Food-importing countries in liberalized world trade

The rice market in Senegal

In the debate about the impact of world trade and the WTO on agricultural exports from developing countries, the fact that many of these countries are also major importers of agricultural products is often forgotten. Indeed, most of Africa's poorest countries are net importers of agricultural products, and the trend is increasing. The reasons are highly diverse and can be due to both internal and external factors.

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Photo: Schucht

Storing the rice harvest at a cooperative: the Union de Boundom.

Heavy reliance on food imports has serious consequences for food security, incomes and poverty reduction. A basic distinction must be made between households which are net purchasers of food and those which are net sellers. High agricultural imports push down food prices and tend to benefit urban consumers, whereas high prices favour rural producers.

In reality, however, the situation is often rather more complex, because in developing countries in particular, almost every household – rural and urban – buys and sells agricultural products. It is this complex web of food purchases and sales by a diversity of household types which determines the overall impact of changes in the global agricultural markets. In this context, food prices are key determinants of the income and purchasing power of poor households. This article examines the complex interlinkages behind import dependency with reference to Senegal in West Africa.

Whereas in absolute terms, food production in Senegal has doubled since 1960, due to the country's high level of population growth, per capita food production has fallen by almost 50 percent. Virtually no other country in sub-Saharan Africa (SSA) is so food-import-dependent, especially on one specific product: rice. After Nigeria – a much larger country – Senegal is the second largest rice importer in sub-Saharan Africa, ranking tenth in the world.

In view of rising imports of food, especially rice, in almost all countries of sub-Saharan Africa, the situation in Senegal is likely to be symptomatic of the future scenario in many countries on the African continent. The present case study highlights the many aspects which must be taken into account when assessing this situation.

Imported broken rice in Senegal's cereals market

Rice is the world's most important food product. However, it is not a homogeneous commodity. The world rice market is extremely complex, and its individual segments are highly volatile. This is due to natural production conditions as well as to numerous interventions by industrialized and developing countries.

Rice imports into Senegal consist almost entirely of broken rice (see also footnote to figure, p. 23). Broken rice is a by-product

of rice processing. In the international markets, broken rice is considered an inferior product and is therefore much cheaper than whole rice. However, Senegalese consumers have developed a marked preference for broken rice, with the result that in 2003, broken rice on sale in St. Louis (close to the centre of local rice production in the Senegal River Valley) costs 20-40 FCFA/kg or 10-20 percent more than locally produced whole rice – depending on the season. This preference for broken rice is probably due to changed consumer behaviour in response to the type of products available during the colonial and post-colonial periods.

Certain types of rice were available in Senegal even in pre-colonial times, but rice was a luxury, not a staple food. Rice has only become an integral element of the Senegalese diet since the colonial era. Since independence in 1960, rice consumption in Senegal has increased by almost 1 000 percent in just four decades, currently standing at around 1 million tonnes. Rice consumption now exceeds 70 kg per capita per year and, since the 1970s, has replaced millet as the most important staple food. In urban households, rice accounts for 54 percent of cereal consumption and 18 percent of total household spending. In rural regions, the figures are 24 percent of cereal consumption and as much as 25 percent of total household spending. The latter figure reflects the fact that rural households are poorer and, in percentage terms, have less money available to spend on non-food products.

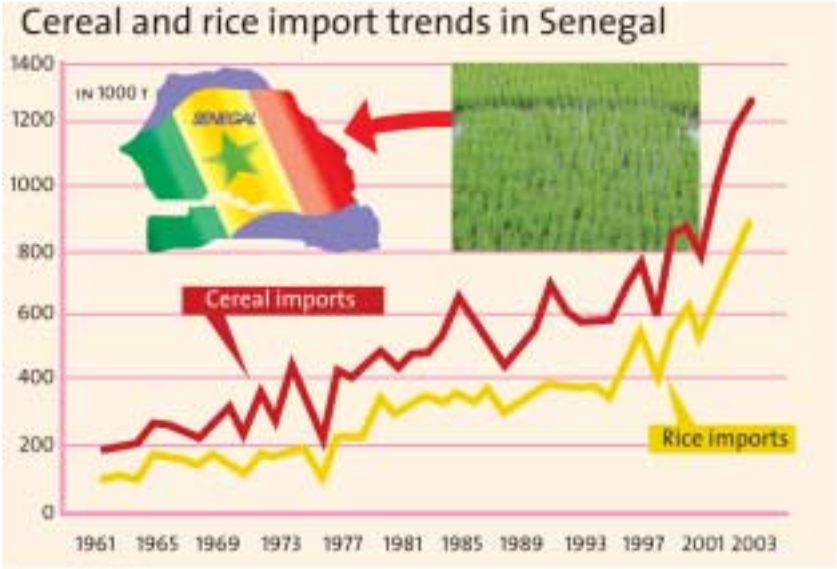
This dramatic increase in rice consumption results from several factors which are also revealing in terms of trends occurring in other countries of sub-Saharan Africa and possible policy responses.

During the colonial period, rice was imported in large quantities in order to keep food prices under control and at the same time promote groundnut production as an important cash crop. Senegal was already exporting groundnut oil to Europe in pre-colonial times; after colonization, groundnuts became Senegal's main export product. A further factor encouraging rice imports was that in the French colonies of Indo-China, rice production and export were under French control. That region exported the bulk of the rice going to the West African colonies.

During the first two decades after independence, this import policy remained unchanged, and there was a continued interest in exporting groundnuts and importing rice. However, rapid industrialization appeared to offer better prospects for economic development, especially as Senegal has virtually no natural resources of its own. Cheap labour was essential to achieve this objective – but cheap labour relies on cheap food, since food prices crucially determine purchasing power and therefore the minimum wages paid to lower income groups. Imports are the simplest way of ensuring cheap foods; developing a system of marketable production at national level from a subsistence economy is a far more complex process. Furthermore, the urban population in post-colonial sub-Saharan Africa was – and still is – of overriding importance in political terms. Policies which aim to promote local food production through price increases therefore encounter stiff opposition.

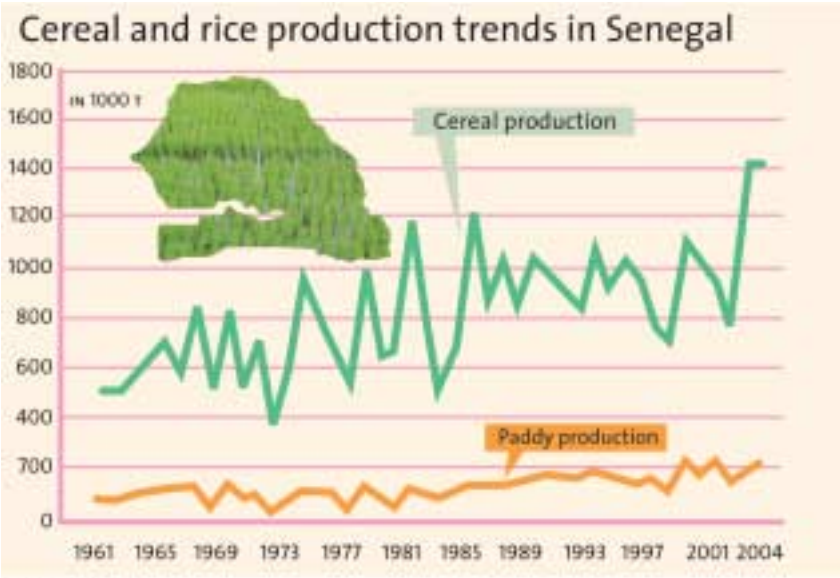
Besides these circumstances specific to Senegal, another major factor is that the preparation of rice dishes takes far less time and fuelwood, and is far less labour-intensive, than preparing Senegal's traditional millet dishes. In urban households in particular, these inputs – time, fuel and labour – are scarce. This goes a long way towards explaining why high rates of urbanization in the West African states are generally accompanied by increased rice consumption.

The promotion of imports, the industrialization strategy and Senegal's high level of urbanization (around 50 percent), combined with the positive image of rice as a foodstuff, created a new pattern of consumer behaviour based around rice as the staple food. Most of the demand for rice was – and still is – met by imports (see graphs). Today, rice imports amount to around FCFA 100 billion, accounting for 7-8 percent of total imports and posing a



Source: FAOSTAT

FAO data on imported broken rice are available for 2001-2003 only. During this period, broken rice accounted for 99 % of total rice imports.



Source: FAOSTAT

major burden on the country's trade and foreign exchange balance. The fact that only a proportion of Senegal's food production actually reaches the market (the figure for rice is 40-50 percent) further highlights the importance of rice imports for the Senegalese cereals market.

Promoting national rice production

More intensive efforts to encourage local food production began in the early 1980s when the old model of industrialization at the expense of agricultural development proved to be non-viable. The industrialization strategy had yielded very little in the way of internationally competitive products. The Senegalese economy – initially a beacon of hope in sub-Saharan Africa – lapsed into structural crisis. Rural regions were worst affected, especially since the urban bias of Senegalese politics now had a firm demographic basis. The austerity measures imposed through the internal and external structural adjustment programmes mainly hit the rural populations.

Since independence in 1960, rice consumption in Senegal has grown almost ten-fold in just four decades, currently standing at around 1 million tonnes.

Soil fertility in the Sahel's fragile production systems declined dramatically as a result of the use of non-sustainable cultivation techniques, especially in groundnut production, and the increasing pressure on natural resources. A series of droughts also occurred in the 1970s, leading to a permanent drop in rainfall and harvest yields. The situation was exacerbated by changes in the global vegetable oil markets which greatly reduced the profit margins for exported groundnut oil.

The progressive shift towards local food production from the early 1980s therefore took place under far more difficult environmental and economic conditions than 20 years earlier. The development strategy focussed primarily on rice cultivation based on large-scale irrigation. Over recent decades, more than 60 percent of investment in the agricultural sector has been channelled into irrigated agriculture, especially in the Senegal River Valley. The river valleys have always been regarded as the regions which offer the greatest potential for more intensive agriculture, although they are home to just 10 percent of the rural population. The technical parameters required for irrigated rice cultivation appear to be in place: in principle, the disadvantage of costly dependence on a system of irrigation which uses mechanized pumps is more than offset by the outstanding climatic conditions prevailing in these areas, especially during the dry season, which are extremely conducive to growth. By contrast, rain-fed cultivation is viewed as very fragile and offers little potential for more intensive farming, although 90 percent of farms depend on this form of cultivation.

Until the mid 1990s, rice imports were a key element of Senegal's highly centralized and regulated economic policy. The state's price stabilization fund operated an import monopoly; it organized the marketing and fixed the prices of both imported and local rice. The price of broken rice was fixed at around 50 percent of the price of whole rice. Within this system, a substantial levy was imposed on imported rice; in 1994/95, the year before the system was abolished, the difference between the cif world market price and the wholesale price in Senegal amounted to 28-31 FCFA/kg (compared with 8-19 FCFA/kg under the liberalized conditions introduced after 1996). Some of the revenue from the import monopoly was used to promote local production; however, a substantial proportion went towards funding the general state budget and the Senegalese Progressive Union party.

Yet despite this largely unintended protectionism and the injection of substantial funding from the state and international donors, satisfactory development of rice production in Senegal remained elusive. Compared with the downturn that had occurred during the previous decades, a slight increase in output was achieved, but the overall growth trend during the period 1980-1996 stood at just 3.1 percent per year, barely exceeding the rate of population growth (see graph). The development of key production factors – harvest yields, number of harvests per year, water consumption and the expansion of irrigated areas – lagged far behind Senegal's potential. An important factor was the powerful but often ineffective role of the state in all areas of production development, starting with research into irrigation management, agricultural extension, the granting of loans and delivery of inputs, and extending to processing and marketing. Faced with these unsatisfactory outcomes, donors scaled down their funding for the irrigation projects, which led to a further stagnation of rice production.

Another general disadvantage affecting Senegal's rice production was the increasing overvaluation of the Senegalese currency from the end of the 1980s. This pushed down the price of imports while intensifying price pressure on local food markets, making agriculture even less attractive. Other – rain-fed – crops were affected even more than rice; production of these crops rose by just 1.3 percent over

Photo: Schucht

More than 60 percent of investment in the agricultural sector has been channelled into irrigated agriculture, especially in the Senegal River Valley.

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The WTO agreements should allow moderate import protection measures for Senegal in order to protect local rice production.

this period, even though growth-impeding state intervention in production and marketing were abolished in these sectors more rapidly than in the rice sector.

Between early 1994 and mid 1996, the economic parameters for food cultivation changed radically. The currency was devalued by 100 percent, imports were liberalized and privatized, and the role of the rural development associations was reduced to a handful of core tasks such as the granting of loans, agricultural extension and providing support to private producers and processing companies. The transfer of responsibility for rice imports from the state to the private sector proceeded smoothly, despite fears to the contrary, although over time a significant concentration process has occurred. With the liberalization of imports, the state's levies and quota system were abolished and the basic tariff now stood at around 15 percent. Rice imports increased dramatically as a result. Two attempts to impose a special tax on broken rice imports between 1996 and 1998 achieved only limited success, although it is unclear whether this was due to a lack of political will and/or poor implementation. Since 2001, the external protection of the rice market has been regulated through the common trade policy of the West African Economic and Monetary Union and stands at between 5 and 10 percent. In all, imports of broken rice have increased from around 400 000 to almost 900 000 tonnes since 1994.

Yet even after the structural adjustment process, food production did not experience the expected upturn; instead, it entered a phase of stagnation and even decline. Notable increases in production were not achieved in the rice sector until 1999. In cereals production as a whole this took until 2002. Due to the major fluctuations in production (see graph, p. 23), it is still impossible to say whether this marks the start of a long-term trend. Ultimately, food production is influenced not only by developments in the food markets but also by trends in the groundnut sector, making it more difficult to draw any firm conclusions.

Conclusions

The high levels of food imports, especially broken rice, into Senegal undoubtedly pose a major problem for local food producers. They have created consumption patterns which local agriculture now finds almost impossible to satisfy, while foreign producers can meet this demand at very low cost with agricultural by-products. But it is debatable whether the imports are the sole reason for, or rather the outcome of, the weakness of local rice production. Experience has shown that earlier policies which might have afforded some protection against imports have had very little impact on local production. The unfavourable economic parameters, especially strong intervention by the state, have often made it impossible for producers to respond by increasing supply.

So will the ongoing liberalization of imports and production, under way since 1995, stimulate local production over the long term? It is difficult to draw any firm conclusions at this stage. This will depend substantially on whether private and government actors are able to ensure an adequate supply of loans, technology, agricultural extension, seeds, inputs and legal stability for producers while managing processing and marketing effectively. The current scenario gives little cause for optimism. In recent years, the situation in rural areas has worsened. The number of rural poor remains constant in Senegal at a very high level despite an acceptable rate of economic growth.

Could Senegal do more to promote and protect its local food production? This question is not only significant for the rural poor. A key question is whether a country which is so heavily dependent on a handful of export products for its foreign currency reserves should be leaving the matter of its food security to the world markets to this extent. After all, with the increasing liberalization of the global rice markets, higher prices and wider price fluctuations are a distinct possibility. China's future development poses particular risks in this respect.

However, even if politicians were able to assert their will against the interests of the extremely influential import lobby, it would be almost impossible to enforce a massive increase in external protection due to the ensuing price impacts on the urban population. Very high food prices would also curtail Senegal's international competitiveness in its other economic sectors. The solution to the dilemma is to introduce moderate agricultural import protection measures, which must be accompanied by substantial support to improve agricultural productivity and promote a range of diversification options in rural regions. There is likely to be adequate scope for such measures within the WTO. Senegal is also supporting the demand being voiced by many developing countries for the introduction of special import protection measures.