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RECOMMENDATIONS

- The policy process should be led by evidence-based research; there is a need to strengthen the research capacity of policy experts to examine the different sector linkages that impact upon agricultural production and supply, and further research services and food security linkages.
- The importance of services trade to trade in goods should be realised by policy-makers, and the services negotiations in the region should be fast-tracked to stimulate increased production facilitated by effective and well-functioning core infrastructure services. Special attention should be given to services that promote diversification into value-added agro-processing.
- The liberalisation of services mentioned in this brief will ease restraints on foreign investment currently stifled by overregulation and monopoly. Improvements in these services would, in turn, help contribute to boosting productivity and supply in the agricultural sector.
- Finally, the liberalisation of services trade should be balanced by a strong regulatory framework; countries should be aware that liberalisation that is not accompanied by a host of other support policies will not be the panacea to the agricultural productivity and food security problem.

Leveraging Services Trade Liberalisation for Enhanced Food Security in SADC

Memory Dube[1]

EXECUTIVE SUMMARY

The global food crisis of 2008 threw into sharp relief the problem of food security in many developing countries. In the case of the Southern African Development Community (SADC), the food crisis served to highlight the decline in agricultural productivity over the years and the descent of some countries from net food exporters to net food importers. Although the reasons for such decline are many and varied, there are some elements that are trade policy-related. One of the often ignored trade policy factors is that of services trade liberalisation and the impact it can have on agricultural productivity, particularly the liberalisation of network and intermediate services such as finance, transport, communications and energy. Despite the fact that these services are often inefficient and excessively overpriced due to monopolies, there seems to be little appetite in the region for services trade liberalisation. Rather, the priority when it comes to regional integration has so far been on tariff reductions and trade in goods. Indeed, there seems to be little awareness of the interconnectivity of trade in goods and trade in services, or, in essence, the adverse impacts that inefficient services can have on productivity and supply when it comes to goods trade. This has a particularly negative impact on agricultural trade, especially given the distance of the agricultural areas from urban areas, where services are more readily available. Liberalisation of trade in services in the SADC region would help stimulate increased agricultural productivity and supply through increased investment in network services and, concomitantly,

in the agricultural sector. It is therefore of critical importance for food security that the services trade liberalisation agenda in SADC is more aggressively pursued.

INTRODUCTION AND BACKGROUND

The global food crisis of 2008 brought increased urgency to the problem of chronic food insecurity in most of Africa, and SADC was no exception. SADC has suffered from declining agricultural performance, with the rate of growth of per capita agricultural production declining from an average of 130 in the 1960s to 101 in the 2000s.[1] Nevertheless, agriculture remains at the heart of many of SADC's development strategies, given that the sector supports 70% of the population's livelihoods, 50% of employment and 20% of the GDP in most member states.[2] In addition, agriculture contributes to 66% of intra-SADC trade and about 13% of total regional export earnings.[3] As such, the agricultural sector remains at the core of regional development. Within the wider continent, the importance of agriculture is embodied in the Comprehensive Africa Agriculture Development Programme (CAADP), which is an operational framework for agriculture-led development and whose overall objective is to improve rural development, livelihoods, food security and environmental resilience in Africa.[4]

There is, therefore, an increasing recognition of the nexus between agriculture and economic development in the region and in Africa as a whole, and international trade in agriculture is a key part of the equation. Trade has long been recognised as an important contributor to economic growth and development. Seeing as the region's comparative advantage is in agriculture and given the abundant land, increased agricultural productivity would lead to increased trade, as well as food security.[5] Due to the growing consensus on the need for regional integration and open markets, manifested in the drive toward the Tripartite Free Trade Area that will encompass SADC, the Common Market for Eastern and Southern Africa, and the East African Community, substantial trade policy reforms have been undertaken in the region. Nonetheless, the focus has largely been on policy reforms that drive market access in commodities trade. These reforms have been taking place since the 1970s and 1980s, with the basic understanding that increased market liberalisation would lead to increased productivity and competitiveness of the agricultural sector. However, these market reforms have taken place alongside the decline in agricultural productivity.

Given that services were, until recently, regarded as untradeable goods that are confined only to the domestic sectors, there is a need for a closer look at the nexus between services trade liberalisation and agricultural productivity and, concomitantly, food security. This is not to simplify the reasons for the decline in agricultural productivity in the region, which are numerous and varied. The objective of this policy briefing is to identify the linkages between services trade, agricultural trade and food security in SADC, in order to take full advantage of regional trade integration for food security in the present and in the future.

STATE OF SERVICES TRADE LIBERALISATION IN SADC

At the core of the SADC trade liberalisation agenda is the SADC Trade Protocol, which concentrates mainly on the liberalisation of trade in goods. There is only a cursory reference to the liberalisation of trade in services; the Protocol 'recognises' the importance of trade in services and emphasizes the member states' commitments under the WTO's General Agreement on Trade in Services (GATS). Negotiations toward adding a services annex to the Trade Protocol started in 1999, but it was decided in 2007 to negotiate a separate services protocol for the region. The Services Protocol provides the framework for the negotiation of services liberalisation in the region, and six priority sectors have already been identified: transport, communications, financial, construction, tourism and energy. Once these have been successfully negotiated, negotiations will move into other service sectors and modes to create a comprehensive services agreement. Although the Services Protocol was formally adopted by the SADC Trade Ministers in July 2009, it is still awaiting clearance by the Ministers of Justice and the approval by the SADC Council to enable signature by the Heads of State. Negotiations have, however, commenced, after the Ministers of Trade gave the directive in November 2011. The plan is to conclude the negotiations within three years and hence a final agreement is expected to be in place by 2015, a rather ambitious timeline by SADC negotiating standards.

The financial sector, which has been designated as a priority sector in the Services Protocol, is also propped up by the SADC Protocol on Finance and Investment (FIP), which was signed in 2006 by all SADC member states and came into force on April 16, 2010, after ratification by nine member states. The FIP seeks to provide a framework for co-operation in the area of finance, promote the development of sound investment policies and encourage savings, and facilitate and stimulate investment flows and technology transfer and innovation in the region. The FIP focuses more on regulatory harmonization and co-operation in the financial services sector, whereas the liberalisation of services will still be the primary concern of the Services Protocol. The FIP has been in force for less than two years and it is difficult, therefore, to judge its impact as yet. Nonetheless, countries seem to have made significant progress toward the general commitments in the Protocol.[6]

SERVICES TRADE LIBERALISATION AND AGRICULTURE

At a broad level, two elements stick out when one considers the linkages between services and agriculture: financial services, and logistics and infrastructure.

- Financial Services: Access to financial services has become a necessity for the survival of farmers and the agricultural sector. Financial institutions enable the rural poor and smallholder farmers to respond to shocks and manage risks. The agricultural sector benefits from having access to capital to finance production costs and expand investments over time.[7] Poor smallholder farmers, whose incomes are often irregular and tied to the agricultural season, will be better equipped to cope with their expenditures because the increase in service providers will improve their access to finance. Despite the significance of these services and the rapid development of the financial industry globally, smallholder farmers have limited access to these services.[8]
- Logistics and Infrastructure: Infrastructure – in particular, transportation and information and communication technology – is vital in reducing costs and uncertainty, and in enhancing market information flows. Mobile phone technology is one element of this services category that has greatly reduced market transaction costs and enabled farmers to access information and even conduct banking services efficiently. Improved road access is associated with higher agricultural production. In Bangladesh, villages with good road infrastructure enjoyed higher levels of agricultural production, higher income and better access to health.[9] The importance of logistics services is further highlighted by a World Bank study on Indonesia that claims that the level of integration into the world market, determined by the quality of transport infrastructure, plays a significant role in the country's ability to adjust to global food price shocks.[10]

In SADC, most countries in the region, with the partial exception of South Africa, suffer from chronic supply-side deficiencies that severely limit their capacities to produce and supply goods and services. The network services infrastructure, which is comprised of communications, energy, finance and transport, is highly deficient and in serious need of improvement.[11] Such intermediate services are essential to the agricultural sector.

These services are largely underdeveloped, highly regulated and mostly monopolised by government parastatals, leading to high cost and prices, inefficiencies in the sectors, reduced competitiveness and an inability to effectively integrate into the global economy.[12] The financial sector is clogged with trade barriers, and most countries do not have the requisite infrastructure for the effective functioning of the sector. Although the telecommunications sector is relatively well developed compared to the rest of the continent, it is still underdeveloped by global standards, costly and inefficient. The same goes for the transport sector, where services are also expensive and unreliable, whether air, road or maritime transport.[13] This is usually accompanied by poor regulatory capacities and a difficult business environment that then hinders regional competitiveness and ultimately serves as an impediment to diversification away from commodities to value-added agricultural processing.[14]

There is also huge potential in the region for cross-border trade in agriculture, particularly from food surplus to food deficit areas and, in addition, for the development of regional value chains. Access to cheap, efficient and competitive network services would help develop that potential.[15] Generally, the agricultural market is hampered by poor infrastructure, unavailability of trade finance, inadequate support services, and weak institutions, and these contribute to high transaction costs, price volatility and food insecurity.[16] Also, during the food crisis of 2007–2008, inadequate transport infrastructure, and other service deficiencies, exacerbated the problem of high prices and worsened the food crisis in most of the food-importing countries.

The diversification of SADC economies has been a major issue in the global trade discourse, as most countries in the region find themselves trapped into exporting commodities because of insufficient value chain development and performance. A value chain approach to liberalisation would enable countries to diversify their exports when food production increases. Increased productivity, coupled with highly developed network services infrastructure, would lead to more diversified and competitive agricultural produce that caters to a wide and diverse consumer base, lowers transaction costs, results in better quality and sophistication of products, and increases efficiency in the sector.[17] However, this requires certain kinds of services such as 'special facilities (packhouses, cold storage, and refrigerated transport), and rapid delivery to consumers to maintain quality and reduce physical and nutritional losses.'[18] Services trade liberalisation could therefore be structured in such a way that it promotes both increased food productivity and the development of value-added agricultural produce.

CONCLUSION

It is clear that the services sector plays a significant, yet underestimated, role in the agricultural sector in SADC and that opening up service sectors to regional competition could improve those services, leading in turn to improvements in agricultural productivity. To date, however, negotiations on services trade liberalisation have essentially been characterised by a 'no risk, no gain' approach, and the status quo on the SADC member states' GATS commitments seems to be the preferred extent of services trade liberalisation. There is also a discord among the commitments of countries when it comes to agricultural development (eg CAADP) and the action being taken on the ground. This can partly be explained by the lack of research on the extraneous factors that are fundamental to agricultural development, such as the linkages between services trade and agricultural productivity and supply, which ultimately impacts upon food security in the region.

ENDNOTES

1 Memory Dube is a senior researcher in the Economic Diplomacy Programme at SAIIA.

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