



Agro-processing & Horticultural Exports from Africa

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Context

- Improved transport & communications allow unbundling of global value chains (Baldwin, 2016)
 - Labor-intensive activities in developing countries
 - New opportunities for African countries: location-specific comparative advantages
- Pessimism about prospects of Asian-type manufacturing export growth for Africa
- Can agricultural processing and horticultural exports become Africa's engine of growth?
- How might African governments act to influence the development of high-value agricultural exports?

Outline

1. Context
2. Changing pattern of agricultural exports
3. Impacts of policy reform
4. Policy questions
5. Conclusions

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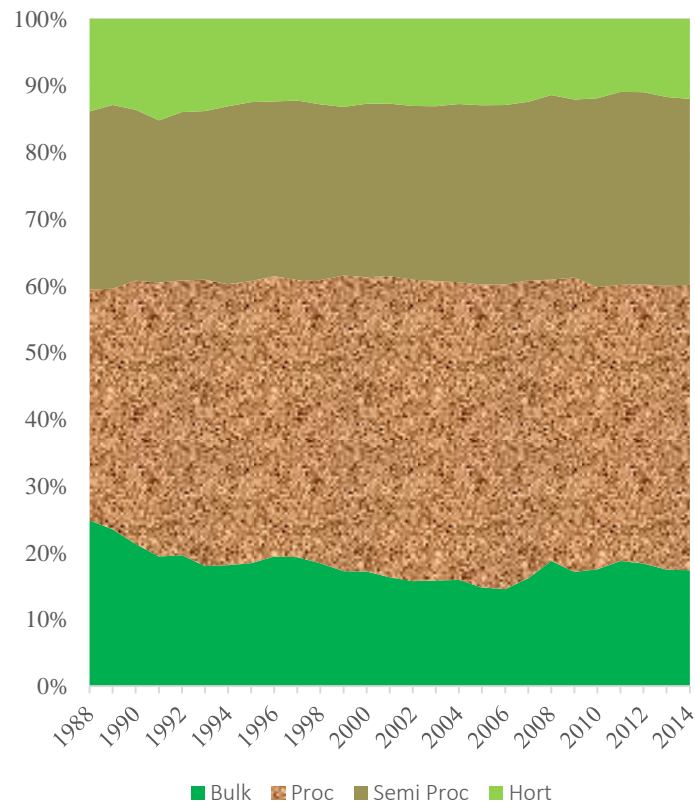
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Agri small share of Africa's exports

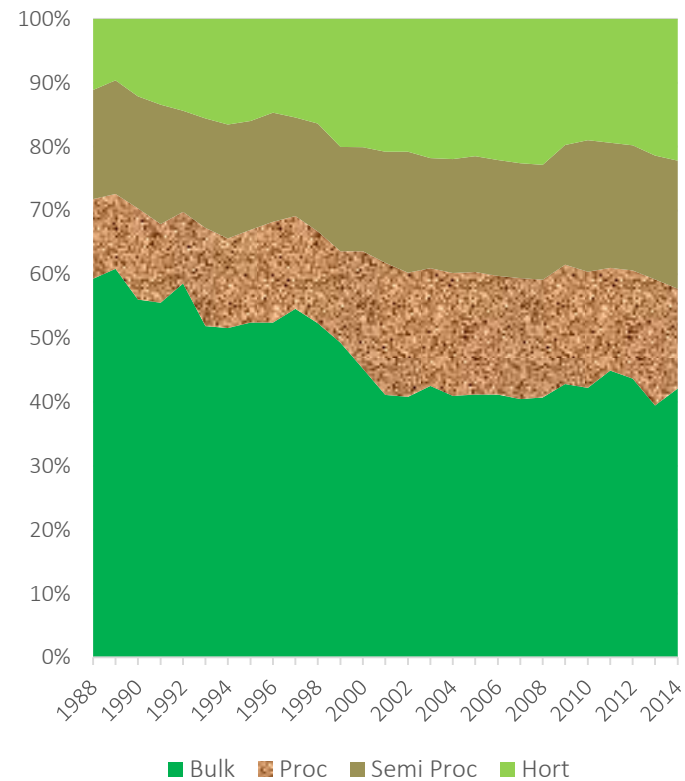


Changing composition of agricultural exports 1988-2014

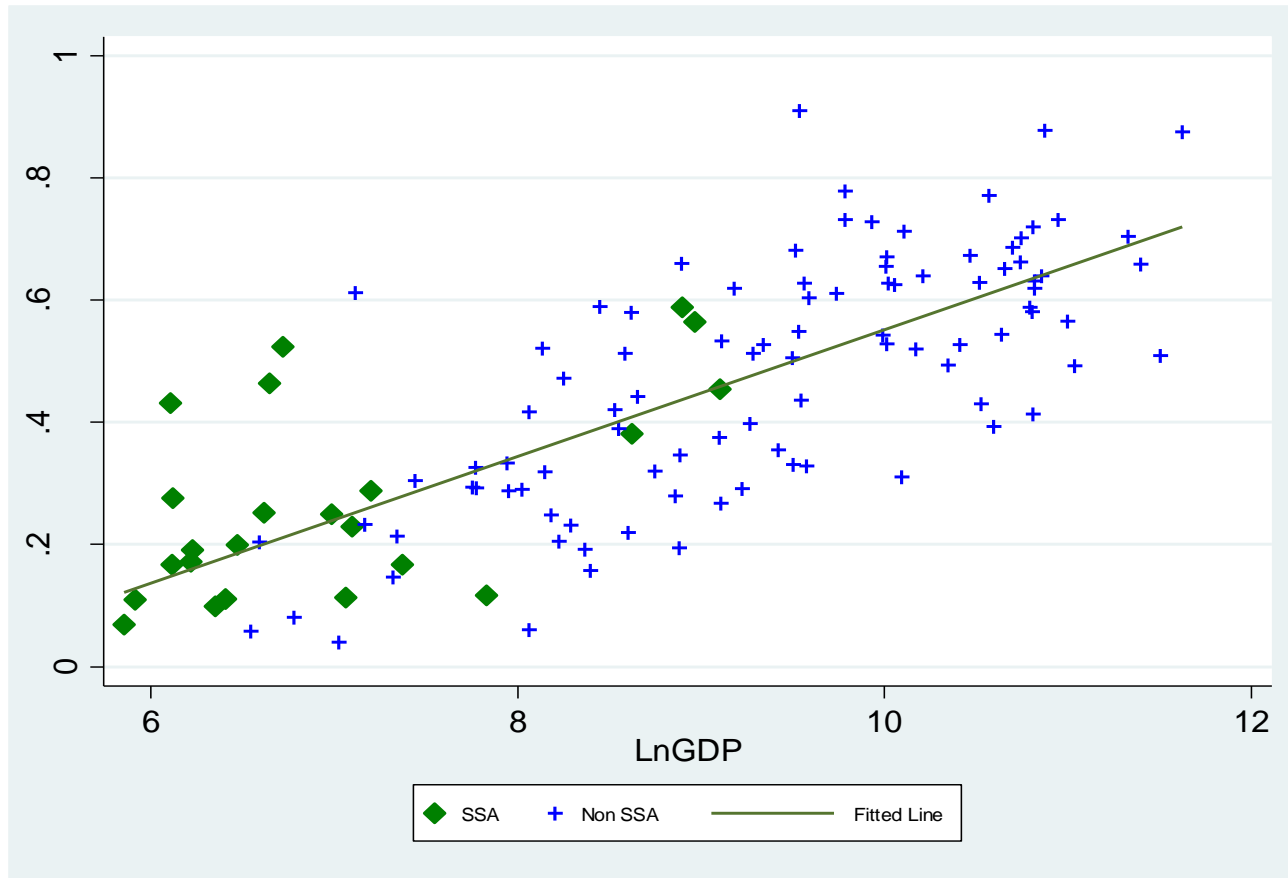
World



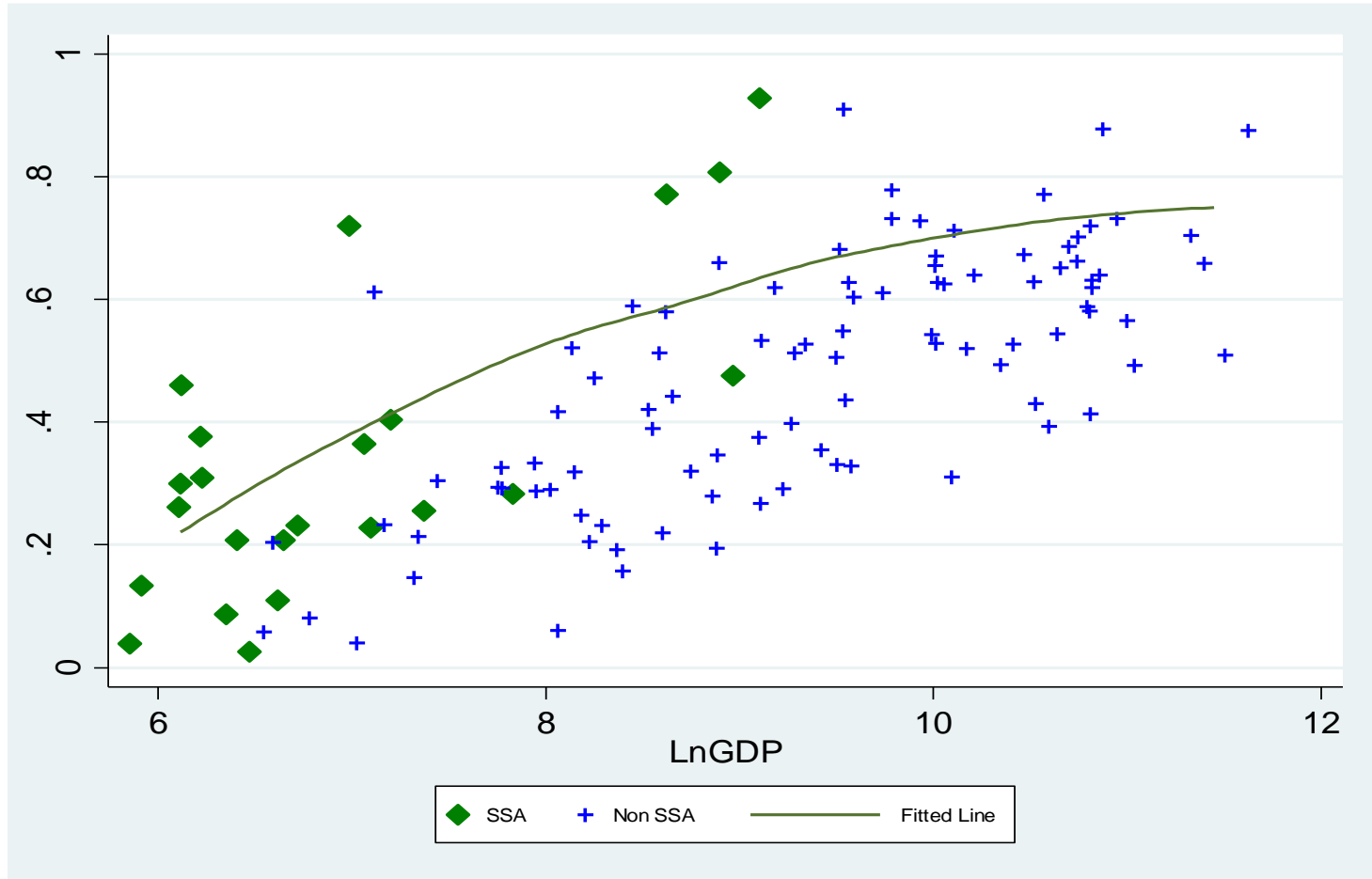
Africa



Share of Processed Agri VA in total Agri VA rises with income



Share of Processed Agri exports in total agri exports also rises with income



Structure of Agri Exports, 2013

	No of exports	Top item share	Top 20 Share	Nos Equiv Herfindahl Index
		(%)	(%)	
Ethiopia	249	23	96	7
Ghana	362	59	96	3
Kenya	520	40	85	5
Mozambique	208	37	94	5
Nigeria	299	32	90	7
Rwanda	233	22	93	9
Senegal	591	14	82	17
South Africa	655	7	53	44
Tanzania	357	12	80	18
Uganda	402	30	82	9
Africa as a group	670	13	56	33
Intra-Africa	662	8	48	54

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Africa's agricultural exports are highly concentrated

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*Numbers Equivalent of the Herfindahl Index measured as $\frac{1}{\sum s_i^2}$ where S_i is the share of each product in total agricultural exports.

Is Africa exporting new Products?

Country	Share of 'new goods'** in 2013
	(%)
Ethiopia	47
Ghana	10
Kenya	3
Mozambique	7
Nigeria	16
Rwanda	69
Senegal	8
South Africa	0
Tanzania	8
Uganda	12

**'New items' is defined as a set of the 'bottom 2%' items in the initial year (Kehoe and Ruhl, 2013).

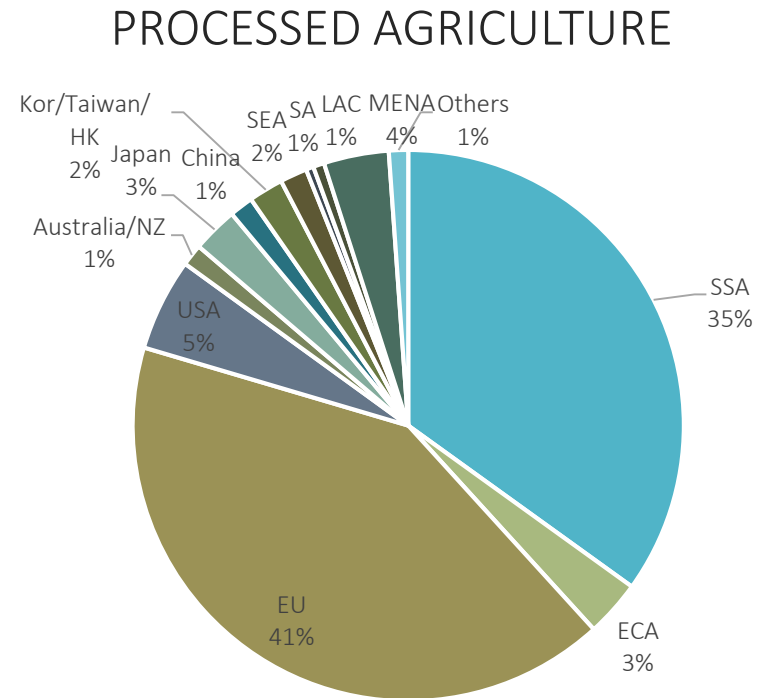
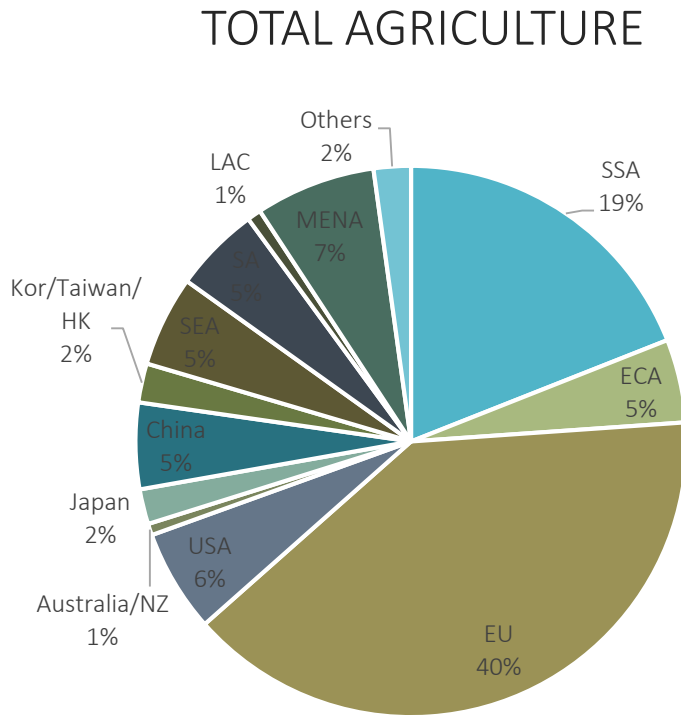
The importance of 'Big Hits'

- Exports from African countries are dominated by a small number of 'big hits' (Easterly and Reshef 2010)
- Policies that encourage entrepreneurs to discover successful exports of the future are important (Hausmann and Rodrik 2003)
- Example of a 'big hit': Case of Ethiopia's cut flowers (HS06031)
 - From a 'bottom 2% item' to the second largest African cut flower exporter
 - *\$527 million exports in 2013*
 - Key factors of success (Gebreeyesus, 2017)
 - ✓ Comparative advantage: favorable agro-climatic conditions & abundant labor
 - ✓ 'Private entrepreneurship experimentation'
 - ✓ Government support programs (land, duty-free import of machinery, tax exemption, credit)
 - ✓ Foreign Direct Investment (FDI) inflow
 - ✓ Market access: international auction markets
 - ✓ Transport: the light weight of flowers made air transportation viable

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Destinations of Africa's Exports



Source: Global Trade Analysis Project Database version 9

Structure of Ad Valorem Equivalent (AVE) Protection

	Africa Exports	Africa Imports	World Average	EU on Africa	Intra-Africa
	(%)	(%)	(%)	(%)	(%)
Bulk	7.7	7.4	8.3	0.1	3.3
Horticulture	3.8	10.6	5.2	1.4	8.8
Proc Agriculture	7.6	13.6	8.6	1.3	12.6
Total	7	12.2	8.2	0.8	10.1

Tariff Escalation within the same value chains

- Paddy rice (1.2 %) vs. processed rice (5.7 %)
- Sugar cane(0.4 %) vs. sugar (9.1 per cent)
- Raw milk (0.0%) vs. dairy products (10.9%)
- Cattle, sheep, goats, horses (1.3%) vs. cattle, sheep, goat and horse meat (33.7%)

Impacts of reforms on exports

	Sim (1)	Sim(2)	Sim (3)	Sim (4)	Sim (5)
	Remove Ag Tariff Escalation	Lose EU Ag Pref	Remove Intra-Africa Ag protection	10% productivity inc ag proc	Cut own protection on all
	(%)	(%)	(%)	(%)	(%)
Bulk	-4.6	-1	0.3	-2.5	6.4
Horticulture	-3.5	-3.3	1.5	-1.9	4.3
Processed Agri	114	-12	13	30	11
Total agri	39	-5.5	5.1	9.6	7.5

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Policy questions: External

- Tariff escalation in the same value chains by Africa's trading partners hurt agro-processing exports
- Benefit from the preferential access to the EU especially for the processed goods (high preference margin)
- Regional Integration matters
 - Intra-Africa protection is high (10.1% vs. 7.0%)
 - Tariff escalation is particularly notable within Africa
 - Opportunity of diversification (lower fixed cost; local value chains tailored to local taste and consumption)

Policy Questions: Domestic Policies

- Create an environment without disincentives for exports
 - No value-subtracting restrictions on exports of raw materials
- Important to have access to intermediates at world prices
 - Processing agriculture operates with low margin
 - Encourage experiments by entrepreneurs (future 'big hit')
- Investments in Trade logistics important
 - Unbundling of global value chains requires a mastery of logistics for the transfer of materials and knowledge
 - Costs associated with customs clearance and domestic transport and customs clearance may make processing uneconomic
 - Horticultural exports are perishable and particularly vulnerable to delays in shipping
- Good policies lead to more, and efficient, processed agricultural exports
 - Don't make increased processing an independent goal
 - Inefficient processing undesirable

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Conclusions

- High-valued agricultural exports could play an important role in increasing overall exports
 - African exporters moving from bulk to processed agriculture
 - Horticulture successful in joining GVC
- Important to encourage experimentation
 - While minimizing disincentives to exports
 - Investing on trade logistics (infrastructure, trade facilitation)
- Seek policy reforms that also encourage exports of other goods and services.
 - Relying only on high-valued agricultural exports limiting
 - Agriculture only 10% of African exports

Thank you!

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