Regional Network of Agricultural Policy Research Institutes

Road Map Towards The Malabo Declaration:

A Case for Open Borders

Commitment to intra-African trade

The recent Malabo Declaration adopted at the African Union (AU) includes an ambitious and promising re-commitment "to fast-track the establishment of the continental free trade area (CFTA), and the action plan for boosting intra-African Trade (BIAT)" (AU 2014). The intended aim is to triple intra-African trade by encouraging transparent and regulated policies that strengthen existing trade partnerships, foster long-term investment, and ensure continental food security.

> " The region stands to lose out on potential job creation at the agro-processing level..."

Sub-Saharan Africa's growing dependence on food products from outside Africa

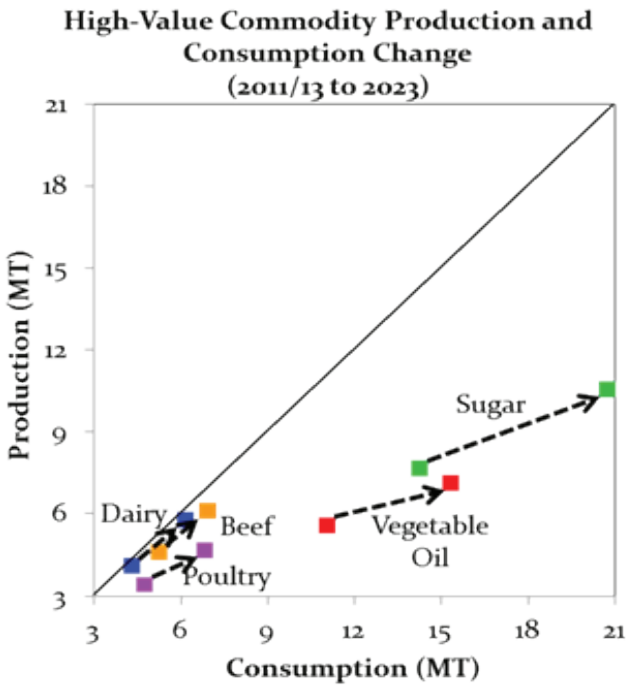
Current research reinforces the necessity of the Declaration's goals for intra-Africa trade. The demand in food consumption for Sub-Saharan Africa (SSA) is projected to increase between now and 2023 (see Figure 1). However, the region's ability to meet this growing demand is limited resulting in an increased reliance on food imports from outside of Africa, in particular Latin America (FAO, 2014). Given the production and consumption projections, the region stands to lose out on potential job creation at the agro-processing level; lose foreign revenue earnings from export trade; could face higher consumer food prices; and is more vulnerable to global food price shocks (Jayne, et al, 2014).

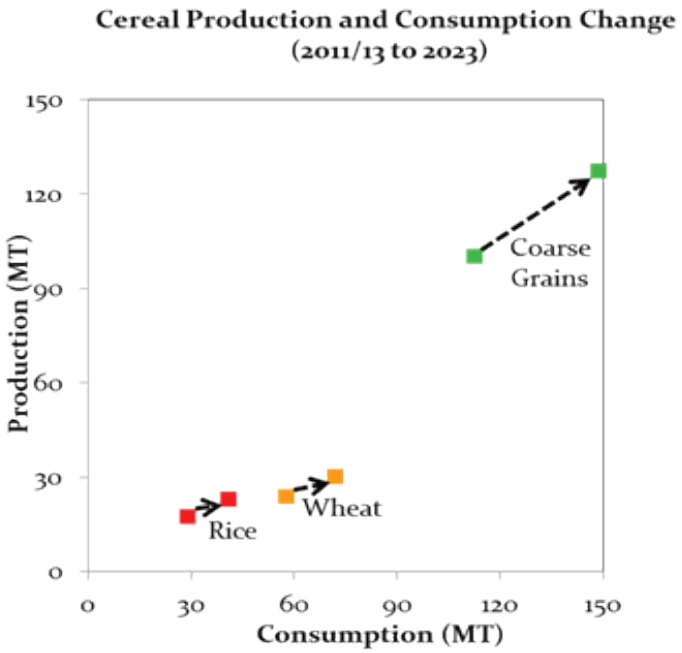
In order to mitigate the constraints on production, one possible solution is the elimination of discretionary trade policies that create uncertainty within the market, discourage private sector investments, and ultimately perpetuate food insecurity within the region.

Key messages

- The demand in food consumption for Sub-Saharan Africa (SSA) is projected to increase between now and 2023. However, the region's ability to meet this growing demand is limited resulting in an increased reliance on food imports from outside of Africa. The elimination of ad hoc export bans can mitigate the constraints on regional food supply.
- The benefit to consumers of an ad hoc export ban is short-term. A 200,000 MT fall in Zambian maize exports in 2015 will reduce maize prices by 27% below the projected baseline in the given marketing year. However by 2016 prices would only decrease by 1% relative to the baseline projections.
- The effects of an export ban can last beyond the year of the restriction. The reduced maize prices and increased food stock in 2015 would discourage Zambian farmers from producing, thereby reducing maize output by 2% below the baseline projections in 2016.
- Regional maize shortages due to Zambia's export ban will drive up prices in the surrounding countries. The change in the relative prices provides incentives for unsanctioned trade.
- Discretionary Trade Policies do not create sustainable food security and economic growth. Instead ad hoc trade bans destabilize domestic prices and discourage private sector trade.
- African policymakers should consider transitioning to a more systematic rules-based policy framework. Such a framework provides credible policy commitments that promote market predictability thereby stimulating private sector investments, consistent food supplies and greater price stability.

Figure 1. Food Demand Outstripping Production in Africa





Source: Matthey, FAO Trade Division

Forecasting consequences of export bans: ReNAPRI market and trade model

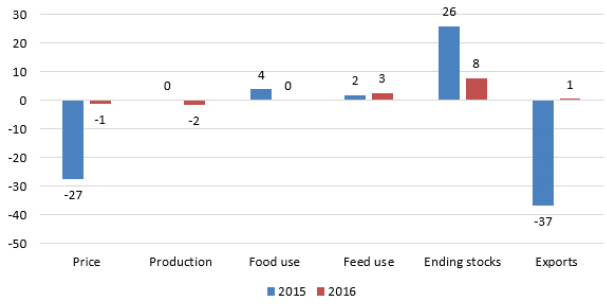
Governments' attempts to utilize export bans as a means of stabilizing prices and securing domestic food supplies have not been effective. In fact, these interventions have had an opposite effect – destabilization of domestic prices and discouragement of private sector traders (Jayne and Tschirley, 2014). To illustrate the impact of an ad hoc border-closing on regional maize prices and trade, the ReNAPRI market and trade model is used to simulate and forecast the outcome of a Zambian maize export ban.

Impact on Zambian Maize Market: 2015 - 2016

Since 2008, Zambia has produced significant surpluses of maize. As result, Zambian trade policies have a significant impact on regional maize markets. To measure this impact, a once-off 2015 border-closing shock, which results in a 200 000-ton reduction in Zambian maize exports, is introduced in the ReNAPRI model. The ReNAPRI 10-year outlook for maize is used as a baseline to compare the impact of the border-closing scenario.

For 2015, the model demonstrates an immediate 27% decrease in the Zambian domestic maize prices below the baseline price projections for the same period. However, the benefit to consumers is short-term; in 2016, the model shows maize prices would decrease by only 1% relatively to the baseline projections. By closing their borders, Zambia's maize stock would increase by 26% in 2015 (ReNAPRI 2014a). The reduced maize prices and increased food stock would discourage Zambian farmers from producing, thereby reducing maize output by 2% in 2016.

Figure 2. Percentage changes in the Zambian maize market



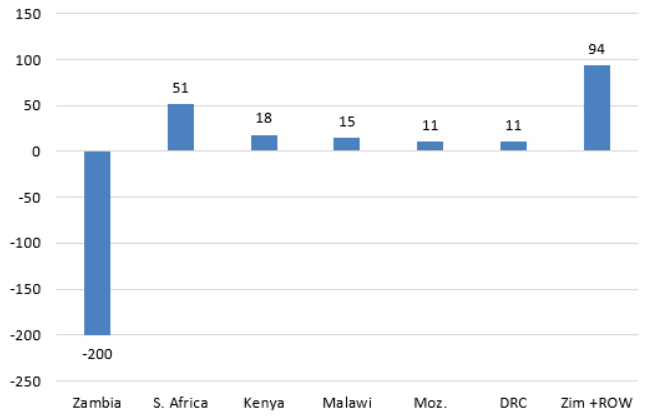
Source: ReNAPRI

[1] The ReNAPRI markets and trade model is a partial equilibrium model that solves for an equilibrium by balancing supply and demand in a closed system of equations under an agreed set of assumptions and exogenous drivers. Whereas the supply section of the model consists of estimated equations for the area harvested, yields and imports, the demand section consists of estimated equations for human and feed consumption, exports and stock levels.

Impact on regional maize markets: 2015

Zambia's trade ban stimulates maize exports within the region as surrounding countries scramble to meet the maize shortages created by the fall in Zambia's exports. The winners in this game would be South African and Zimbabwe (Rest of the World) maize exporters; the losers, Zambian private maize traders.

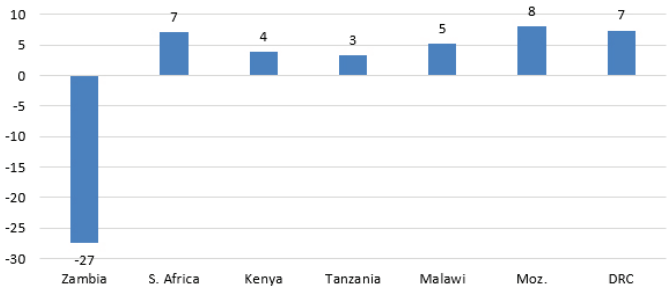
Figure 3. Net Exports change from baseline (1000 tonnes)



Source: ReNAPRI

In terms of price, regional maize shortages will drive up prices in the surrounding countries. The change in the relative prices provides incentives for unsanctioned trade, as Zambian traders engage in arbitrage through informal markets. Under this scenario, the higher prices benefit producers within the region; however, consumers lose as rising maize prices threaten household food security.

Figure 4: Percentage change in regional maize price from the baseline



Source: ReNAPRI

Cross-national commitment and cooperation maximizes domestic growth and stability

Understandably, it is appealing for individual nations to institute policies that benefit their respective consumers and producers. However, as demonstrated with the Zambian border-closing scenario, the ad hoc trade ban does not create sustainable food security and economic growth. Instead such a ban destabilizes the domestic price and discourages private sector trade.

As the continent moves towards the implementation of the Malabo Declaration on Trade, African policymakers should consider transitioning from a discretionary trade and marketing policy framework to a more systematic rules-based policy framework (Jayne and Tschirley, 2009). Nurturing credible policy commitments will promote market predictability thereby stimulating private sector investments, consistent food supplies and greater price stability.

> **" The change in the relative prices provides incentives for unsanctioned trade, as Zambian traders engage in arbitrage through informal markets..."**

Suggested Readings

Jayne, T. and D. Tschirley. (2009). Food price spikes and strategic interactions between the public and private sectors: Market failures or governance failures? Paper based on the presentation at the FAO meeting on Institutions and Policies to Manage Global Market Risks and Price Spikes in Basic Food Commodities. 26–27 October. Rome. Print.

Jayne, T.S., Ferdinand Meyer, and Lulama Ndibongo Traub. (2014). Africa's Evolving Food Systems: Drivers of change and the scope for influencing them. IIED Working Paper. IIED, London. Accessed online: http://pubs.iied.org/14637IIED

Regional Network of Agricultural Policy Research Institutes in East and Southern Africa

Secretariat at the Indaba Agricultural Policy Research Institute, Lusaka Zambia
Please direct enquiries to the Chairman,

Mr. Chance Kabaghe
Email: chance.kabaghe@iapri.org.zm

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