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The SAIIA Trade Policy Briefing Series is intended to elicit debate on critical issues relating to South Africa's overall trade strategy. The broad focus of the series is on the political economy of the international trading system and South Africa's strategic responses to it. This covers the full spectrum of our trade strategy, from the multilateral trading system, to strategic regional and bilateral partnerships, and particular issues within the trade agenda.

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Africa's Agricultural Trade Reform and Development Options

by Frances Perkins

Introduction

As Africa has a strong actual and potential international comparative advantage in agriculture and agri-processed products, improving African agricultural producers' access to world markets should benefit African agriculture, exports and overall economic growth significantly. However, developed and even developing countries generally operate high tariff and non tariff barriers to agricultural trade, and many developed economies subsidise agricultural production and exports, depressing world agricultural prices and undermining Africa's options of pursuing agricultural export oriented economic growth. Hence, achieving agricultural trade liberalisation in the Doha round is important for Africa's future development prospects.

Trade is vital to Africa's development

Trade is a key driver of economic growth. Exports provide the foreign currency to import essential capital equipment and inputs like energy and fertilisers. As many African economies are relatively small or have low consumer purchasing power, the access to larger markets international trade provides is crucial, as it allows local producers to achieve efficient production scales and boost production.

Exposing farmers to fair, unsubsidised international market prices also

increases their incentives to adopt more efficient farming techniques. Combined with supportive domestic policies such as incentives should boost farm productivity and incomes, reducing poverty. A recent study of 73 developing economies found, over the last 20 years, those economies increasing their ratio of total trade to GDP grew about 4 percentage points or almost four times faster each year than those that did not.³

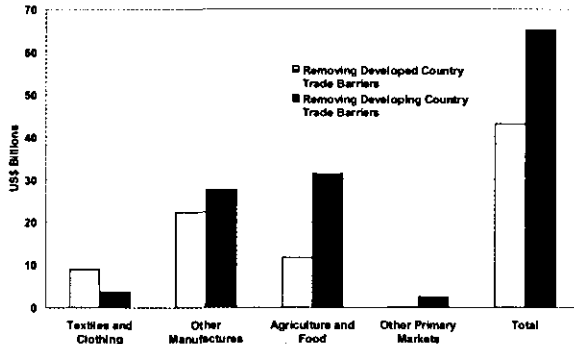
Agriculture is Africa's comparative advantage

Even in the longer term, agriculture is likely to provide Africa with good opportunities for successful exporting and economic growth.⁴ Africa has around 0.25 hectares of arable land per capita compared to 0.11 hectares in East Asia and the Pacific, 0.16 hectares in South Asia and 0.28 hectares in Latin America and the Caribbean, a major agricultural exporting region.⁵

Africa's relatively high arable land endowment at least partially explains the dominance of agricultural exports in its overall exports. About 27% of African exports are food and agricultural raw materials while unprocessed commodities, including minerals and energy, make up around 80% of African exports.⁶ Agriculture also employs from 65 to 80% of African economies' workforces and produces 20% of its GDP.

Figure 1: Developing economy benefits from freer trade

Potential annual developing economy income gains from removing developed and developing economy trade barriers

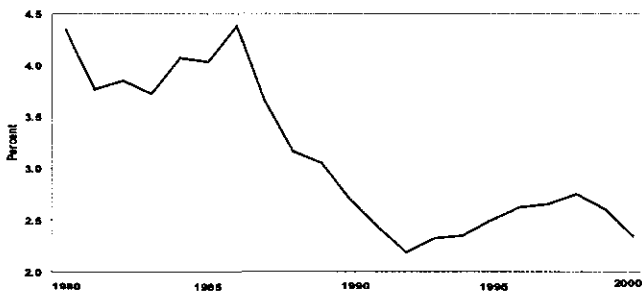


Source: World Bank, 2002

Note: These figures are lower bound estimates of the gains from liberalisation as they assume developed economies have implemented their Uruguay Round commitments, which will deliver developing economies large gains from removing textiles and clothing quotas

Figure 2: Africa's share of agricultural exports declining

Share of Sub Saharan Africa's agriculture exports in world agriculture exports



Source: FAOSTATS, 2002

Despite, or more likely because of, decades of high tariffs and trade preferences, agricultural protection in developed and developing countries and poor domestic policies have helped halve Africa's share of world agricultural trade in the last two decades (Figure 2).

Despite agriculture's importance to Africa and the potential contribution of exports to the sector's growth, international trade policies frustrate the sector's development.

Protectionist policies damage African agriculture

Developed country agricultural trade barriers are a major constraint on African producers' market access and along with subsidies depress world and African agricultural prices by a massive 12% each year.

Tariffs

Trade access for agricultural products is much less than for industrial products. Developed country tariffs and quotas on agricultural imports on average depress world agricultural prices by over 6%.⁷ Furthermore, many economies impose higher tariffs on processed goods than on raw materials, so called tariff escalation. This policy discourages African and other developing economy exporters from moving into higher value added products. For example, while developing economies produce 90% of world cocoa beans they produce only 44% of world cocoa liquor, 38% of cocoa butter, 29% of cocoa powder and 4% of global chocolate output (World Trade Organization, 2000).

Export subsidies and other domestic support

Developed country farm subsidies of \$360 billion a year, on average depress world agricultural prices almost another 6%; so in total developed country agricultural tariffs and subsidies reduce all agricultural prices by approximately 12%.⁸ Lowering all agricultural prices by 12% could have cost African agricultural exporters US\$168 million and African agricultural producers US\$7.1 billion per year in 2001.⁹ By comparison, total bilateral aid flows to Africa totalled only US\$8.3 billion in 1998/99.

Tariff preferences ineffective

While many African countries support special trade preferences from developed countries, studies show they generate few benefits and could impose many long term costs.¹⁰ This is because:

- income gains from preferences are trivial (only \$60 million per year) compared to eliminating developed country agricultural trade distortions;¹¹
- uptake of preferences is low — less than 30% of developing country exports access preferences;
- preferences only remove of the tariff barriers to some African trade, but do not address the damage caused by subsidies;
- preferences are incomplete, excluding many goods which Africa produces competitively, such as sugar, cotton and beef;
- preferences often carry conditions, regarding labour and environmental standards;
- preferences are often revoked arbitrarily, especially if developing country exports start to successfully penetrate the target market;
- preferences undermine investment in African agriculture, as

they provide uncertain market access not guaranteed by WTO rules or dispute settlement mechanisms;

- preferences are non-reciprocal, discouraging African trade liberalisation and reducing exporters' exposure to competition;
- preferences and tariff escalation can lock producers into unprocessed, low value added export lines; and
- Africa gains very little from preferences; most income gains go to regions like East Asia.

Developing country barriers also inhibit African agriculture

Increasingly developing countries are trading with each other,¹² but intra-Africa trade is only half the average for other developing regions due to high trade barriers and poor transport links; African economies' average tariff levels are well above world averages. This inhibits specialisation and increased productivity in African agriculture.

In fact, developing countries would gain more from eliminating their own trade barriers, especially in agriculture than from removing developed countries' barriers (Figure 1).¹³

Impact on African agriculture

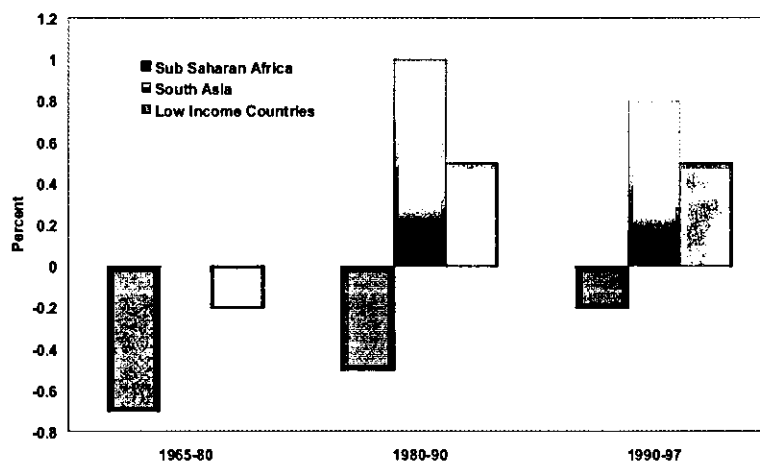
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So where should Africa go?

Africa's development prospects are closely linked to the prospects of its agricultural and agri-processing sector. In East Asia, export oriented growth, first of primary products and later of labour intensive manufactures, has proved the most effective development strategy to boost incomes and reduce poverty.¹ Export oriented strategies also are working in Africa in economies like Uganda. Africa does not have huge populations of Asia, but does have ample agricultural land. Hence export oriented strategies based on agricultural and agri-processed exports hold much

Figure 3: African agriculture growth slipping

Annual average growth in per capita agriculture value added, selected regions



Source: International Food Policy Research Institute, 2000

potential for Africa. While high levels of world agricultural protection inhibit Africa pursuing this development path, the WTO's Doha Round for the first time holds out real prospects of agricultural trade reform, particularly if developing countries act in concert to achieve this outcome.

The Cairns Group of agricultural exporting countries, of which South Africa and Australia are members is working with many developing countries, including African Group members to persuade major developed country groups to lower agricultural trade barriers and abolish agricultural production and trade subsidies. While African WTO members support removing developed country barriers and subsidies, some are reluctant to consider trade reform in their own economies. However, Africa would benefit from agricultural trade reform, so long as domestic policies on rural infrastructure, credit, agricultural extension, land reform and tilling policies supported agricultural restructuring and productivity growth.

Reducing African tariffs would promote growth

Africa's 75% average tariff for agricultural imports is higher than the world average of 62% and well above Asia Pacific's average of 34%.² Protecting

agriculture from competition reduces pressure on farmers to boost productivity. For example, African agricultural productivity has declined since the 1960s but in South Asia and low income economies as a whole per capita agricultural output increased steadily over the 1980s and 1990s (Figure 3).³

Farm support

Some African countries also fear WTO agricultural reform could limit their flexibility to support agriculture, no African country fully utilises limits currently allowed under WTO rules.¹ From 1995 to 1999, Africa's total average annual notified spending on agricultural support was only 1.8% of agricultural value added, compared with the EU's spending of 65% of value added.² Many African scholars agree WTO provisions would not restrict African countries supporting their agricultural development; the real constraint is a lack of resources and different government priorities.³

Africa wants food security promotion measures

Many African governments place particular importance on protecting food security and fear WTO liberalisation may undermine this objective. However, current WTO arrangements already accommodate

many proposals for promoting food security. Furthermore, additional trade barriers are likely to prove counterproductive to achieving long term food security.

Attempted self sufficiency does not deliver food security

Many developing countries interpret food security as meaning food, often staple grain, self sufficiency; however, most food secure countries are not grain self sufficient. In general, lower rates of food importation correspond with higher rates of food insecurity rather than the reverse.⁴

Trade barriers and price supports for staple food production also increase food prices for consumers who do not

produce food, including the landless rural population and urban poor.

Other approaches better

Several alternative strategies offer more sustainable solutions to food security. These include boosting rural transport and irrigation infrastructure, expanding agricultural extension schemes, defining rural property rights through titling programs, removing tariffs on fertilisers and other agricultural inputs and promoting effective rural credit institutions, including micro credit, so small farms can invest in productivity enhancing improvements.

Implications

If such policies are implemented in conjunc-

tion with more open trade policies in developed and African economies African agriculture could achieve a renaissance. Removing developed economy trade barriers and agricultural subsidies would increase market access and boost the prices African exporters receive, increasing the returns from investing in new technologies and expanding production. Linked with improved rural infrastructure, extension and credit policies, removing Africa's own trade barriers would encourage greater specialisation by African agricultural sectors and boost intra-African trade, stimulating farmers to adopt more productive techniques and reducing prices for domestic consumers. As agriculture is a key sector in most African economies, these reforms could open the way for export-led growth in the continent. Trade reform has much to offer African economies and agricultural producers.

ENDNOTES

¹ Dollar D & A Kraay, 'Trade, Growth and Poverty', Development Research Group, World Bank, 2001, www.worldbank.org, accessed 8 November 2002.

² The following studies refer mainly to Sub Saharan Africa.

³ World Bank, 2000, *World Development Report 2000/2001*, Oxford University Press, New York. World Trade Organization, 2000, 'Statement by Australia on Behalf of the Cairns Group: Fourth Special Session of the Committee on Agriculture, 15-17 November', www.wto.org, accessed 14 January 2002.

⁴ Wood, A., and Mayer, J., 2001, 'Africa's Export Structure in a Comparative Perspective', *Cambridge Journal of Economics*, 25, pp. 369-394.

⁵ United States Department of Agriculture, 2001, 'Profiles of Tariffs in Global Agricultural Markets', Market and Trade Economics Division, Agricultural Economic Report, no. 796, January, Washington D.C.

⁶ *Ibid.*

⁷ This simple calculation assumes African exporters and producers could sell all their current production at these higher prices. Since long term food consumption, particularly in developed countries, is unlikely to drop significantly if prices rose 12% this may be a reasonable assumption. This simple calculation also fails to take account of the likely supply response from African farmers and exporters who could be expected to grow and export more agricultural products if the prices they receive increase by 12%; this would increase the

gains to Africa from higher prices.

⁸ Ozden C & E Reinhardt, 2002, 'The Perversity of Preferences: GSP and Developing Country Trade Policies, 1976-2000', www.worldbank.org, accessed 12 December, 2002.

⁹ Australian Bureau of Agricultural and Resource Economics, 2002, 'Domestic Support of Agriculture: Is WTO 'Special Treatment' for Developing Countries Helping or Hindering Change?', May, www.abare.gov.au, accessed 8 January 2003.

¹⁰ Subramanian A and N Tamirisa, 2001, 'Africa's Trade Revisited', IMF Working Paper, no. 01/33, Washington D.C.

¹¹ World Bank, 2002, *Globalisation, Growth and Poverty*, World Bank and Oxford University Press, Washington D.C.

¹² Economic Analytical Unit, 2003a *Globalisation: Keeping the Gains*, Department of Foreign Affairs and Trade, May.

¹³ United States Department of Agriculture, 2001, *op. cit.*

¹⁴ International Food Policy Research Institute, 2000, 'Agricultural Market Reforms in Sub-Saharan Africa: A Synthesis of Research Findings', International Food Policy Research Institute, Washington D.C.

¹⁵ Most of African economies' support spending was under Green and S&D Box categories which are not included in agreed market support limits.

¹⁶ Furthermore, most of African economies'

support spending was under Green and S&D Box categories which are not included in AMS limits. From 1995 to 2000, well over half the farm support spending developing countries reported to the WTO were Green Box expenditure; for African members, this share was 65% for Africa. Green Box includes spending on domestic stockholding for food aid, subsidies for regional assistance, provision of government services and investment support programs. Article 6.2 of the WTO's Agreement on Agriculture also exempts from cuts several developing country expenditures on investment subsidies to low income or resource poor farmers and encouraging diversification away from cultivating illicit crops (Australian Bureau of Agricultural and Resource Economics, 2002).

¹⁷ Njinkeu, D and EO Oginkola, 2002, 'Advancing African Development through the Doha Round', paper presented at 4th Annual World Bank Conference on Development Economics, Oslo, June 24-26, 2002.

¹⁸ United States Department of Agriculture, 2002, 'Food Security Assessment', Economic Research Service, March, Washington D.C.

ADDITIONAL REFERENCES

¹ Economic Analytical Unit, 2003b, 'Advancing African Agriculture through Trade Reform', Department of Foreign Affairs and Trade, www.dfat.gov.au/ea.

² World Trade Organisation, 2000, 'Statement by Australia on Behalf of the Cairns Group: Fourth Special Session of the Committee on Agriculture, 15-17 November', www.wto.org, accessed 14 January, 2002.