

A close-up photograph of a yellow corn cob, showing the individual kernels in detail. The cob is oriented vertically, with the top of the ear at the top of the frame. The background is dark and out of focus, showing some green leaves.

FOOD SECURITY IN AFRICA

*Market and Trade Policy
for Staple Foods in Eastern
and Southern Africa*



Edited by

Alexander Sarris and Jamie Morrison

Food Security in Africa

Market and Trade Policy for Staple Foods in
Eastern and Southern Africa

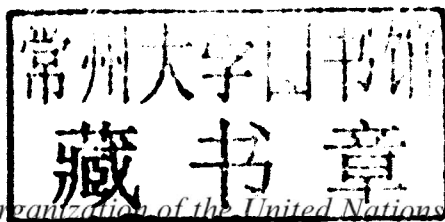
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Preface

The origins of this volume stem from interactions with developing country government officials and policy makers on trade-related issues, where it became apparent that there was a need to supplement the debates related to multilateral trade negotiations, and associated trade capacity-building activities, with a clearer understanding and reflection among policy makers and those seeking to provide policy advice, on the type of agriculture sector trade policy that would be desirable for different developing countries, in boosting their growth and enhancing their food security situation.

The perception is that many developing countries are not in a strong position to articulate their strategy for trade negotiations and end up being passive recipients of various modalities and rules, largely formulated by, and based on strategies and interests of, other countries, the purpose of which is not necessarily compatible with promoting their own development. At the same time, this weakness may have led to the defensive strategies of many developing countries who seek to maintain high bound levels of agricultural protection, despite the perceived large margins of concessions they could offer in light of the large tariff overhangs.

One of the regions where this need is felt very strongly is Eastern and Southern Africa. The region has considerable potential for producing basic food products, such as cereal staples, but has experienced growing imports of these and related food products over the last decade.

In response to such observations, the FAO Trade and Markets Division convened at the end of 2007 a meeting of 40 experts from African universities and research institutes, regional organizations, grain trading companies, donor agencies and international organizations. Selected papers presented at the meeting, after appropriate revisions, form the first set of chapters in this volume. Subsequent to the meeting, a series of country case studies were undertaken by the participants representing the African universities and research institutes. A selection of these case studies form the basis of the second set of chapters in this volume.

The editors would like to acknowledge the active participation of all workshop participants and authors of the various chapters in this volume. In particular, they would like to thank Thom Jayne of Michigan State University for his assistance in organizing the meeting, identifying

suitable case studies, as well as with the editing of these case studies into their current versions. The editors would also like to thank Emily Carroll and Katherine Clyne of the FAO Trade and Markets Division for their assistance in formatting the manuscript.

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1. Introduction

Jamie Morrison and Alexander Sarris

Trade policy instruments have been used by governments in Eastern and Southern Africa (ESA) in pursuit of a range of policy objectives. Import tariffs and export taxes have been used for revenue-raising purposes, and in conjunction with import licensing and export restrictions, to modify trade in an attempt to stabilize domestic staple food availability and food prices for food security reasons.

Trade policy remains key in the narrow range of instruments that are feasibly available to many poorer developing countries due to their limited budgetary resources and administrative capacity. Although tariffs have generally been applied at relatively low levels across the region, countries recognize the importance of maintaining bound (allowable) tariffs at higher rates to provide flexibility in their use in support of sectoral development, and as safeguard measures to allow short-term increases in applied tariffs to offset potential damage to domestic sectors as a result of surges in competitive or subsidized imports.

Trade policy debates in recent times have been coloured by the fact that the domestic market impacts of freer trade in individual countries have not necessarily been the primary focus of attention. The fora of debate relating to the use of trade policy have generally been in the context of trade negotiations, with often conflicting results of analytical studies used to put pressure on trading partners to encourage further reduction of barriers to trade and to minimize the potential use of safeguard measures. The divisive debates surrounding the potential World Trade Organization (WTO) Special Product provisions and on the potential use of a Special Safeguard Mechanism are a case in point. As a result, trade negotiations are in danger of inadvertently constraining countries' ability to use trade policy as a component of policy interventions in support of increased productivity levels in their agriculture sectors.

However, the use of trade policy instruments in pursuit of multiple objectives has often had unintended effects, increasing rather than reducing levels of uncertainty facing producers, traders and consumers, and thereby undermining domestic policy interventions implemented in support of agriculture sector development.

The use of trade policy in pursuit of food security objectives has been particularly prominent in the context of the recent wide swings in food prices to which some importing countries initially responded by further reducing already low levels of applied tariffs, while some exporting countries applied export restrictions in an attempt to exert downward pressure on domestic prices.

The combination of limited substantive evidence on appropriate trade and domestic policy interventions, the misuse of existing evidence in trade negotiations and the unpredictable nature of trade policy use in practice, has therefore made it difficult to create an objective debate as to exactly what roles trade and domestic policy should play in specific country and sector contexts.

There is, therefore, a felt need in many developing countries to promote an improved understanding of how agricultural trade policies are related to overall growth, food security and poverty alleviation objectives and strategies, and what types of agricultural and food sector trade policies would be more conducive to the various development objectives. Not only is this a prerequisite to successfully negotiating appropriate trade rules in the multilateral, regional and bilateral trade agreements, but it is critical to the design of trade policy supportive of such objectives.

One of the regions where this need is felt strongly is ESA. The region has considerable potential for producing basic food products, such as cereal staples, but has experienced growing food imports of those, and other related products, over the last decade. Data suggest that of the very large and growing imports of cereals into Eastern and Southern African countries, only a small share originates in those countries or in other African countries in general. This is a matter of considerable importance, as any enhanced production in the region will need to find market outlets in national and regional markets in order to boost rural incomes and food security. Appropriately formulated national and regional trade policies are likely to be crucial in ensuring that both national and regional markets grow and serve the development objectives of boosting domestic and regional production.

However, the understandable focus of the current policy debate in ESA on the unpredictability of the use of trade policies by some governments, and the negative knock-on effects that this can have on trade and on private sector investment, has clouded the debate relating to appropriate trade policy interventions.

This volume attempts to contribute to a more objective debate on the role of trade policy in Eastern and Southern African grains markets. It does so by reviewing analytical knowledge and practical experience in the area of agricultural and food trade policy, particularly as it concerns basic food

products. It takes stock of the factual information about food markets in ESA, clarifies the evidence and fills gaps in existing knowledge as far as the functioning of these markets is concerned. The volume includes both theoretical and empirical analysis of appropriate trade policy in the context of food markets in ESA, and through a series of country case studies examines the experience of countries in the region concerning the effectiveness of their policy interventions in these markets.

Chapters 2 to 8 are based on a set of papers prepared for an FAO workshop on 'Trade Policy for Food Products Conducive to Development in Eastern and Southern Africa'. Chapters 9 to 13 were prepared on the basis of five country case studies commissioned to address and shed further light on a number of questions arising from that workshop.

The volume begins with a challenge to the orthodox view that more liberal trade policy regimes are optimal. Ed Buffie (Chapter 2) suggests that empirical and theoretical work during the 1990s and 2000s argues for a re-evaluation of the pros and cons of a liberal *vis-à-vis* more interventionist set of policies. He highlights the fact that agriculture sectors in ESA have not unambiguously benefited from a move towards more liberal trade regimes. Buffie uses a simple two-good trade model to demonstrate that trade taxes, although in theory not a first-best solution to market distortions, can be significantly superior to alternative forms of intervention once administrative and disbursement costs are accounted for. Taking his arguments forward, Buffie challenges the orthodox views on protectionism and poverty, suggesting that the widely used static models are inadequate and that optimizing dynamic trade models provide a better conceptual paradigm: 'For example, protection of both food staples and agro-industry is pointless in a static model but a potentially attractive strategy in a dynamic model. . . . Using trade policy to foster movement up the supply chain may be the right strategy *precisely because* food processing is highly capital intensive'.

To illustrate the point, Buffie develops a dynamic variant of the Ricardo-Viner model, using it to examine both steady-state outcomes and transition paths following the introduction of import tariffs and export promotion as a way of warning against the neglect of dynamic effects in the traditional static models and the inadequate incorporation of dynamics into the commonly used computable general equilibrium (CGE) platforms. Buffie then discusses critical elements to be included in appropriately formulated dynamic models including insights from the infant industry literature, underemployment and investment. His concluding challenge to analysts is to devote more attention to developing fully articulated dynamic models, where the returns are likely to be greater than where 'the marginal return to crunching numbers for another CGE trade model with 40–100 sectors is low, bordering on negligible'.

Chapter 3, by Christopher Barrett, provides a useful complement to Chapter 2, focusing attention clearly on the fact that market participation of smallholder producers as sellers is generally low in the Eastern and Southern African region, and that where it does occur it is usually into local markets which are not well integrated. Barrett develops a graphical explanation of the implications of his so-called 'double buffering effect', elaborating the theoretical findings with empirical evidence from the existing literature. In addition to the general message that households that are not participating in local markets and/or participating in local markets that are weakly linked to broader national or regional markets, are not likely to be affected by trade and price policy at the border level, a number of more specific insights are developed. Notable among these are the food price dilemma and the existence of poverty traps which create barriers to smallholders' entry to markets. Barrett concludes by proposing a three-pronged strategy for inducing greater levels of smallholder participation: macro-level trade and price policy for better resourced households selling into well-integrated markets, meso-level interventions to improve integration and micro-level interventions to assist poorer households to engage as sellers.

In the following chapter, Jo Swinnen, Anneleen Vandeplas and Miet Maertens examine how the governance of commodity chains can be improved to increase the levels of surplus available for a more equitable distribution to chain stakeholders. The authors develop a conceptual model which they use to demonstrate how governance structures are likely to differ as a consequence of the product characteristics and the institutional environment, particularly the functionality of markets and the level of contract enforcement, in which the chain actors operate. The extent of governance is demonstrated to be dependent upon the value added in the chain. Low-value commodities such as grains are shown to have weaker governance structures than chains developing fresh produce for export. However, the level and strength of governance is also demonstrated to be a critical determinant of both the amount of surplus and the equitability of its distribution. The authors argue that government interventions may be required to ensure an institutional environment in which governance can be strengthened in lower-value commodity chains, but that such interventions should be designed so as to minimize the chances of impeding private sector-led chain development.

This argument is supported by Chapter 5, in which Piero Conforti and Alexander Sarris focus on the relative importance of reductions in marketing margins as opposed to the further liberalization of trade. The authors develop a CGE model of the Tanzanian economy, placing particular attention on the significant marketing margins associated with the trade of agricultural products and on rigidities in the labour market. Having run

various scenarios and associated sensitivity analyses, the authors conclude that interventions to reduce marketing margins would be a particularly efficient mechanism for reducing poverty levels. This is especially so when comparing margin reduction with the potential impact of further reductions in barriers to trade at the border, which do not appear to have significant effects in terms of improvements in GDP or in household welfare. Indeed, the point is made that tariff reductions have significant negative effects on government revenues.

Thom Jayne, Antony Chapoto and Jones Govereh (Chapter 6) provide a rich and wide-ranging review of the challenges facing food grain sectors in ESA, and facing policy makers attempting to formulate appropriate reforms and associated interventions. The chapter develops a context for discussion about the role of trade and market policy around a number of broad issues: the historical and political factors that constrain agricultural marketing and trade policy options; the chronic underprovision of public goods; how governments can make the demand for staple food more elastic and hence mitigate the price instability problem; the implications of the transition toward structural grain deficits; how the emerging biofuels industry will affect import parity prices in the region; the fact that a relatively small proportion of smallholder farmers will be able to benefit from a rise in regional food prices; why the rapid growth in urban food demand is being met by imported food; and how the rise of cassava production is likely to affect grain price stability. The authors argue that researchers need to devote greater attention to the implementation details of food marketing strategies if they are to provide accurate and meaningful guidance to policy makers.

Chapter 7, by Peter Little examines in detail the extent and possible ramifications of the significant volumes of unofficial cross-border trade. The chapter, while drawing on the author's significant research in livestock trade in Eastern Africa, draws a number of important insights relevant to other staple food marketing systems in the Eastern and Southern African region. Little begins by outlining the different views on the reasons for, and implications of, this often controversial trading activity. The chapter documents the extent of unofficial cross-border trade and the avenues through which it occurs, noting the different perceptions that are often found on opposite sides of the border. The effects, particularly on food security and the rural economy, are then examined and used to inform a discussion of policy options and challenges facing officials confronting the issue. A key conclusion is that unofficial cross-border trade is significant and often integral to the functionality of formal channels. As such a more holistic approach to the mitigation of the potential negative impacts associated with this type of trade is argued for.

In Chapter 8, Paul Dorosh, Simon Dradri and Steven Haggblade discuss the difficulties of ensuring the alignment of government, private sector and food aid agency intentions. Summing up the current misalignment, they state:

Uncertainty about government intentions, coupled with the fear of being undercut by subsidized public sales, induces private grain traders to remain on the sidelines or to limit their exposure by bringing in only small lots. In response, governments complain that they cannot rely on the private sector to import adequate quantities of food in times of need. Where private traders and African governments fail to solve staple food supply problems themselves, food aid donors stand ready to fill the gap.

The authors suggest that the associated uncertainty significantly undermines incentives for private sector participation in the marketing system development. In response to this challenge, they develop an economic model, based on the Zambian situation, to assist the three categories of actors in assessing the impact of production shocks, predicting the response of the other actors and the potential consequences. On the basis of the model, a number of conclusions are drawn regarding the predictability of the use of trade policy in the context of fluctuating production levels.

The second set of chapters are based on a series of country case studies that were commissioned following the workshop, with a view to developing further some of the areas identified during the workshop as requiring further investigation. Essentially, the case studies drew together documented evidence on national trade and market policy objectives and assessed the performance of the current trade and domestic policy set in achieving these objectives. On the basis of that assessment, the relative merits of alternative policy interventions that may be required to overcome highlighted limitations in, or constraints faced by, current intervention strategies in achieving the objectives were examined. The case studies then discussed the key aspects of trade policy interventions that could support successful implementation of policy alternatives. The edited versions of the chapters attempt to draw out the key findings in a structure that facilitates comparison across the countries examined.

In the final chapter, Morrison and Sarris attempt to summarize the theoretical viewpoints and empirical evidence contained in the preceding chapters on the extent to which trade and associated domestic policy interventions might assist, or hinder, initiatives to develop the potential of the agricultural sector to contribute to longer-term economic growth and development. The chapter first summarizes the problematique in Eastern and Southern African grain markets in terms of weaknesses in its structure

and recent performance. It then examines policy alternatives for addressing the problematique, drawing on the theoretical insights and case-study experience contained in the volume. It concludes by commenting upon practical issues related to policy intervention in the agriculture sector.

It is hoped that this volume, which is aimed at key stakeholders in the Eastern and Southern African grain markets, the policy analysts and decision makers who have the responsibility of formulating appropriate trade and market policy, and interested observers, will contribute to a more open and solidly grounded debate about the use of trade and related market policies in this sector.