



**K.U. Leuven**

---

**L I R G I A D**

---

**Leuven Interdisciplinary Research Group on International Agreements and  
Development**

**Working Paper No 17 - 2006**

**Export Development and Promotion:  
Roles of the Private Sector**

**Miet Maertens and Johan F.M. Swinnen**

LIRGIAD, the Leuven Interdisciplinary Research Group on International Agreements and Development, is a joint venture between research groups from four different Faculties and Institutes at the Katholieke Universiteit Leuven: the Institute for International and European Policy (IIEB); the Higher Institute for Labour Studies (HIVA) - Sustainable Development; Development Economics/ Research Group on Food Policy, Transition and Development (OOE); the Working Group for International Economics (OIE); and the Institute for international Law (IIR).

In LIRGIAD, researchers from political sciences, social sciences, law and economics work closely together to examine the growing complexity of international agreements and the interactions they cause between a variety of local, national and international actors in the area of international trade and development.

The **working paper** series, started in 2003, aims at a broader dissemination of the research of LIRGIAD and of other researchers in the academic community and in society. Reference may be made to these working papers with proper citation of source.

For more information, please visit the website of LIRGIAD on [www.lirgiad.be](http://www.lirgiad.be)

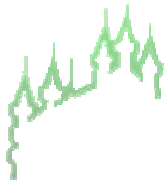
© LIRGIAD, K.U. Leuven, 2003



IIEB - Institute for International and European Policy



HIVA - Higher Institute for Labour Studies - Sustainable Development



OOE - Development Economics/ Research Group on Food Policy, Transition and Development



IIR - Institute for International Law



OIE - Working Group on International Economics

**EXPORT DEVELOPMENT AND PROMOTION:  
ROLES OF THE PRIVATE SECTOR**

**Miet Maertens and Johan F.M. Swinnen**

## **1. Introduction**

During the past decades there have been important structural transformations in private sector agricultural markets in developing countries. First, processes of privatization, liberalization and globalization have decreased the central role of the government in agricultural markets and increased the role of the private sector. Second, the structure of agricultural exports from developing countries has shifted from traditional tropical export commodities such as cocoa, coffee and teas towards nontraditional, high-value exports such as fruits and vegetables, and fish and seafood products. Third, foreign direct investment in the agri-food sector in developing countries, particularly in food processing, retailing and export, has important implications for the structure of the agri-food chain in these countries. Food distribution is increasingly organized through large retail chains, which have a profound impact on the requirements for farm products and on the procurement system in food supply chains. Fourth, food quality and safety requirements are increasingly stringent and the role of standards and certification in the agricultural supply chain is increasing. These enhanced requirements result from both changes in international demands and from structural changes in the domestic supply chain. Fifth, as a consequence of these changes, production, processing and marketing of agri-food products is increasingly organized within vertically coordinated global supply systems.

The processes of globalization, liberalization and privatization in the agri-food sector and the recent structural changes in agricultural supply chains bring about important new challenges and opportunities for developing country export development and for the private sector agri-food industry in developing countries. In this module we discuss these challenges and opportunities and deal with the strategies that can be chosen to exploit these opportunities. We start the module with a section on the transformation processes that took place in the agricultural markets of developing countries during the past decades. In a next section we review the main structural changes in agri-food markets and supply chains: (a) the changing structure of world agricultural trade, (b) foreign direct investment in the agri-food sector, (c) the increasing importance of food standards, and (d) vertical coordination in agri-food supply chains. In section four, we discuss the challenges and opportunities that are brought about by transformation processes and structural changes in agricultural markets of developing countries. In section five, we briefly discuss the importance of export strategies for agricultural export development. Each section is outlined around some key learning objectives that are put down at the beginning of each section.

## **2. Globalization and privatization in agri-food chains**

As a result of privatization, liberalization and globalization, food and agricultural commodity supply chains in developing countries have undergone tremendous changes in the past decades. Essentially state-controlled supply chains for

agricultural and food commodities have broken down and the role of the private sector in agri-food chains has increased. The aim of this section is to briefly discuss the liberalization and privatization processes that resulted in the break-down of state-control in food supply chains.

### *Liberalization and privatization*

Twenty-five years ago, a vast share of the poor and middle income countries, covering a large share of the world's agricultural areas and farmers, were characterized by state-controlled supply chains for agricultural and food commodities. This was most extreme in the Communist world, spreading from Central Europe to East Asia, where the entire agri-food system was under strict control of the state. However, also in many African, Latin-American and South Asian countries the state played a very important role in the agri-food chains. For example, in Brazil and Mexico, wholesale markets were run by the state (Reardon and Swinnen, 2004); in South Asia the state heavily regulated food markets and many African commodity markets and trade regimes were controlled by (para-)state organizations. In many of these countries, the state also played an important role in agricultural production and marketing in the decades between independence from colonial power and the start of liberalization processes in the 1980's and 1990's. Governments in Sub Sahara Africa (SSA) and South Asia were heavily involved in agricultural marketing and food processing through the creation of marketing boards, government-controlled cooperatives and parastatal processing units. These government institutions were often monopoly buyers of agricultural products. Governments were mainly involved in production and marketing of key agricultural products such as basic food crops and important export crops. For example, in Indonesia marketing of rice was completely controlled by the state through the marketing board *BULOG* (National Logistical Supply Organization). Similarly, marketing of grain and other basic food crops was controlled and organized by government marketing boards e.g. in Malawi, through *ADMARC* (Agricultural Development and Marketing Corporation); in Zambia, through *NAMBOARD* (National Agricultural Marketing Board) and in Kenya through *NCPB* (National Cereals and Produce Board). In many developing countries marketing and processing of major export crops was state-controlled through state-owned processing and exporting companies and organizations; e.g. for cotton in Malawi, through *CMDT* (Malawi Textile Development Company), in Cameroon, through *SODECOTON*, in Ghana, through the Ghana Cotton Development Board and in Kenya through *CLSMB* (Cotton Lint and Seed Marketing Board); for tea in Kenya, through *KTDA* (The Kenyan Tea Development Cooperation); for coffee through coffee marketing boards in Uganda, Kenya, Zimbabwe and Ethiopia; etc. In other countries marketing of agricultural products was realized through a government-controlled system of cooperatives, e.g. in Tanzania. In some cases government involvement was not limited to marketing and processing but extended into primary production as well; e.g. the *Plan Palmier* for the production of Oil Palm in Ivory Coast.

This system of state intervention and control has undergone tremendous changes in the 1980s and 1990s as global processes of liberalization and privatization induced dramatic changes in many regions. In the so-called Berg report of 1980, the World Bank argued that government marketing organizations should be reformed to operate on a commercial basis and that the private sector should be permitted to enter agricultural marketing systems to provide competition and encourage efficiency

(Poulton et al., 1998). This report has laid the basis for economic reforms, including privatization and market liberalization, which started in the late 1980's and continued throughout the 1990's in many developing countries. This has led to a collapse of various government-controlled agricultural institutions, cooperative unions and parastatal processing companies. For example in Kenya, the economic reforms have led to the collapse of the National Cereals and Produce Marketing Board, the Cotton Lint and Seed Marketing Board, the Kenya Grain Growers Cooperative Union, etc. (IFAD, 2003).

The processes of privatization and liberalization of domestic and international commodity and financial markets reduced the control of the state over food and agricultural markets and increased the role of the private sector in agricultural supply chains. In addition, the monopolist status of (para)-state food processing and marketing companies disappeared and competition in agricultural markets gradually increased.

### *Globalization*

At the same time, ongoing processes of globalization have also affected agricultural markets and the food supply chain in developing countries. Globalization of the agri-food chain in developing countries has – apart from general processes of globalization which are not specific to any country – been driven by liberalization of the trade and investment regimes in these countries. These liberalization policies often accompanied the waves of privatization and domestic price reform in agricultural markets. Trade liberalization has caused major changes in the trade of agri-food products and has increased the participation of developing countries in world agricultural trade. Also the liberalization of the investment regimes has induced increased private (foreign) investment in the agri-food sector with major implications for the sector as a whole.

Along with increased privatization and an increased role of the private sector in agricultural markets, globalization of agri-food supply chains is profoundly changing the structure of these chains with important implications for the (private) food industry and for farmers in developing countries.

### *From state control to private control*

Before the processes of liberalization, privatizing and globalization during the past two decades, the state heavily involved in agricultural markets. As mentioned before, government institutions were often monopoly buyers of agricultural products. In addition, these government institutions often also involved in providing seasonal inputs, credit and extension services to farmers in return for supplies of primary produce. Many of the African parastatal organizations provided both inputs to farmers and purchased their outputs. For example, the government marketing boards ADMARC in Malawi and NAMBOARD in Zambia provided seasonal inputs to peasant farmers deducting the value of the inputs from the payment made for marketed output at harvest time (Poulton et al., 1998). Also parastatal cotton companies such as CMDT in Mali, SODECOTON in Cameroon and the Ghana Cotton Development Board in Ghana provided credit and inputs to cotton farmers (Poulton et al., 1998). Also extension services were offered by the government, either implicitly through marketing boards and parastatal processing companies or through

other government channels (e.g. government farm extension agencies). For example, the Ghana Cotton Development Board also provided extension services (Poulton, 1998) and the Kenyan Tea Development Cooperation was involved in effective control at all levels of the operation including planting material, production processes, quality control and extension services (Bauman, 2000). In fact, in many countries, these government institutions were often the only source of input and credit provision for peasant farmers (IFAD, 2005).

During the periods of reforms, market liberalization and privatization of marketing organizations and processing companies lead to a reduction in parastatal production in food markets and to the disruption and even collapse of government marketing boards and cooperatives. For example in Kenya, the economic reforms have led to the collapse of the National Cereals and Produce Marketing Board, the Cotton Lint and Seed Marketing Board, the Kenyan Grain Growers Cooperative Union, etc (IFAD, 2003). As this happened, so has the provision of credit, agricultural inputs and extension services through state-controlled organization declined or ceased. In addition, market liberalization has led to the removal of price supports and input subsidies, a reduction in government research and extension services, and a decline in government (subsidized) credit to the agricultural sector. This has caused major disruptions in the relationships of farms with input suppliers and output markets and has resulted in many farms facing serious constraints in accessing essential inputs (feed, fertilizer, seeds, capital, etc.) and in selling their products.

However, following privatization, liberalization and globalization, the role of the private sector in agricultural supply chains has increased and new (private rather than state-controlled) forms of input provision and marketing output have emerged. In addition, these reform processes have led to many structural changes in agricultural markets and agri-food supply systems.

### **3. Structural changes in agricultural markets**

In this section we give an overview of how agricultural markets and agri-food supply systems have changed over the past decades, following waves of privatization, liberalization and globalization. We discuss in turn (a) the changing structure of world agricultural trade, (b) private investment in the agri-food sector, (c) the increased importance of food standards, and (d) increased and private vertical coordination. For the latter three issues we heavily draw on insights from module 4 on *FDI and vertical coordination* and module 5 on *Standards and their implications*. The aim of this section is to shed light on how and why the structure of agri-food supply chains in developing countries have changed.

#### **a. The changing structure of world agricultural trade**

World trade in food and agricultural products is increasing and has almost doubled during the past two decades; from 243 billion \$ in 1980 to 467 billion \$ in 2000 (Aksoy, 2005). Thirty-six percent of world agricultural trade originates from developing countries, with Latin America (14%) and East Asia and the Pacific (12%) on top. Sub Sahara Africa accounts for 3.3 % of world agricultural exports. The structure of world agricultural an export has changed significantly since 1980, and especially the structure of developing country exports.

First, agricultural exports from developing countries have shifted from traditional tropical export commodities towards nontraditional agricultural products. More specifically, fruits and vegetables, fish and seafood products, and alcoholic and non-alcoholic beverages have gained importance while cocoa, tea and coffee, sugar, confectionary products and textile have lost export shares. For developing countries the biggest decline in export shares has come in their traditional tropical products, such as coffee and cocoa, while the biggest gains have come in nontraditional exports, such as seafood and fruits and vegetables (table 1). The latter now account for 41% of total agricultural exports from developing countries while this was only 21% in 1980. The share of tropical products in developing country agricultural exports has decreased from almost 40% in 1980 to 19% in 2000.

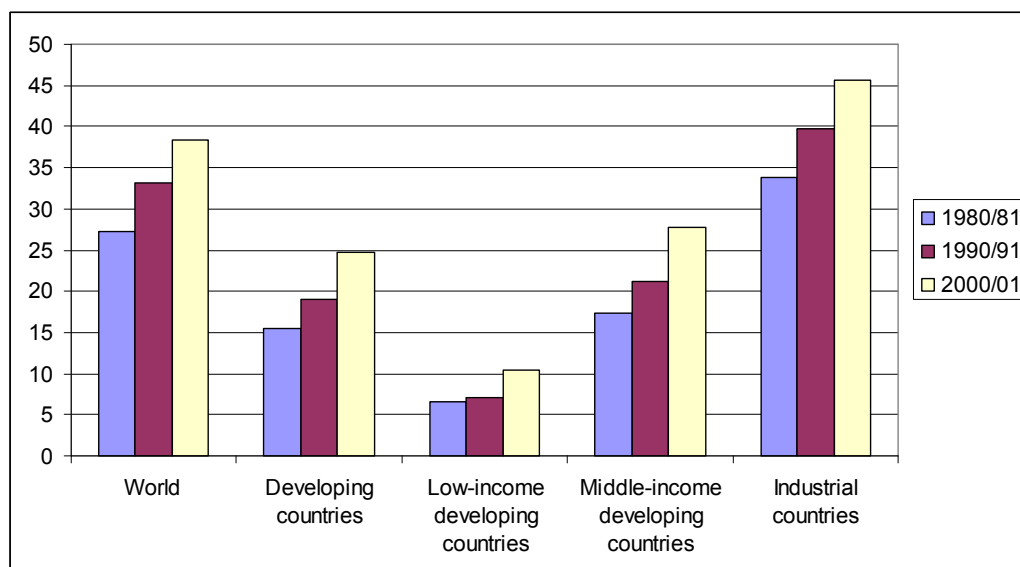
**Table 1: The Structure of World Agricultural Export (in % of world agricultural trade), 1980 - 2000**

Product classification	Developing country exports		Industrial country exports		World Exports	
	1980/81	2000/01	1980/81	2000/01	1980/81	2000/01
<b><i>Tropical products</i></b>						
Coffee, cocoa, and tea	18.3	8.5	2.5	3.6	8.5	5.4
Nuts and spices	2.4	2.8	0.7	0.8	1.3	1.5
Textile fibres	8.0	3.3	4.5	2.6	5.9	2.8
Sugar and confectionary	10.5	4.3	3.9	2.3	6.4	3.1
<b>Subtotal</b>	<b>39.2</b>	<b>18.9</b>	<b>11.6</b>	<b>9.3</b>	<b>22.0</b>	<b>12.7</b>
<b><i>Temperate products</i></b>						
Meats, fresh and processed	7.2	6.0	14.8	15.4	11.9	12.0
Milk and milk products	0.3	1.1	7.9	7.6	5.0	5.2
Grains, raw and processed	9.3	7.0	21.6	11.6	16.9	9.9
Animal feed	7.5	8.5	7.7	5.3	7.7	6.4
Edible oil and oil seeds	4.6	5.5	4.8	4.4	4.7	4.8
<b>Subtotal</b>	<b>28.8</b>	<b>28.1</b>	<b>56.9</b>	<b>44.2</b>	<b>46.3</b>	<b>38.3</b>
<b><i>Seafood, fish, fruits, and vegetables</i></b>						
Seafood, fresh and processed	6.9	19.4	5.5	8.0	6.0	12.2
Fruits, vegetables, and flowers	14.7	21.5	13.1	17.3	13.7	18.9
<b>Subtotal</b>	<b>21.6</b>	<b>41.0</b>	<b>18.7</b>	<b>25.4</b>	<b>19.8</b>	<b>31.0</b>
<b><i>Other processed products</i></b>						
Tobacco and cigarettes	2.6	3.3	3.0	4.8	2.8	4.2
Beverages, alcoholic and non-alcoholic	1.1	3.6	6.9	11.5	4.7	8.6
Other processed food products	6.7	5.2	3.0	5.0	4.4	5.1
<b>Subtotal</b>	<b>10.4</b>	<b>12.1</b>	<b>12.8</b>	<b>21.2</b>	<b>11.9</b>	<b>17.9</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Aksoy, 2005

Second, the importance of processed and final food products in world agricultural trade has increased from 27% in 1980 to 38% in 2000 while that of raw materials and intermediate products is decreasing (figure 1). This trend is also true specifically for developing countries for which the export share of processed and final products increased from 15% to 25% over the past two decades.

**Figure 1: Share of final and processed products in agricultural exports, 1980 - 2000**



Source: Aksoy, 2005

A number of factors contribute to explaining the increased importance of nontraditional food products and processed food in agricultural exports from developing countries. First, trade and investment liberalization have played a role. The lowering of import tariffs in developed countries and preferential trade agreements between developed and developing countries have increased developing country's access to international markets in general and to expanding high-value markets in high-income countries in particular. This has stimulated developing countries to exploit their comparative advantages in the agri-food sector and encouraged nontraditional exports. Moreover, the change towards export oriented trade policies and other structural changes in developing countries have been particularly important in further increasing the incentives for export, including nontraditional high-value agricultural exports. For example, exchange rate liberalization in many developing countries has increased the incentives for agricultural export production. Also, the liberalization of the investment regime and efforts to attract foreign direct investment in the agricultural sector has contributed to increasing high-value agricultural exports from developing countries. This is explained in more detail further.

Second, market conditions have also played a role in the shift to nontraditional exports. Traditional tropical products such as coffee, cocoa and tea became less attractive because of persistent volatility and long-term downward trends in world market prices for these products (Gulati et al, 2005).

Third, the increase in nontraditional exports from developing countries is induced by changing preferences of consumers in high- and middle- income countries. Changes in dietary habits stemming from health awareness and increasing income levels, and an increased demand for convenience prepared food induced growing international trade in fresh food and processed agricultural products (Diop and Jaffee, 2005). Moreover, consumer interest in product variety and year-round availability of fresh food has stimulated nontraditional exports from developing countries, which are able to supply a large variety of fresh food products during the off-season in temperate climate zones.

The increase in world agricultural trade and the changing structure of developing country agricultural exports has major implications for developing countries. In general, participation in international trade is widely recognized to favor economic growth in developing countries. Especially agro-food exports have a high potential for reducing poverty and benefiting local development because of the link to the rural economy. The shift towards nontraditional agricultural exports presents important opportunities for developing countries. There are important potential benefits since fresh fruits and vegetables, fish and seafood products and processed food products are high-value products. They create opportunities for developing countries to increase foreign exchange earnings through diversifying agricultural exports and for smallholders in those countries to raise income by participating in these growing high-value export markets. High quality horticultural production is particularly pointed out as a pro-poor development strategy due to its high value, and its intensive use of land and unskilled labour (Humphrey et al, 2004). However, at the same time, high-value non-traditional export production for exports and high-value domestic markets pose specific challenges to developing countries and their food industries; which are discussed further.

#### **b. Foreign investment in the agri-food sector**

As a result of privatization and liberalization processes, private investment in the agri-food sector in developing countries increased. Moreover, foreign investment in the agro-food industry in developing countries increased, particularly in food processing, export and retail activities. More insights on these developments and the implications of this for developing countries are given in module 4.

One particularly important issue that has to be mentioned here is the link between FDI in the agro-food industry and agricultural export development. FDI has played an important role in increasing the supply capacity of developing countries in high-value export commodities and processed food products, and has contributed to the shift from traditional tropical export products to nontraditional exports. Through enhanced technology, better management capacity and better access to information on consumers' demand in overseas markets and on food quality and safety issues, FDI companies have increased the capacity of developing countries to produce high-value agricultural products. This happens through direct effects as well as through indirect technical and managerial spillover effects on other (domestic) companies. Moreover, subsidiaries of multinational companies have played an important role in creating export marketing channels for high-value agricultural products into their home economies. Hence, FDI has contributed to enhanced market access for nontraditional export commodities.

Foreign investment in food retail, particularly in supermarket chains, is a specific and increasingly important issue in developing countries. The spread of supermarkets, their specific procurement system, their quality and safety requirements and their impact on the food supply system in developing countries has been discussed in detail in module 4 and 5. Here we want to stress that the emergence and spread of supermarkets in developing countries is to a certain extent linked to and important for export market development. The same issues that are at stake in high-value export markets (such as increasing food standards, increased vertical coordination, modernization of the supply chain, etc.) also apply to the domestic food and agricultural market segment where supermarkets are important. Supermarkets in urban markets of developing countries provide in many ways a bridge between low-standards domestic markets for traditional food products and high-standards export markets for high-value nontraditional agricultural products.

### **c. Increasing food standards**

Global food supply chains are increasingly dominated by food quality and safety standards which are increasing in number as well as in complexity and stringency (see module 5 for a detailed discussion on the increase of food standards). The increase in food quality and safety standards is a demand-driven process and is an extremely important issue for export market development in developing countries. Some authors view this increase in food standards as new barriers to trade which impede export development for developing countries and diminish the gains from trade for developing countries (e.g. Augier et al., 2005; Brenton and Manchin, 2002). Food standards can act as barriers to trade either because they can be used in a discriminatory way to bar developing (and other) countries food exports or because the cost of compliance with food standards is too high for weaker players which would lead to the exclusion of the poorest countries and the smallest agri-food businesses in those countries in global agricultural export development.

On the other hand, some authors stress the opportunities that increased food standards bring (e.g. Jaffee and Henson, 2005; Henson and Jaffee, 2006). Food standard can be viewed as catalysts for upgrading agricultural exports from developing countries (rather than as barriers to trade). Jaffee and Henson (2005) note that the most successful countries and/or sectors have used high quality and safety standards to (re)-position themselves in competitive global markets. In fact, standards provide a bridge between producers in developing countries and consumer preferences in high-income markets and could be used as catalysts for upgrading and modernization of developing countries' food supply systems and improving their competitive capacity.

### **d. Private vertical coordination**

The processes of privatization, liberalization, FDI and increased standards have resulted in agricultural production and trade increasingly being organized in vertically coordinated global supply chains. In fact, there has been a shift from state-controlled systems of coordination (with a central role for government marketing boards and other (para)-state institutions as discussed in the previous section) to private vertical coordination (VC) in agri-food supply chains. The liberalization of agricultural markets and the removal of trade barriers have accelerated the formation

of vertical relationships between farmers and private agro-industrial firms. Private sector participation in agricultural marketing and processing has increased in the late 1980s and 1990s and has also gradually taken over the provision of inputs and services that were provided through government-controlled agricultural marketing systems. These private forms of VC are based on different motives and are often more extensive systems.

State-controlled coordination systems in agricultural markets were often motivated by political motives and by objectives to provide cheap food for urban markets; the maximization of foreign exchange earnings; the creation of rural employment; ascertaining the viability of certain businesses; etc. State-control in agricultural markets was often viewed as a way to protect peasant farmers and stimulate rural development. Private companies, on the other hand, increasingly engage in vertical relationships with farmers (providing them inputs and extension services) to address farmers' constraints in accessing inputs and supply reliable and consistent produce. Farmers in developing countries face major constraints in realizing high-quality, consistent supplies. These include financial constraints as well as difficulties in input markets, lack of technical and managerial capacity etc. Specifically for high-standards products, farmers might lack the expertise and have no access to crucial inputs such as improved seeds. To guarantee consistent and quality supplies, private traders and processors engage in VC to overcome farmers' constraints. An important incentive for VC is that both farmers and buyers lose if consumers do not have confidence in the quality and safety of final agricultural products (Gulati et al., 2005). Farmers loose because they cannot access a high-value market and get a price premium for high quality supplies through spot market transactions. Buyers loose because they cannot get the volumes and quality they need. Further developments, such as the increased scale of production, the increasing importance of food standards; have accelerated the spread of VC.

In important engine behind the growth of VC in agricultural supply chains is competition for suppliers (Swinnen and Vandeplass, 2006). Processes of privatisation and liberalisation have increased competition in agricultural markets. This competition induces private agro-food companies to change their procurement system towards more extensive forms of VC with more elaborated and enhanced farm assistance programs. Also privatized parastatal companies are forced to change systems to more extensive VC as their status of monopolist in agricultural processing and marketing disappears and as competition in markets gradually increases. For example, the incentives of contracted suppliers for side-selling to other firms have to be taken into account in vertical coordinating systems with the changing status of privatized parastatal companies. As a result of increased competition in agricultural markets, VC is becoming more widespread, more complex and more extensive. For example, in Ghana, increased competition in the cotton market and the privatisation of the Ghana Cotton Development Board (who provided production inputs, extension services and guaranteed purchase of the supply to farmers under state-control) into the Ghana Cotton Company has induced more extensive VC. Competing private companies have increased their services to farmers, including timely ploughing services, reliable fertilizer and pesticide supplies, prompt payment after harvest and even ploughing for farmers' food crops (Poulton, 1998).

#### 4. Challenges and opportunities for the agri-food industry

Globalization, liberalization and privatization in the agri-food sector and the recent structural transformations in agri-food supply chains have created opportunities and challenges for the agri-food industry in developing countries. The aim of this section is to give a brief overview of these challenges and opportunities.

##### *Opportunities*

The shift from traditional export commodities towards **nontraditional exports** such as fruits and vegetables and fish and seafood products present important opportunities for developing countries to increase foreign export earnings through agricultural diversification. There are important potential benefits for developing countries and the agri-food industry in those countries from participating in these dynamic segments of international agricultural markets. First, the nontraditional exports constitute so-called high-value products because of their relative high prices per unit or per weight. These relatively high prices could mean important potential gains for developing countries. Second, high-value products are often fresh food products meant for direct consumption while many traditional export commodities (cocoa, coffee, tea) are primary inputs for processing units (often located in industrial countries). The production and marketing of fresh food products entails the potential of upgrading and value-adding in the agri-food industry in developing countries.

**Table 2. Traditional exports for selected African countries**

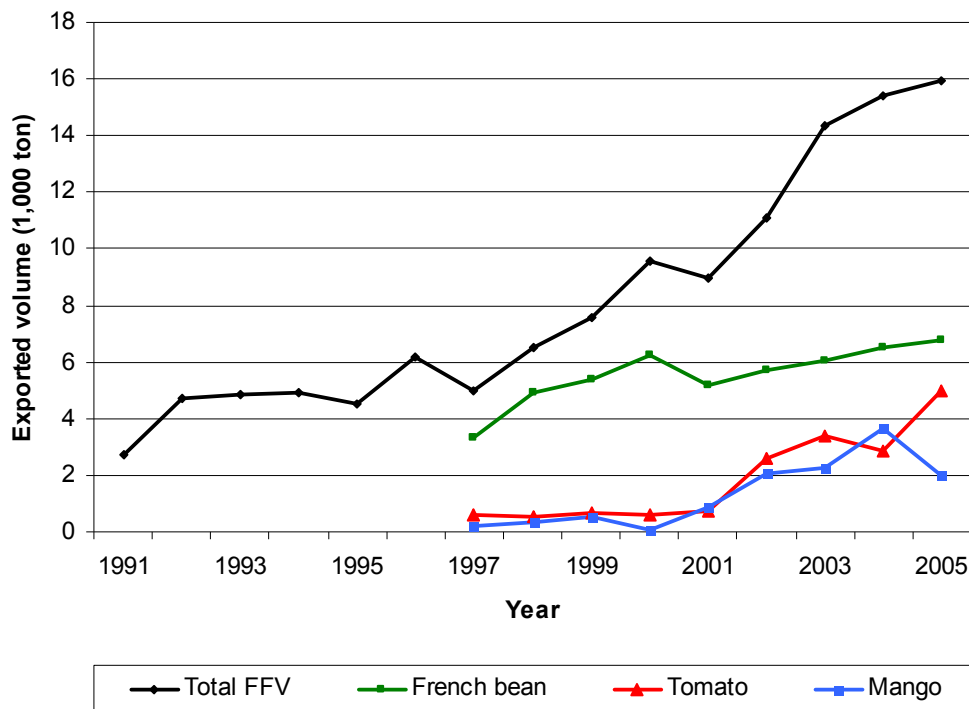
Country	Commodity	share of agricultural exports
Benin	Cotton	94%
Cameroon	Cocoa	25%
	Coffee	26%
Cote d'Ivoire	Cocoa	56%
Ghana	Cocoa	92%
Malawi	Tobacco	75%
Mali	Cotton	57%
Nigeria	Cocoa	51%
Tanzania	Coffee	30%
	Cotton	29%
	Cashews	21%
Uganda	Coffee	77%

*Source: Kherallah et al, 2002*

Third, the prices for traditional agricultural commodities are not only lower but often also more volatile compared to nontraditional products. A shift to nontraditional exports could also benefit the stability of export earnings. Fourth, many developing countries have in the past (or still are) been overly dependent on one or a few export products. There are many examples of African countries that have heavily relied on e.g. coffee or cocoa as the most important source of foreign exchange earnings (table 2). The dynamic international market segments for nontraditional agricultural commodities offer a good opportunity for developing countries to diversify agricultural export earnings.

Although, it is often argued that increasing **food standards** pose specific challenges for developing country exports as they can act as barriers to trade, increasing food standard also entail potential opportunities. First, food standards are a bridge between consumer demands in industrial countries and the food-industry in developing countries. Without stringent food standards and validated food labels, consumer confidence in imported fresh food might be lacking, which would make it impossible for developing countries to export these nontraditional agricultural commodities to high-value markets in industrial countries. Food standards might have laid the very basis for the development of dynamic international high-value and fresh food markets and participation of developing countries therein. Second, standardization of products and process attributes in fact eases the coordination in high-value supply chains and might benefit agri-food businesses and exporters in developing countries as this facilitates the relationship between buyers and sellers. Third, well established food standards can reduce marketing risks. The incidence of product refusal by buyers and the waste this generates can be reduced with clearly defined food standards and rigorous certification schemes.

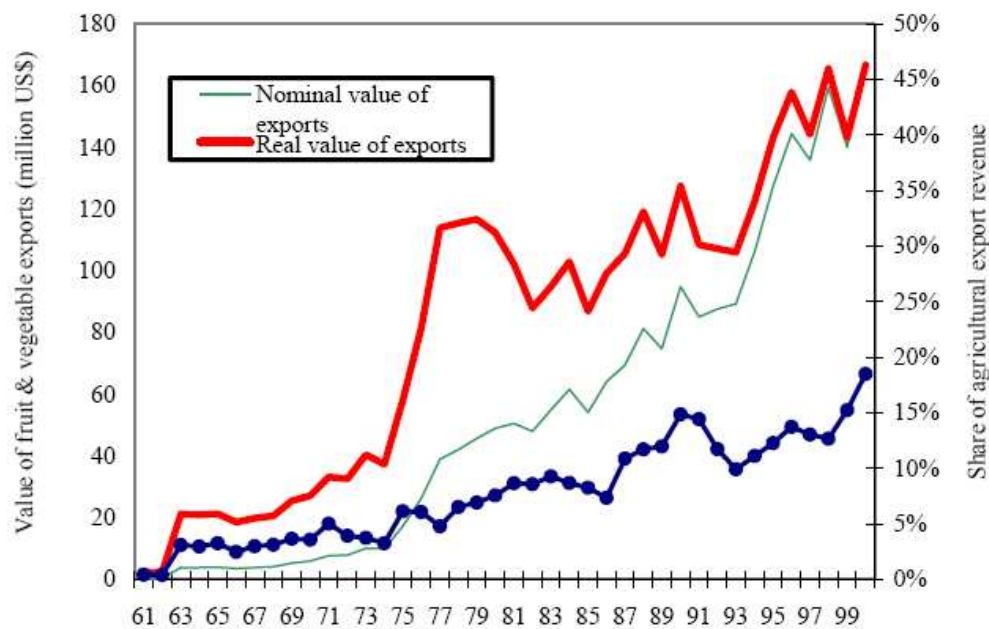
**Figure 2 Exports of fresh fruits and vegetables from Senegal to the EU (1,000 ton), 1990 - 2005**



Source: Maertens and Swinnen, 2006

In the case of Africa, fresh vegetables, flowers, fish, exotic fruits and seafood have been identified as potential new sources of foreign exchange earnings and development of dynamic export markets (UNCTAD, 2005). A number of countries did move into these products in the late 1980s and 1990s, notably Morocco (seafood and vegetables), Kenya, Zambia and Zimbabwe (vegetables and cutflowers), South Africa, Senegal (fruits and vegetables), Ghana, Namibia, Senegal and United Republic of Tanzania (fish). There are examples from African countries that have been able to considerably expand agricultural exports in a sector where the requirements are increasing sharply exactly during a period where these requirements and standards became stricter. This is for example the case for Senegalese exports of fresh fruits and vegetables to the EU (figure 2) and exports of horticulture products from Kenya to the EU (figure 3).

**Figure 3. Value of Kenyan fruit and vegetable exports, 1960 - 2000**



Source: Minot and Ngigi, 2004

Increased **foreign direct investment** (FDI) in the agri-food industry in developing countries might benefit the agri-food industry in general. First, FDI might be an important factor in improving agricultural technologies. Subsidiaries of multinational companies bring in new technologies, which spread through the sector through spillover effects on domestic firms and local suppliers. Second, FDI in food processing and distribution can contribute to increasing market access for agricultural products and hence to export development and growth. Subsidiaries of multinational companies can play a role in creating improved export marketing channels based on contacts in the home economies of these subsidiaries. Third, FDI can contribute to increasing the supply capacity of developing countries for high-value and high-standards food and agricultural production. Through enhanced technology, better management capacity and better access to information on food quality and safety issues, FDI companies have increased the capacity of developing countries to produce

high-value agricultural products – directly and through spillover effects on domestic agro-businesses.

In the light of agricultural export development, **vertical coordination** (VC) can be an extremely important institution that can overcome certain constraints developing countries face in improving agricultural exports and enhancing or maintaining their competitive position in international agricultural markets. First, VC makes it possible to realize high-standards agricultural production based on smallholder production. With intensive farm assistance programs and extension services and the right incentives mechanisms it is possible for exporters to realize exports destined for high-standard agricultural markets based on contract-farming with smallholders. Often the agricultural sector in developing countries is characterized by small-scale extensive production but with innovative VC schemes, this does not need to constraint the opportunities for agricultural export development. Second, VC can overcome some of the particular constraints in developing countries. VC can lift financial constraints and constraints in accessing the necessary inputs for realizing high-value production. This is specifically important in developing countries where markets are highly imperfect. Third, agri-food businesses in developing countries might benefit from contractual VC arrangements with overseas retailers and importers. Such contracts can increase and secure a long term access to foreign and domestic high-value markets. Often, contracts include price arrangements, which could decrease the price volatility and hence the risk faced by exporters and processing companies.

### *Challenges*

Despite the fact that the recent structural changes in agri-food markets and supply chains bring about important new opportunities for developing countries, these countries also face some specific challenges in realizing these opportunities. Especially smaller agri-food businesses might face specific financial and other constraints.

First, the increasing importance of large retail chains in food distribution has increased the bargaining power of retailers and importers in global and domestic markets. Exporters and traders in developing countries increasingly have to deal with large retail chains while the number of potential buyers is decreasing. This could lead to rent extraction by multinational companies and exploitation of, especially smaller, agri-food businesses in developing countries. In addition, this could worsen the access to high-value export markets for smaller agro-food business that might face difficulties in supplying large and consistent volumes and might result in these small businesses leaving the market.

Second, the requirements on food quality and safety in international markets might pose specific challenges for small agro-food businesses and exporters in developing countries (this is dealt with in more detail in module 5). The high cost of complying with standards can lead to smaller agro-food businesses and exporters leaving the market because of the financial constraints they face to make the necessary investments.

Third, there is a potential danger that FDI companies crowd out domestic agri-food businesses. These smaller businesses would not be able to compete with large multinational firms and would hence be forced to leave the market.

Specific challenges could lead to increased consolidation in the food industry in developing countries. Such consolidating is indeed observed in some specific sectors in a number of African countries. For example, in Senegal consolidation is ongoing in the fruit and vegetable export sector. The number of fruit and vegetable exporting companies is decreasing and the market share of the three largest exporters has increased from slightly less than 50% in 2002 to almost 70% in 2005 (Maertens and Swinnen, 2006).

It is for developing countries in general and the agri-food industry in those countries in particular, important to develop export strategies for overcoming their weaknesses and challenges they face and exploiting the strengths they have and the opportunities that are created.

## **5. Strategic agricultural export development**

In this section we discuss the importance of export strategies and strategic business responses to structural changes. International competitiveness has moved beyond price and the development of competitive export strategies has become very important for food exporters in developing countries to maintain or gain access to high-standards markets.

### *Competitive export strategies*

For many agricultural commodities, competitiveness in international markets is no longer driven by price (Jaffee and Henson, 2004). Many agricultural markets are based around quality rather than around price and export competitiveness is becoming standards-driven. In general, these food standards serve consumer interests and health and their increase is a demand-driven process. Food standards can be legally binding and set by national and international legislation or voluntary and set by private companies. Yet, a large array of food standards are in practice mandatory as they are increasingly required by a large number of buyers in intentional agricultural markets.

Food standards play a strategic role in export markets for high-value agricultural and food products (Henson and Jaffee, 2006) and are hence important in developing competitive export strategies. Such export strategies are becoming increasingly important for food exporters in developing countries to maintain or gain access to high-standards international markets. The key issue for developing countries is to use the standards-driven developments to their competitive advantage.

Private companies have strategic options and choices but are in these options constrained by prevailing resources and institutional and market structures. The outcome of these choices will be reflected in the export performance of the country. (Henson and Jaffee, 2006). The development of competitive export strategies by private companies goes beyond price competition. Such strategies should pay attention to attaining food quality and safety, establishing links with overseas buyers, the specific procurement system and the guarantee of food quality and safety in that system, setting up VC schemes and the provision of farm assistance programs in those schemes, etc.

### *Dynamic products*

Agricultural exports from the primary sector comprise some of the most dynamic products in world trade; 15 of the top 100 fastest-growing exports between 1980 and 1998 were classified as primary commodities (UNCTAD, 2005). These dynamic products offer opportunities for upgrading to higher-value-added activities that use these products, particularly through processing, which tends to be more technology-, skill- and capital-intensive. However, this is far from being an automatic process and Africa should seek to build up capacity in these dynamic products.

### *Diversification*

The case for diversification agricultural production in Africa is well established (UNCTAD, 2005). Diversification would help improve the stability of export earnings and reduce the risks of investment in dynamic international markets. In addition, diversification towards high-value nontraditional exports could reduce developing countries' dependency on traditional export commodities.

### *Attracting FDI*

Attracting FDI might be a very important element in agricultural export development. FDI offers advantages in terms of rapid access to international markets and technology as well as skills associated with quality control, standard setting and timely delivery. FDI in the agro-food industry could facilitate developing countries' integration in high-standards global agricultural supply chains. Because of the link with their home economies and subsidiaries in other countries, foreign investors and multinational companies have better access to high-value agricultural markets, better knowledge on food safety and quality issues, and enhanced financial and technical capacities to meet compliance with food standards. This might develop the supply and marketing capacity of the host economy as a whole and improve, through spillover effects, the capacity of domestic firms.

## References

- Aksoy M.A., 2005. The evolution of agricultural trade flows. In. (eds) Aksoy M.A. and J. C. Beghin, *Global Agricultural Trade and Developing Countries*, The World Bank, Washington D.C.
- Augier, P., Gasiorek, M. and Lai Tong, C. (2005) The Impact of Rules of Origin on Trade Flows, *Economic Policy* 20(43), 567-623.
- Bauman, P. 2000, Equity and Efficiency in Contract Farming Schemes: the Experience of Agricultural Tree Crops. Working Paper 139. Overseas Development Institute. London.
- Brenton, P. and Manchin, M. (2002) Making the EU Trade Agreements Work. The Role of Rules of Origin, CEPS working document 183, Centre for European Policy Studies, Brussels.
- Diop N. and S.M. Jaffee, 2005. Fruits and vegetables: global trade and competition in fresh and processed product markets. In (eds) Aksoy M.A. and J. C. Beghin, *Global Agricultural Trade and Developing Countries*, The World Bank, Washington D.C.
- Henson and Jaffee, 2006. A Strategic Perspective on the Impact of Food Safety Standards on Developing Countries. Paper presented at the 26<sup>th</sup> Conference of the IAAE, Brisbane, Australia.
- Humphrey, J., McCulloch, N., & M. Ota, 2004. The impact of european market changes on employment in the kenyan horticulture sector. *Journal of International Development*, 16(1).
- Gulati A., Minot N., Delgado C. and S Bora, 2005. Growth in high-value agriculture in Asia and the emergence of vertical links with farmers. Paper presented at the workshop 'Linking Small-scale Producers to Markets: Old and New Challenges', The World Bank, Washington D.C.
- IFAD, 2003, *Agricultural Marketing Companies as Sources of Smallholder Credit in Eastern and Southern Africa. Experiences, Insights and Potential Donor Role*, Rome, December 2003
- Jaffee S. and S. Henson, 2004 "Standards and Agro-food Exports from Developing Countries" Rebalancing the Debate" World Bank Policy Research Working Paper 3348, Washington D.C.
- Jaffee S. M. and S. Henson, 2005. Agro-food Exports from Developing Countries: The Challenges Posed by Standards. In (eds) Aksoy M.A. and J. C. Beghin, *Global Agricultural Trade and Developing Countries*, The World Bank, Washington D.C.
- Kherallah et al, 2002*
- Maertens, M. and J.F.M. Swinnen, 2006 "Trade, Standards and Poverty: Evidence from Senegal", LICOS Discussion Paper 165/2006, Leuven, Belgium (<http://www.econ.kuleuven.be/LICOS/DP/dp.htm>)
- Minot, N. and Ngigi, M. (2004) Are Horticultural Exports a Replicable Success Story? Evidence from Kenya and Côte d'Ivoire. EPTD/MTID discussion paper, IFPRI, Washington, DC.
- Poulton, C., 1998, Cotton Production and Marketing in Northern Ghana: The Dynamics of Competition in a System of Interlocking Transactions. In: Dorward, A., Kydd, J. and Poulton, C. (eds) *Smallholder Cash Crop Production under Market Liberalisation: A New Institutional Economics Perspective*. CAB International, Oxon, pp. 56–112.

- Poulton et al.,1998. A New Institutional Economics Perspective on Current Policy Debates (eds) *Smallholder Cash Crop Production under Market Liberalisation: A New Institutional Economics Perspective*. CAB International, Oxon, pp. 56–112.
- Reardon, T. and J.F.M. Swinnen, 2004, “Agrifood Sector Liberalization and the Rise of Supermarkets in Former State-Controlled Economies: Comparison with Other Developing Countries”, *Development Policy Review* 22(4): 317-334
- Swinnen, J.F.M and A.Vandeplass, 2006, “Contracting, Competition, and Rent Distribution in Supply Chains: Theory and Empirical Evidence”, forthcoming
- UNCTAD, 2005, *Economic Development in Africa – Rethinking the role of Foreign Direct Investment*. United Nations, New York and Geneva.