UNDERSTANDING THE EFFECTS OF TRADE RESTRICTIONS ON MAIZE PRICES

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1. The food price dilemma
2. Trade restrictions versus open borders
3. Trade restrictions and price instability
4. Country experiences: trade restrictions and effects on consumer and producer prices
5. Conclusions
A big challenge for policy makers

- How to ensure that prices for ag. commodities are sufficiently high to enable food producers to generate adequate profits to continue to produce, but..

- Low enough to be affordable to consumers.

Are there ways to strike a balance without bankrupting our countries?
Restrictions often imposed to strike a balance in this food price dilemma. Yet, questions remain:

1. Do trade restrictions for maize help to keep maize prices within reasonable bounds for consumers and producers?

2. Can trade restrictions support medium-term objectives of increased maize productivity, agricultural-led poverty reduction, and improved food security?
Arguments by advocates of trade restrictions:

- Under conditions of deficits:
  - Government institutions are better positioned than private sector to meet demand:
    - Releasing government reserves on the market at subsidized rates
    - Importing and then releasing grain on to the market at subsidized rates

- Under conditions of surplus:
  - Producers prices must be supported with government purchases: limits private sector’s engagement in the market
  - National food security must be ensured before exports are allowed

- No faith in the private sector and open borders
Maize Trade Restrictions

- Arguments by advocates of open borders:
  - Under deficit conditions:
    - Private sector will respond to price incentives and import grain from regional or international markets.
    - These imports will place a ceiling on domestic maize prices (i.e. import parity price) and will limit large spikes in prices.
  - Under surplus conditions:
    - Private sector will respond by exporting to higher priced markets.
    - These exports will place a floor price on maize (i.e. export parity price) without significant government expenditure buying maize.
  - Less attractive politically
Preventing large and unnecessary swings in prices is important for the welfare of consumers and producers:

- Price predictability allows people to make decisions about how to spend their scarce resources for food and for production.

However the goal should not be to prevent price movements:

- Price variations between locations and over time provide critical incentives for investments in storage and trade.

What are the effects of trade restrictions?
Do Trade Restrictions Promote More Stable Maize Prices?

Source: Chapoto and Jayne 2009
Do Trade Restrictions Promote More Stable Maize Prices?

- Chapoto & Jayne (2009), Minot (2013) finds that:
  - Maize price volatility is significantly higher in countries that actively intervene in their maize markets than it is in countries that make little or no effort to manage prices

- Minot (2013)
  - Prices in Malawi, Zambia, and Zimbabwe, which have large state-owned trading enterprises that buy and sell maize, experience food price movements that are more than 50 percent more volatile than in countries that do not have entities engaged in maize trade
Example Country Experiences

Remember that:

- When maize prices spike above import parity, consumers are being unnecessarily taxed by an inefficient market.
  - Imports cheaper than local market but no imports allowed.

- When maize prices fall below export parity, producers are denied income opportunities from crop sales.
  - Farmers can earn more if they export but no exports allowed.
ZAMBIA
Deficit years

Source: Dorosh, Dradri and Haggblade (2007)
Surplus years

![Graph showing maize price trends](image-url)
Export ban effects on consumer prices

- Export ban imposed
- Export ban lifted
- Export ban reintroduced

Price/kg

Export ban lifted

Real
Nominal

KENYA
Response to 2007/08 food price crisis

Source: Ministry of Agriculture Market Information Bureau for Nairobi wholesale prices; Kenya Bureau of Statistics for exchange rates; SAFEX and Tegemeo Institute for import parity prices.
TANZANIA
Diao et. al. (2013) show that maize export bans can have a dramatic effect on the welfare of rural producers, with minimal gains for consumers:

- Lower producer prices by 7 to 26% in surplus regions, such as Mbeya, while simultaneously increasing the number of poor households in those region.
- Lowers the growth rate in maize production from 5 to 5.7% without bans to 3.4 to 4.5% with the bans.
- Despite these negative effects on producers’ welfare, the bans only succeeded in lowering the national food price index by 0.6 to 2.4% relative to if the bans were not in place.
Trade restrictions and other market interventions rarely achieve their objectives in terms of domestic prices and supplies.

Trade is more effective at keeping prices within reasonable bounds for consumers and producers than trade restrictions.

The unpredictability of trade restrictions is one of the greatest challenges posed to the development of more efficient market systems.
Thank You