



## POLICY RELEVANCE SUMMARY



**Regional Integration of the Cereals Markets in Southern Africa: A Case of Wheat,  
Rice and Maize Trade**  
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### Policy Implications

#### **1. Introduction**

This study was conducted to accomplish three specific objectives: first to provide a comprehensive description of trade flows for cereal commodities and products in the southern Africa region, second to evaluate how integrated the marketing systems for these commodities are within the region, and finally to inform policy on strategies to improve and utilize these systems in addressing the food security agenda. The results from this study were drawn from a sample of five southern African countries: Botswana, Malawi, South Africa, Zambia and Zimbabwe.

#### **2. Some Preliminary Results**

From a preliminary analysis of the production, consumption and trade trends for the SADC sub-region, a few conclusions can be drawn. First, when production and consumption trends are considered in aggregate over time, none of the countries in the sample seem to be currently producing any of the cereals in significant excess of their domestic requirements. Malawi, South Africa and Zimbabwe are at best self-sufficient in producing maize, only producing more than their domestic requirements in selected seasons. South Africa and Zimbabwe are close to self-sufficiency in wheat production, though they both import and export sizeable amounts of wheat every year. Only Malawi produces enough rice to meet its domestic needs, the rest of the sub-region relies on sizeable imports to meet their consumption requirements. Also evident from the preliminary results is the fact that the degree of linear association in price movements tends to be significant for countries that either trade with each other, or are both important producers of specific commodities. An analysis of maize producer prices for the region indicates that real price co-movements are significant between South Africa and Botswana, and between South Africa and Zimbabwe. In the wheat markets, significant co-movements were observed in real producer prices between Zimbabwe and

South Africa, whereas in the rice markets no significant price co-movements were observed. It is important to note though, that these preliminary results are not conclusive, and further analyses are underway to investigate the issues raised above, and provide more concrete policy recommendations.

### **3. Policy Implications**

Some policy implications can be deduced from these preliminary results. The production trends indicate that cereal production in southern Africa does currently fall below its regional demand; with a total regional production of about 22million tons against a regional demand of about 30million tons each year. According to IFPRI's 2020 Vision, southern Africa will continue to face these decreasing per-capita food production trends, and a widening gap between production and consumption. It is therefore clear that regardless of the individual countries' efforts to increase productivity, sizeable gains remain locked up in unexploited relative efficiencies in the production sectors. These observations suggest a need to develop an incentive structure that would boost productivity in the region. Several market based interventions have been used in the past, such as producer price supports and subsidies, however such interventions have been shown to be either ineffective or too costly, hence their abandon under structural adjustment programs in the early 1990's. In the ensuing framework of market-led economies, regional trade policy reform emerges as a possible strategy for addressing the issue of production efficiency. The liberalization of regional trade, among other things, would be expected to foster efficient production based on individual countries' comparative advantages, in turn increasing regional supply of cereals. Several scholars agree that promoting regional free trade in food and agriculture is not only important for regional food security, but is a necessary precursor to integration of the region with global food markets.

The use of trade liberalization as a strategy for food security is intricate, and requires meticulous attention to detail because if mismanaged, it could easily exacerbate food insecurity rather than alleviate it, due to different forms of trade diversion. Production from poor smallholder farmers could get displaced by cheaper imports from larger producers; a positive outcome if these farmers are able to diversify and improve their incomes, but most likely, a negative outcome at least in the short run, since this diversification is not instantaneous. On the other hand, maintaining trade protection could be very costly to poor urban consumers, landless rural households and small farmers who are net buyers of food, through high food prices. Trade policy reform therefore requires carefully planning to avoid severe damage to the livelihoods of the poor and most vulnerable groups. For southern Africa, the main challenge in implementing trade reform is the absence of efficient market institutions to support integration. Such institutions include market infrastructure, specifically road networks within individual countries and across borders. Because the transport infrastructure network between countries is generally poor, geographic proximity becomes a weak incentive for potential trade. Therefore improvement of infrastructure is a prerequisite for successful trade integration and growth in the region. A related challenge exists with the region's information systems, with need for reliable information systems that would keep farmers aware of opportunities available in the market. Because of their general location in remote parts of

the country, smallholder farmers' access to daily media is not guaranteed; thus farmers are separated from the markets, a condition that leaves them less equipped to make informed production decisions and to negotiate prices. Finally, the limited business skills in the smallholder farming sectors could preclude farmers in this sector from taking full advantage of the opportunities presented by trade liberalization. Farmers would need to be equipped with skills in making business decisions, separating business from household decisions, establishing comparative advantage in production, and diversifying.

The volatility of grain supply is a second area requiring policy intervention. Historic production statistics indicate significant variability of cereals production, ranging from as low as 12million tons of cereals in one season, less than half of regional requirements, to as high as 29million tons in another. These dramatic shifts in supply, generally a result of erratic climatic conditions, have terrible effects on prices, consumption and farmer incomes. A number of options can be suggested to handle volatile supply, such as the use of grain stock programs, or imports. Some regional scholars have suggested setting up a regional warehouse for grains, to be used in case of food emergencies. However several administrative complications that could result from such a strategy, for example where to locate the granary, how to stock it and how to finance the maintenance costs, can easily make this an inefficient option. However, this does not imply that grain reserve are not important, but that these could be more efficiently managed at individual country level, and with proper monitoring of maintenance costs, has potential of succeeding in stabilizing supply. In a market-led economy one could consider the use of commercial imports as a possible strategy. The major challenge with this option is again financing: governments may not have the means to buy and distribute food in emergency situations; or if the market mechanism were to be employed, imports could be too costly for poor farmers who normally produce their own food, and for poor urban consumers. The risk of transmitting world price fluctuations to the farmer is another consideration, although one may argue that the domestic price fluctuations caused by volatile supply would have worse effects on production.

Finally, social safety nets need to be developed to protect the poor and most vulnerable groups from hunger and starvation. The regional famine of 2002/03, where close to a third of the region's population faced the risk of starvation, reinforced the need for such intervention. The role of the government in a market economy needs to be re-defined: complete laissez-faire is unlikely to be a big improvement on total government control in food marketing and distribution, since markets have their weaknesses, and are certainly not designed to achieve equity in income or access to food. Therefore, although a move in the direction of free markets is not only desirable, but inevitable in the face of globalization, an important role for the government remains, in addressing market failure, providing public goods, and maintaining food reserves for emergencies situation.

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