MANAGING TRADE FOR FOOD SECURITY: EXPERIENCES FROM EAST AND SOUTHERN AFRICA

by
Antony Chapoto, PhD

Symposia on Trade and Food Security: Links, processes and prospects
29th International Conference of Agricultural Economist
Milan, Italy, August 8-14, 2015

Indaba Agricultural Policy Research Institute
Motivation

- Food production fluctuations lead to price instability
- Food price instability is a major problem
  - For farmers
  - For consumers
  - For governments
- In response to food price instability, some governments implement “ad hoc” policies to control trade flows and/or price levels
Discretionary ("ad hoc") trade policies

- If government actions in markets are unpredictable, this tends to deter private sector from participating in the market
  - Examples:
    - timing of export/import bans
    - timing of change in import tariff rates
    - when and where will marketing boards enter the market, at what price?
    - when will the Board stop buying, and what will the price be after that?

- Strategic interaction between government and traders can lead to unintended consequences (Abbink et al., 2011)
Questions motivating our study

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

2. Can trade restrictions support medium-term objectives of increased grain productivity, agricultural-led poverty reduction, and improved food security?
Some Findings from East and Southern Africa (ESA)

- 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, experience food price movements that are more than 50 percent more volatile than in countries that do not have entities engaged in maize trade.
Do Trade Restrictions Promote More Stable Prices?

Source: Chapoto and Jayne 2009, 2015
Do Trade Restrictions Promote Price Predictability?

Source: Chapoto and Jayne 2009, 2015
Maize grain price unpredictability: Lilongwe (Malawi) Vs. Maputo, Mozambique
Example Country Experiences

REMEMBER !!!

When grain prices spike above import parity, consumers are being unnecessarily taxed by an inefficient market

Import ban/restriction

When grain prices fall below export parity, producers are denied income opportunities from crop sales

[Export Ban]
Zambia: Maize Market + Ad-hoc Policies

![Graph showing maize market trends in Zambia with notes on deficit years and world food crises.](image-url)
Malawi: Maize Prices vs. Import parity

- CIF from South Africa
- Lilongwe wholesale price
Tanzania: Impact of Export Bans

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:

- Marginally lowered the national food price index by about 1%.
- Lower producer prices by 7 to 26% in surplus regions.
- Lowers the growth rate in maize production by about 2%.
- Increases the number of poor households in those regions.
3 Competing models of roles of government and private sector in food markets:

**Model 1**
- Rely on markets
- Government role limited to:
  - Public goods investment
  - Regulatory framework
  - Strengthening of institutions / defense of property rights
  - Policies supportive of private sector entry and competition

**Model 2**
- Primary reliance on markets but role for *rules-based* government operations
- e.g., buffer stock release in response to defend stated ceiling price
- Marketing board purchases at stated floor price announced in advance
- Transparent rules for initiating state imports

**Model 3**
- Role for markets and discretionary government intervention
- Based on premise that private sector cannot ensure adequate food supplies in response to production shortfalls
- Justification for unconstrained role for state interventions in markets to correct for market failures
Conclusion

- Government operations in markets are costly.
  - Not clear that incurred costs provide any tangible improvements in price stability and food security

- Government actions should be predictable.
  - set clearly defined and transparent rules for triggering government intervention with regard to changes:
    - in parastatal purchase and sale prices,
    - import and export decisions,
    - tariff changes and stock release triggers

- Government actions should facilitate regional trade, not provide disincentives because regional trade has potential to:
  - raise farm-gate prices in areas of surplus
  - reduce consumer prices in areas of deficit
Thank You