

Trading up: policy innovations to expand food and agricultural trade in Africa

Malabo Montpellier Panel, 2020

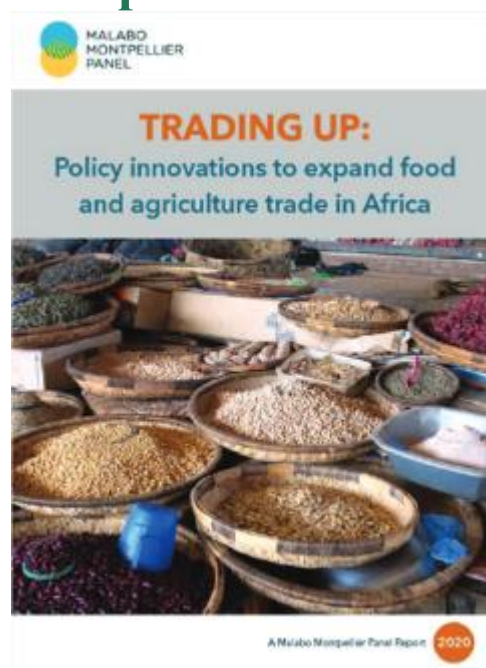
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The Malabo Montpellier Panel (MMP) currently comprises 17 leading experts, of whom 12 from Africa, specialised in agriculture, engineering, ecology, nutrition, and food security. It regularly commissions reports on key issues to help guide policy choices on food and nutrition security, facilitated by the Malabo Montpellier Forum, which brings together high-level decision makers to consider and act on the evidence produced by the MMP. This report is timely given that implementation of the African Continental Free Trade Area (AfCFTA), which came into force in mid-2019 after being signed by 54 countries, is to be restarted in 2021, having been delayed by the coronavirus disease 2019 (COVID-19) pandemic.

The objectives of AfCFTA are ambitious – nothing less than the creation of a single continental market for goods and services reaching 1.3 billion people, with free movement of people and investments. This could pave the way for the eventual establishment of a continental customs union. By 2040, the elimination of tariffs on goods alone is expected to increase intra- African trade by 15–20 percent or USD 50–70 billion. With all the measures aimed at reducing trade restrictions fully in effect, the eventual increase could be as much as 50 percent. Much of this growth in trade is expected to be in agriculture- based products. There are eight African Union- recognised regional economic communities (RECs) among various subsets of African countries already in existence and the MMP report analyses in some detail the progress made in three RECs. These are the Economic Community of West African States (ECOWAS, established in 1975), the Southern Africa Development Community (SADC, 1992) and the Common Market for Eastern and Southern Africa (COMESA, 1994). The largest share of intra-African agricultural trade goes through all the RECs combined, and these three are the top ranked in terms of REC individual shares. There are important lessons to be learned from such historical experiences for the implementation of AfCFTA and this, essentially, is the focus of the report.

Some 80–90 percent of all African exports are destined for extra-African markets, with exports (by value) of minerals and oil far exceeding agricultural exports. However, agricultural products dominate intra- African trade and, significantly in the light of recently renewed optimism about the prospects for African industrialisation, half of all recorded (ie formal) African agricultural exports are of processed goods. African agricultural exports to all destinations increased by 2.5 times during 2003–2018, and the share of this accounted for by the three leading RECs has remained fairly constant. Given the length of time they have been in existence, this could perhaps be considered a little disappointing and makes this report all the more relevant.

The report points to a number of REC achievements regarding international trade. For example, COMESA is commended for its pragmatic approach to reducing trade barriers by focussing on institutional responses and especially for unlocking trade finance through banking and insurance. It is noted that the ECOWAS system of import levies means that it is almost entirely self-financing, that it was able to introduce an initiative aimed at improving the movement of food in the region, and that it was able to establish a free trade area with significant progress towards setting up a customs union. SADC meanwhile is “pursuing a resolute integration agenda” with a “robust and inclusive institutional framework complemented by synchronised [national] policies”. This is manifested, among other things, in the SADC Regional Agricultural Policy.

Much more remains to be done, however, to encourage the expansion of intra-regional trade, and action needs to be taken more quickly. The report sets out the key areas for action. It details the agricultural trade restrictions that still exist, such as non-tariff barriers (NTBs) and their associated transaction costs due to roadblocks, weighbridges, police roadblocks, cumbersome customs procedures, and local permits. In particular, countries often use sanitary and phytosanitary (SPS) regulations as NTBs to maintain unnecessary protection (SPS raises the cost of living of poor households in Kenya by nine percent), while continuing with high rates of official import tariffs in several cases. The combined cost of tariffs and NTBs can be substantial, the equivalent of 25 percent of import value in COMESA – three times that of ASEAN (the Association of Southeast Asian Nations). In addition to expediting the elimination of tariff and non- tariff barriers, the report’s other main recommendations are to improve data systems; develop innovative models for financing transportation infrastructure; better align national with regional priorities (as already envisaged in various existing programmes); increase investment in technology, skills and innovation in food processing to increase value chain competitiveness; and establish dedicated centres and task forces to increase capacity to deal with crises and shocks and keep food and agricultural trade flowing across borders. This is in the context of the COVID-19 pandemic, as a result of which Africa’s total exports (by volume) were projected to decrease by 8 percent and imports by 16 percent in 2020. The report notes that while trade liberalisation can increase resilience to shocks, the inevitable adjustment costs associated with freer international trade (eg farmers unable to compete with imports in their own national markets) need to be carefully managed.

Much of the report’s ‘to do’ list with regard to increasing intra-African agricultural trade is not surprising in the context of the wider literature on the development of trade. However, it is refreshing that the MMP report explicitly recognises the importance of informal trade, which is sometimes more important than formal trade and is particularly critical for the supply chains used by poor households. There is significant evidence that informal trade plays important roles in reducing poverty, generating employment and incomes, and empowering women. Indeed, in the SADC region, about two thirds of all cross-border traders are women). However, World Bank

studies estimate that informal traders pay 60 percent more per tonne than large-scale traders to cross borders. Yet switching to small formal trading – under existing trading conditions – would cost traders double the cost of informal trading. The need to remove such disincentives is underlined by the findings of a 2020 study of 45 African countries that showed that poor trade facilitation increases the prevalence of undernourishment and widens the food deficit.

The MMP report makes extensive use of empirical evidence, with nearly 400 references cited. This makes its case to expand intra- African agricultural trade because of the potential benefits to Africans, not least the more deprived ones, particularly compelling.

Martin Evans

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