

Synopsis

2013 ANNUAL TRENDS AND OUTLOOK REPORT

Promoting Agricultural Trade to Enhance Resilience in Africa

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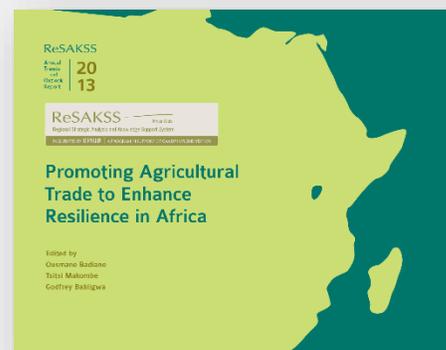
As the official monitoring and evaluation (M&E) report of the Comprehensive Africa Agriculture Development Programme (CAADP), the ReSAKSS Annual Trends and Outlook Report (ATOR) assesses trends and progress on 30 CAADP core indicators as well as the implementation process on the ground. Starting in 2011, the ATOR has featured a selected topic of strategic importance to the CAADP agenda, to help guide its planning, implementation, and dialogue processes. The 2013

ATOR contributes to the emerging debate on resilience by taking a comprehensive look at how trade can enhance food security for Africa's poor and vulnerable through greater resilience of local food markets to environmental and economic shocks. In particular, the report focuses on the role of resilience as it relates to the capacity of local food markets to absorb the effects of economic, biophysical, or other shocks, to minimize their impact on the short or long term food security of the poor and vulnerable.

Whether as a source of food supplies or foreign exchange earnings, trade in food and agricultural products, in particular, can have significant ramifications on the livelihoods of poor and vulnerable communities in rural as well as urban areas. Recent food price crises in 2007/2008 and 2010/2011 made this abundantly clear, negatively impacting food security of the vulnerable and poor and undermining the trade competitiveness of countries. Governments in developing and emerging economies quickly responded, especially in 2007/2008, with a myriad of policy measures that included price controls on food, cash transfers, agricultural input subsidies, the use of food grain stocks, export restrictions for grains, lower import tariffs, and increased export taxes. While some of the policies provide important safety nets for the vulnerable, protectionist measures can undermine trade. Trade is particularly important as it not only affects the availability of and access to food in the short run, but it also affects the pace of growth of the economy as whole and of incomes among the poor and vulnerable, and thus the degree of resilience at national and community levels.

The expansion of trade in agricultural markets both within and outside Africa, based on stronger performance and improved competitiveness by African countries, demonstrates the positive contribution of trade to resilience. On the one hand, gains in competitiveness and market share stimulate growth and generate higher incomes. On the other hand, better market integration resulting from trade expansion spreads the pressure to adjust to market disturbances across a wider area and over a larger number of economic actors, thus reducing the level of volatility in food markets. The consequence is greater capacity across the trading space to absorb price shocks and respond to supply gaps, and thus greater resilience of domestic food markets in trading countries.

Against this background, the 2013 ATOR assesses the structure and performance of trade by African countries in global and regional agricultural markets. It also evaluates the extent of integration of African countries in these markets, and the potential for greater integration. The implications for resilience of domestic food systems are then analyzed, including the potential impact of



biophysical or weather shocks on the capacity to use trade as a stabilizing instrument. The findings and related policy and strategic implications are summarized below.

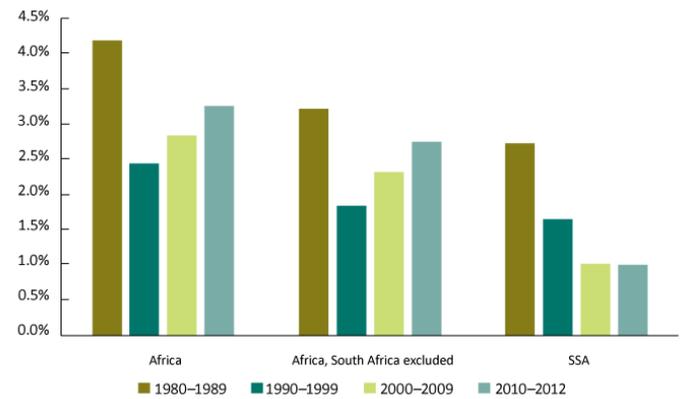
Major Findings and Recommendations

Following huge declines in the 1990s, Africa's share of world trade in goods and services as well as agricultural products has been increasing since the 2000s (see Figure 1). The increasing trend in goods and services has been driven mostly by oil, gas, and mineral exports from North African countries. However, the share of world exports of goods and services for Africa south of the Sahara (SSA) continued to decline into the 2000s. Despite the decline in overall trade share, Africa's agricultural exports increased fourfold in value terms and twofold in caloric terms during the 2000s. Agricultural imports, however, rose almost twice as fast and outpaced exports both in value and caloric terms, resulting in a rapid widening of the agricultural trade deficit. In terms of nutritional content, imports of proteins have increased faster than imports of fats and calories, driven by growing incomes across the continent. Moreover, intra-Africa trade has expanded significantly, resulting in a decline of Africa's dependence on countries of the Organization of Economic Cooperation and Development (OECD) as trading partners. In particular, the share of Africa's agricultural exports destined for Africa has increased substantially and especially in caloric terms. Africa's growing trade shares in goods and services and agricultural products can be attributed to several factors: the recent increase in world prices of some raw materials; improved economic growth; significant improvements in local trade infrastructure (such as telecommunications) on the continent; and Africa's efforts to integrate into global and regional markets through global preferential trade agreements and regional trade agreements.

African agricultural exports have experienced a gradual diversification since the 2000s, while several countries have increased their global market share of agricultural products through higher competitiveness. At the end of the 1990s, the top 10 agricultural products exported by Africa made up 51 percent of total agricultural exports, compared to 40 percent during 2005/2010. During the latter period, the top 10 agricultural exports included cocoa, coffee, cotton, cashew nuts, oranges, tobacco, tea, and cut flowers. Countries that have managed to increase their world market shares for agricultural products through improved competitiveness (through domestic performance or geographic specialization) include Togo, Rwanda, Ghana, Ethiopia, Mozambique, Gabon, Malawi, Tunisia, Tanzania, and Niger.

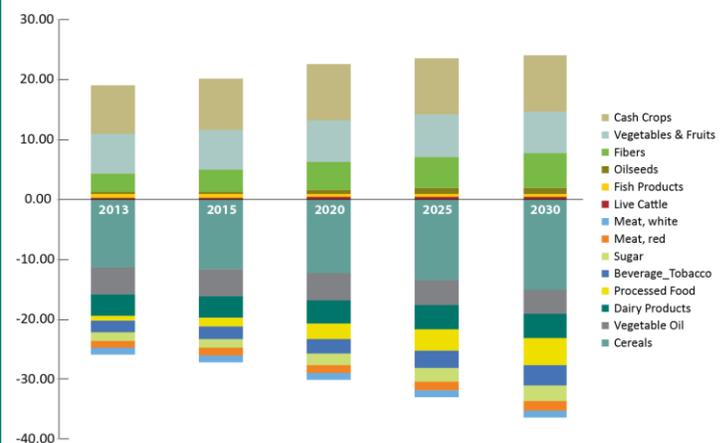
Simulation results show that if current trends persist, Africa's agricultural trade will continue to expand. Under the current trajectory, Africa's agricultural imports would continue to rise faster than exports. Significant increases

Figure 1: Evolution of Africa's Share of World Exports of Goods and Services (1980–2012)



Source: Bouet et al. 2014. Chapter 2, ReSAKSS 2013 ATOR.

Figure 2: Product Breakdown of Africa's Per Capita Agricultural Net Exports (2013-2030, in 2007 constant US\$)



Source: Bouet et al. 2014. Chapter 2, ReSAKSS 2013 ATOR.

would be experienced in exports of cash crops, vegetables, fruits, and fibers, along with increased imports of cereals, meat and meat products, dairy products, processed food, and beverages and tobacco (see Figure 2). Increased exports of cash crops are expected mainly for countries of the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS), while the Southern African Customs Union (SACU) countries would increase exports of vegetables and fruits.

Regional trade in Africa is growing, but from a low base.

Regional trade performance in Africa has been improving in recent years. Overall, African countries as a group and the member states of the main RECs have succeeded in increasing their competitiveness in intra-African and

regional markets, expanding exports to regional markets faster than the group of competitors. An exception is COMESA, which has lost competitiveness in agricultural exports in value terms. Intra-African and regional markets also increased in importance as export destinations for member countries. The shares of regional markets in member countries' agricultural exports in value terms increased for the Southern African Development Community (SADC) and COMESA, as well as for Africa as a whole, although the share of ECOWAS dropped. Despite recent growth, intra-regional trade levels remain relatively low. Forty-two percent of SADC countries' agricultural exports (in value terms) go to other SADC countries; shares are much lower for COMESA and ECOWAS, at 20 percent and 6 percent respectively. For Africa as a whole, the intra-African market accounts for 34 percent of agricultural exports. These low intra-regional trade shares result from the high cost of cross-border trade and outwardly-biased trading infrastructure. Simulation results suggest that regional trade will continue to expand if current trends continue, and that the growth of regional trade would be significantly accelerated by moderate reductions in overall trading costs, moderate yield increases, or the removal of cross-border trade barriers.

There is significant potential to stabilize domestic food markets by expanding regional trade. In theory, regional trade could stabilize domestic food markets by buffering shocks resulting from individual country production fluctuations, thereby reducing price variability. There are several indications that expanding trade within the main RECs would indeed contribute to stabilizing member country food markets and reducing price volatility. First, regional production levels are less volatile than national production levels, for almost all countries. Individual country production levels are fairly weakly correlated with each other within SADC and COMESA, indicating that negative production shocks in one country can be offset by average or above-average production in other countries within the region. Though country production levels are more highly correlated within ECOWAS, even here, regional production is more stable than national production. Second, member countries of each REC exhibit sufficiently dissimilar patterns of production, trade, and specialization to leave scope for expanding trade within the region. Trade overlap—the situation in which a country or region both imports and exports the same good at the same time—is greater at the regional than at the country level, indicating that some countries within a region are importing from extra-regional sources the same products that others are exporting to extra-regional

markets. Redirecting these trade flows by decreasing barriers to regional trade would further boost the recent growth of regional trade and allow countries to take advantage of its stabilizing effects on agricultural markets.

Biophysical characteristics and weather shocks strongly affect trade performance through effects on agricultural production. Weather shocks and biophysical risks include such factors as variation in vegetation, temperature and rainfall; depleted soils; and prevalence of diseases, pests and weeds. These can strongly affect agricultural production and thus agricultural trade performance. Regional trade can improve food security, in view of the large spatial variation in production conditions across and within regions. For instance, over the past three decades, in 4 out of 10 years, drought in some maize-growing areas had the potential to be mitigated by surplus rainfall in other areas. However, the potential of regional trade to buffer shocks can also be threatened by these very shocks, particularly as they grow more severe and numerous. Results of a simulation carried out for the COMESA and ECOWAS regions show that a 50 percent reduction in annual average rainfall and a 25 percent decrease in average vegetation cover would significantly reduce net exports in both regions, with ECOWAS being slightly harder hit. The combined effect of the previous shocks plus a one degree Celsius increase in average temperatures would have further negative effects in the case of COMESA countries. The additional effect of a one degree increase in average temperatures is less negative in the case of ECOWAS countries, suggesting that production conditions in the region have already partially adapted to high temperatures. Overall, risks associated with climate change have the potential to reverse the gains made in accelerating trade.

In the medium and long run, trade policies should be aimed at reducing transportation and other transaction costs as well as increasing agricultural productivity. While short-term price stabilization may be an effective instrument for dealing with high food prices, balance is needed between the insulating effect of export restrictions and the trade-promoting effect of reducing import barriers. Moreover, governments' responses to high and volatile price levels need to be well crafted, as they are likely to have important consequences on the incomes and livelihoods of vulnerable farmers. Government responses also affect how the private sector adapts, including its propensity to invest in future trading capacity to meet the needs of growing economies. In the medium to long run, expanding markets with better

transport infrastructure will reduce spatial price disparities and food price volatility by making it easier to move food grains from surplus to deficit zones. Investments in market information systems can also help reduce food price volatility. Similarly, investing in agricultural productivity raises the capacity of the domestic agricultural sector to supply local markets and adjust more effectively to shocks. In particular, investments in irrigation and agricultural research and development can help raise yields. Irrigation also protects farmers from droughts, thus enhancing resilience. Market-smart input subsidies can also boost productivity, if they are well-targeted toward poor farmers, if they strengthen private distribution systems, and if they are introduced for a limited period of time and with clear exit strategies.

Trade openness among African countries, and between Africa and the rest of the world, can broaden food markets and dilute the effect of local supply shocks.

Although trade openness has been blamed for increasing price volatility, it has contributed to improved price stability and food access at the global level over the last four decades. Thus, Africa will benefit significantly from increasing market integration at the domestic, regional and international levels. The regional dimension is particularly attractive, since it will reduce the risk of beggar-thy-neighbor trade policies among African countries and will lead to the emergence of larger trade blocks that can mobilize to encourage improved trade policies by other trade entities at the global level. Commodity exchanges have the potential to make food and agricultural markets more transparent and stable, though they have not yet proven their value in food grains except in South Africa.

Policies and programs that reduce consumption volatility help market participants manage food price risk and build resilience of the vulnerable and poor. Consumption-oriented programs can include contract farming (especially in selected high-value crops), futures markets, and social safety net programs. Safety net programs are particularly designed to reduce the incidence of food insecurity among poor and vulnerable households through

targeted transfers. Safety net programs already in place on the continent, such as the Productive Safety Net Program in Ethiopia, provide lessons that could be used by other countries to design similar programs to ensure short term food security of the poor and long-term investment in human capital. Although safety net programs can be costly to implement, they can have significant short- and long-term benefits in terms of food security and investment in productive capacity, if they are well designed and targeted.

The findings of the 2013 ATOR suggest that African countries have made encouraging progress in strengthening their role in global and regional trade. However, food price volatility resulting from climate change and other factors will likely continue to affect vulnerable households for the foreseeable future. Future strategies to harness the potential of global and regional trade to reduce food price volatility and build resilience, both of food systems and of the poor and vulnerable, require investments in social safety nets in addition to raising agricultural productivity, removing regional trade barriers, and making infrastructure improvements to reduce the overall cost of trading.

Download the complete 2013 ATOR at <http://www.ifpri.org/publication/promoting-agricultural-trade-enhance-resilience-africa>

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