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Monitoring Agri-trade Policy

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Directorate-General for Agriculture and Rural Development

Africa's agricultural economy : Its position in the world and its relations with the EU

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Africa. A word that has come to represent much more than a continent and one that is now inextricably linked to the urgency of debt relief and poverty reduction and the need to liberalise trade and facilitate development. So synonymous with so many fundamental global challenges has it become in fact, that it now has a G8 summit focussing on it and debt relief in July, a trade round dedicated specifically to developing countries and a United Nations summit in September concentrating on the Millennium Development Goals. 2005 is set to become "the year for Africa;" at the very least, it should be the year for initiating a change in focus and attitude towards Africa.

But finding a single solution for the complex challenges facing Africa is nigh on impossible. As this edition of MAP highlights in its limited study of only the African farm sector, no one issue is singularly responsible. With 53 countries spread over a land mass eight times the size of the European Union (EU), 34 of which are categorised as "Least Developed," Africa is a vast and hugely diverse continent. Parts of it are desert, others highly fertile plains; parts are rich in natural resources, others have none. GDP per capita varies hugely throughout the continent, as do infrastructure standards, life expectancy and trading opportunities. The one factor that is common throughout is agriculture; it remains an important sector of the economy and for many of the poorer countries it is the primary source of national GDP.

And so, as the world's media builds up towards the G8, and Africa in its many guises dominates front pages worldwide, this MAP chooses instead to adopt a more 'back-to-basics' approach, focussing specifically on agriculture. It touches on Africa's current farm situation and how the industry contributes to the different economies in different parts of the continent. It also looks at its key agricultural commodities and its share of world agricultural production before moving on to Africa's trade relations with third countries, and the impact of external policies and preferential trade agreements.

As Africa's leading trade partner, its relations with the EU are obviously significant as well. The EU has repeatedly underlined its support for Africa and the Doha Development Agenda, and its preferential trade agreements are the most widely used in the world. We therefore focus on some of the statistics concerning Africa's bilateral trade with Europe before rounding off this issue of MAP with some preliminary conclusions on the future of Africa's agriculture based on our own analysis.

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1. Africa at a glance: a vast and varied continent

Africa is not a continent that can be summed up in a series of sweeping statements. Spanning seven degrees of latitude and possessing an agricultural area alone that is the size of China, it is suited, in parts at least, to the production of a broad range of agricultural commodities. But, as is well known, it is faced by a series of immense challenges; it is chronically underdeveloped and faces a broad range of challenges, from the limitations posed by climate and topography, to a lack of investment and training, poor infrastructure and political instability in large parts of the continent. We start this issue of MAP by outlining some of the key statistics impacting on Africa's development.

Economically it is the **poorest** continent in the world. Almost 70% of the population survive on less than $ 2 a day and the average GDP per capita was a mere € 636 in 2003, almost 40 times less than that of the EU that year. It is a low average by any standard yet it also masks the huge divergence between Africa's richest and poorest countries, and the true extent of poverty in many. Burundi's GDP per capita for example, is a mere US$ 86 while South Africa's is over US$ 3 500.

On top of this, the build up to this month's G8 summit has repeatedly drawn attention to the fact that Africa is saddled with **enormous debts** and many of its countries are dependent on official development aid. In 2003, the continent's debts amounted to some US$ 320 billion, half its GDP. Its Least Developed Countries (LDCs) are, on average, servicing borrowings as high as their national GDP for which the interest alone absorbs 10% of their export earnings.

Many African economies are also **dependent on agriculture** for generating a large proportion of their national GDP – in some of its LDCs it accounts for over 50%. But while Africa's agriculture, thanks to its varied climate and topography is very diverse, many of its poorer countries focus production on only one or two export commodities leaving them vulnerable to market instabilities and/or climate fluctuations. They are also the ones for whom agriculture matters the most, food security is a more serious issue and where productivity is at its lowest.

Agriculture in Africa also suffers from **chronic under - investment**. Despite its potential economic significance, and the fact that over 30% of the whole African population depends on agriculture for their livelihood (95% in some of the poorest regions), 80% of the agricultural land is under permanent pasture and the majority of the agricultural population are subsistence smallholders, not competitive export producers. Only 16% is used for arable crops and a minute 1% is under irrigation.

Increasing population pressure has only exacerbated problems of low productivity. Africa's population has almost doubled in the last 25 years while its agricultural area agriculture and productivity levels have remained the same.

Compounding the above is the issue of HIV/AIDS - 60% of all those infected with AIDS/HIV worldwide are based in Africa. The virus is devastating parts of the continent and has caused life expectancy to plummet. There is evidence to suggest that it has also affected farm productivity.

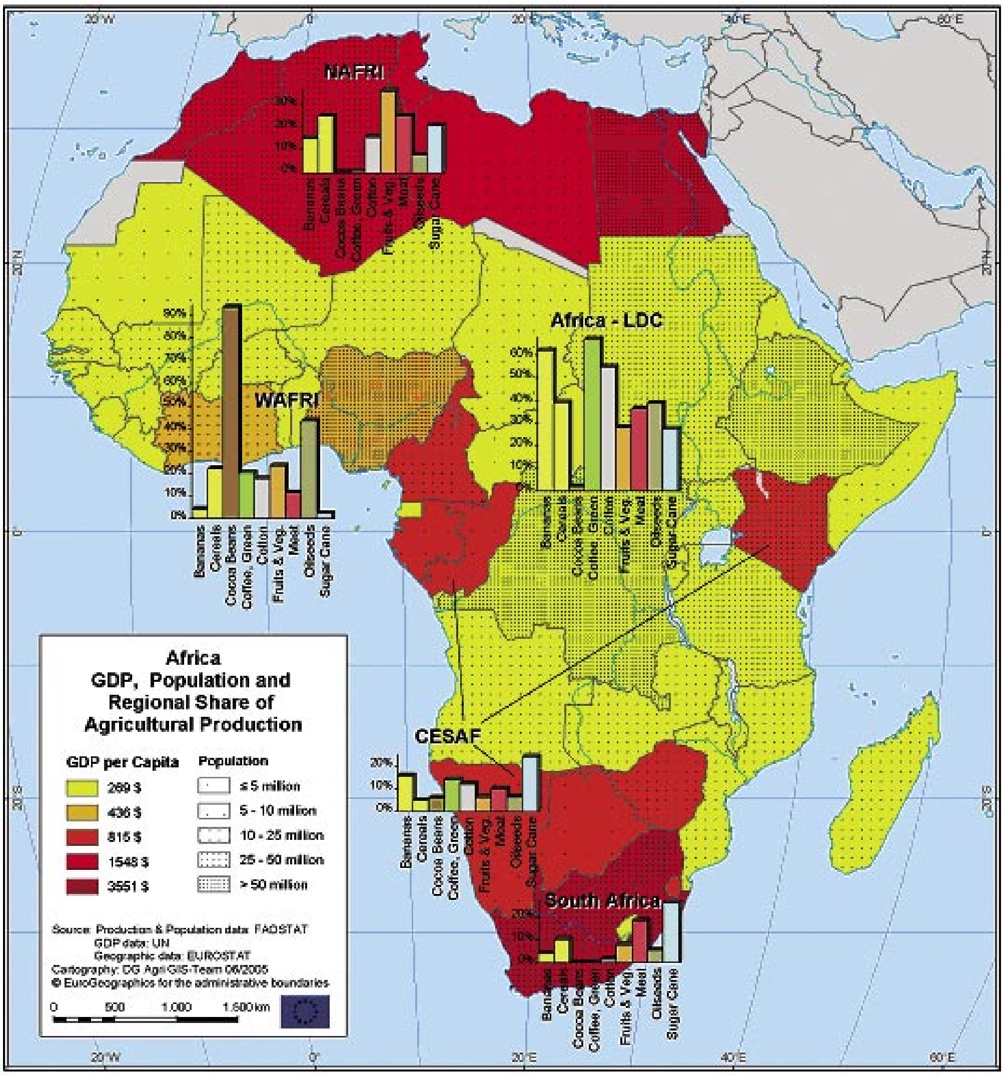
Classifying Africa

Because of its diversity and the complexity of its problems, Africa is impossible to analyse as a whole. For the purpose of this, publication, we have therefore divided it into five separate regions based on income, location and regional trade agreements. See graph 1 for a more detailed breakdown of Africa's GDP, population and agricultural production by region.

Africa LDC (34 countries) faces a fairly uniform set of difficulties. GDP per capita ranges from US$ 100 to US$ 900, they have very limited mineral, metal or natural resources, a poor infrastructure and weak agricultural economies.

The **Republic of South Africa** (RSA) is the African exception. With a GDP/capita of US$ 3 551, it is far wealthier than the rest of Africa, its agricultural sector is far more advanced and it has more developed trade ties with countries outside of Africa.

Graph 1: Breakdown of Africa's GDP levels, population and share of agricultural production by region



North Africa (NAFRI): Morocco, Algeria, Libya, Tunisia and Egypt. Thanks to their location, they enjoy close trade ties with the EU under the EU-MEDA Agreements (except Libya). With an average GDP per capita of US$ 1 548, they are generally wealthier than other African countries.

West Africa (WAFRI): Cote d'Ivoire, Ghana and Nigeria. They belong to the ECOWAS (Economic Community of Western African States) trade association, are relatively rich in resources and are major cocoa producers. With average GDP per capita at still only US$ 436, they are the poorest group of Africa's non-LDCs.

Africa Central, East & South (CESAF): is clearly the most diverse of the groups, including Cameroon, Gabon and the Republic of Congo (all members of the Communauté Economique et Monétaire de l'Afrique Centrale), Mauritius, Namibia, Kenya, Swaziland, the Seychelles and Zimbabwe (who make up the Common Market for Eastern and Southern Africa) and Botswana. Namibia, Botswana, Swaziland, Lesotho and South Africa are also all members of the South African Customs Union

2. Africa's agriculture

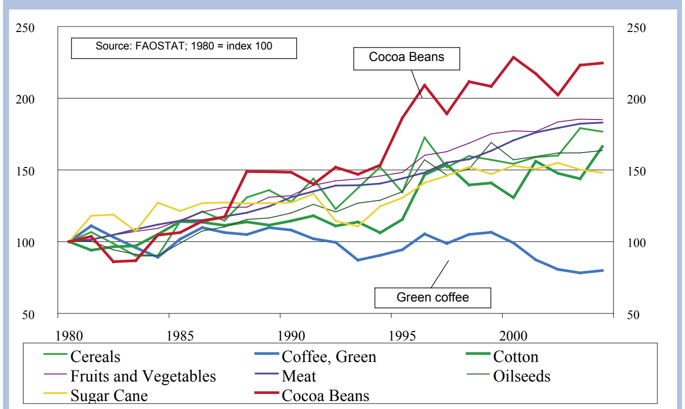
Although Africa as a whole produces a range of agricultural commodities, there are some marked regional distinctions. North Africa concentrates production on fruit, vegetables, cereals and meat while the Africa LDC countries are the most significant producers of green coffee and cotton . WAFRI on the other hand produces 92 % of Africa's cocoa beans and 43 % of its oilseeds while the CESAF group is responsible for 25 % of the continent's sugar production.

Table 1: Africa's share of world agricultural production (average 2000-2004)

	Production(000 tonnes)	% world production
Cocoa beans	*2 248*	*69.0*
Green coffee	*988*	*13.1*
Bananas	*6 706*	*10.0*
Cotton	*1 751*	*8.7*
Fruit & vegetables	*114 823*	*8.7*
Sugar cane	*82 459*	*6.3*
Oilseeds	*7 201*	*6.1*
Cereals	*119 928*	*5.7*
Meat	*9 778*	*4.2*

Most significant in terms of its share of world production are cocoa beans. Africa produces almost 70 % of the world's cocoa beans, their production (see table 1) has more than doubled in the last 25 years. It also occupies a significant portion of the world market in other, principally tropical commodities, and here too, production has increased significantly. Rather predictably perhaps, it is a less important producer of the more traditionally 'temperate' products such as meat and cereals, but even for these its production levels have picked up since the 1980s.

Graph 2. Evolution of Africa's agricultural production (for selected products) 1980-2004

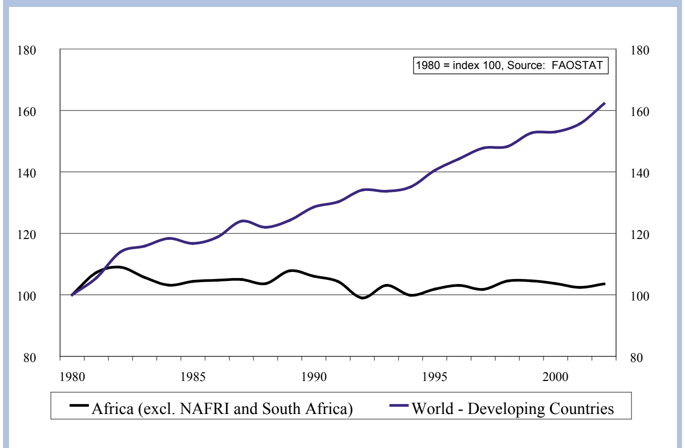


The one major anomaly however, is green coffee, one of the continent's more valuable agricultural export commodities and one in which Africa has traditionally occupied a significant portion of the world market share. But, while world production has almost doubled in the last decade alone, Africa's production has fallen to about 80 % of its 1980 levels (see graph 2).

Green coffee is predominantly an LDC commodity and a major source of revenue for its producing countries and Africa's inability to keep pace with world demand in a commodity in which it has traditionally been strong is a serious concern. If emerging new competitors from the developing world (specifically South America in the case of green coffee) are absorbing Africa's market share because the continent cannot keep up, it can only exacerbate its existing problems.

New competitors are just one element behind the fall in market share however. Another worrying trend that has emerged in recent years (seen in graph 3) is the overall stagnation in Africa's production levels. While productivity in developing countries as a whole has generally increased over the last two decades, African yields per hectare have remained constant. It is consequently falling further and further behind other developing country competitors.

Graph 3. Evolution of African productivity for main agricultural export products



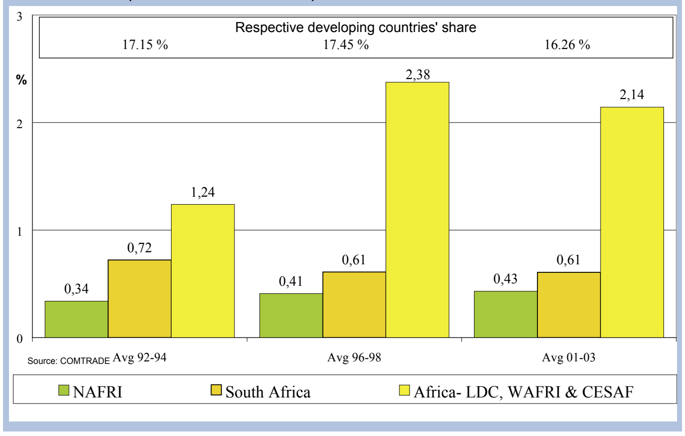
The problem could be further compounded by the fact that AIDS may affect Africa's ability to trade key products competitively on the global market in future.

3. Africa's agricultural trade

Given the difficulties it faces, it is hardly surprising that Africa should occupy such a small proportion of world agricultural trade, nor that many of its poorer countries are net importers. Averaging just 6% between 2000 and 2003, its share of world agricultural trade is considerably smaller than other regions of a similar size. And, an overall stagnation in its trade growth in recent years has also been in marked contrast to the rapid expansion experienced by developing countries in other parts of the world.

Of course this growth, largely seen in the Mercosur group of countries is masked by the averages used in graph 4. This graph does nevertheless clearly demonstrate that Africa's share of world agricultural exports is negligible next to the far more significant exports made by developing countries as a whole. It is also a good indicator of the proportion of exports undertaken by South Africa and the NAFRI group despite the fact that in terms of both land area and population size, they are less significant than the CESAF/WAFRI/LDC group

Graph 4. Share in world export of agricultural products (excl. intra-trade)



On top of this, Africa's agricultural exports are clearly concentrated on four main commodities: coffee and tea (largely in Africa-LDC), raw cane sugar (South Africa and CESAF) and cocoa (mainly WAFRI) - see table 2 and graph 8 in the annex for a more detailed breakdown by region.

Trade in cotton is also important to its economy, as are fruit and vegetables, but for other major commodities such as cereals, dairy produce and meat, Africa's share of world exports is less significant. What is more, the returns from this trade tend to be regionally focussed, for example cocoa returns are almost exclusively channelled back into the WAFRI group.

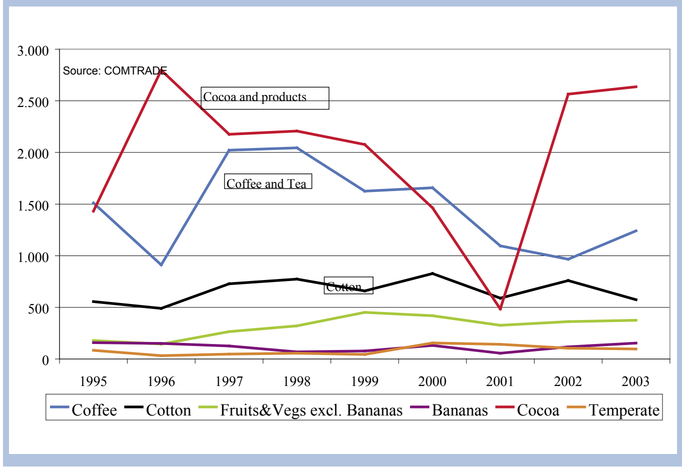
Table 2: Africa's share of world agricultural exports (average 2001-2003)

	Exports(Mio dollars)	% world trade
Cocoa beans	*1 865*	*28.2*
Coffee & tee	*1 033*	*15.3*
Bananas	*107*	*4.6*
Cotton	*1 201*	*7.4*
Fruit & vegetables	*1 737*	*7.4*
Sugar cane	*517*	*21.6*
Oilseeds	*300*	*1.8*
Cereals	*172*	*0.7*
Meat	*101*	*0.5*

Such a high dependency on so few products in an already fragile economy leaves the majority of Africa very vulnerable. When harvests are good and market conditions favourable, returns will be satisfactory. In a bad year, when crops have failed or market prices dropped, the spiral of debt falls further and further.

The recent fluctuations on the world cotton market and its severe repercussions for parts of Africa-LDC are one example of this. As graph 5 shows, the value of cotton exports fell considerably in value between 2000 and 2003, but this appears relatively minor in comparison to the fluctuating export value of tea and coffee, or the extreme oscillations in export revenues for cocoa beans and cocoa products over the last ten years. For economies that are in the most part already extremely fragile, dependency on vulnerable commodities is clearly only going to add to the difficulties they face.

Graph 5. Africa's agricultural exports to the world (excl. NAFRI & RSA) ($ Mio)



Dependence on so few commodities is also one of the reasons why parts of Africa have been unable to boost their share of global agricultural exports over the last fifteen years. In the face of new, and often far stronger competitors in the developing world (the Mercosur group for example has almost doubled its exports to Africa in the last five years alone), it has struggled to keep up.

Non-processed farm goods, with little or no value-added still account for 90 % (2002 figures) of WAFRI, CESAF and Africa-LDC exports while developing countries in other parts of the world have turned their attention to the production and export of value–added agricultural goods which generate far higher returns.

Despite stagnation in growth, another distinctive feature of Africa's agricultural trade is that it largely takes place with third countries and very little of it is intra-continental. Much of its farming is of course subsistence based but of the commodities produced for export, less than a quarter of its total agricultural exports go to other African countries and the same applies to its total agricultural imports.

There are various reasons for this. For some countries it is down to their geographic location; coastal countries and islands such as Egypt, Cote d'Ivoire, Madagascar and Mauritius are well placed to export and trade overseas. Over 90% of their agricultural produce goes abroad.

For some countries, particularly those in the Africa-LDC group, it is due to the fact that they are primarily subsistence and have very little left after domestic consumption to trade with, but for many, intra-Africa trade is restricted by the fact that many of the countries have erected such high domestic barriers that other African countries simply cannot afford to trade with them.

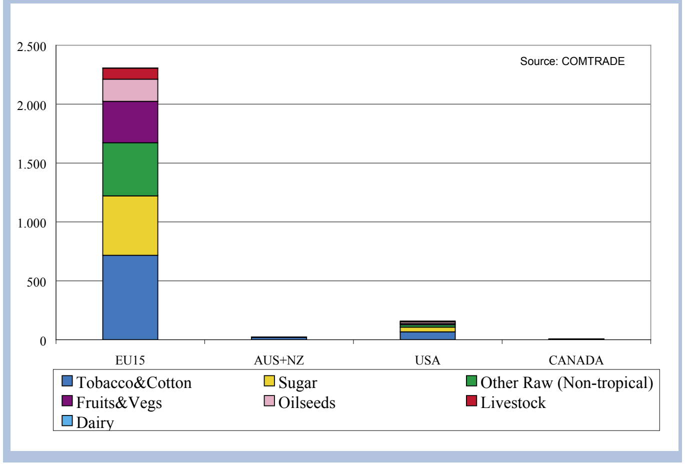
This is not true throughout; parts of Africa trade almost exclusively with one another. Those countries party to intra-African trade agreements such as the South African Development Community (SADC) and the South African Customs Union (SACU) are one example. Others include landlocked countries such as Swaziland, Mali and Rwanda who trade roughly 80 % of their agricultural produce with other African countries. But far greater potential for intra-African trade exists and building bridges internally may help to support the growth of external trade in the long-term. Africa can clearly do more to exploit its relations with its neighbours and capitalise on the variety of foods already grown within the continent.

4. EU-Africa trade relations

In spite of the many myths that exist about the CAP's impact on the developing world, the fact is that the EU is the world's most open market for Africa and its most important trade partner. In 2001-2003 alone, the value of EU farm imports from Africa averaged € 7 billion per year and its exports to Africa were roughly half that. No other third country, or group of countries, has a trade exchange with Africa that is even comparable. The U.S is Africa's second major importer, but its imports are just one sixth the value of those that go to the EU and largely focused on just two commodities – cocoa and coffee.

EU imports on the other hand are not restricted to only those tropical products that Africa has traditionally produced for its export markets (see graph 6 and graphs 9 & 10 in annex). Almost half of its imports from Africa are made up of fruit and vegetables (other than bananas), meat and oilseeds.

Graph 6: Third country imports (excl. tropical products) from Africa (excl. NAFRI and RSA)($ Mio)

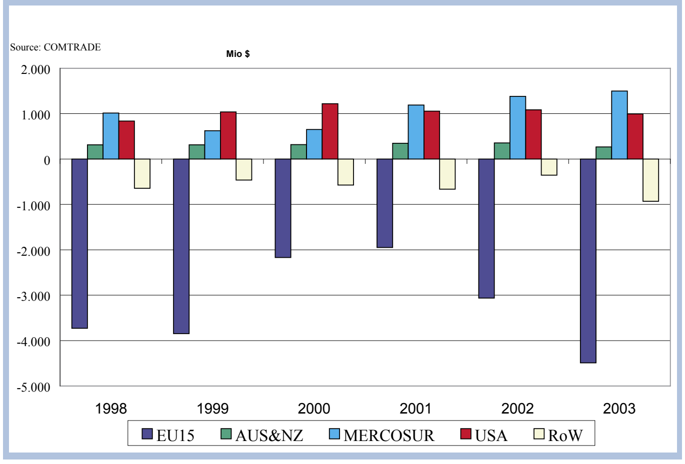


Africa does far more trade with the traditionally 'large' traders in terms of its farm imports. The EU, U.S, Australia and New Zealand and increasingly Mercosur, all export significant amounts of farm produce to the African market; for the U.S, it is almost exclusively cereals, for Australia and New Zealand, mainly dairy and for the EU it is a mix of the two. It is clear however, that the majority of Africa's farm imports are focussed on commodities in which it is less competitive and in which it has only limited possibilities to expand.

The final result in terms of net trade is shown in graph 7. This clearly highlights that although the EU is the leading exporter to Africa, it is also the only net importer of African farm

commodities; its overall trade generated in excess of € 3 billion in revenue for Africa in both 2002 and 2003. The other countries in the group not only have a positive agricultural trade balance with Africa, but in some cases, it has also increased in recent years - the Mercosur's has almost doubled since 1999.

Graph 7 Net trade with Africa for selected products[1] ($ Mio)



How do changes in EU agriculture and trade policies affect Africa?

The changes introduced to the EU's trade and agriculture policies over the last decade have undoubtedly had benefits that extend well beyond the domestic sphere. Most important for Africa is the fact that trade-distorting domestic support will have been greatly reduced by the time the reform process is complete. Explicitly, this means far less market support. That which remains will be tied to the producer's maintenance of certain standards instead of the production of certain quantities period. Implicitli, it means that the CAP will in future make a far smaller impact on world agricultural markets and market prices.

Equally, the EU has brought down many of its market barriers over the years – it is in no way the fortress it has been accused of being and is now far more open to trade with third countries than it ever has been before.

Indeed, while it cannot be denied that part of the reason Africa has such close trade ties with the EU is due to its historical links, it also has a lot to do with its market access policy and the series of preferential trade agreements that the EU has in place. These are specifically designed to boost market access possibilities and export potential in developing countries by offering advantageous trade conditions for many of their key products.

Of these, the most important is its "Generalised System of Preferences" (GSP), specifically designed to facilitate trade with poor countries and help them to integrate into, and capitalise on the opportunities offered by the multilateral trade system. In place since 1971 (though the current system only came into force in 1995), it applies to 178 developing countries and allows them either completely duty free or more favourable access conditions to the EU's agricultural market. And, as what is by far the most far reaching preference system in the world, it currently applies to some 7 000 of the EU's existing 11 000 tariff lines allowing all products under them to enter the Community's market duty free or at a reduced tariff rate.

Its impact is clear in the statistics: in 2003 alone, EU imports under the GSP totalled $52 billion – three times more than the U.S which employs the second most widely used preferential trade system, and more than the U.S, Japan and Canada combined.

Under the GSP, which has recently been modified to reduce the number of schemes offered from five to three (general, 'GSP Plus' incentive scheme targeted at especially vulnerable countries that have ratified and effectively implemented key international conventions on sustainable development, labour rights and good governance, and 'Everything but Arms'), the *Everything But Arms* arrangement (EBA) is the most significant for Africa's 34 LDCs. Introduced in 2001, it allows all products, except arms and ammunition, from the world's 50 poorest countries to enter the EU duty free, without any quantitative restriction, for an unlimited period. Liberalisation under EBA was immediate with the exception of bananas, sugar and rice for which duty will be phased out gradually – by 2006 for bananas, and 2009 for sugar and rice.

But with preferences comes the risk of **preference erosion** if trade is liberalised across the board. Preference erosion is, unfortunately, both inevitable and potentially very damaging if handled incorrectly. More importantly, it would also be Africa - the very continent that is in many ways at the centre of the current trade round – that would be the greatest loser from precisely the same exercise that is intended to render them the greatest winners. It is a tricky conundrum that policy makers must find the answer to if the Doha round is to be a success – and the obvious starting point is to help Africa and African countries to become more competitive producers and traders through other means than simply preferential market access.

1/Coffee, sugar, cotton, fruit and vegetables, bananas, cocoa, cereals, oilseeds, dairy & meat

EU cotton policy and Africa

One sector that is of critical importance for some African economies is cotton, the production of which affects, either directly or indirectly, the lives of millions of people. In recent years, the sector has faced considerable difficulties due to the combined effect of wide fluctuations of world cotton prices and new competition from the synthetics industry. This has been compounded by the effect of trade-distorting cotton policies in certain parts of the world. The impact has been most severely felt in some of Africa's poorest countries, notably Benin, Burkina Faso, Chad and Mali where cotton is the main source of income.

However, the cotton sector is one of the best examples of the diminishing impact of the CAP on developing countries as reform efforts progress. The EU accounts for a marginal 2 % of world cotton production and has led the way in transforming developed countries' domestic cotton policies. On top of this, the EU uses no export subsidies for its cotton production and the latest reform has separated 65 % of its domestic cotton support from production. This reform ensures that EU cotton production has an even more marginal impact on the world market than it did before.

What next? Domestically, it is hard to see what the EU could do to reduce its impact on cotton producing developing countries further. Nevertheless internationally, it is pushing for the elimination of both export and domestic support in the context of the WTO negotiations both of which would have a positive impact on world cotton prices.

A final point on cotton is that it is also a good example of the broader, more integrated development efforts that are required across Africa in order for production to thrive – or in many cases simply survive. There is no doubt that the African cotton sector is in a critical situation, nor that certain policies in the developed world are inherently detrimental to it. But simply reforming these will not be enough in itself. Broader investment is needed in other driving factors such as infrastructure and marketing initiatives and a more integrated development strategy is required to boost overall regional integration.

5. What does the future hold for African Agriculture?

So what conclusions, if any, can we draw from this? Firstly that the EU has made concerted efforts to support the African agricultural sector and that similar policies, if applied in other parts of the world could have positive effect for Africa's development specifically or developing countries as a whole.

Secondly, that Africa's agricultural sector, at present, needs the advantages afforded it through preferential trade agreements and that every effort should be made to ensure that the negative impacts of trade liberalisation are minimal in this respect.

Equally important is that liberalisation efforts are not exclusively focussed on developed countries. The Mercosur group is now a major exporter to Africa, and its share of world trade is only likely to increase in the future. Chinese and Indian agricultural policies also contain their trade distorting elements of their own - be it border protection or domestic support - which impact on poorer countries in Africa.

All of these issues need to be addressed in tandem; it is widely acknowledged that if future reforms focus too narrowly on the removal of subsidies in developed countries, developing countries will see few of the benefits. Developing countries should be able to benefit from the removal of trade barriers for products in which they have a comparative advantage, from reduced tariffs for processed agricultural commodities and from improved preferential access to world agricultural markets. This is the issue that needs to be addressed.

But dismantling trade barriers, though undoubtedly helpful, is not going to provide all the necessary answers to boost Africa's development potential. The continent needs to become competitive in other ways as well.

It is clear from the observations in this newsletter that many of its countries depend on single commodity production and that it must diversify both for the sake of productivity and in order to avoid the negative repercussions of a collapse in world commodity markets or the unpredictable effect of climate and disease on crops and yields.

The fact that the majority of its exports are the raw product with little added value is also a concern. Other developing countries, notably those in South America, have seen a dramatic increase

in their farm exports largely because they have channelled investments into the production of processed goods which are worth more and in increasing demand.

Not only this, but Africa is also losing its market share of agricultural goods in which it has traditionally held a strong position to other developing countries. Green coffee is one important example of a commodity in which African production is losing out as other new producing countries expand their production rapidly.

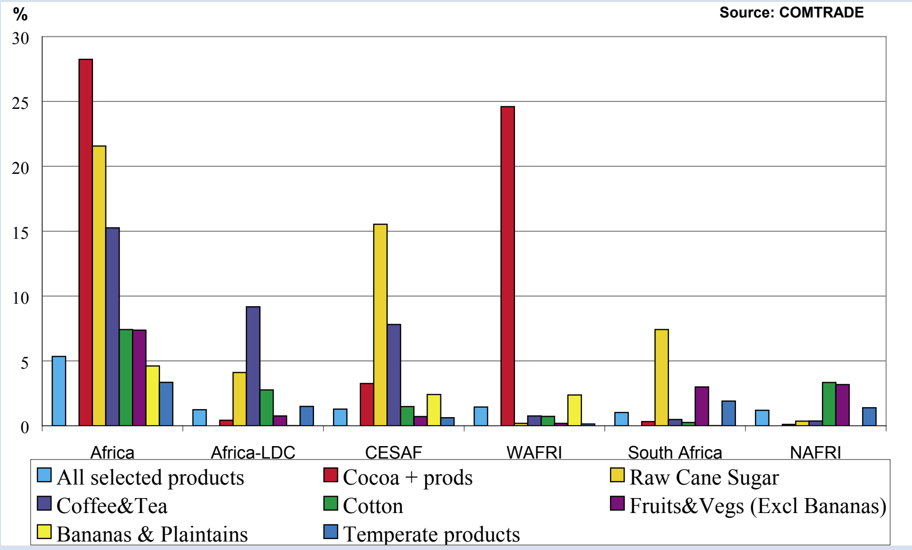
Africa's agriculture must also be enabled to take advantage of its existing markets. It is, for example, unable to capitalise on many of the opportunities it has to access the EU market largely because of the problems it has in meeting standards. Further investments are required to ensure that its produce is able to meet the high standards now required of it by consumers in third countries, and to reap the opportunities that the increased demand for such products could generate.

On top of this, it is also clear that greater trade integration is possible within the continent itself. Much has already been achieved by the existing African trade associations but there clearly exists the potential for greater trade opportunities were internal barriers to be fewer and farther between.

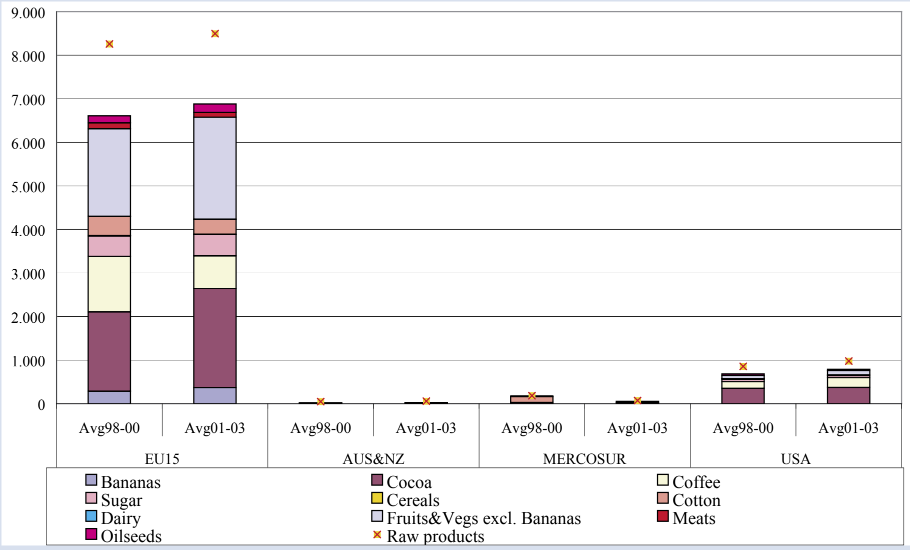
And finally, though this newsletter has focussed almost exclusively on agriculture, there is no denying that Africa's agricultural potential is closely tied to its overall development. Disease is a major factor affecting its farm sector, not just in terms of yield, but also in terms of productivity. With life expectancy now just 34 in some parts of the continent, largely due to AIDS and malaria, it has taken a catastrophic toll on the farming population, which in turn affects production levels, investment incentives, and exacerbates problems of malnutrition, food dependency, debt and poverty even further. For the boundaries of the vicious circle to be broken therefore requires co-ordinated assistance from inside and outside the continent. That the continent has some diverse export opportunities is not in doubt, nor the fact that it is nowhere near exploiting its full agricultural trade potential. Whether it is able, or enabled, to make the best use of possibilities that could exist is another question, the answer to which remains to be seen.

In the next edition of MAP: Recent developments on world agricultural commodity markets

Graph 8: Africa's share of world agricultural trade by region



Graph 9: Third country imports from Africa (€ Mio)



Graph10: Third country exports to Africa (€ mio)