

High-Value Agricultural Exports from Africa

By Will Martin

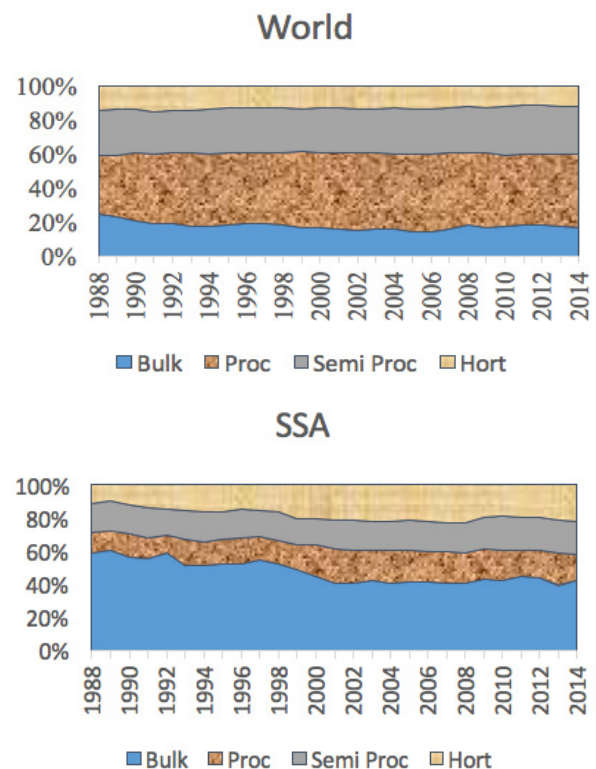
Summary

African exports of high-value agricultural products, such as processed agricultural goods and horticultural products have been growing rapidly. Some observers seem to feel that expanding these exports might be key to generating the new export revenues needed to promote development. While there is a lot of potential for expanding these exports, it seems likely that they constitute only one part of the solution. Agricultural exports, at little more than 10 percent of total exports, are simply too small to provide the base for dramatic future growth in exports. What seems to be needed is policies that allow producers to try new products and processes, and help for them to build on the successes that they identify.

High Value Agricultural Exports

Worldwide, agricultural trade has been transformed in recent decades, moving away from bulk staple food crops to focus more on processed food products and horticultural products. Worldwide, the share of bulk agricultural products in total agricultural exports fell from 25 percent to 17 percent between 1988 and 2014; during that same period, exports of horticultural products rose to 12 percent and exports of processed food products reached almost 75 percent. This change in the structure of world agricultural markets has created many new opportunities for exporters, jobs for workers and export earnings for countries. da Silva et al (2009) point out that this development is driven by many factors, including income growth in markets, changes in technology and trade liberalization.

Figure 1. Shares of agricultural exports



Source: Fukase and Martin (2017) using the classification of Regmi et al (2005)

In Africa south of the Sahara, the share of bulk goods in agricultural exports has also declined, from 60 to 42 percent, while the share of processed agricultural goods rose to 35 percent, as against 75 percent for the world. However, the transformation of agricultural exports has proceeded more rapidly in Africa than elsewhere in horticultural products, which accounted for 22 percent of African agricultural exports in 2014.

What Potential Role for these Exports in Africa?

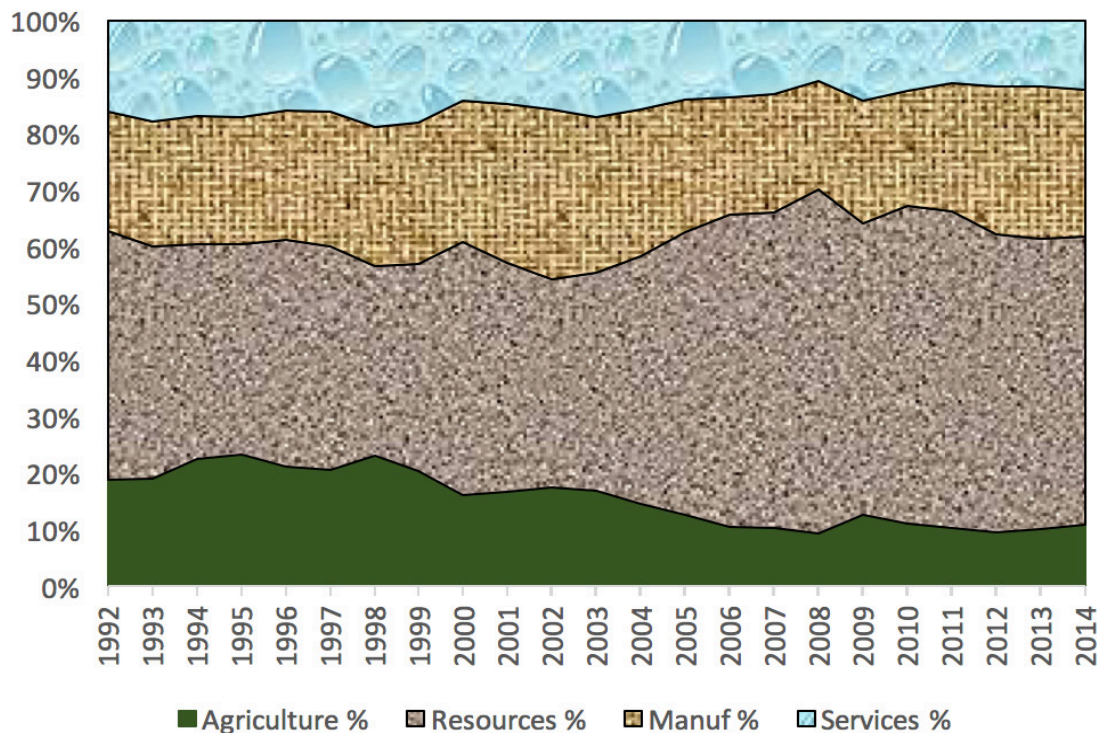
A key question is what role moving to higher valued agricultural exports might play in expanding export returns from Africa. Certainly, it is important to examine the policies that might help African countries speed up growth in exports of higher value products, such as horticultural crops and processed foods. But might greater processing of existing agricultural exports be a substitute for developing new exports in

the face of fierce competition from other developing country exporters? On this question, it seems important that countries should not rely on exports of high-valued agricultural exports alone as an engine of export growth.

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This would be too limiting, particularly given that all agricultural products now only account for around 10 percent of exports from Africa, as shown in Figure 2. However, high-valued exports such as horticultural products and processed agricultural products could play an important role in increasing overall exports. Further, many of the reforms needed to stimulate these exports would be helpful in encouraging exports of other goods and services.

Figure 2. Export shares from Sub-Saharan Africa



The Changing Trade Environment

Many new opportunities for developing-country exports have emerged in recent years as improved transport and communications have made it possible to unbundle production processes across countries (Baldwin 2016). Instead of having to develop entire value chains, countries can focus on the stages of the production process that work best for them. Production of garments, for example, may involve growing cotton in West Africa where agro-ecological conditions are particularly suited; making yarn and fabric (likely using blends of cotton and other fibers) in China; assembling garments in Ethiopia.

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This change is particularly helpful for developing countries because the costs of developing successful new exports are often very high (Hausmann and Rodrik 2003). Easterly and Reshef (2016) show that exports from African countries—just as in other regions—tend to be dominated by a relatively small number of “big hits” that generate a large share of exports. This reinforces the importance placed by Hausmann and Rodrik (2003) on the need for a policy environment in which firms can experiment to identify new exports. A key element of this is likely to be in ensuring that exporters have access to intermediate inputs at world prices so they can be competitive on export markets.

Barriers to Increasing Exports of Processed Agricultural Products

These barriers include both external barriers such as protection in export markets—and particularly tariff escalation in which more processed products face higher barriers than raw materials—and barriers at home

that raise the costs of producing for competitive export markets.

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The barriers that many African exporters face on their exports to their largest single market, the European Union, are relatively low because of tariff preferences. However, Fukase and Martin (2017) find that tariff escalation in other markets has powerful adverse impacts on exports of processed products. Africa’s second-largest market for processed agricultural exports is other African countries, but these intra-African exports face tariffs two thirds higher than on exports of these products overall.

Fukase and Martin (2017) also find that policy-induced costs of the inputs needed to produce horticultural crops and processed foods can create substantial barriers for farmers and firms wanting to enter more lucrative export markets. For example, high tariffs on intermediate inputs reduce the returns to be gained from engaging in a processing activity, frequently resulting in a failure to invest in that activity, and a missing link in what might otherwise have been a highly lucrative value chain.

Approaches to Expanding Exports

Policymakers can directly address the costs to their exporters created by policies that raise the costs of the inputs they need. From an economic viewpoint, the best way to do this is by lowering protection on all imports. If this is not possible, approaches that allow exemptions from import barriers for intermediate inputs used to produce exports can strongly stimulate exports (Ianchovichina and Martin 2004). This approach is frequently combined with provision of infrastructure and exemptions from taxation in special economic zones—an approach that has been broadly successful in Asia—but generally not as successful in Africa. Farole (2011) highlights the many problems arising in Africa, including a tendency for labor costs to be much higher, relative to national income, than in the Asian countries where this approach has been used successfully.

The barriers that exports face in partner markets can only be addressed by international negotiations, whether undertaken bilaterally, regionally or through the WTO. The strong recent focus on lowering barriers within Africa is particularly important given the serious nature of these barriers for exports of processed agricultural products.

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Weak infrastructure, such as poor roads, also lead to high transportation costs and longer transit times. These obstacles can be particularly detrimental for the production and marketing of perishable goods like fruits and vegetables. Investing in infrastructure can be an important channel through which policymakers can reduce costs and encourage higher-valued exports. This does not mean taking on the impossible challenge of immediately improving all of Africa’s transport infrastructure at once. A recent paper by Porteous (2017) points out that improving just a small number of key trade corridors could transform African agriculture. Freund and Rocha (2011) show that export success in Africa is strongly influenced by the length of delays in internal travel times, with a one day reduction in inland travel time resulting in a 7 percent increase in exports.

While these and other domestic policies are important determining factors in a country’s export growth, policies in that country’s trading partners are also important. Tariff escalation within value-chains in trading partners remains a serious impediment to Africa’s exports of processed agricultural products. Removal of tariff escalation, by lowering tariffs on processed agricultural products in line with tariffs on bulk exports, would increase Africa’s exports of processed agricultural products by 115 percent. Unfortunately, such trade liberalization cannot be undertaken just by policy makers seeking to expand their exports. It will likely require continued use of regional and multilateral negotiations in which exporters from each country press for reciprocal market access.

Policymakers’ attention should not be limited to agricultural exports. Rather, they should focus on creating a fiscal and regulatory environment that stimulates growth in a wide range of exports –whether agricultural or non-agricultural – and that encourages innovation. In this way, exports in the region will be able to expand in ways that make best use of each country’s resources and skills.

Export growth plays a crucial role in overall development - driving economic growth, creating jobs, and providing an importance source of foreign exchange. Understanding the constraints facing African exporters is vitally important if these constraints are to be alleviated and African exporters are to take advantage of the opportunities in the rapidly growing markets for high-value agricultural products. A supportive policy environment in which firms can access intermediate inputs at close to world prices, and helped to overcome other barriers to export success, will help them identify both opportunities for adding value to traditional agricultural exports, and opportunities in entirely new products and services.

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About the author, Will Martin

Will Martin is a Senior Research Fellow at the International Food Policy Research Institute, and President of the International Association of Agricultural Economists. Martin's recent research has focused primarily on the impacts of changes in food and trade policies and food prices on poverty and food security in developing countries. His research has also examined the impact of major trade policy reforms—including the Uruguay Round; the Doha Development Agenda; and China's accession to the WTO—on developing countries; implications of climate change for poor people; and implications of improvements in agricultural productivity in developing countries. He trained in economics and agricultural economics at the University of Queensland, the Australian National University and Iowa State University and worked at the Australian Bureau of Agricultural Economics, the Australian National University and the World Bank before joining IFPRI in 2015.

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