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Trading Up: How International Trade and Efficient Domestic Markets Can Contribute to African Development

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There is widespread agreement that trade matters in achieving African development. As Ugandan President Yoweri Museveni recently put it in the call to the 2020 Africa conference held in Kampala in April 2004, “You cannot talk of sustainable food security without speaking of commercial agriculture, which means market access.” Market access has many components: linkages between farmers and local consumers, processors, and wholesalers; integration of rural and urban markets within geographical areas and among the various regions of a country; trade access among countries within the continent; and global flows of goods.



This brief examines market access in the context of international trade and related domestic policies in Sub-Saharan Africa (SSA). Policies affecting trade arise at three levels: in the multilateral forum of the World Trade Organization (WTO); within multicountry or bilateral regional trade agreements (RTAs); and in the unilateral decisions of nations. At each level, key questions can be asked, such as what are the highest African priorities for a new WTO agricultural agreement, how important are the tariffs and other barriers to trade among African countries, and what trade policies best serve a country? There is no silver bullet that will create optimal trade policy for nations in Africa or elsewhere. But guidelines for progress emerge from an examination of the options available. In this brief we highlight issues at each level; addressing them is the challenge ahead.

THE WTO AGRICULTURE NEGOTIATIONS

A key issue in the Doha Round of WTO trade negotiations, inaugurated in November 2001, is the content of agreements relating to agriculture. Given the importance of agriculture in the lives of poor people in the region, this issue is central for SSA. It is widely recognized that subsidies and border protection by wealthy countries inflict harm on agriculture in developing countries. Research conducted by IFPRI provides specific figures on the cost: the support and trade-protection measures of developed countries are estimated to reduce net agricultural exports of developing countries by nearly US\$40 billion, resulting in a loss in annual income to agriculture and agro-industries of US\$24 billion. For SSA, the value of net agricultural exports might increase by one-third, adding US\$2 billion to agricultural GDP, if developed-country support policies and trade barriers were abandoned.

But achieving agricultural policy reform is not easy. Until 1995, there was no multilateral framework for agricultural trade rules under the General Agreement on Tariffs and Trade (GATT). The WTO Agreement on Agriculture has provided such a framework since then, but the constraints on subsidies and protection are relatively weak compared with those addressing manufacturing. Farm groups remain powerful lobbies in developed countries, and farm support and trade policies are shrouded in complexities. During 2003, as part of the Doha Round, proposals for partial reform put forward jointly by the European Union (EU) and the United States were judged to accomplish too little by a coalition of developing countries. Within SSA, only South Africa joined in this critique. But four West African countries (Benin, Burkina Faso, Chad, and Mali) had their own initiative to bring U.S. cotton support policies to the center of the discussions, and called for prompt reform as a sign of good faith.

In the initial jockeying for positions in the Doha negotiations through May 2004, there has been more heat than light.

In 1988, during the last GATT round, negotiations also broke down over agriculture at the two-year mark.

Any agriculture-related accomplishments in the Doha Round will depend on a complex interplay of economic and political forces over the next several years. Articulating specific strategic steps is an ongoing process, but we can provide some guidelines regarding the contents of an agreement that would serve Africa's development. In the Doha negotiations, African policymakers should focus on the developed-country policies that directly affect trade (tariffs and tariff-rate quotas or export subsidies) and therefore do the most direct harm. The domestic farm support policies of the developed countries can also distort markets, but there are differences in the degree of damage caused by alternative policy instruments. It is also crucial that any agreement on core trade issues be accompanied by efforts to help African countries break through the bottlenecks in their domestic financial, human, and institutional capacity that prevent them from benefiting more fully from international trade.

There are linkages among products and policies that make it difficult to focus negotiations on only one commodity or one policy. The U.S. cotton support program, of particular African concern, is similar in structure to U.S. support programs for wheat, corn, and other crops. It is not likely to be changed by international negotiations in a way dramatically differently than the others, so the strength of the full negotiated framework for agriculture will determine in large measure the effects on specific crops.

TECHNICAL REGULATIONS AND TRADE

A additional market-access issues arise concerning the application of measures addressing sanitary and phytosanitary (SPS) and other technical barriers to trade (TBT) related to food quality standards and regulations. In the Doha Round, discussions have also addressed extending the protec-

tion of geographical indications for agricultural products, as favored by the EU in particular. These issues have increased in importance as trade in high-value agricultural products has grown and as the related WTO agreements have been implemented. They are particularly important for Africa's nontraditional agricultural exports, which make up half of the total and face less long-term decline in terms of trade than the traditional commodities.

While providing some international guidance, the WTO disciplines on SPS and other technical barriers are modest. Within the WTO's SPS agreement, countries are restrained from imposing sanitary and phytosanitary barriers without scientific evidence of risk. But they are not required to weigh the economic costs and benefits, either in their own domestic markets or to their trade partners, of SPS regulations for which small risk justifications can be found. Likewise, the TBT agreement provides only limited constraints on measures adopted to address other regulatory objectives that a country deems legitimate. However, exporters can use the WTO agreements to help set some basic international standards and to discipline the most egregious misuses of technical measures. Protection of geographical indications poses its own dilemma. While providing market information and offering niche market opportunities for specialized products from many countries, the protection of region-of-origin product names can also limit market opportunities for competing similar products. African countries need to be sure that their interests are reflected in trade rules in these areas. African producers will also have to meet the rising safety and quality standards being demanded in international food markets.

REGIONAL TRADE AGREEMENTS

In addition to seeking reductions in support and protection by developed countries, African countries feel the effects of their own trade policies. Trade between SSA countries provides about 20 percent of their total agricultural imports. RTAs that lower trade barriers could increase the flow of goods within SSA, yielding benefits to producers and consumers.

There are 14 RTAs between African nations, yet trade remains fragmented among member nations because in some cases the RTAs have partially overlapping memberships and in others conflicting objectives. Few of the RTAs have achieved substantial reductions in tariffs. To address these problems, the African Union has called for a continent-wide common market by 2020.

An effective regional agreement would reduce tariff and nontariff barriers to trade and stimulate economic growth. The six largest traders among 33 SSA nations account for 70 percent of intraregional agricultural exports, while intraregional imports are more diversified than exports, both by country and commodity. Trade is primarily subregional within East, West, and Southern Africa.

Researchers at IFPRI have identified more than 250 agricultural goods for which one or more SSA countries has a comparative advantage. Nearly one-third are goods—including such staples as livestock and livestock products, cereals, roots and tubers, and peas and beans—for which other African countries have a comparative disadvantage and are importers. Intraregional trade offers opportunities that complement trade with countries outside of the region. Increasing intraregional trade would provide opportunities for the rural poor and could help to partially alleviate Africa's food security problems.

NATIONAL POLICIES

Within the multilateral and regional framework, individual nations must decide on their own policies toward trade and national markets. Analysis shows what is at stake when developing countries reduce their own trade barriers *in conjunction with* the removal, as discussed above, of subsidies and trade barriers by developed countries. The research indicates that the gain in net agricultural exports and agricultural and agro-industry income in Africa and other developing countries would be somewhat reduced compared with the gain expected if the developing countries' policies remained unchanged. But internal reforms create a larger beneficial effect on total income in SSA and other developing countries. The gains to national welfare and total GDP are nearly doubled when these countries also reform their own policies.

In creating better markets, the policies countries implement relating to internal markets are as important as the policies on cross-border trade. Agricultural trade policy reform should be viewed as part of an integrated package in which expanded trade provides one means for permitting the agricultural population to benefit from improvements in productivity, infrastructure, and local institutions. Improved domestic market performance is of equal importance as export market access.

Since the early 1980s, almost all African governments have embarked on economic reform programs to reduce state intervention in the economy and to allow markets to play a larger role. But the pace and extent of reforms have varied widely across countries, and the reforms have often not been implemented fully. Food markets have been dramatically transformed in some countries but only partially so in others. Export markets are much more liberalized than they were in the 1970s, but a number of countries continue to control exports through state-owned enterprises.

Where domestic markets have been liberalized, the private sector has sometimes responded with rapid increases in the number of traders, greater competition, and, in many cases, reduced marketing margins. Yet marketing costs remain high because most private traders operate on a small scale with minimal investment, transport infrastructure remains poor, and there is a lot of uncertainty. Export marketing has generally become more efficient, allowing farmers to keep a

larger share of the export price, but liberalized export markets may be vulnerable to collusion among the small number of exporters. Agricultural productivity has increased in a few countries, particularly those in which policy was strongly biased against agriculture before the reforms. Yet the overall agricultural supply response has been limited by structural factors such as poor infrastructure and limited use of purchased inputs.

Where producer prices have increased, farmers have responded by expanding output, with the supply response greater for export crops than for domestically-consumed food crops. Thus, the success of internal reforms itself depends on opening market access internationally.

The urban poor have benefited from lower marketing margins and lower food prices, particularly in East and Southern Africa. Growers of export crops and crops that compete with imports have generally benefited from export liberalization and exchange rate adjustments. Yet, some problems arise. Poor urban consumers in some countries have been hurt by the deregulation of food prices or by large devaluations when the staple food is imported. In addition, remote farmers may have lost when pan-territorial prices were abandoned. Targeted assistance policies are needed to ameliorate these negative effects.

For agricultural reform in Africa to fulfill the expectations of its proponents, complementary efforts are needed in several areas. Policies are needed to enhance the benefits of the reforms and alleviate the negative effects. The withdrawal of the state from commercial activities should not imply withdrawal from its essential role in providing public goods. And the government can play a role in assisting nongovernmental institutions to improve market performance in the agricultural sector, just as it must play a role in international negotiations and standard setting. Through these actions, governments should make sure that assets controlled by today's poor generate higher incomes in the future. For example, complementary policies might provide transfers conditional on the build-

ing of human capital via school attendance or visits to health clinics that help to alleviate the impact of HIV/AIDS on productivity and human and physical capital accumulation.

CONCLUSION: THERE IS A WAY FORWARD

Enabling international trade to contribute to economic development in Africa requires facilitating policies at three levels. Multilateral trade rules must constrain subsidies and trade-distorting measures by developed countries. Developing countries also need to limit their use of trade barriers, in exchange for reforms in the developed world, and to facilitate international trade through opportunities in regional blocs. Finally, a reasonable course in unilateral trade policy decisions should be backed up with enabling measures to make it possible for farmers and agriculture-based industries to benefit from international trade access and to strengthen poor groups. Strengthened agricultural trade and enhanced opportunities in rural areas are needed to help Africa's millions of poor people pull themselves out of poverty. Rural people in Africa have little chance of improving their livelihoods without well-functioning international and domestic markets.

For further reading: M. Kherallah, C. Delgado, E. Gabre-Madhin, N. Minot, and M. Johnson, *Reforming Agricultural Markets in Africa* (Baltimore: Johns Hopkins University Press for IFPRI, 2002); D. Orden, R.S. Kaukab, and E. Diaz-Bonilla, *Liberalizing Agricultural Trade and Developing Countries, Trade, Equity, and Development Series No. 6*, http://www.ceip.org/files/pdf/TED_6.pdf (Washington, D.C.: Carnegie Endowment for International Peace, 2003); and M. Inco, J. Nash, and D. Njinkeu, eds., *Liberalizing Agricultural Trade: Issues and Options for Sub-Saharan Africa in the World Trade Organization* (Lagos: Macmillan Nigeria, 2003).

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