



# Overview

# Introduction

This is the second annual *Africa Agriculture Trade Monitor* (AATM), a flagship publication that is part of a collaborative initiative between the International Food Policy Research Institute (IFPRI) and the Technical Centre for Agricultural and Rural Cooperation (CTA). The reports assess emerging and long-term trends and drivers behind Africa's trade in agricultural products—including global trade, intra-African trade, and trade within regional economic communities (RECs).

The first report, released in 2018, shed light on key advances and the untapped potential of agricultural trade among African countries. It revealed that Africa's agricultural trade has increased over time, with faster growth in imports contributing to the continent's growing trade deficit. The report also showed that intraregional trade is increasing but remains below its potential. African countries have lost competitiveness in global markets but gained in intraregional markets. More notably, the 2018 report predicted that expanded intraregional trade has potential to stabilize domestic food markets and increase resilience. Hence, the focus of this 2019 AATM on regional integration.

The push for deeper integration in Africa is gaining momentum at a time when the global trade system is facing new threats, such as the protectionist measures imposed by the United States and China in the context of escalating trade tensions. In July 2019, African Heads of State and Government met in Niamey, Niger, to launch the African Continental Free Trade Area (AfCFTA), which is due to be operational from July 2020, and which, the African Union estimates, will lead to a 52 percent increase in intra-African trade by 2022 (African Union 2016). This initiative builds on long-standing efforts to deepen regional integration on the continent, beginning with the creation of several Regional Trade Arrangements (RTAs), which political leaders have viewed as the building blocks for an African Economic Community that is due to take shape in 2028.

There are tangible reasons to promote continent-wide trade integration as a means of attaining higher economic development and shared prosperity among African countries. First, a collaborative report by the United Nations Economic Commission for Africa with the African Union Commission and the African Development Bank suggests that there is room for expanding intra-continental trade (UNECA 2010). The report indicates that extra-continental destinations account for as much as 80 percent of Africa's total exports, with EU and US destinations representing 50 percent of all exports outside the continent. The report emphasizes that over the past decades only about 10 to 12 percent of Africa's trade has been intra-continental, on average. A successful expansion of intra-continental trade share from 10 to 52 percent by 2022, as expected by the African Union Commission, promises significant growth, food security, and poverty alleviation benefits for individual African countries.

Second, multilateral trade liberalization seems to be at a standstill while RTAs proliferate around the world as alternative trade negotiation systems. The gains for Africa from the Uruguay Round Agreement were weak if any, and lower tariffs have often been offset by rising non-tariff barriers. Trade preferences for Least Developed Countries, such as the Everything But Arms (EBA) agreement and the African Growth and Opportunity Act (AGOA), likewise have not delivered the anticipated gains.

Third, regional trade integration is viewed as a good development strategy. Regional trade can increase the size of markets that are accessible to competitive producers; reduce the price of imported goods, particularly essential goods, by increasing competition; and help producers climb the value chain ladder, reducing dependence on the production and export of primary goods.

This issue of the *Africa Agriculture Trade Monitor* aims to:

- (1) examine the effectiveness of regional trade initiatives in boosting integration and intra-African trade; and**
- (2) assess the potential impact of broader integration on the continent's trade performance in the context of emerging protectionism.**

This year's report also includes a special focus on Eastern and Southern Africa, with Chapter 6 focusing on the experience with economic integration in these regions.

## Africa's agricultural trade in a changing policy environment

As Makoche Kanwa and Matchaya show in Chapter 6, Africa has been on a long journey toward regional integration that began in the 1960s. The authors trace the evolution of these efforts in Eastern and Southern Africa, and show how the United Nations Economic Commission for Africa (UNECA) historically championed the division of the continent into regions with a view to accelerating this process. Efforts to bring together countries within African regions were consolidated in the 1980 Lagos Plan of Action—although some blocs, such as the Southern Africa Customs Union (SACU), substantially predate these initiatives. While the journey has not always been smooth, Odjo, Traoré, and Zaki show in Chapter 3 that its direction is clear, with the entry into force of the AfCFTA in May of 2019 marking an important milestone in efforts to deepen economic integration across the continent as a whole.

Nonetheless, Bouët, Traoré, and Laborde remind readers in Chapter 5 that there is no room for complacency about Africa's future in today's global trade policy environment. They point in particular to the emergence of new protectionist tendencies in major economies, especially the rise of significant tensions between the United States and China, and examine what these phenomena mean for African countries. The authors sound a note of cautious optimism on the condition that current tensions remain confined to these major players, even suggesting that African countries could be poised to take advantage of the resulting changes in trade patterns in global agricultural markets. However, they warn that if protectionist tendencies become more widespread globally, with other countries similarly adopting new tariff barriers and imposing other trade-restrictive measures, African countries would stand to lose. In either case, deeper regional integration through the AfCFTA could help countries on the continent to better position themselves to take advantage of new trade opportunities or withstand external trade-related shocks.

Indeed, throughout the report, the authors find that closer economic integration would allow African countries to add value to products they already produce, create employment, and build on their competitive strengths. In Chapter 4, Dedehouanou, Dimaranan, and Laborde find that Africa's comparative advantages in agriculture have strengthened in recent years, although substantial differences exist among the RECs. African competitiveness is particularly strong in certain value chains, such as in sesame seeds and in legumes and pulses. For other products, such as coffee and grapes, competitiveness is declining. The new continental free trade agreement could help to diversify production and help producers to move up the value chain, the authors conclude.

Progress in regional integration also varies considerably across the continent's RECs. In Chapter 3, Odjo, Traoré, and Zaki nonetheless find that, across all RECs, agricultural trade is more introverted (that is, more heavily intraregional) than extraverted. The authors examine the methodologies used by different analysts to calculate the degree of regional economic integration, and argue in favor of an approach that benchmarks integration across all world trade, with a view to providing policy-makers with an accurate picture.

The same authors find that non-tariff measures (NTMs) are among the most significant remaining barriers to economic integration, along with other deficiencies such as weak infrastructure, a finding that reinforces the conclusions reached by Bouët, Cosnard, and Fall in Chapter 2, as well as those of Makochehanwa and Matchaya in Chapter 6. The report finds that NTMs currently require firms to expend considerable time and money for procedures at the border. Greater transparency, along with other measures to support trade facilitation, could help to overcome these obstacles—although the authors also highlight the importance of ensuring that these issues be properly addressed in the AfCFTA.

The report shows that agricultural trade in Africa continues to exhibit a number of other particular characteristics, including the prevalence of informal trade. Makochehanwa and Matchaya examine this issue in some depth, looking at efforts to date to understand and measure informal trade, as well as some of the difficulties in doing so effectively. They underscore the importance of collecting adequate and accurate data so that policy-makers can understand the phenomenon, and design appropriate responses to public policy challenges related to agricultural trade.

The report makes it clear that the AfCFTA is central to addressing many of the policy challenges associated with economic integration and agricultural trade that African countries face today. The authors argue consistently that the new agreement creates an important opportunity for African countries to design regulatory frameworks that will provide an adequate response to these challenges. To do so, however, policy-makers will require a clear picture of farm trade on the continent, as well as the trends and drivers shaping economic outcomes: this report seeks to make a concrete, timely, and policy-relevant contribution in this respect.

# Issues concerning data and methodology

The authors of this report have worked intensively on developing appropriate statistics. Using an analytical database based on the United Nations Commodity Trade Statistics Database (UN-COMTRADE), they conducted a series of data treatments to provide an accurate estimate of trade in Africa. They start with a first version of the database that includes only imports declarations. There is a broad consensus that imports declarations are of better quality than exports declarations.<sup>1</sup> For countries that do not declare imports for a given year, mirror data on exports from their partners is used to fill the gap. For consistency, the authors apply a cost insurance freight (CIF)/ free on board (FOB) correction to the exports' values reported by the partner to express all values on a CIF basis. The CIF/FOB ratio is obtained from a gravity equation that includes distance, contiguity, common official language, and colonial origin as explanatory variables. From the gravity equations, the authors derive HS2-level estimates of the ratio that are applied to export declarations.<sup>2</sup> The final product is a disaggregated (HS6-level) database providing information on bilateral trade for 195 countries or groups of countries from 2005 to 2017.

The quality of statistics is a fundamental issue for economic policy. It is obviously difficult, if not impossible, for economists and governments to make good economic policy recommendations without reliable and accurate statistics. This is particularly true for agricultural trade issues in Africa, where international statistics are reported to be of poor quality. For this reason, the establishment of a high-quality trade database was considered essential during the preparation of this report.

It also emerges from the report that the implementation of a monitoring system for informal cross-border trade flows is critical for a sound appraisal of the full potential of regional integration for boosting trade within Africa. Informal cross-border trade represents a significant share of intra-African trade, in particular for agricultural commodities. Many countries do not (fully) monitor their cross-border trade flows and data reported to UN-COMTRADE does not include informal trade flows. The prevalence of informal, unmonitored trade will persist if high trading costs along formal trade routes continue to justify recourse to informal trade corridors.

Another critical finding relates to the importance of using alternative indicators to inform the design of trade policies. Some indicators may be misleading, while others taken individually may be inconclusive. For example, the degree of trade integration of a regional trading bloc is often measured by the share of intraregional trade in total trade, and this share is compared between blocs, sometimes from various continents. This issue is discussed in greater depth in Chapter 2 of the report.

Overall, this report highlights the importance of the AfCFTA project and places it in a broader economic and policy context. By reducing *all* trading costs, the AfCFTA has the potential to spur growth through intraregional trade expansion, thus improving food security, diversifying the production base, and helping African producers to move up value chains.

1 - For instance, due to customs duties collection, imports are monitored with care

2 - The authors use a procedure comparable to the treatment of the BACI database built by CEPII. The difference is that everything is expressed on a CIF basis, while in BACI everything is expressed on an FOB basis. For more details on the methodology, see Gaulier and Zignago (2010).

Recent protectionist trends have further underscored the value and significance of economic integration initiatives on the continent. This may be the most important policy message of this report.

For all these reasons, the findings in the chapters that follow come at a critical time for Africa and for the global trading system for food and agriculture. Our hope is that this report will provide policy actors with the tools they need to position Africa effectively in the context of emerging economic trends in agricultural trade, on the basis of the best available empirical evidence and a carefully considered approach to the analytical methodology. As such, IFPRI and CTA believe that it will provide a useful and timely input to the deliberations on Africa's future policy trajectory in this area.

## References

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