DFID Department for International Development

Trade Policy and Transport Costs in East Africa: how EU aid can promote export growth in East Africa

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- **Start Date:** March 2005
- **End Date:** February 2005
- **Value:** €160,600
- **Countries/ Regions Covered:** Kenya, Malawi, Tanzania and Uganda

In cooperation with

Background and Objectives of the Research

As with many sub-Saharan African (SSA) countries, East African countries (Kenya, Tanzania and Uganda) have significantly reduced tariffs and trade policy restrictions on imports since the 1980s. These countries have followed the policy of trade liberalisation but have not experienced, to any sustained degree, the expected increase in exports. There are a number of reasons why exports may not increase following liberalisation, notably the constraints on production (especially in the primary sector), or export supply response, which are pervasive in these countries. In recent years, increasing attention has been given to the importance of transactions costs associated with trade. African countries are known to face particularly high transport costs, largely due to poor infrastructure and institutional inefficiencies. The research aims to quantify the importance of transport costs in East Africa, and to assess the extent to which this explains poor export performance.

Research Findings

Cross-country econometric analysis reveals an association between increased openness and (export-led) growth, and much of the poor growth performance of SSA countries over the period 1970-95 can be explained by a combination of low openness (high protection) and high transport costs. The three East African countries have dramatically simplified their tariff since the late 1980s and reduced effective protection due to trade policy by about half, to about 15% on average by the early 2000s. However, export response and growth has remained sluggish. The research concentrates on transport costs and uses data from a range of sources to estimate the transport costs for imports to, and exports from, the three countries, covering fourteen productive sectors of the economy. The implicit subsidy (effective protection) on imports, and implicit tax on exports, due to transport costs is calculated and compared for the early/mid-90s and early 2000s. The results show that transport costs remain very high, and in particular are a significant cost (tax) to exporters. Persistent high transport costs are likely to be a significant factor explaining poor growth, especially export growth, in SSA countries.

Important findings for the three East African countries are that:

- Tariff protection against imports declined significantly, and effective protection fell from about 30 per cent on average in the mid-1990s to 15 per cent on average by the early 2000s.
- Overall transport costs have not fallen since the mid-1990s. Uganda faces the highest transport costs, and although land freight costs fell sea freight costs rose. Kenya has relatively low land freight costs, and these declined, but sea freight costs may have risen. In Tanzania sea freight costs fell slightly but land (rail) freight costs rose.

- Overall, effective protection of imports due to transport costs remains around 15% on average and rose slightly, somewhat offsetting the reductions in tariffs. Transport costs have become a more important source of protection than trade policy.
- Transport costs for exports remain very high. Even in the early 2000s, effective taxation of exports due to transport costs remains around 40% for Kenya and Tanzania, and probably 50% for Uganda.
- The high costs faced by East African exports are a severe constraint to export supply response.

Policy Recommendations

- Reliable data on transport costs are scarce, especially for road freight. The research provides a resource for policy-makers by estimating transport costs, distinguishing sectors, imports and exports, and forms of transport (land, sea and air).
- Measures to reduce transport costs are essential to support export diversification and expansion in these and other African countries. The persistence of very high costs on exports implies that few such measures have been implemented.
- Investment in improved port facilities could be of great impact, as this is a major component of export costs. Improvements in Dar-es-Salaam port appear to have reduced sea transport costs.
- Rail freight is important for bulk commodities, but freight costs are increasing. The region suffers from poor quality rail infrastructure. Again, investment could have a significant impact.
- Investment in improving roads would have the greatest impact if concentrated on integrating major production areas, markets and ports.
- Air freight products require investment in storage and cooling facilities.

For further information on this research project, please visit:

EC-PREP website: www.ec-prep.org
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