



## Regional Trade and Market Access for Agricultural Transformation

### Background and Context

Enhanced agricultural trade and market access features prominently in the 2014 Malabo Declaration, as well as in the CAADP Results Framework. Commitment 5 of the Malabo Declaration specifically resolves:

- ▶ to triple, by the year 2025, intra-African trade in agricultural commodities and services;
- ▶ to create and enhance policies and institutional conditions and support systems:
  - ▷ to simplify and formalise current trade practices;
  - ▷ to fast-track the establishment of a Continental Free Trade Area (CFTA) and transition to a continental Common External Tariff (CET) scheme;
  - ▷ to increase and facilitate investment in markets and trade infrastructure;
  - ▷ to promote and strengthen platforms for multi-actor interactions;
  - ▷ to strengthen and streamline the coordination mechanisms that will promote Africa's position in agriculture-related international trade negotiations and partnership agreements.

Trade leads to greater productivity (through lower costs of inputs, more efficient and predictable markets), as well as to increased employment, higher incomes and larger quantities of food. Trade can also support regional integration efforts, technology transfer, political and cultural harmony. Trade is good for food security. Integrated markets and enhanced intra-African trade have will positive direct and indirect influence on all of the four dimensions of food security – availability, access, utilisation and stability.

### KEY MESSAGES

Africa trades very little with itself compared to other parts of the world. However, trade can lead to significant agriculture-led economic growth. Trade can also impact food security positively. Some of the areas on which NAIPs could focus include elements of the Plan to Boost Intra-African Trade such as trade policy, supportive trade facilitation, increasing productive capacities, building better trade-related infrastructure, increasing access to trade financing, availing trade information and enhancing market integration<sup>1</sup>.

### Challenges to Greater Intra-African Trade in Agricultural Commodities and Services

Despite relatively robust GDP growth since the early 2000s, Africa has remained a marginal player in world trade. The continent's shares in both world exports – 2.8%, on average – and imports has been falling since the 1970s. In addition to losing a crucial share in global markets, Africa trades relatively little even with itself. Official intra-African exports rose from 10% of total exports in 1995 to only about 17% in 2017 compared to 59% in Asia, 32% in North America and 69% in Europe. The opportunity and potential for increased regional trade, especially in agricultural commodities and services is, therefore, high. Spatial and inter-temporal price differences, seasonal and annual commodity surpluses and deficits create opportunities for gainful exchange.

<sup>1</sup> UNECA and AUC (2012) Boosting Intra-African Trade

On the other hand, however, regional trade is hampered by policy implementation challenges, infrastructural deficits exacerbated by difficult geography (especially along key trade corridors), poor logistics, low yields, huge appetite for extra-African agri-imports, competition between national interests and regional trade policies.

Challenges to agricultural trade include the following:

- ▶ **Limited range of (largely commodity) exports:** Africa trades in a limited range of mostly unprocessed commodities, for which the continent is mostly a price taker. This price-taking feature of agricultural trading is a result of low quantities and poorly organised value chains which undermine negotiating power. Traditional African export subsectors such as coffee, cocoa, peanut, cotton and palm oil have been losing ground over the long run. These problems suggest a need for greater product diversification and more sophisticated value chains.
- ▶ **Growing appetite for agri-food imports:** Processed and value-added food imports into Africa have been growing. In 1980, Africa's food imports were balanced with her exports at about US \$14 billion. However, imports rose relative to exports to an all-time high of US \$47 billion in 1980, causing a net import of US \$22 billion. Currently Africa spends about US \$35 billion to import food annually. The causes of this situation

are myriad and complex<sup>2</sup>. They include supply side problems, changing demand patterns and hindering policies. At the same time, however, this scenario also presents opportunities for intra-African import substitution through trade. It also shows that there is opportunity for agro-industry development to add value to raw produce before consumption or export.

- ▶ **Vulnerability to price shocks:** As a result of low quantities and high product concentration, African agricultural trade is particularly vulnerable to global price volatility. Poorly developed value chains are susceptible to unfair global trade practices and cut-throat competition from highly developed and productive agricultural and agribusiness systems such as those of Western Europe, North America and parts of Asia.
- ▶ **Partial or ineffective implementation of trade agreements within regional economic communities (RECs):** Well-meaning trade agreements within regional blocs have not been fully implemented, mainly due to political factors. In fact, liberal trade policies that have long-term benefits have faced relapses and reversals, hence the increasing frequency of export / import bans, variable import tariffs and quotas, restrictive rules of origin and price controls.
- ▶ **Other challenges and gaps**
  - ▷ Low capacity and poor coordination of trade negotiations with extra-regional trading partners.



<sup>2</sup> See, for example, Manitra et al. (2012). Why Has Africa Become a Net Food Importer? Explaining Africa's Agricultural and Food Trade Deficits.



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- ▷ Limited trade infrastructure.
- ▷ Cartel-like behaviour within key commodity value chains, creating barriers to entry.
- ▷ Weak stakeholder coordination, organisation and information sharing along major value chains, in addition to the lack of strong commodity support bodies at continental, regional and national levels.
- ▷ Poorly developed risk-management institutions.
- ▷ Implement the African Common External Tariffs (CET), as anticipated by the African Continental Free Trade Area (AfCFTA).
- ▷ Link agriculture, trade and investment policy and planning processes so that they speak to each other. For example, the NAIP should consider agriculture-related concerns in trade and infrastructure policy planning processes.

- ▶ Support trade facilitation by allowing faster and freer movement of goods and services across borders. African countries should strive to reduce or eliminate border bureaucracy, visa restrictions and other regulations that limit movement.
- ▶ NAIPS should seek to enhance productive capacities and to develop competitive advantages. One way to build competitive advantage is to invest in a few high-value commodity chains, within which Africa can quickly become globally competitive.
- ▶ Invest in better trade-related infrastructure. The key infrastructure and infrastructural services that support trade include transport infrastructure (such as roads, railways, airports and seaports), logistics, telecommunications networks and the services provided by these networks. These must be modernised and operated efficiently.
- ▶ Build and enhance trade financing. Only about 20% of the total amount of money dedicated annually to trade finance by African banks actually goes to facilitating intra-African trade (AfDB 2017). Africa must stop such leakages. Africa must also develop better mechanisms for managing perceived risk. There is a high rejection rate among African banks for applications for trade finance because of perceived risks to intra-regional

## Recommendations for Enhancing Agricultural Trade in Africa

Some things can be done, in the context of NAIP development, to facilitate increased investment and greater flow of intra-African trade. Some suggestions which offer the potential for high returns include the following:

- ▶ African countries should develop commonly acceptable standards. Too many varying standards hinder trade between countries as producers and exporters must vary production and handling processes for each export destination. Standards should not be used as an excuse to protect local producers.
- ▶ Enhance regional and continental market integration by undertaking the following steps:
  - ▷ Limit the negative effects of fragmentation of the African agricultural market along national borders by more than a dozen overlapping regional economic communities (RECs). These RECs should then be enhanced and rationalised over time.
  - ▷ Reduce or eliminate tariffs and non-tariff barriers (NTBs) for Africa-produced goods, in order to increase competitiveness.

trade, despite the fact that the default rate on trade finance transactions is low – estimated at only 4%<sup>3</sup> – compared to default rates in other sectors.

- ▶ De-risk agricultural trade. Uncertainties caused by price volatility and other risks in export markets must be removed through the development of more

sophisticated insurance products and contract farming mechanisms.

- ▶ Collect, curate, analyse and disseminate trade and market data, statistics and information in order to boost transparency and support trade and trade-policy development.

## How Performance in Trade is Measured in the CAADP Biennial Review

| Malabo Commitment   | Commitment Performance Category                                  | Objectives  | Indicator   | Target value |
|---|--|---|---|--------------|
| Intra-African trade in agriculture commodities and services | 5.1 Intra-African trade in agricultural commodities and services | Promote intra-African trade in agricultural commodities and services while reducing importation of those commodities from outside Africa.   | 5.1 Growth rate of the value of trade of agricultural commodities and services within Africa, in constant USD | 200%         |
|   | 5.2 Intra-African trade policies and institutional conditions    | Create and enhance regional and continental policies and institutional conditions and support systems so as to simplify and formalise current trade practices and to permit the achievement of intra-African trade targets; promote the African Common position on agriculture-related international trade negotiations and partnership agreements. | 5.2i Trade Facilitation Index (TFI)   | 100%         |
|   |  |   | 5.2ii Domestic Food Price Volatility Index (CV)   | 7.5%         |

3 AFDB 2017

### Further Information

- ▶ African Continental Free Trade Area (AfCFTA) - African Union Flagship Programme
- ▶ African Commodities Strategy - African Union Flagship Programme
- ▶ AfDB (2017). *Trade Finance in Africa. Overcoming Challenges*. African Development Bank Group: Abidjan. - [View](#)
- ▶ UNECA and AUC (2012). *Boosting Intra-African Trade*. United Nations Economic Commission for Africa and African Union Commission. - [View](#)
- ▶ Manitra et al. (2012). *Why Has Africa Become a Net Food Importer? Explaining Africa's Agricultural and Food Trade Deficits*. - [View](#)

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