Bank (2005), "Global Agricultural Trade and the Developing Countries"

[107] World Trade Organization (2001), *Market Access: Unfinished Business*, Special Studies 6 Trade Organization.org/english/res_e/booksp_e/special_study_6_e.pdf

[108] Grieco, J. M. and Ikenberry, G.J. (2003) State Power and World Markets: The International Political Economy, New York and London: W.W. Norton and Company

[109] Grossman, G. M. and Helpman, E. (1994) ‘Protection for Sale’, American Economic Review 84, September: 833-50.

Example, Costa Rica, have undertaken domestic policy reforms.[110] Caution must however be employed: as the case of Haiti shows, liberalization when institutions and the economy are not strong enough to face risks and opportunities can be harmful. And while reforms may be beneficial in the long run, for example by reducing possibilities for customs corruption, in the short run they create both winners and losers. Low-income consumers, unskilled workers in sheltered industries, and previously shielded producers may suffer in the transition period as the economy adapts to changed incentive structures. Temporary safety nets can help cushion the blow and ensure trade-led growth is pro-poor. Specific assistance to meet costs of adaptation – for example of switching to a different crop – may be appropriate.[111]

It is important to recognize that the issues facing LDCs and middle-income developing countries differ significantly. For the middle-income countries, the primary issue is market access. Many of the world's poor live in these countries, and so market access alone can have significant poverty-reducing effects in these countries. However, for the least developed countries, the principal problem is not market access, but lack of production capacity to achieve new trading opportunities. This is recognized by paragraph 42 of the Doha Development Agenda:[112]

We recognize that the integration of the LDCs into the multilateral trading system requires meaningful market access, support for the diversification of their production and export base,

[110]Ikenberry, G .J. (2001) After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars, Princeton and Oxford: Princeton University Press.

[111] Irwin, D. A. (1993) 'Multilateral and Bilateral Trade Policies in the World Trading System: An Historical Perspective', in de Melo, J. and Panagariya, A. (eds) New Dimensions in Regional Integration, New York: Cambridge University Press. pp. 90-119.

[112]Ibid, Irwin, (1993) 'Multilateral and Bilateral Trade Policies in the World Trading System: An Historical Perspective', in de Melo, J. and Panagariya, A. (eds) New Dimensions in Regional Integration, New York: Cambridge University Press. pp. 90-119.

and trade-related technical assistance and capacity building.[113]So while the further development of middle-income countries, and in particular the tackling of rural poverty in these countries, can be achieved most importantly through increased market access in agriculture, lower-income countries need additional help, not only to take advantage of new opportunities, but to be able to adapt to changing conditions due to the loss of preferences. This additional help must take three main forms: support for developing-country agricultural production; support for participation in trade; and support for good policies and good governance.[114]

Cases such as Haiti's post-1986 liberalization show that the opportunities thereby created will not be taken advantage of if macroeconomic policies, institutions, and the investment climate are not favorable.[115] This includes trade-related infrastructure: the cost of exporting must be low enough to ensure competitiveness in rapidly expanding high-value agricultural markets where competition is stiff – such as fruits and vegetables .It also includes related issues that are part of the general investment climate but can be particularly important for exports, such as a weak financial sector. Here, export finance "is often a major constraint inhibiting exports in many low-income countries.[116]"Other issues are more specific to exports: developing countries and their exporters may have difficulty with both the implementation of, and showing compliance with, international product standards and other multilateral agreements. Low-income developing countries need both technical and financial assistance in this area.[117]

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[113] Irwin, D. A. (1993) 'Multilateral and Bilateral Trade Policies in the World Trading System: An Historical Perspective', in de Melo, J. and Panagariya, A. (eds) New Dimensions in Regional Integration, New York: Cambridge University Press. pp. 90-119.

[114]Grieco, J. M. and Ikenberry, G.J. (2003) State Power and World Markets: The International Political Economy, New York and London: W.W. Norton and Company

[115]Keohane, R. O (2005) After Hegemony: Cooperation and Discord in the World Political Economy (with a new preface by the author), Princeton and Oxford: Princeton University Press

[116]Ikenberry, G .J. (2001) After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars, Princeton and Oxford: Princeton University Press.

[117]Keohane, R. O (2002) Power and Governance in a Partially Globalized World, London and New York: Routledge

Given the importance of agriculture for poverty reduction, additional policies and institutional capacity are needed to ensure an effective supply response to market incentives provide by better market access. Rural infrastructure is particularly important in enabling agricultural exports in developing countries.[118] Sufficient credit at competitive conditions is important for private sector investment in storage, transportation and marketing of agricultural products. Investment in skills and education in rural areas is needed to bolster agricultural productivity. Trade policy reforms must address any remaining anti-export bias. Efficient land policies and land tenure institutions are needed to ensure the functioning of land markets, property rights, and efficient farm structures.[119]

[118]Kindleberger, C. P (2009) 'Commercial Policy between the Wars', in Mathias, P. and Pollard, S. (eds), The Cambridge Economic History of Europe, Volume VIII, The Industrial Economies: The Development of Economic and Social Policies, New York: Cambridge University Press. pp. 161-196.

[119]Ikenberry, G .J. (2001) After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars, Princeton and Oxford: Princeton University Press.

CHAPTER THREE: AN OVERVIEW AND PERFORMANCE OF TRADE DEVELOPMENT IN EAC MEMBER STATES.

3.0 Introduction

This chapter presents an overview and performance of trade development in the northern corridor's five member states.

The countries of the EAC vary in their level of development, degree of integration into world markets, and success at establishing effective institutions. As a result, each member country faces unique challenges and improving its trade environment. Furthermore, EAC members had varying levels of success in applying global best practices in trade facilitation, for both border procedures and transportation infrastructure. A comparison of the EAC countries with Benin, the best-performing low-income country worldwide, and Singapore, the highest-rated country in the World Bank's Logistics Performance Index, gives some indication of how these countries' trading regimes compare with global best practices. For example, all EAC countries score below Benin in timeliness of deliveries, and no country in the region came close to Benin's average in efficiency of customs procedures in 2012. All EAC members are moving toward electronic customs data interchange systems and harmonized customs information sharing.[120]Electronic systems benefit importers and exporters by substantially reducing wait times at border crossings. However, because electronic customs data interchange systems are not yet in place.

At all EAC ports and border crossings, paper customs forms are often still required.

EAC is making progress toward risk-based inspection regimes. Inspecting all incoming cargo may improve safety, but it is costly and slow. As an alternative, countries can employ risk-based

[120] U.S. International Trade Commission (USITC)/U.S. Department of Commerce (USDOC). Interactive Tariff and Trade DataWeb (DataWeb

customs inspection procedures, whereby customs administrations and border control agencies develop cargo risk profiles that direct them to inspect only riskier cargo physically. Together with electronic scanners, risk-based inspections are widely used globally to balance caution and efficiency in trade.

However, not all EAC countries fully embrace risk-based procedures. Ugandan businesses report that an average of 75 percent of import shipments are physically inspected, compared with a 25 percent shipment inspection rate for neighboring Kenya and a 7 percent physical inspection rate in the United States. Both Rwanda and Tanzania have improved risk management of import cargo inspections in recent years. All EAC members are moving toward electronic customs data interchange systems and harmonized customs information sharing.[121]Electronic systems benefit importers and exporters by substantially reducing wait times at border crossings. However, because electronic customs data interchange systems are not yet in place at all EAC ports and border crossings, paper customs forms are often still required. In 2005, Kenya began introducing its Simba system, moving customs data collection to an electronic format. The remaining countries of the EAC have all since adopted the ASYCUDA++ electronic data collection system.

3.1.1 Burundi

Burundi has smallest economy in the EAC, with an estimated GDP of $1.6 billion in 2010 (WB) Lowest GDP per capita in the EAC, at approximately$192 in 2010 (WB)**.** Population estimated at 8.4 million in 2010 (World Bank) Workforce depends heavily upon agriculture; a bad crop year has widespread repercussions for labor (WB). Energy shortages hurt manufacturing sector growth (EIU).

[121] U.S. International Trade Commission (USITC)/U.S. Department of Commerce (USDOC). Interactive Tariff and Trade DataWeb (DataWeb

World Bank ranks Burundi 169th out of 183. Economies for ease of doing business (WB)Primary imports are cement, medicines, and Passenger vehicles (GTIS)Primary exports are unroasted coffee, unwrought Gold and black tea (GTIS). The World Economic Forum identified the most problematic factors for doing business as corruption, limited access to financing, policy instability, inflation, and high tax rates (WEF)

3.1.2 Kenya

Kenya has Largest economy in the EAC; GDP was estimated at$32.2 billion in 2010 (WB)
Per capita GDP was $795 in 2010, EAC's highest (WB), Population estimated at 40.5 million in 2010 (WB), Supplies nearly half of all EAC exports (GTIS), Tourism and telecommunications industries are growing (EIU).

World Bank ranks Kenya 109th out of 183, Economies for ease of doing business (WB), Primary imports are fuel oil (not crude), airplanes, palm oil, and wheat (GTIS). Primary exports are black tea, fresh cut roses, oil, vegetables, and cut flowers (GTIS).

From the RoK report *on National Trade Policy Efficient Globally Competitive Economy* of 2009 in Kenya's trade policy development has evolved through the following distinct policy orientations: import Substitution Policies (1960s -80s); Trade Liberalization through Structural Adjustment Policies (SAPs) (1980s); Export Oriented Policies 1990s. Presently Kenya's Trade regime is guided by market-driven principles of liberalization under the World Trade Organization (WTO), which came into effect in 1995 and the increased efforts in the regional economic integration that has resulted in the establishment of the East African Community (EAC), Common Market for Eastern and Southern Africa COMESA) and the Inter-governmental Authority on Development (IGAD).[122]

The World Economic Forum identified the most problematic factors for doing business is corruption, limited access to financing, inadequate supply of infrastructure, crime and theft, and high tax rates and an advantage progressive liberalization in Kenya has significantly reduced tariff levels, eliminated price controls and licensing requirements leading to modest growth in export markets. However, despite the open trade policy pursued, Kenya's trade structure, remains concentrated in primary products and traditional markets due to limited capacity for value addition in the manufacturing sector and the relatively underdeveloped intermediate and capital goods industries.[123]

Kenya has the potential to become a more competitive player in the region and global economy due to the deepening and expansion of regional integration and bilateral trade agreements have widened the scope of trade opportunities for the Kenyan businesses. All EAC members are moving toward electronic customs data interchange systems and harmonized customs information sharing.[124]Electronic systems benefit importers and exporters by substantially reducing wait times at border crossings. However, because electronic customs data interchange systems are not yet in place at all EAC ports and border crossings, paper customs forms are often still required.

[122] Republic of Kenya (2009) National Trade Policy Efficient Globally Competitive Economy, Ministry of Trade
[123] Ibid Rok, pg 66
[124] U.S. International Trade Commission (USITC)/U.S. Department of Commerce (USDOC). Interactive Tariff and Trade DataWeb (DataWeb

In 2005, Kenya began introducing its Simba system, moving customs data collection to an electronic format. The remaining countries of the EAC have all since adopted the ASYCUDA++ electronic data collection system in at least one port or border crossing. The EAC also intends to set up one-stop border posts at all border crossings within the Community and is currently collaborating with the U.S. Agency.

3.1.3 Rwanda

Rwanda has Second smallest economy in the EAC with an estimated GDP of $5.6 billion in 2010 (WB)Per capita GDP was $530 in 2010 (WB)Population estimated at 10.6 million in 2010 (WB)Rwanda is the highest-ranked economy for doing business in the EAC and is the world's 2nd most improved economy for doing business from 2005 to 2011 (WB). Government wants to diversify foreign exchange sources by increasing exports of horticultural products (RHODA) World Bank ranks Rwanda 45th out of 183 economies for ease of doing business (WB) Primary imports are fuel oil (not crude), vaccines, and coaxial cables/conductors (GTIS), Primary exports are tin, coffee, and tea (GTIS).

The World Economic Forum identified the most problematic factors for doing business as limited access to financing, inadequately educated workforce, high tax rates, inadequate supply of infrastructure, and complex tax regulations (WEF).A combination of better market access, and domestic reforms and foreign aid to enhance the ability of developing countries to take advantage of it, could have a significant impact on poverty reduction, and help to meet the Millennium Development Goals.[125]

[125]Rodrik, D (2001), *The Global Governance of Trade As If Development Really Mattered,* October 2001, United Nations Development Programme

3.1.4 Tanzania

Tanzania has GDP estimated at $22.9 billion in 2010 (WB)Per capita GDP was $524 in 2010 (WB)Population estimated at 44.8 million in 2010 (WB), most populous in EAC. The underdeveloped state of the national electricity grid constrains growth (EIU). Mineral exports are projected to grow; construction and telecommunications industries are expanding (EIU)World Bank ranks Tanzania 127th out of 183economies for ease of doing business (WB)Primary imports are fuel oil (not crude), wheat, flat hot-rolled iron, and polyethylene (GTIS)Primary exports are unwrought gold, semi manufactured gold, precious metal ores, manganese ores, and unroasted coffee (GTIS).Crucially for poverty reduction, the latter two at least are labor-intensive, helping to ensure that growth in these sectors will be poverty-reducing. However, low value-added, price instability[126]and sustainability in these commodity sectors means they should be used only temporarily and as stepping stones in the path to economic development and technical Assistance for negotiations is also needed to further developing-country interests in multilateral and bilateral arenas and ensure the success of future negotiations and agreements. Marketing of exports is also a challenge for low-income countries: product and country brands need to be built, and quality concerns met.[127]

The World Economic Forum identified the most problematic factors for doing business as limited access to financing, corruption, high tax rates, inadequate supply of infrastructure, and inflation

[127]Keohane, R. O (2005) After Hegemony: Cooperation and Discord in the World Political Economy (with a new preface by the author), Princeton and Oxford: Princeton University Press

3.1.5 Uganda

Uganda has GDP estimated at $17.0 billion in 2010 (WB)Per capita GDP was $509 in 2010 (WB)Population estimated at 33.4 million in 2010 (WB)Economy has underdeveloped transport and energy infrastructure (EIU). Growing industries include construction, transport, telecom, finance, and crude oil (from newly discovered reserves in Bunyoro region) (EIU)World Bank ranks Uganda 123rd out of 183economies for ease of doing business (WB)Primary imports are fuel oil (not crude), passenger vehicles, and medicines (GTIS). Primary exports are unroasted coffee, fish fillets, and wireless phones (GTIS). Traders and potential traders must know about an agreement and its details, however, the interests and skills of good producers lie in production and not in legal rules, only the largest firms can afford policy advisers.[128]

The World Economic Forum identified the most problematic factors for doing business is corruption, limited access to financing, inflation, high tax rates, and inadequate supply of Infrastructure (WEF)

[128] Lang, A. T. F. (2006) 'Reconstructing Embedded Liberalism: John Gerard Ruggie and Constructivist Approaches to the Study of the International Trade Regime', Journal of International Economic Law 9, 1: 81-116

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF RESULTS.

4.0 Introduction

This chapter presents and describes the results of the study based on recent data/information from official sources and with finding specific to EAC -Northern corridor; the results of study are presented in tables and figures. The presentation of the results is structured and presented in the following research objectives.

4.1 Current trade and development in EAC countries.

The countries of the East African community (EAC) vary in the level of development, degree of integration into world market and success at establishing effective institution ,As a result This section study the present trade conditions and recent development in East African community, As a result each member country face unique challenges in improving it trade environment ,(i.e. Policies applied at the border, the procedures for enforcing them, and transport infrastructures) .For trade in services, market access is about reducing government policy interventions which are less visible and may be applied after a service supplier has entered the market,[129].Business dictionary defines market accessibility as the imposed on goods as they enter a market. These measures take the form of government regulations that are usually aimed at domestic policy objectives rather than trade policy objectives. For trade in services, market access is about

[129]Chadha, R. (2001), GATS and the Developing Countries: A Case Study of India, in Stern, Robert M. (ed.), Services in the International Economy: Measurement and Modelling, Sectoral and Country Studies, and Issues in the WTO Services Negotiations, University of Michigan Press.

experienced low economic growth rates, and suffered the effects of higher interest rates on their large external indebtedness. [131]

Finally, Bhasin and Obeng (2004) and Bhasin and Annim (2005) have applied the CGE Model on Ghana. Of particular interest, Bhasin and Annim (2005) examine the impact of alternative fiscal reforms; in which lost tariff revenue is compensated by a lump-sum tax, on the poverty and income distributions of households. The outcome of the two simulations in the study show that, the elimination of trade related import taxes accompanied by an increase in VAT by 100% could be used to reduce the incidence, depth, and severity of poverty, and improve the income distributions of households in low-income countries. On the other hand, the elimination of export taxes accompanied by an increase in VAT by 100% shock increases the incidence, depth, and severity of poverty, and worsens the income distributions of households in low-income countries.

The World Bank suggests that key conditions to benefit from expanded trade and investment include lowering common external trade barriers, stimulating competition, reducing transaction costs, and reinforcing nondiscriminatory investment and services policies.

The World Bank reported that clearance times in East Africa were seven times less predictable than for any other region of the world. An imported container in Uganda not requiring inspection can be cleared in 4 days, but an inspected container requires 10 days on average. EAC member states are aware that non-harmonized trade documentation and duplicative goods inspections are

[131] Balassa, B., (2014), "Adjustment Policies in Developing Countries: A Reassessment", World Development Journal

hampering trade, causing overall delays and increasing the unpredictability of goods' delivery times. In the EAC Secretariat's August 2011 quarterly review of nontariff barriers in the EAC, both documentation and inspections were targeted for harmonization by the end of 2012.[132]

Trade exists due to the specialization and division of labor, in which most people concentrate on a small aspect of production, trading for other products. Trade exists between regions because different regions may have a comparative advantage (perceived or real) in the production of some trade-able commodity, or because different regions' size may encourage mass production. As such, trade at market prices between locations can benefit both locations.[133]

(Note: There are various measures of productivity. The term used here applies to a broad measure of productivity. By contrast, Total factor productivity (TFP) measures the change in output not attributable to capital and labor. Many of the cited references use TFP.) Increases in productivity lower the real cost of goods. Over the 20th century the real price of many goods fell by over 90%. Developing economies also have an opportunity to expand their service export bases. These include semi-skilled knowledge-based services in a range of communication and computer services. Advances in information technology and electronic commerce have created these opportunities. Primarily by liberalizing their own service sector, Developing economies have the potential to reap greater benefits from liberalization than developed economies. Domestic liberalization permits resources to be allocated to their most efficient uses.[134]

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[132] U.S. International Trade Commission (USITC). Sub-Saharan Africa: Effects of Infrastructure Conditions on Export Competitiveness, Third Annual Report. USITC Publication 4071. Washington, DC: USITC, April 2009

[133] Blake, E and Knapp A B [2012] *The Archaeology Of Mediterranean Prehistory*, John Wiley & Sons, 21 Feb 2005, ISBN 0631232680, retrieved 2012-06-22

[134] Hall, R. E., and C. I. Jones. (1999). Why do some countries produce so much more output per worker than others? Quarterly Journal of Economics 114(1):83- 116.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.0 Conclusion

This chapter present the conclusion made from the analysis of the results and recommendations made to improve the full implementation trade liberation and development in EAC countries to help create more jobs and boosting regional trade, After a thorough analysis of various forms of trade policies and their role on trade, economic growth, market accessibility and trading among EAC countries in the previous chapters, The chapter has presented results of analysis in the following order : Trade Liberalization, trade documents and inspections ,Risk-Based Inspection Regimes Infrastructure Improvements.

5.1 Trade Liberalization

In the EAC, trade liberalization had several dimensions: applied tariffs are lowered, the overall use of formal non-tariff barriers to trade has to be decreased in many countries, services be liberalized in many sectors, and in general, the incidence of government intervention in trade has declined.[135] And most goods are transported on one of two main travel routes, the Northern or the Central Corridors. Upgrading trade facilitation along these corridors is essential to increasing the volume and profitability of EAC countries' trade.

"Trade facilitation" includes many of the policies, procedures, and conditions that shipper's encounter when moving goods along the supply chain. Broadly, these elements fall into two categories: *border policies and procedures related to customs*, such as documentation and inspection requirements*, and the transport of goods to their final destination before or after they*

[135] Knack, S., and P Keefer. (1995). Institutions and economic performance: Cross- country tests using alternative institutional measures. Economics and Politics 7(November):207-227.

clear the border, involving such factors as infrastructure conditions, the prevalence of roadblocks and weighbridges (truck scales), and transportation regulations and standards.

Improving efficiency and predictability throughout this system reduces delays and uncertainty, thereby lowering costs for both importers and exporters. Lower trading costs can lead to a whole host of positive outcomes, including expanded trade and investment, improved tariff collections, more trade diversification, and economic growth. The benefits of trade facilitation are greatest when countries make improvements in more than one area at the same time.

For example, undertaking customs administration reforms at the same time that they are upgrading transportation infrastructure improves that overall efficiency of movement of goods. In 2009, it was estimated that the Northern Corridor carried 75 percent of the region's traffic tonnage.

Researchers examining the impact on trade of time delays, regardless of their cause, found that they had a wide variety of effects. One study found that, on average, an added day of delay for any reason reduced trade by at **least 1% percent**. On the other hand, reducing delay by one day was equivalent to a country reducing the distance to its trading partners by about 70 kilometers. Another study found that a lengthy export process makes developing countries less likely to enter markets for goods that are sensitive to delays, such as perishable products (agricultural produce), products produced in global supply chains (electronics), and products where demand changes rapidly (women's fashion clothing). The lack of quick delivery in African countries has weakened their competitiveness in these markets.

The northern corridor has enabled shorter and more predictable transport times which have cut costs, raised profits, and allowed product diversification. Research indicates that when dealers in a given product cannot be sure when the next shipment will arrive, they must often spend more to keep extra supplies of the product in stock. This problem erodes the profits of businesses all over sub-Saharan Africa. Variability in transport times also discourages African businesses from exporting goods that are sensitive to delays, such as fresh horticultural products. For example, a study found that a truck transporting goods from Ghana's northern border to the Gulf of Guinea normally completes the journey in 2–4 days, but there is a 10–20 percent chance that it will take over a week—certainly long enough for unrefrigerated fruits and vegetables to degrade. Another study reported that when it comes to reducing transport costs, buyers and vendors gain the most from having more predictable delivery times.

The northern corridor is a reform on trade regulations and customs operations which has significantly lowered trade costs and increased trade. Researcher has also studied the relationships between customs policy reforms, patterns of bilateral trade, and trade costs. Two improvements generated the largest benefits, streamlining import/export procedures, including the introduction of electronic single window systems, pre-arrival processing, fewer physical inspections, and post-clearance audits, and advance rulings. The research suggested that these two measures could potentially reduce traders' costs by 5.4 percent and 3.7 percent, respectively. The same study also found that moving to electronic customs data interchange systems had the potential to decrease trade costs by 2.7 percent. For example, research suggests that if Tanzania improved the time to clear customs to levels encountered in Zambia, the average Tanzanian firm would increase its share of production for export by over 4 percentage points, potentially stimulating economic growth.

Upgrading transportation infrastructure, including ports, railways, roads, and air transport, is crucial for increasing trade. A number of improvements for ports, railways, and roads were implemented for the Northern Corridors in the EAC. One 2011 study found that these improvements would reduce average freight costs by $40.25 per ton in the Northern Corridor. As a result, the study estimated that EAC trade would increase on average by **15 percent** overall, with a gain of 25 percent in the Central Corridor. Other studies found that improvements in port efficiency likewise have the potential to significantly increase a country's exports and imports. Similar gains can be expected when countries liberalize their air transport markets.

Transportation regulations and policy play key roles in shaping the efficiency of the entire transport system. Certain transportation regulations, such as the effective use of weighbridges to help prevent vehicle overloading, make roads safer and lower highway maintenance costs. However, overuse of such measures can hinder trade, while unauthorized roadblocks and passage fees drive up total transport costs. One study estimated that roadblocks in West Africa, which can occur every 30 kilometers, raised transport costs by 10 percent; for goods transported between Lomé, Togo, and Ouagadougou, Burkina Faso, 57 percent of the fees paid were avoidable costs composed of unnecessary public procedures, private services, and speed payments. Required trade documents and inspections are numerous and unpredictable, but targeted for harmonization. Compared to global best practices, the EAC countries require large numbers of trade documents and inspections. Moreover, variation in required documents reflects the differing import procedures and inspection requirements among EAC members. Inspection issues include repeat inspections of products already certified by accredited laboratories; inspections of products originating within the EAC and bearing the certification mark issued by a national standards bureau, and non-standardized testing procedures across countries.

The World Bank reported that clearance times in East Africa were seven times less predictable than for any other region of the world. An imported container in Uganda not requiring inspection can be cleared in 4 days, but an inspected container requires 10 days on average. EAC member states are aware that non-harmonized trade documentation and duplicative goods inspections are hampering trade, causing overall delays and increasing the unpredictability of goods' delivery times. In the EAC Secretariat's August 2011 quarterly review of nontariff barriers in the EAC, both documentation and inspections were targeted for harmonization by the end of 2012.

EAC is making progress toward risk-based inspection regimes. Inspecting all incoming cargo may improve safety, but it is costly and slow. As an alternative, countries can employ risk-based customs inspection procedures, whereby customs administrations and border control agencies develop cargo risk profiles that direct them to inspect only riskier cargo physically. Together with electronic scanners, risk-based inspections are widely used globally to balance caution and efficiency in trade.

However, not all EAC countries fully embrace risk-based procedures. Ugandan businesses report that an average of 75 percent of import shipments are physically inspected compared with a 25 percent shipment inspection rate for neighboring Kenya and a 7 percent physical inspection rate in the United States. Both Rwanda and Tanzania have improved risk management of import cargo inspections in recent years. All EAC members are moving toward electronic customs data interchange systems and harmonized customs information sharing. Electronic systems benefit importers and exporters by substantially reducing wait times at border crossings. However, because electronic customs data interchange systems are not yet in place at all EAC ports and border crossings, paper customs forms are often still required. In 2005, Kenya began introducing its Simba system, moving customs data collection to an electronic format. The remaining countries of the EAC have all since adopted the ASYCUDA++ electronic data collection system in at least one port or border crossing. The EAC also intends to set up one-stop border posts at all border crossings within the Community and is currently collaborating with the U.S. Agency for

Global economic integration and technological developments have increased international trade in services and are providing many export opportunities for developing economies. The temporary nature of trade in the movement of people also improves domestic human capital. People returning from a foreign services market have acquired a new range of skills and knowledge that can be used to build capacity in the domestic economy.

The port of Mombasa, in 2011, the port handled about 770,000 bTEUs, despite the fact that its original design envisioned handling only 250,000 TEUs.74. These added trade volumes have been accompanied by few port capacity improvements. In 2009, ships waited an average of 2.3 days before coming into port, and containerized vessels spent 3.1 days on average at berth.75 A small container yard, complex clearance procedures, and an overreliance on physical container inspections (rather than risk-based inspections) caused clearance bottlenecks at the port and increased average dwell time (the number of days that cargo spends at the port site).

The introduction of an automated terminal operating system tracking container movements and marine operations in 2008 helped to reduce container dwell time. In addition, to alleviate port congestion, some containers are transferred to privately run inland container depots for storage and clearance. These transfers, combined with the automated tracking system, helped to reduce average container dwell time at the port from 11.3 days in 2007 to 5.9 days in 2009.

Trade facilitation encompassing both simplified customs procedures and upgrades to transportation infrastructure enhances countries' ability to compete in international markets by reducing shipping delays and risk, and lowering the cost of trading. Kenya Ports Authority reports that the track between Mombasa and Malaba is scheduled to be replaced by standard gauge track by 2017, which should make it much easier to ship containers. The long transit times drive up costs, while their unpredictability hinders businesses from adequately estimating expenses. Thus, infrastructure improvement that both shortens transit times and reduces uncertainty has greatly improved the regional business climate.

The countries of the EAC vary in their level of development, degree of integration into world markets, and success at establishing effective institutions. As a result, each member country faces unique challenges in improving its trade environment. Furthermore, EAC members have had varying levels of success in applying global best practices in trade facilitation, for both border procedures and transportation infrastructure. A comparison of the EAC countries with Benin, the best-performing low-income country worldwide, and Singapore, the highest-rated country in the World Bank's Logistics Performance Index, gives some indication of how these countries' trading regimes compare with global best practices and number of outstanding issues in the reform agenda and some new challenges which need to be put in place. For example, all EAC countries score below Benin in timeliness of deliveries, and no country in the region came close to Benin's average in efficiency of customs procedures in 2012.

Border crossings have traditionally been one of the major chokepoints along the Northern Corridor, due largely to uncoordinated and complicated customs procedures. Recent reforms in procedures (specifically, the EAC-wide effort to establish OSBPs at all crossings) and general upgrades have helped improve processing times and reduce wait time uncertainty, but these initiatives and their implementation status vary by crossing.

Malaba is a border post for both road and rail transit between Kenya and Uganda. A USAID-funded rail OSBP is already operational at this crossing, and the World Bank is working toward upgrading the road crossing to a full-scale OSBP. Traffic is estimated at 200 heavy goods vehicles (HGVs) per direction per day, the highest volume at any crossing in the EAC. On the other hand, the implementation of the RADDEx harmonized customs information sharing system has greatly facilitated processing times at this crossing. In 2005, the World Bank estimated average total border processing time at 45 hours. By April 2011, crossing times were reduced to 7 hours, with an additional 3-hour decrease in crossing time targeted by September 2014 (ostensibly after a new bridge is completed).

One reason for this is the current state of East African airport infrastructure. Although there are 378 airports in the region, less than 10 percent have paved runways. Kenya accounts for the largest share of the EAC's air freight cargo volume—74 percent in 2010. This is largely due to the well-developed facilities found in Nairobi's Jomo Kenyatta International Airport, which is a major regional air hub. The major regional airline, Kenya Airways, is investing millions of dollars in air freighters to better serve EAC markets. Other research showed that shortening long, costly border procedures promotes economic development; a survey of member companies of the European Round Table of Industrialists found that 80 percent of member companies would consider new investment in developing countries if substantial improvements were made in this area.

Northern Corridor roads are in "good" to "fair" condition, but administrative problems raise shippers' costs. A 2010 inventory of the Northern Corridor's roads conducted by the engineering firm Aurecon rated about half of them as delivering at least an "acceptable" level of service (moderate average speeds and ability to overtake slower traffic). Nearly the entire corridor stretching from Mombasa to Bujumbura is paved. Logistics efficiency on road segments from Mombasa to Nairobi, Kampala, and Kigali was rated "good" (time, cost, and reliability is efficient and competitive according to global standards), while the final segment to Bujumbura rated as only "fair."

In the last decade, around 500 km of the Corridor's total 3,026 km of roads were rehabilitated and more than 500 additional km were paved; as a result, 86 percent of Northern Corridor roads are now paved overall. Nearly the entire corridor through Tanzania was rated by Aurecon Engineering as "sound" (acceptable riding quality based on pavement roughness) in 2010, but portions of the route through Rwanda and Burundi need to be either paved or thoroughly rehabilitated, particularly the road segment through Burundi to Bujumbura, which was rated "poor" (time, cost, and reliability is inefficient and uncompetitive according to global standards.

From Kenya outward to Uganda, Rwanda, and Burundi, Northern Corridor roads are mostly in good condition, and nearly the entire corridor stretching 1,898 km from Mombasa to Bujumbura is paved. A 2010 inventory of the Corridor's roads conducted by Aurecon Engineering for the East African Transport Strategy and Regional Road Sector Development Program rated about half of them as delivering at least an "acceptable" level of service (moderate average speeds and ability to overtake slower traffic). The same inventory rated logistics efficiency on road segments from Mombasa to Nairobi, Kampala, and Kigali as "good" (time, cost, and reliability is efficient and competitive according to global standards), while the final segment to Bujumbura was rated as only "fair."

Since 2006, the Northern Corridor railway network has been run by Rift Valley Railways (RVR) under a private concession granted by the governments of Kenya and Uganda. The rail system extends from Mombasa through Nairobi to the Ugandan border at Malaba, where it continues onward to Kampala. From Mombasa to Malaba, the tracks are in fair to good condition, although spot rehabilitation is necessary. With the Kenyan ferry in operation, RVR has been successful at reviving service between Kisumu, Kenya, and Port Bell, Uganda, providing another transport option for cargo moving into Uganda. Rehabilitation of two Ugandan ships was underway in September 2011, with one expected to return to service soon.

From 2010 to 2011, performance on the line improved: freight volumes increased an estimated 7 percent, while accidents fell by an estimated 30 percent. A revitalization project is underway to improve reliability, with hopes that further railway capacity improvements will follow. The AfDB has pledged $40 million to a capital reinvestment project for RVR.

Despite the cost advantage, estimates are that less than 4 percent of Northern Corridor traffic moves by rail due to the delays, breakdowns, and service disruptions that make rail transport more unpredictable than roadways. Rail cargo volumes in Kenya fell nearly 25 percent between 2005 and 2010. Several factors contributed to this performance decline, including deregulation of regional road systems (which improved competition by lowering freight rates for road transport), poor management, underinvestment in infrastructure, and a flawed rail concession process. The prevalence of weighbridges and roadblocks increases overall transport time and costs.

5.3 Required trade documents and inspections.

Compared to global best practices, the EAC countries require large numbers of trade documents and inspections. Moreover, variation in required documents reflects the differing import procedures and inspection requirements among EAC members. Inspection issues include repeat inspections of products already certified by accredited laboratories; inspections of products originating within the EAC and bearing the certification mark issued by a national standards bureau, and non-standardized testing procedures across countries. The World Bank reported that clearance times in East Africa were seven times less predictable than for any other region of the world. An imported container in Uganda not requiring inspection can be cleared in 4 days, but an inspected container requires 10 days on average.

EAC member states are aware that non-harmonized trade documentation and duplicative goods inspections are hampering trade, causing overall delays and increasing the unpredictability of goods' delivery times. In the EAC Secretariat's August 2011 quarterly review of nontariff barriers in the EAC, both documentation and inspections were targeted for harmonization by the end of2012.

5.4 Risk-Based Inspection Regimes

Inspecting all incoming cargo may improve safety, but it is costly and slow. As an alternative, countries can employ risk-based customs inspection procedures, whereby customs administrations and border control agencies develop cargo risk profiles that direct them to inspect only riskier cargo physically. Together with electronic scanners, risk-based inspections are widely used globally to balance caution and efficiency in trade. However, not all EAC countries fully embrace risk-based procedures. Ugandan businesses report that an average of 75 percent of import shipments are physically inspected compared with a 25 percent shipment inspection rate for neighboring Kenya and a 7 percent physical inspection rate in the United States. Both Rwanda and Tanzania have improved risk management of import cargo inspections in recent years.

5.5 Infrastructure Improvements that keep Pace of rising Traffic and Trade Flows

Poor transportation infrastructure and low capacity lead to high average transit times and costs for the EAC—situation worsened by the fact that three out of five of the region's member countries are landlocked. However, the overall condition of the region's ports, roads, and border crossing system ranks in the middle when compared to other African regions. For example, goods shipped from the port to market by road travel at an estimated speed of 8 km per hour (kph) throughout East Africa, compared to 12 kph in Southern Africa and 6 kph in West Africa.

Horticultural products, including fruits, vegetables, and cut flowers, are a promising export sector for EAC countries. These goods are high in value, with growing demand, and all EAC countries possess natural endowments (including a location on the equator that allows year-round production) that make them ideal producers of certain products. However, the condition of the region's transport infrastructure has hindered this sector's growth. In many cases, unpredictable clearance times at EAC ports and poor regional roads make sea freight transport infeasible because perishable products deteriorate before reaching the ship. Air freight is faster and more predictable, but is expensive, requires specialized airport storage systems, and may be hobbled by a lack of air routes to potential markets. Nonetheless, for the highest-value horticultural products, air freight can be considered as an alternative to sea freight.

Kenya, the EAC's largest exporter of horticultural products, has the most advanced cold chain system, allowing producers in that country to use both air and sea freight to ship their products. Kenyan shippers pay 40 percent more to ship by air, but air freight logistics average just 24 hours versus up to 120 hours for sea freight. However, rising air freight rates and a lack of direct flights to certain markets have motivated shippers to explore sea freight as an alternative for various products, including sugar snap peas, sweet corn, and broccoli. If future investments in road and port infrastructure reduce transport times and make sea freight more competitive, the prospects for Kenyan horticultural products in world markets would be greatly improved.

In contrast to Kenya, Rwanda has not yet invested in the cold chain infrastructure vital to increasing exports of horticultural crops. Since the country's sole cold storage facility is located at the Kigali airport, perishable goods must be transported out of Rwanda by air. The Rwandan government is promoting the development of the horticulture industry to diversify the country's exports, but it recognizes that lack of refrigerated transport and high air freight costs are significant constraints. More cooling facilities for fruits and vegetables are planned, but until they are built—or until transport and processing times improve on overland shipments to Mombasa or Dar es Salaam—the growth of horticultural exports will be limited.

CHAPTER SIX: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.

6.0 Introduction

This chapter gives a presentation of the summary and conclusions reached in the study as well as the recommendations made by the researcher.

6.1 Conclusion

From the findings of the study analyzed and presented in the previous chapters, the researcher drew a conclusion that indeed there were various benefits involving expanding import and export volumes, diversifying export and encouraging economic development in northern corridor's member states.

He also concluded that there was need for government to introduce standard policy, procedures and regulations on trade in the Northern corridor to improve its services; the general belief is that they are not fully effective and there is need to improve on the trade regulatory capacity.

6.2 Recommendations

The study recommended adoption of common trade documentation standard, procedures and upgrading transportation infrastructure, including ports, railways, roads, and air transport, is crucial for increasing trade profit in EAC. A number of improvements for ports, railways, and roads were needed for the Northern Corridors in the EAC. One 2011 study found that these improvements would reduce average freight costs by $40.25 per ton in the Northern Corridor. As a result, the study estimated that EAC trade would increase on average by 15 percent overall, with a gain of 25 percent in the Central Corridor. Other studies recommended that improvements in port efficiency likewise have the potential to significantly increase a country's exports and imports. Similar gains can be expected when countries liberalize their transport markets.

Transportation regulations and policy play key roles in shaping the efficiency of the entire transport system. Certain transportation regulations, such as the effective use of weighbridges to help prevent vehicle overloading, make roads safer and lower highway maintenance costs.

6.3 Future Research

In today's competitive trade environment, it's necessary that adoption of common trade documentation standards and procedures is a key goal of EAC integration. At present documentation and procedures are still vary widely among the region, s members, particularly with regard to cargo inspections. Some countries are in the process of adopting several reforms that should streamline customs processes throughout the EAC, including making full use of Risk-based inspections, adopting electronic data interchange system, linking trade agencies through an electronic single window system (E-SWS) and setting up joint OBSP Operations.

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