Impact of the African Continental Free Trade Area on the Prices of Agricultural Products

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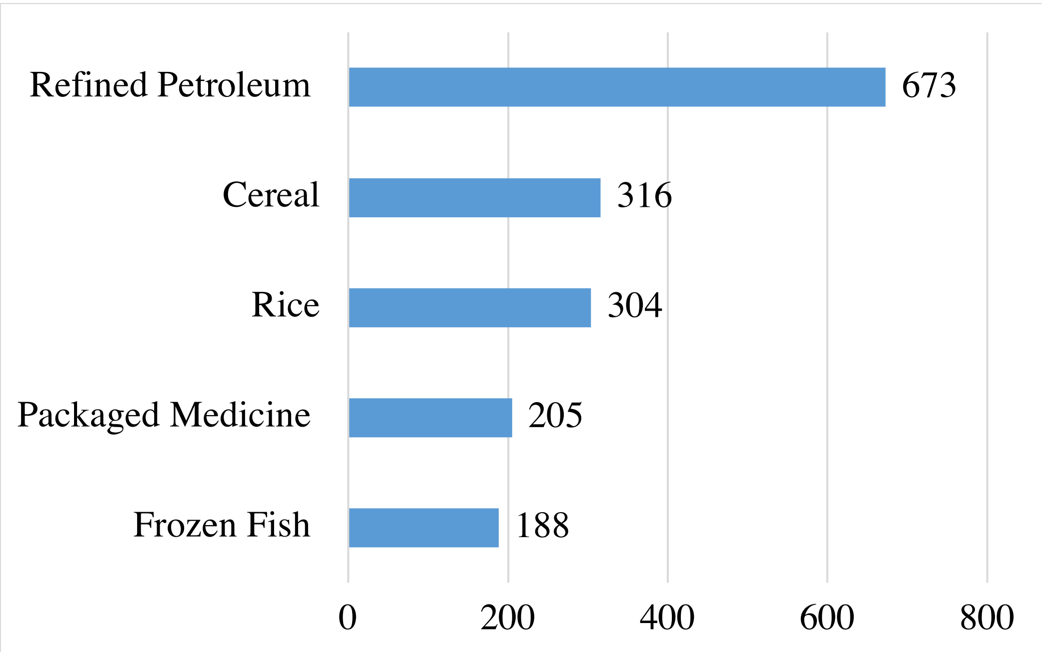
To Cite: Wouapi, H., Djamo, H. F. & Kouam, H. (2024). Impact of the African Continental Free Trade Area on the Prices of Processed Agricultural Products, Cameroon Economic Policy Institute (CEPI), 24 (12).

Introduction

The African Continental Free Trade Area (AfCFTA) is a trade agreement signed in 2018 by 54 countries, which aims to create the world's largest free trade area in terms of the number of participating countries. The AfCFTA could boost intra-African trade by 52.3% by 2025, increase incomes to $450 billion by 2035 and lift 30 million Africans out of extreme poverty (Rao, 2023). Under the AfCFTA, tariffs on 90% of liberalized goods will be reduced by 2030 at the latest, and by 7% by 2035. Countries are allowed to tax 3% of goods produced. The agricultural sector plays a central role in African economies, accounting for over a third of gross national product and export earnings, and employing over 60% of the continent's population. The sector is therefore essential for economic growth, poverty reduction and food security. Aware of its importance to the Cameroonian economy, this policy brief analyzes the impact of the African Continental Free Trade Area on the prices of processed agricultural products.

Figure 1: Imports of agricultural products into Cameroon ($ Million)



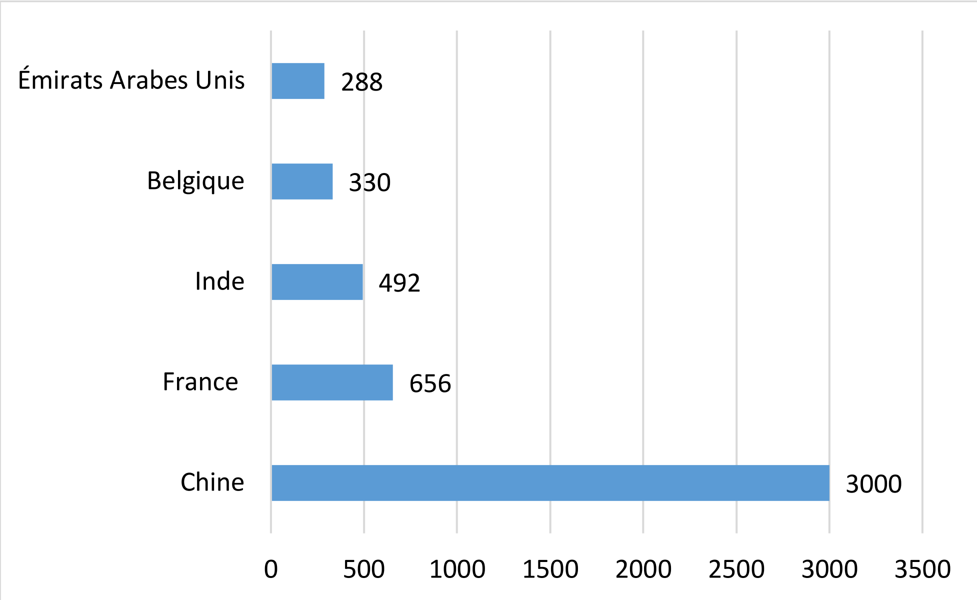
Source : OEC, 2024

i. **Importing agricultural products into Cameroon**

While the AfCFTA will create markets for local producers, it will also facilitate imports of agricultural products. Cameroon's main imports are refined petroleum ($673 million), wheat ($316 million), rice ($304), packaged medicines ($205 million) and frozen fish without fillets

($188 million). These products are imported mainly from China, France, India, Belgium and the United Arab Emirates (Figure 2).

Figure 2: Cameroon's main import partners (FCFA Million)



Source : OEC, 2023

ii. Panorama of the agricultural sector in Cameroon

Cameroon's agri-agro sector, spread over five major agro-ecological zones, accounts for some 50% of export earnings, 80% of the primary sector's contribution to the country's GDP, and employs between 70% and 80% of the working population (SND 30). Cameroon's farming population is essentially made up of family farms (EFA), which account for some 70% of the agricultural population (INS, 2010). These are small-scale farmers who are responsible for producing some 80% of the country's food. As farming systems become increasingly integrated into markets and value chains, the use of agricultural inputs by producers is on the rise, with all the attendant impacts on the biophysical environment and risks to human health.

Furthermore, trends in food and cash crop production show poor performance with production levels below expectations (Ndedi, 2017), further exacerbated by both climatic risks and non-climatic stresses (Epule & Bryant, 2015; Kouam, 2024). The pace of deforestation, biodiversity loss and land-use change is increasing, putting a strain on the resilience of agricultural production systems, for which there is an urgent need to deploy appropriate strategies that help increase yields, put young people to work by activating the levers of digitalization and cleaning up the entrepreneurial ecosystem, and adapt agriculture to climate risks (Epule & Bryant, 2016).

iii. Overview of inflation on agriculture products (1990 – 2022)

Inflation on agricultural products is clearly accelerating, and is reflected in the evolution of food prices as a result of the exogenous increase in international prices of agricultural raw materials and climatic risks. This acceleration in inflation on agricultural products in Cameroon is undermining macroeconomic equilibrium by destabilizing the balance of trade and the balance of payments. That said, the general price level has accelerated from 2.3% in 2021 to 6.3% in 2022, rising to an annual average of 7.4% in 2023 due to the combined effects of the externalities of the Russo-Ukrainian conflict and the rise in fuel prices at the pump recorded at the start of 2024.

According to a study by the Institut National de la Statistique, although trends in consumer prices for food products and non-alcoholic beverages have almost always been the main factor driving inflation, in 2023 it will be transport prices that will suffice to reflect the acceleration recorded for the following three functions: (i) furniture, household goods and routine household maintenance (+7.2% in 2023 vs. +5.6% in 2022); (ii) transport (+15.0% vs. +2.7%); (iii) food products and non-alcoholic beverages, whose increase is estimated at +10.8% in 2023 vs. 12.7% in 2022 (MINEPAT, 2024).

It should be noted that this transport function represents the third largest household consumption item, accounting for an estimated 11.3% of total consumption expenditure, directly after "food and non-alcoholic beverages" (31.8%), and "housing, water, electricity, gas and other fuels" (12.9%). Meanwhile, the sources of inflation remain essentially fuelled by the rise in prices of local products (8.1%) and, to a certain extent, the rise in production costs for companies, itself dependent on the increase in prices of imported inputs.

iv. Anticipated impact of the Free Trade on agricultural products

One of AfCFTA's objectives is to promote industrial development through the diversification and development of regional value chains, agricultural development and food security. Bringing together 54 countries, more than 1.2 billion people and a GDP in excess of 2.5 billion dollars, the AfCFTA can be a powerful force for positioning Africa in the global economy.

On a continental level, the AfCFTA can promote regional integration and significantly increase intra-African trade and investment. This is the case in Cameroon, where we are seeing the emergence of preferential trade under the AfCFTA on products for which rules of origin have been agreed.

By way of illustration, Cameroon has exported dried safflower, dried pineapple and ginger tea to Ghana. Cameroon classifies these products in "category B", known as local products. This category comprises 6.99% of tariff lines, i.e., a total of 408 products that Cameroon will liberalize over 13 years, with a 5-year moratorium. Category A", on the other hand, contains products (imported and not locally produced) that will undergo rapid liberalization. It comprises 90.01% of tariff lines, or 5255 products.

This group of products will be dismantled using a linear approach, over a period of 10 years, to achieve zero customs duty. In view of the constraints associated with the operation of customs unions, Cameroon joined forces with the 5 other CEMAC countries to draw up this tariff offer by consensus. The AfCFTA thus has the potential to boost intra-African trade, stimulate industrial diversification and create jobs by leveraging trade as an engine of economic growth.

V. The role of VAT and customs duties on prices

VAT and customs tariffs are trade policy instruments used by governments to protect themselves against external competition. One of the major issues is their impact on product prices. The possibility for companies to deduct part of the VAT from their expenses directly influences the production cost of goods and services, and therefore the final price offered to consumers (Geay, 2015). In the context of the AfCFTA, VAT will have an impact on the competitiveness of imported products in relation to domestic products.

If a country applies a higher VAT rate than its trading partners, this may increase the costs of imported products and favor local products. Varying VAT rates within the AfCFTA region could therefore create distortions between countries. Customs duties, on the other hand, are designed to protect domestic production by making imported products more expensive.

The reduction or elimination of tariffs between member countries could potentially lead to lower prices for end consumers, as production costs could fall due to access to cheaper inputs from other member countries (Haile-Gabriel, 2021). Harmonizing tax policies and reducing tariff barriers can therefore help boost intra-African trade and stimulate economic development on the continent.

Recommendations

1. Increase investment in regional value chain infrastructure.

2. Align national institutional and regulatory systems with regional and continental trade protocols.

3. Support capacity building for member states to comply with international sanitary and phytosanitary measures.

4. Increase investment in physical infrastructure for transport and communication, processing and storage of agricultural products, laboratories, border control systems.

5. Encourage the private sector to invest in infrastructure development through the public-private partnership mechanism.

6. Launch initiatives to strengthen infrastructure, information systems and services to facilitate access to regional markets.

Conclusions

The agricultural sector is essential for economic growth, poverty reduction and food security. Free trade will progressively integrate farmers into markets and commodity chains, increasing the use of agricultural inputs by producers and their environmental impact. The AfCFTA will reduce the price of agricultural inputs and increase consumption, while the harmonization of fiscal policies and the reduction of tariff barriers can help boost intra-African trade and stimulate economic development on the continent.

That said, the general price level is set to accelerate from 2.3% in 2021 to 6.3% in 2022, rising to an annual average of 7.4% in 2023 due to the combined effects of the externalities of the Russo-Ukrainian conflict and the rise in fuel prices at the pump recorded at the start of 2024. Free trade can reduce inflationary pressures, but we illustrate that varying VAT rates within the AfCFTA region could therefore create distortions between countries. Customs duties, on the other hand, are designed to protect domestic production by making imported products more expensive. To benefit from the AfCFTA, it is essential to promote the development of physical and digital infrastructures.

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