Deciphering the constraints in SADC's agricultural cross-border trade: Policy brief

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PREAMBLE

The purpose of the study was to assess the constraints and opportunities in improving the implementation of existing policies to support cross-border trade in agricultural inputs and commodities in the SADC region.

KEY MESSAGES

- Availing resources and ensuring that there is enough implementation capacity is critical in addressing the challenges that the SADC region is facing at implementation of the agricultural marketing and trade policies.
- Facilitating for user-friendly trade regulations and, simplification of import clearance and immigration procedures should guide the SADC region in harmonization of trade-related policies and legislations.
- There is a need to support local suppliers from SADC countries to penetrate broad regional markets as a means to mitigate against individual country dominating on regional trade and thus creating a conducive business environment for reciprocal trade and shared benefits from trade.
- SADC countries should invest in industrialization as a means to respond to the evolving consumer needs towards sophisticated (processed) products, including packaging, quality control, branding and delivery as driven by urbanisation, increased population and improved incomes.
- There is a need to monitor and account for the informal cross-border trade and ensure the collection of comprehensive trade data among SADC countries.

1 INTRODUCTION

Agriculture and trade, play a crucial role in the socio-economic development of Africa. Agriculture is central to poverty reduction as it is a potential source of enhanced livelihoods, employment, subsistence, and income for most of the people in developing nations. The agricultural economy employs 65–70% of Africa's labour force and contributes between 30–40% of GDP (World Bank, 2013). More than 70% of the continent's poor live in rural areas with agriculture as their main economic activity (FAO et al., 2015; Hurst et al., 2007). Trade is a key source of economic growth, though Africa is a relatively insignificant player in global trade, accounting for about 4% of global agricultural exports (Badiane et al., 2018).

Regional integration in Africa is a vehicle for promoting trade and securing economies of scale and market access, while also facilitating the realization of sustainable economic growth and development (Badiane et al., 2018; UNDP, 2011; Ogunkola, 1998). However, progress in African regional integration has been sluggish due to a number of factors including dual membership, lack of authority, bureaucratic obstacles in dealing with bigger powers, and political instability in some countries (Mapuva and Muyengwa-Mapuva, 2014; Qobo, 2007; Sako 2006).

In the fast-globalizing market, African countries face the combined effect of small market size, weak institutions, low human development, worsening terms of trade, persistent conflict, and poor investment climate (UNCTAD, 2020; Badiane et al., 2018). Additionally, there is limited trade taking place among African countries in the region. These shortcomings need to be addressed to facilitate realization of the potential of trade and economic development.

Although informal cross border trade addresses important livelihood issues, its contribution to the economies of SADC member states and the rest of Africa appears to be neglected by mainstream trade policies and institutions, thereby undermining its visibility and profitability (Ama et al., 2014). Informal cross border trade is estimated to contribute between 30% and 40% to intra-SADC trade and is mainly a women's strategy for employment, poverty reduction and wealth creation (Chiwara and Ndiaye, 2010; UN Women, 2010).

2 APPROACH

The study engaged several methodologies to explore modalities for improving the implementation of existing policies to support cross-border trade in agricultural inputs and commodities through accounting for the constraints and opportunities therein. They are: AIS-PPI country policy teams' assessments; review of respective Country Agricultural Export and Import Reports; analysis of ITC Trademap data on imports and exports; literature review on related publications; and a webinar on agricultural cross border trade. The AIS-PPI tool developed by FARA in collaboration with BEAT, provides an analytical framework with scoring indicators to assess existing agricultural policies' formulation and implementation of agricultural policies. The tool employs a participatory and deliberative approach, while the results from countries are comparable on policy themes and dimensions. The tool is based on the CAADP framework and it has 4 re-enforcing intervention areas and 20 policy dimensions; and each policy dimension with specific indicators.

Quantitative data on agricultural inputs and commodities considered in the study provided evidence on the effectiveness of SADC national and regional policies in facilitating cross-border trade. This was explored through trade analysis over a period of 20 years (2001 to 2020) and tradeflow data analysis using International Trade Centre (ITC) TradeMap data. In addition, a webinar organised in the course of the study provided an expert reflection on the indicative findings, while providing additional dimensions to consider in the study.

3 KEY FINDINGS

3.1 Agricultural Exports and Imports for the CAADP-XP4 Countries

The legal environment, which guides the exportation and importation of agricultural commodities for the CAADP-XP4 countries, varies across countries. However, what is common among the countries are a multitude of laws that govern agricultural trade, some of which apply to specific agricultural commodities but, in some cases apply to general commodities. Although there have been some changes to some of the laws, some laws date back to the pre-colonial era.

Additionally, there are various, and varying export and import procedures for the CAADP-XP4 countries. Some of these processes are complicated, while others take long. Africa has excessive business regulations, difficult permit procedures, and opaque tax assessment rules, which makes Africa's legal and regulatory environment amongst the least business-friendly in the world (ADB, 2011). SADC countries have used export restrictions on some of their agricultural commodities from time to time.

SADC member countries have also used tariffs for revenue generation for the fiscus. Customs revenue represents a significant source of government revenue for most of the SADC members. Fears of significant tariff revenue losses and an uneven distribution of costs and benefits are among the main obstacles to the continent's integration. Although countries in the region have agreed to eliminate non-tariff barriers and the liberalization of services trade, not much progress has been made in either of these areas. Tariff, non-tariff barriers, technical and non-technical measures are some of the key trade restrictions and constraints to trade in agricultural commodities.

3.2 Assessment of Agricultural Policy using AIS-PPI and Country Agricultural Exports and Imports Reports in the SADC Region

One general observation of the Agricultural Innovation System Policy Practice Index (AIS-PPI) scores' gives an overall pattern with the scores for policy formulation being higher than scores for implementation across all the six countries (Botswana, Eswatini, Malawi, Mozambique, Zambia, and Zimbabwe). Limited institutional coordination and weak partnerships for implementation of activities; inadequate capacity for implementation; low levels of funding to support activities emanating from the policies; and, limited data sharing are the key factors contributing to low policy implementation. For example, the first decade of CAADP encouraged African Union member States to allocate at least 10% of total public expenditure to the agriculture sector. However, most countries are still below 10%, which agrees with the findings of this PPI process.

3.3 SADC Agricultural Exports and Imports

The data on SADC agricultural exports and imports shows that Africa's export trade is heavily concentrated on unprocessed or primary commodities characterized by relatively slow growth, price instability and long-term deterioration of terms of trade, which leads to a primary commodity trap. The primary commodity trap has three consequences: it exposes Africa to economic instabilities and vulnerabilities; it places Africa at the receiving end in the skewed international economic regime, which is characterised by gross inequality and domination; revenue declines from primary products, and foreign debt intensification (Tralac, 2017).

Another observation is that SADC has little agricultural trade with the rest of Africa but, is rather trading more with the rest of the world (UNCTAD, 2019). Only 15% of exports take place within Africa, compared to 25% in the Association of Southeast Asian Nations (ASEAN) and over 60% in the EU (UNCTAD, 2019). Within SADC, South Africa dominates the exports to other SADC member states while it imports majority of its agricultural requirements from the deep seas.

SADC is importing huge amounts of agricultural commodities than it is exporting. The region is therefore, experiencing a negative agriculture trade balance (UNCTAD, 2019). Another observation is that SADC is importing more processed agricultural commodities from the world while exporting more unprocessed agricultural commodities to the world. In other words, SADC is producing what it does not eat and eating what it does not produce. One of reasons is that there is little value-addition taking place in SADC due to low levels of industrialization on the continent, which results in a heavy reliance on imports for several economies. However, urbanization is increasing in Africa with the population demanding processed foods, which Africa has no choice but to import from the deep seas.

4 TRADE POLICY ISSUES IN THE SADC REGION

Lack of harmonisation of regulations and requirements

The lack of harmonisation of regulations and requirements is one of the major constraints to trade facilitation within the SADC region. Historically, for instance, there have been difficulties in the movement of seeds from one member state to another in line with demand and supply. This is because procedures and regulations on movement were country-specific. Regionalization of seed markets is an important phase in the movement toward more efficient food production systems in southern Africa. National seed markets are disjointed, and most sophisticated seed markets are too small to attract the attention of large-scale private sector investment (USAID, 2016). The differences from one country to another, on regulations regarding variety release, seed certification and quality control, and quarantine and phytosanitary regulations, lead to increased transaction costs and duplicative procedures.

There are conflicting priorities as member states and countries do not progress at the same pace: This is especially where the alignment of the national laws, with the implementation of the system, is weak and therefore, requiring a review of the countries' laws. The review process is however lengthy with prolonged domestication as there are instances where the national laws are outdated. In some instances, structural arrangements that deal with implementation are so fragmented, rendering a challenge with coordination.

Losers and winners in the implementation of free trade within Africa and the SADC region

Implementation of free trade within Africa and the SADC region is expected to result in losers and winners. Some countries are likely to benefit more than their counterparts. It is expected that countries with enabling business environments would gain more from free trade in the region, allowing more efficient allocation of resources within countries and sectors. In addition, it is envisaged that countries with extensive productive capacities in manufacturing may experience considerable economic growth and welfare gains, whilst smaller economies and LDCs may experience substantial fiscal revenue losses and threats to the survival of local industries. This might mean that uneven distribution of benefits and costs among member States may delay the negotiations and hinder its implementation if sufficient insurance measures and flexibilities that allow redistribution of benefits and fair sharing of costs by member states are not put in place.

Delays on domestication and implementation of regional policies
Harmonization of the seed varieties in the region facilitated through transparency based on the harmonised regulations in place is a key outcome. There are, however, delays in domestication and implementation that may make the whole process fail in the future e.g., Genetically Modified Organisms (GMOs). The position on GMOs is not homogenous across the region, while the challenges of diseases, pests and drought present a common challenge.

The sovereignty concern by member countries is also scuttling the process of enforcing harmonization. Few countries on the Continent seem to be ready to give up some of their sovereignty for the pooling of sovereignty, which is crucial for the success of regional integration. The Continent's high enthusiasm for regional integration has not been matched by the corresponding political will and commitment of member states to effectively implement agreements reached under various integration arrangements.

Use of the principle of infant industry protection
The principle of Infant Industry Protection has been used by countries in the region on several occasions. The focus of the principle is on influencing the development of the infant industry. It is good for the affected firms but the porous borders, globalization and smuggling of products are counterproductive. There are ways to protect the infant industries, while allowing for the necessary competition in order to improve the quality of products and services. There are, however, ways that price competitiveness can be enhanced, while also maintaining the quality of the products.

Cost-effectiveness is lacking for most value chains in the SADC region
Cost-effectiveness is lacking for most value chains in the SADC region. For this reason, countries are not competitive in exporting agricultural value-added commodities within Africa and the rest of the world. The cost of doing business (e.g., transport cost) is high with the delays in border points due to the multiple, and at times duplicated, procedures that inhibit the free flow of goods and services as opposed to trade with the developed countries.

Promotion of food self-sufficiency as insurance to pandemics
Given that COVID-19 disrupted the marketing and trade of agricultural commodities, the issue that arises is whether there is a need to swing the means of achieving food security from relying on trade to self-sufficiency. However, self-sufficiency is more of a process than a once-off mechanism – it is a shift, and it needs time, despite having good thoughts on the same. The pitching of self-sufficiency needs to be at the regional level in order to have more and better gains, as opposed to being pitched at individual country level. At the regional level, the cost will be lower.

5 RECOMMENDATIONS

The present globalisation environment works against SADC including Africa and the rest of the developing world. There is no doubt that SADC and Africa must actively participate in the global economy. Globalization means there will be continuing flooding of the region's markets by goods and services from outside the region, if the region does not act quickly. SADC must participate in regional cooperation and integration using the frameworks provided by the RECs and the AU. The region has good policies in place, at both country and regional levels, but faces challenges in the area of policy implementation. These challenges must be addressed through interventions such as harmonization of seed policies, tariffs, export, and import procedures, etc. There is a need to find ways to overcome barriers to trade particularly for seed and fertilizer trade - by addressing tariffs and non-tariff barriers to cross border trade.

SADC must continue to adopt and implement policies that comply with international best practices that facilitate the bloc to play an effective role in the global economy. SADC should aim for the harmonization of trade-related policies and legislations across African countries by providing user-friendly trade regulations and simplifying import clearance and immigration procedures. The harmonization of regional trade facilitation formalities will result in the overall reduction of the cost of doing business which, will in turn stimulate the building of regional value chains.

In addition, there is a need to ensure that local suppliers from the SADC countries gain the capabilities to supply and penetrate broad regional markets. This will ensure that no individual country dominates trade but rather there will be reciprocal trade and shared growth within the region.

As urbanisation continues to gain momentum courtesy of increasing populations and improved incomes, the consumer basket will continue to evolve towards more processed foods. In response to the shifting consumption patterns, SADC countries should invest in industrialization to enable production of more sophisticated products, including packaging, quality control, branding and delivery.

There is a need to monitor and account for informal cross-border trade and ensure the collection of comprehensive trade data among SADC countries. This will be key in promotion of inclusivity in the cross-border trade that is currently characterised by women using informal trade to meet their livelihood needs.

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