# APP TOP Inquiry into UK's Africa Free Trade Initiative

## Submission to Call for Evidence

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This brief submission has two aims:

i) To clarify that while trade can support a poverty-reduction strategy, trade policy cannot ensure that trade is pro-poor and gender equitable because trade is not targeted on either the poor or specific genders.

ii) Growing and processing agricultural products remains the largest sector in terms of employment in sub-Saharan Africa and food accounts for the largest share of consumption spending, so agricultural trade is the most important sector for poverty reduction.

**Trade and the Poor**

1.1 There is no simple and direct link between trade and poverty. Research has established that there are three major channels through which trade has effects on the poor:[1] through prices (especially for imports); through employment and incomes (especially of producers); and through government revenues (especially trade taxes). Each is considered in turn and there may or may not be effects on poor households.

1.2 Freeing trade implies access to cheaper imports. This benefits consumers, and benefits the poor insofar as they consume the cheaper products, either the imports or because domestic prices are reduced. In general consumers do benefit; the effect is gender neutral and only pro-poor if the imported goods are a larger share of consumption for poor households. There can be a cost to domestic producers if they compete directly with the imports (producers can benefit if the imports are used as intermediate inputs or the competition stimulates increased productivity). The net

[1] See N. McCulloch, L. A. Winters and X. Cirera (2001), *Trade Liberalisation and Poverty: A Handbook*, London, DfID and CEPR; L. A. Winters, N. McCulloch and A. McKay (2004), 'Trade Liberalization and Poverty: the Evidence So Far', *Journal of Economic Literature,* XLII (March), 72-115.

effect of cheaper imports on domestic producers varies by product and country and there is no evidence for a general statement. The exception is that increasing food prices, which may be due to rising world prices, have an adverse impact on poor households.[2]

1.3 An increase in exports benefits producers, but typically these are not the poor because poor households are the least likely to be engaged in production for export. Sustained export growth can generate employment and this can benefit the poor. This has only happened to a limited extent in Africa: agricultural exports have employment potential, especially horticulture and floriculture (which often employ women), but minerals (where much of the growth has been) and manufacturing (with low exports) have not generated significant employment.

1.4 Trade taxes have been reduced significantly in Africa over the last two decades and this has been associated with revenue losses in at least the short run (it takes time to implement alternative taxes). This is less of a problem now as trade taxes are generally low and other tax revenues have been increasing.

**Agriculture and the Poor**

2.1 Arguably, the failure to achieve an agricultural transformation is the single most important reason for slow growth and limited poverty reduction in Africa in Africa over the past half century. Policy distortions created a bias against agricultural and the sector has performed badly throughout most of Africa.[3] Nevertheless, it remains the single most important sector for employment and production.

2.2 Agricultural growth offers the potential to reduce poverty and benefit women, who are actively engaged in the sector. Trade plays a role, but often the most important trade for smallholder producers is intra-regional cross-border sales of small amounts of surplus production. Policies to support such trade, such as reducing petty impediments (such as road checks and bribe-seeking), are likely to be pro-poor and may be favourable to women.

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[2] See for example, V. Leyaro, O. Morrissey and T. Owens (2010), 'Food Prices, Tax Reforms and Consumer Welfare in Tanzania 1990-2007', *International Tax and Public Finance*, **17** (4), 430-450

[3] See K. Anderson and W. Masters (eds.), *Distortions to Agricultural Incentives in Africa*, Washington DC: World Bank.

## Concluding Comment

Development partners can support African trade by providing finance for trade facilitation and supporting intra-regional trade. The UK, either itself or with the EU, cam promote this in Economic Partnership Agreements with Africa. African countries are more likely to benefit from such regional trade partnerships if there are allowed some trade policy discretion to support sectors with potential for intra-regional trade.[4] Investment in physical trade infrastructure and administrative trade facilitation measures is an important way to provide financial support for sustained growth in trade with the potential to benefit the poor.

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[4] See for example: O. Morrissey (Ed), *Assessing Prospective Trade Policy: Methods Applied to EU-ACP Economic Partnership Agreements*, London: Routledge; C. Jones and O. Morrissey (2008), 'Missed Opportunities: The WTO Trade Policy Review for the East African Community', *The World Economy Global Trade Policy 2008*, 31 (9), 1409-1432; C. Milner, O. Morrissey and E. Zgovu, (2011), 'Designing Economic Partnership Agreements to Promote Inter-Regional Trade in ACP Countries', *South African Journal of Economics*, 79 (4), 376-391.