

CHAPTER 6

Conclusions and recommendations

6.1 SUMMARY

6.1.1 Introduction

In response to the process of deregulation and the political reforms of the early 1990's, the South African economy moved from a closed and regulated economy to an open and more market orientated economy. Increased exports were considered to be one of the most important vehicles for economic growth as outlined in the government's macro-economic policy, commonly known as GEAR. The political changes in South Africa contributed to a dramatic increase in agricultural exports since 1993. The increased participation of South African agriculture in world markets also highlighted South Africa's lack of knowledge of international agricultural trade and the inability to identify new export opportunities. On commodity level little knowledge existed about the international markets and government efforts were often taken on an ad hoc basis, lacking a systematic approach. The office of the deputy president (before the elections), Mr. Thabo Mbeki, has called for a comprehensive government strategy on foreign relations.

The analysis of trade statistics is a first attempt understanding the importance of the different export destinations and export commodities for South African agriculture. The analysis presents an overall view on historical trends in South African agricultural exports in an attempt to understand the shifts in agricultural exports that have taken place due to the influence of world markets on the demand for South African exports. This knowledge of agricultural trade movements will now make it possible to reprioritize efforts in an agricultural export promotion strategy. A similar attempt was made by the Department of Trade and Industry (DTI) to prioritize their foreign trade resources (Kuper & Cassim,

1996). However, this trade analysis, does not attempt to provide a complete answer on potential export markets, but provided a picture of where growth in trade occurred. Therefore we can expect that these trends, if projected, will provide some clarity on where future growth will occur. The statistical analysis is an attempt to shed light on the shifts in South African agriculture trade between regions over the past decade, due to shifts in economic powers of the world. It can serve as a basis for further discussion on the areas that need to be prioritized and focused on. The search for potential future markets were completed with the research on changing economic and consumption patterns of the potential markets. In this study the focus was on East-Asia.

6.1.2 A broad historical perspective of the South African economy

South Africa's successful democratic transition in 1994 created the conditions necessary to embark on ambitious development. Simultaneously this democratic transition laid the basis for South Africa's return to the international community.

Prior to the 1990's, unrest and sanctions has paralyzed the country's economic growth. During 1990 to 1993, the country experienced the largest post-1945 recession in history due to political uncertainty and as a result of the lower price of raw material on the world market. Political parties then reached an agreement on the blue print for the economy. The political chaos was then replaced by the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution Strategy (GEAR).

These factors triggered significant structural shifts in the economy, thereby improving industry's globalization drive, advancing exports towards non-traditional higher value added finished goods. Since 1993, exports have been of primary importance for growth. An improved export position could be a major stimulus for future economic growth in South Africa. It would also be realistic expecting rapid improvement in exports after

The question that remains as to how should the government improve relationships with other countries. The importance of traditional markets are declining. Southern Africa also shows increasing promise regarding higher value added products. The need has arisen for South Africa to extend its strategic focus to other markets. South Africa's greatest opportunity for exports should be seen in the potential growth prospects of the Asian- and the Latin American markets, resulting in bigger markets. Relations with countries that provide new markets will instigate future export growth. The top ten countries that were identified as the most promising future export destinations based on historical South Africa trade in general were Thailand, Singapore, Republic of Korea, Australia, Mozambique, Zimbabwe, Mexico, India, Indonesia and Malaysia. This does not mean that smaller trading partners, but with large potential, such as China, are less important. Of the above mentioned, seven were in the Asian- and Oceania region. However, these trends applied to SACU trade as a whole. Further analysis had been done to focus on South African agricultural exports.

6.1.3 Methodology for analyzing agricultural exports

Chapters two, three and four attempt to overlay South Africa's agricultural export shares and export growth. The technique used is that of a 'growth-share' matrix which maps countries according to their significance in South Africa's current agricultural export picture (share) and the rate at which they are becoming increasingly more or less significant (growth) in South Africa's agricultural trade. Customs and Excise data were used, which only report trade statistics for all the countries in the Southern African Customs Union (SACU). However, it has been estimated by the National Department of Agriculture (non- official figure) that more than 90% of SACU agricultural trade are accounted for by South African trade only. Therefore it can be assumed that the SACU figures are a more than sufficient representation of South Africa's trade situation.

In reading the growth performances, one should clearly distinct between growth in exports and growth in export share. *Growth in exports* for the purpose of this study, implies annual

growth in the value of exports in Rand in nominal values, not deflated, usually summed for the relevant period (years) with a straight average giving the growth figure over the time period in question. *Growth in export share* refers to the growth in export value in Rand (nominal values) of a certain country or product as a percentage of the total export basket. This growth in share percentage for different years are then summed and a straight average is taken over the relevant period. The “growth in share” figure will then present a slope (straight line) on the rate that particular export destinations or commodities are becoming more or less significant in context of the total agriculture export basket. The growth in share is a much stricter measurement for growth and will indirectly neutralize the effect of inflation as well as to a certain extent take into account the changes in exchange rates on the growth figures, giving a much better indication of real growth.

Due to the variability of agricultural production, the possibility exists that the growth figures might not present a slope but rather just be an average of fluctuating figures. In order to confirm that the growth figures do indeed present slopes, graphs were drawn for 9 years (1988 – 1997), which was the time series available at the time of the analysis. In almost all cases the graphs confirm that in general the “growth in share” indicators as well as the grouping of countries and products based on these figures, do indeed correspond with the time series data slopes of export growth. This method could therefore be used as a rough filter to classify countries according to their importance as export destinations for South African agricultural exports.

At one end of the continuum we have identified a high share, high growth category of countries which should take priority for future efforts. At the other end of the spectrum is a range of low growth: low share markets which are the least urgent markets for South Africa to consider, at least in the medium term. Countries with very limited trade or relatively non-existent trade with South Africa have been excluded in order to provide simplicity and clarity. Approximately 99% of trade was covered by the country analysis and 90% to 99% by the product trade matrixes (depending on the aggregated level).

The world matrix holds the key for policy decision-makers since it provides a simple framework from which to determine relative market potential. If one looks at the world matrix (Table 3.4), it can be deduced which countries exhibit potential for South Africa.

Analysis suggests that the need has arisen for the country to extent its strategic focus to other less traditional - and new markets for South Africa is increasing considerably, necessitating a change in governments' focus and good relations with these countries, which will instigate future export growth.

6.1.4 Results of the World matrix

Continental aggregations of the share and growth in agricultural exports show greater Asia to be the most important group of agriculture markets and the Americas as the most significant emerging market for South African agricultural exports. The growth in exports to African markets was rather poor since 1993 to 1996, after experiencing tremendous growth from a very low base in the era prior to 1993. Europe showed a constant long-term decline in agricultural export share.

During the last decade, especially after 1992, large shifts in SACU agricultural export destinations took place between continents and countries. Between 1992 and 1996 the share of agricultural exports to Europe compared to the total agriculture export basket declined from just below 60% to almost 40%. Exports to Asia gained from around 16% share to above 25% share of agricultural exports. The Americas raised from close to 7% in share to about 12%. Africa's share stayed more or less constant after 1993, but experienced high growth prior to 1992 in which trade picked up from about 8% share (1988) to almost 20% (1992).

The post-sanction period from 1993/94 spurred a re-growth of exports to Asia and enhanced growth to the Americas at the cost of a decline in share to Europe and relative stagnant growth in export share to Africa. The growth in the Asian market could rather be considered as re-growth since agricultural exports reached a low in the 1992 to 1993 period. The low Asian figures in the early 90's could have been the combined effect of sanctions, the political and economic unstable climate, as well as the 1992 drought, since large quantities of surplus products such as cereals and sugar were usually exported to Asia.

The main performers in Asia were:

- Far East Asia, where re-growth from important destinations such as Japan and Korea (from a high share base) were experienced, and ASEAN as a group, from a medium share base, mainly as a result of increased exports to Malaysia, Indonesia, Macau, China and the Philippines.
- South Asia (from a low share base), mainly India
- The Middle East as a group (from a medium share base), were Iran, Saudi Arabia, UA Emirate and Kuwait.

China (mainland) and China 3 (Macao, Hong Kong and Taiwan) as a group showed relatively slow growth in agriculture export share, but nevertheless has large potential due to their high economic growth rates and population. Viewing Macao and China mainland separately, it is seen that both have experienced high growth in export shares. In the Americas as a group, growth in export share took place from a medium share base with the main contributors to growth being mainly the USA (high market share category), Brazil, Mexico and Venezuela (medium share group) and Colombia and Paraguay in the low market share grouping.

Generally these trends show tremendous changes in the composition of export markets for SACU agriculture over the last decade. It is especially Africa and the Americas, which showed a sharp increase although from a very low base. Exports to the Americas are still growing steadily after 1993. This confirms that exports to non-traditional export destinations have become more and more important.

Countries at the higher end of the growth scale were Iran, Malaysia, Brazil, Kenya, South Korea, Canada and Japan. For medium growth Saudi Arabia, the United States, Angola, Zimbabwe and Italy were identified.

With the devaluation of the Rand and the currency crisis in Asia, having a ripple effect on developing economies, the European markets showed stability with their relative growth in share improving during 1997/1998. During 1997 the adverse effects of the Asian crisis started to show its effect on the Asian countries and other emerging markets, resulting in a drop in export growth to Iran, Malaysia, Korea and Japan. Other developing countries, Brazil, Angola, Malawi and Mozambique also showed a decline in growth for 1997/98. This trend, as well as low commodity prices on world markets, had a detrimental effect on some of the main traditional export commodities to Asia, Africa and South America such as sugar, cereals, milling products, beverages and spirits. During the slump in the Asian market, Kenya, Saudi Arabia, Italy, Canada, US, Zimbabwe, Belgium, Mauritius and Spain were stable higher growth performers. Very huge European markets like the UK (14%) and Germany (6%) also proved to be stable markets during these adverse times and were amongst the better performers in 1996/97. However these trends are expected to be only short-term. On the longer term, Europe shows a progressive decline in export share. Although the high growth markets have significant potential for South African exports in future, as in many Asian countries, traditional markets such as the European Union should not be ignored due to the sheer size of the market. The European Union - South African free trade agreement might also spur a re-growth in opportunities at least on the medium term.

Generally the statistics and analysis suggest significant changes in the importance of markets since the early 1990's. If, for instance, the few high growth countries selected by the results are added up, their shares in export grew from a 3½% share to almost 30% in four years (1992 to 1996). These are all relatively new markets.

6.1.5 Results of the commodity matrices

The two major export commodity groupings, prepared foodstuffs (section IV) and vegetable products (section II - including grains), have contributed most to the growth in export share. Together they showed more than 15% gain in share of the total SACU agricultural exports for the last decade. This gain in share was at the cost of textiles and textile Articles (Section XI – mainly wool and animal hair) and raw hides and skins (Section VII), which together, have declined from a 25% of the share in 1988, to 10% of the share in 1996.

The prepared foodstuff (Section IV) section, the high export share commodity group, has shown the fastest growth after the sanction period. Prepared foodstuffs include the preparation of meat, sugars, cocoa products, the preparation of cereals, the preparation of vegetables fruit and nuts, beverages, spirits, vinegar, prepared animal feed and tobacco. The growth in share in prepared foodstuffs was also at the cost of growth in export share of the vegetable section. The main contributors in the prepared foodstuff Section on a 2 HS product code level, were beverages, spirits and vinegar, with a 28% growth in share with a relatively high base (more than 10% of agriculture exports in value terms). Beverages are the largest group of products (12% share) that have showed a high growth in share (larger than 25%). Within less than a decade (1988 to 1996) beverages increased from approximately 2% of agriculture exports to close to 15% of agriculture exports in value terms. It can with confidence be argued that the increase in wine exports in the post-sanction era was the main contributor to this growth. Other important contributors to growth in the prepared foodstuffs section were sugars and sugar confectionery, cocoa and

cocoa preparations, preparations of meat and fish, miscellaneous edible (food) preparations and tobacco products, preparations of cereals, starches and milk products, and preparations of meat and fish. The growth in share of sugars is more likely to be a re-growth or cyclical trend, while the other products showed a definite constant growth in export share over the last decade. Another major category in the prepared food section, showing low- to stagnant growth (taking inflation into account) and a declining share in growth of export value, was preparations of vegetables and fruit (20) (including fruit juices). However, some of the individual products, especially mixed juices, performed well.

Exports of vegetable products (Section II - including grains) to Asia showed some re-growth since 1992. This could mainly be the result of the cyclical nature of exports of the largest commodity group in this section, namely cereals. Increases in surplus exports in cereals after the 1992 drought, also created this apparent growth rate in cereals, which is similar to that of sugar. The high growth rate of more than 100% obtained for cereals is therefore over-rated, especially in the light of long-term trends showing huge fluctuations. Nevertheless, cereals remain a very important export commodity, contributing to over 11% of the total agriculture exports in value.

By far the largest export product group on 2 HS level, edible fruits and nuts (25% of total agriculture exports), showed a steady decline in share of exports between 1992 to 1996, of which the majority goes to Europe (19% to the EU15 only) and relative small percentages to Asia.

The share of the high growth products (excluding cereals and sugar) increased from approximately 3.5 percent to 33 percent in a decade (1988 to 1996). This tenfold increase in share came from the following products (4 HS code): alcohol, wine, cereal groats, chocolates, cigars and cigarettes, onions and shallots, garlic and wheat flour. The growth in new destinations was relatively more spectacular since 1993 than those of commodities.

This was due to faster growth of new markets possibly due to trade diversion on the one hand and a relatively lower rate of diversification in production and export products on the other hand.

6.1.6 New export opportunities to East-Asia

Because of the large changes occurring in Asian food markets, developments in these economies and their implications for South African food exporters should constantly be reviewed. Changing consumption patterns is the major trend that determines shifting market powers in Asia. Simultaneously, trade policies change continually, which eventually affects market access and trade opportunities. These developments, in combination with population growth, changing diets, increasing urbanization, structural reforms and improved market access indicated positive long term trends for food exports to Asia.

From the unprecedented growth rates of certain industrializing countries in Asia, it is evident that a huge shift in economic power is under way. Developing Asia sustained average real GDP growth rates of close to 7% for nearly two decades, more than double the average world real GDP growth. Before the economic upheavals, the Asian region accounted for around 65% of growth in the world and about 70% of the increase in the global consumption of commodities. The Asian crisis, which started in 1997, decreased Asian imports by 30%. On the medium- to longer term the Asian developing countries with economic problems (Indonesia, Malaysia, and Korea) were expected to gradually regain international confidence through 1999 and to show, on average, about 4 per cent growth. China had continued high growth during this crisis period. All indications are that Asia is recovering from the crisis and will probably be close to pre-crisis growth trends in the early years of the new millenium.

Asia is ideally located to benefit from the results of the Uruguay Round, which will strengthen their rising food consumption trends. Regional free trade agreements underway such as the ASEAN Free Trade Area (AFTA), are already implemented and a possible Free Trade Area of APEC members by 2020 will noticeably accelerate globalization of the Pacific Basin. A continuation of globalization will reinforce the gradual shift in global economic weight towards the Asia-Pacific region that has been underway for 50 years. It is especially the East Asian - rather than the Asia Pacific (APEC) economies that have experienced sustained rapid growth over the past half century.

As a result of economic growth, consumption has risen, which has been generated by rapid disposable household income growth. As a result of fast growth and globalization, increasingly Asian countries will become dependant on the import of agricultural products. The increase in per capita incomes is the primary reason for diversification of diet. People now can afford a wider variety and choice in diet. Westernisation of diets has led to an irreversible consumption trend in Asia. The rapid growth in the number of western style supermarkets leads to opportunities for exports of frozen and other convenience foods. Generally consumer demands are roughly the same everywhere: more convenient- and nutritious foods at lower cost.

According to trade statistics, it appears that distance does not play the most important role in the determination of a country's competitiveness for distant markets, but rather economic growth prospects and cultural ties. Results from the analysis done on the share and growth performance (for the period 1992 to 1996) of South African exports destinations, identifies Far East Asia to be one of the most promising export destination for South African agriculture commodities. With other factors taken into account such as the fast rate of globalization and integration of Asian economies and demographic characteristics e.g. large population size and urbanization rates, makes East-Asia one of the priority markets to be studied from the perspective of future potential export opportunities. Countries of East-Asia which were chosen, on the basis of historical

performance, for this study are; Japan, South-Korea, Malaysia, Indonesia and China. These countries were identified in Table 3.4 to have shown high growth in export share of SACU exports for the pre crises period 1992 to 1996.

6.1.6.1 Japan

Japan is the world's second-largest economy. It accounts for around 10% of world exports and imports. The agriculture sector in Japan is declining. The Japanese Government is committed to further trade liberalization and the Japanese diet is increasingly becoming westernized and health conscious. The economy is in recession, with major financial adjustments to occur. This creates considerable uncertainty regarding food imports in the immediate future. Large reductions in consumer demand and capital spending and a 30% slump in exports to Asia are seen as being responsible for the recession. Recovery is expected over the medium term. Economic growth is forecasts to be an average 1.6% a year between 1997 and the 2002 fiscal year, with a modest acceleration of growth after that.

The consumption in Japan appear to have shift from non-traditional staples to high-value and high-protein foods. Despite their increasing demand for value, consumers are not reducing food expenditures, but instead have become more sophisticated in how they spend their money. Several social trends have made convenience a major factor in Japanese consumers' food purchases that will result in shifts in food consumption patterns. These trends are likely to intensify. The already-strong demand for products that cut down on cooking time and effort - such as frozen and prepared foods, such as semi-processed or pre-cut vegetable products, microwavable foods and those in retort pouches - will continue to grow. Imported frozen vegetables now account for 80% of Japan's domestic requirements. In addition, the Japanese diet today contains more processed foods, such as pasta, ham, bacon, catsup, and fruit beverages. Finally, the Japanese today are consuming a greater variety of foods and are more adventurous about trying new flavors and cuisine's

than in the past. However, the Japanese markets are one of the most demanding in terms of quality. Consumers are concerned about value for money and the competition is high.

Another major trend that creates new markets is the movement is towards healthy products. In conjunction with the boom in health-related products in Japan, there is currently a wine (especially red wine) consumption boom in Japan due to its health properties. The average juice content in fruit beverages has increased and is still expected to increase due to health-conscious consumers. Although 100% fruit juice is generally speaking too expensive for the Japanese consumer, there is a high demand for healthy drinks such as pure juice (100% carrot juice or 100% green juice) and mixed juices due to the increase of health-conscious consumers. There is also a strong trend towards healthy-, natural- and low-calorie confectionery.

Food imports are expected to grow strongly over the medium term. Japan currently imports about 60% of its overall food requirements and in 1996 imports to Japan from the rest of the world accounts for about half the demand for imported food in Asia. Japan's high-value products (HVP's) imports from all sources have been rising steadily for more than two decades, but accelerated after 1985. There is significant potential for growth in high-value products if the restrictions regarding non-quarantine organisms are lifted. Over the medium term, as import barriers continue to be lowered and access is gained for currently banned products, South Africa's food exports to Japan can be expected to grow strongly. Many specific domestic laws have the possibility to prohibit or restrict the importation of certain products by controlling the standards and certification of products. Japan is in the process of gradually lifting these restrictions. The Japanese approval procedures for imports of fresh fruit are, without exception, very long (2-3 years), costly and lacking in transparency. Japan also operates a system of zero tolerance for all pests not included on its list of non-quarantine organisms, even though organisms not on their list might not be harmful. This also applies on cut flowers, a potential lucrative export market.

6.1.6.2 Korea

Over the last three decades South Korea experienced the longest and largest economic growth in the history of the world, averaging 9% per year from 1960 to 1997. The fast growth has pulled resources away from agriculture. South Korea, with a population of 46 million, is becoming more dependent on food imports as domestic production declines. Korea is already 75% dependent on imported foods. Significant increases in food imports in future appear inevitable. The rapid industrialization of Korea and rising incomes prior to the outset of the crises led to significant changes in diets and eating habits. Food retailing and food services grew rapidly in response to consumer demand for better and diverse foods. Per person consumption of staple foods such as rice fell (by 40% over the last 25 years), while consumption of vegetables, fruit, meat, milk and cheese rose sharply. The consumption of processed food increased 16-fold in the last 25 years. Further deregulation of the South Korean food and beverage market will open new markets.

During the Asian crisis in 1998, Korea's imports declined by 35%. The Korean economic crisis has dampened the prospects for food considerably in the short term, with many consumers moving away from luxury food items to basic food from the traditional street markets. The reduction in consumer purchasing power will continue to constrain growth in the imported food market in the short term and food imports are expected to remain subdued until consumer demand recovers. In the short term the South Korean economy is undergoing major economic adjustments in response to the Asian financial crisis.

Looking ahead, as the economy recovers during 1999 and 2000 and incomes recover, the food consumption trends prior to the crisis are likely to resume - the shift away from traditional food such as rice, barley and fish to wheat and cereal products, meat, fruits and vegetables. As self-sufficiency ratio's for the products are low, food imports will resume their growth with some vigour. Medium term prospects remain good due to the demand for western-style foods, the modernization of the retailing and food services sectors and the opening up of the economy. The best prospects for greater consumption rest with ice

cream, cheese, yogurt, milk powder, frozen vegetables, fruit, vegetable soup, sausages, ham, other prepared meat products, natural fruit and vegetable juices, soft drinks and low alcoholic beverages such as wine and beer. There is a movement toward healthier food.

The Korean market still remains one of the most difficult markets in the world on which to trade and in which to invest despite of recent liberalization. While the agrifood market is in transition from being highly protected to moderately liberalized, many aspects of food importing are still subject to government intervention. This includes import management regimes covering 83 agricultural commodities, the reinforcement of quarantine regulations, regulations for plant- and animal imports, the reinforcement of country of origin labeling, import licensing and quotas. Continued commercial- and government representation is required to address the discriminatory effects of policies and measures. Quarantine- and tariff arrangements currently restrict access to the beef, fruit and vegetable markets and rice imports are highly protected. “Luxury” food such as dairy products, wines and value-added food products has been affected by an import tax, which restricts the demand on the short term.

6.1.6.3 Malaysia

Over the last three decades, the Malaysian economy has proved to be one of the fastest expanding economies in the world and over the last decade, the fastest growing economy in ASEAN. The country’s dependence on imports of agricultural products is on the increase. Because Malaysia is industrializing, agriculture’s share of GDP is expected to be only 8.2% in 2005 (compared to 13.5% in 1997). Malaysia’s domestic agricultural sector is unable to fully supply the growing industrial requirements and consumer demand. Malaysia’s food processing industry is limited by a lack of technology, research and development and limited raw materials. The shortfall must be made up with imports.

In the medium term to long term, growth prospects in the nation of nearly 22 million consumers and a very urbanized society, remain strong and Malaysia is expected to grow in importance as an export destination. Malaysia is close to entering the next phase in consumption evolution - from non-traditional staples to high-value and high-protein foods. Pre-crisis, the Malaysian retailing and food service sectors had been booming. A third of households were regular supermarket shoppers, compared with only one tenth in 1995.

Positive development in Malaysia are the gradual liberalization of market access, declining domestic production and increasing reliance on food imports, strong growth in the retail and food service sectors, a strong tourist market and an increasing demand for convenient, healthy, western-style food. The Malaysian Government is committed to reducing tariffs on food on all items to less than 5% by the year 2003, as part of an ASEAN agreement.

The weak currency and poor economic growth prospects will dampen consumer demand in Malaysia and generally constrain growth in the imported food market in the short term. However, its position is better than that of the Republic of Korea and much better than Indonesia's, where the economy has very seriously contracted. Recovery is expected to begin relatively quickly by the year 2000.

Significant import growth is projected for imported pasta, bread, pastry cakes, biscuits, mixes and dough, primarily due to the shortage of skilled labour and technology which is limiting domestic production. The demand for breakfast cereals is being driven by rising concerns about health. The market for meat has not yet reached maturity and prospects exist for increased consumption. Malaysia will remain substantial reliant on imports of dairy product. Currently there are no commercial productions for butter, butterfat, ghee, cheese or spray-dried milk powder. With westernization the consumption of ice cream, yoghurt and UHT milk will increase. Health consciousness drives the consumption of horticulture products and Malaysia is not self-sufficient. Emerging opportunities exist in

the beverage sector for health and sports drinks and the demand for imported wines is growing.

Currently there are no quarantine restrictions on imported fresh fruit. Malaysia's system of import prohibitions and licensing is not fully transparent and is used to protect the industry. Import licensing still effects 17% of tariff lines.

6.1.6.4 Indonesia

Over recent years Indonesia's economic development was nothing short of spectacular. Real economic growth had averaged 7% a year over a thirty-year period, raising the average income per person from less than US\$100 in 1972 to over US\$1000 in 1996. However, due to the Asian financial crisis, which commenced in 1997, Indonesia's economy is in serious difficulty and this has a sizable impact on all sections of the community in Indonesia. The outlook for growth is poor and it is expected to take at least two- to three years, and even as long as seven years for the economy to recover. The short-term outlook for food imports is bleak. Because many people are out of work or have much lower incomes and are struggling to feed themselves, the demand for higher priced import food products has dropped by 30% - 60%. The crisis has led to the opening up of new opportunities. The deregulation of long-protected sectors including foodstuffs and retail wholesale distribution have resulted in a more open market. The government is revising competition policy in respect of monopolies. According to the free trade agreement signed with ASEAN in 1995, Indonesia must fully open up its retail industry to competition by 2003. Companies becoming involved at an early stage of the recovery process will be the main beneficiaries in the longer term.

A demand for food and agricultural products is driven by Indonesia's population of 200 million, growing at 1.6% per annum and the growing input requirements of its processed exports. Indonesian consumption patterns were changing prior to the crisis on the basis of

rising incomes. Prior to the crisis, food purchases had become a small enough proportion of disposable income to afford consumers more choice than before. Other socio-economic factors that had driven sales were, amongst others, urbanization, the increasing number of food service outlet, the increasing demand for convenience, increasing tourism, more working woman, refrigeration becoming more common and increasing exposure to western foods. Consumption levels of traditional staples such as rice, cassava, maize and sweet potato were decreasing and consumption of western style foods such as beef, dairy, bread, noodles, snack foods, soft drinks and processed foods were on the increase. Although these trends are expected to re-establish themselves in the longer term, it may be five- to seven years before incomes fully recover to their pre-crisis levels.

There is a general lack of predictability and transparency concerning tariffs in Indonesia. Food tariffs were recently deregulated as a result of the crisis and will decrease further under various international agreements. Under AFTA these tariffs were to end up in the range of 0-5% by 2010.

6.1.6.5 China

China is emerging as the world's largest economy in two decades. Accounting for one fifth of the world population, China has the largest population in the world. The opening of the Chinese economy in the late 1970's has brought an economic boom of historic proportions. Personal incomes are growing rapidly and imports have been rising rapidly as a result. As China gradually relaxes its trade policies over the next decade and continues its "open door policy" in respect to foreign trade, capital and technology, major export opportunities are expected to emerge in agriculture. Over the medium term domestic food production is unlikely to keep up with demand and China will lose its comparative advantage in agriculture. The growth rate of agriculture to that of industry is 1: 2.23. The growth of industry, especially the textile industry, and cities pulls resources away from agriculture and this would lead to increased imports of agricultural goods.

China became the recipient of by far the largest flow of direct investment ever recorded to a developing economy. The rise in investment is expected to generate a significant expansion in employment and consumer demand. In the face of the Asian financial crises, Chinese authorities have indicated that they intend to speed up economic and financial reforms. China needs continued market reforms to sustain its current levels of rapid economic growth and low inflation. China's accession to the World Trade Organization is expected to realize soon, and the implications will be a whole range of Most Favoured Nation tariffs that will apply to South Africa. China will also have to accept the WTO's rules on Sanitary and Phytosanitary standards. Continued strong economic growth is forecast for China, along with rapid population growth, rising disposable incomes and an increasing reliance on imported food sources.

Great opportunities exist for increased exports of grain to China, especially maize (corn), other coarse grains, rice and wheat. Opportunities also exist for oil seeds, peanuts and sugar. In the rural areas the per capita consumption of other main products such as meat, eggs, aquatic products, fruit and edible oil shows an upward trend. China's consumers will more than double their meat consumption by 2020 and although domestic production is growing, it cannot keep pace with the growth in demand. The best prospects in dairy are in food ingredients such as full milk powder, whey powder, cheese powder, yoghurt powder and other sorts of milk powder. This is due to a shortage of these ingredients in China. More world wide competition can be expected from China in labour intensive processed agricultural products and less land intensive products especially fresh fruits and vegetables, moderate value added processed foods - (canned and dried fruits and vegetables), fresh and frozen meats, poultry and fish. Opportunities exist for high technology exports such as: genetics, embryos, biological pesticides and animal health treatments. The consumption of imported beverages is projected to show continued strong growth as a result of disposable incomes and as refrigeration facilities become more widespread.

The portion of the population that can afford to buy imported processed and high-value products are increasing fast. The number of consumers who can easily afford processed foods will have expanded by 225% by the year 2005 (a total of 195 million consumers). Amongst these consumers there is a trend towards buying western-style snack foods, healthy non-alcoholic drinks, canned foods and convenience foods such a frozen food, and processed food such a chocolates and sugar. A sound nation-wide network of wholesale markets will have taken shape in the next five years and will be becoming key links in the food distribution process.

Rigid trade restrictions on fresh fruit imposed by China in the form of phytosanitary barriers and high tariffs, have led to longstanding practices along the southern Chinese border, involving unrecorded shipments, under-invoicing and miscalculations. Some resources estimated that unofficial imports total over 95% of fresh fruit imports to China. Further growth in demand of horticulture products is expected via Hong Kong. Further expansion of trade in fruit will depend on the development of relevant protocol agreements with China, which will probably only take place after China's accession to the World Trade Organization.

6.2 CONCLUSIONS AND RECOMMENDATIONS

The need has arisen for South Africa to extend its strategic focus to other non-traditional markets, because traditional markets are declining in importance. South Africa's greatest opportunity for exports should be seen in the potential growth prospects of the Asian- and the Latin American markets, resulting in bigger markets. Relations with countries that provide new markets will instigate future export potential.

The East Asian markets were explored because, from a historical trade perspective, they were identified to have performed well, but also because of its enormous growth

prospects. The fast growth in Asia will draw resources away from agriculture and create agricultural markets due to shifts in their comparative advantage. Most of the world's fixed investment is into Asia and 50% of world growth in the next two decades will take place in Asia, particularly East Asia. Major policy changes will take place in the East-Asian region in the next two decades. Governments of Asia have already committed themselves to substantial and early reforms due to the Asian financial crises. In the next two decades major movements toward open trade will be the results of the next WTO Round, China and Taiwan's accession to the WTO, the AFTA and APEC Free Trade Agreements by 2010 and 2020 respectively. Asia has the largest populations in the world, the largest rise in income for a region in the world and experiences huge urbanization shifts, as well as changes in comparative advantages in favour of industrialization that will open opportunities for agriculture and changing consumer patterns. All these factors will make Asia the most promising region to be considered in an export strategy for South African agriculture.

Asia is not an easy market. Potential exporters to Asia will still need assistance due to the difficult import requirements to explore this market. In many cases, for small and medium companies, the upfront cost of monitoring the opportunities, knowledge about the market and information about changes, would not warrant an individual company commissioning such work. Government needs to promote such work or facilitate such work through agencies and industry organizations. Exporters will need government assistance to bridge the gap between the supply side and the opportunities in Asia, especially from a developmental perspective.

Trade policy reform is necessary but insufficient to promote modern trade. The political, economic and social environments are all important in encouraging trade and investment. The Eager project (1999) has identified a few actions a government can take to promote new trade and investment opportunities, which includes; commissioning private sector analysis, supply side assistance in technology, improving technology, promoting brain-

power-industries and in adapting institutional reforms. Other aspects, which have been identified in this chapter, largely originated from discussions in the National Department of Agriculture.

Many opportunities and constraints to market access to East-Asia were identified in the research done in Chapter 5. However there could also be constraints in exploring trade opportunities in local competition structures and on the supply side and the development of the supply side. Recommendations on a few actions that can be taken by the private sector and government on both improve market access to Asian markets as well as improving on the supply side will be explored:

6.2.1 Actions by Industry

- Export councils and government should co-operatively monitor the changes and opening market opportunities in the Asian- and other potential regions. Exporters will need various forms of assistance in overcoming the high initial cost of exploring the Asian markets. Such research could be financed through industry levies in combination with a 50:50 partnership finance by government. Australia has initiated a Super Market to Asia Council for instance, which does research market opportunities for Australia.
- Exporters should build relations with Asian partners by way of trade missions. Care should be taken of the high initial cost of making inroads into Asian markets. Food chains should co-operatively explore opportunities that involved the complete food chain to secure reliability in supply.
- Private businesses should keep governments informed about specific difficulties in accessing particular Asian markets to be taken into account during bi-lateral negotiations and to be negotiated on the level of the World Trade Organization.
- The private sector should use market analysis techniques, to evaluate the viability and returns on new trade and investment opportunities. Government and donors for

development purposes could fund these analyses. Support programmes could be tailored to enable producers to bridge the gap between production and international market opportunities.

- Industries should set up export councils involving the whole food chain or cluster of upstream and down stream industries. The modern trend is towards a reliable and international competitive food chain. Councils could explore constraints and opportunities such as bottlenecks and market access problems. Generally there would be a need for co-operative efforts to exploit Asian markets. Suggestions could also be made to government on how to create an environment conducive for the growth of export-orientated industries, as well as how developmental farmers and job creating opportunities could slot in the process.
- Exploring future possibilities of trading through e-commerce nationally as well as internationally.

6.2.2 Actions by government:

6.2.2.1 Monitoring and Information systems

- Establishing an agricultural trade office in Asia assisting with information, market access procedures, non-tariff barriers and establishing relationships.
- Doing research and monitoring of Asian market opportunities and creating instruments through levies and "green box measures" in order to finance market research through industries.
- Creating data-bases available on internet to provide information systems on market access opportunities and difficulties. It should cover aspects such as trade opportunities, tariffs, Sanitary and Sanitary and Phytosanitary requirements (SPS), outlooks, non-tariff barriers to trade and State Trade Enterprises. A data-base of producers and traders (exporters) could also be compiled.
- Identify priorities for Sanitary and Phytosanitary protocols

- Setting up of criteria for supply side support of various kinds

6.2.2.2 *Assistance programmes*

- Providing export credit and export assurance programmes due to payment risks in developing economies. Many traders prefer to deal with lower return-, but also lower risk markets in the developed world, leaving potential high-risk markets unexplored. Government assistance could make it viable for smaller enterprises to explore higher risk higher return markets such as the Asian markets.
- Trade missions promoting and exhibiting South African brand names and trade marks and establishing relationships. Asian markets especially are dependent on a high level of personal relations. It was said for instance that during the Asian crisis, Australian markets were not affected that badly, although they might have been less competitive than other traders, due to their traders having established personal relationships with their Asian clients.
- Promoting technological improvements and the improvement in the design component of products traded. Achieving comparative advantage through process technologies, unique characteristics and a stable macro-economic environment. Resource-based industries are in decline while man-made brainpower industries can be located anywhere. Design, sales, or services may also be distinguishing characteristics that contribute to comprehensive advantage. This is a aspect which was identified by the Eager project (1999) on what African governments can do to promote new trade and investment opportunities.

6.2.2.3 *Institutional reforms*

The Eager project (1999) has identified the fact governments could adapt institutional reforms that promote trade and investment by creating;

- export promotion zones

- duty and indirect tax exemption schemes
- foreign direct investment schemes
- export and investment promotion support services (support services include accounting, packaging, quality control, storage, market research and advertising)

6.2.2.4 Negotiations

Negotiations on Sanitary and Phytosanitary (SPS) requirements and Non-tariff Barriers (NTB)

Generally many non-tariff barriers and unnecessary high SPS requirements exist in Asia. Non-tariff barriers have a major impact on trade with East Asia and implications are far greater in scope than the impact of tariffs. At a symposium of the USITC (1998) on tariff and non-tariff barriers of the APEC region they discovered that in many cases, the economic welfare gains from liberalizing non-tariff barriers (including local regulatory reforms) far exceeded those from removing tariffs, since domestic regulations can be used to limit market access. One such example is that the overall non-tariff barriers in Japan was measured to be a tariff equivalent of 174%, while the average applied tariffs in Japan is only approximately 2%. They also discovered that the cost imposed by customs procedures, divergent standards and technical regulations and other regulations to the APEC region, was estimated to be ranging from 5 to 15% of the value of trade. Both trade liberalization and regulatory reform aim to achieve contestable markets. Domestic reform is a new dimension in market access negotiations. In reforming domestic regulations, countries should observe the principle developed in the multilateral WTO setting. These principals are: transparency, national treatment, minimal distortion of trade, and due process. Various problems have been identified in this study and if resolved, could open new export opportunities. Issues could be resolved through the existing negotiating forums such as the World Trade Organization, bi-lateral negotiations, by participating in setting requirements for the accession of countries to the WTO (such as China at present) and setting up bi-lateral protocols. However, although most of these actions are to some extent attended to, little empirical quantifiable guidance exist to prioritize government resources

in respect of its efforts to open new market opportunities. The Department of Agriculture could set up a database on potential SPS and non-tariff barriers to different countries and attach an approximate economic value or figure to rank its importance in creating new opportunities if it would be resolved. In this way resources could be optimally spent. Another issue of concern is the long periods of approving SPS protocols on fruit and vegetables. It can take 2 to 3 years to approve a protocol and many times it is done in series and can take up to a decade to approve 3 to 4 products, in the cases of Japan and Korea for instance. Such issues should be taken up in the WTO negotiations.

Negotiations on tariffs

Generally tariffs in East Asia are still very high. Average applied tariffs for accessing East Asian markets (for a few identified South African agriculture export commodities of general export importance for South Africa - just more than 70% of SACU agricultural exports) are 89% in the case of Korea, 62% for Malaysia and 39% for China (Annex 7). High tariffs (above twenty percent up to a few hundred percent) generally still exist on meat, dairy products, grains, groundnuts, fruits and vegetables fruit juices and beverages (Annex 7). The general tendency in East Asia is still the application of tariff peaks (high applied tariffs on agricultural products) and tariff escalation (higher tariffs on processed products than on primary products). Dirty tariffication (huge differences in bound tariffs according to Uruguay schedules and the actual tariffs applied in countries) is generally a problem in developing countries and certainly in many cases in developing-Asia. These are all issues that could be attended to in the next WTO negotiations (to commence in the year 2000) in order to improve tariff predictability. Many non-transparent market access barriers (not tariffied protection) also still exist in East Asia. The government should be careful not to push lenient special and differential treatments for developing countries in the WTO Round that will allow Asia to increase their protectionism in agriculture. It appears that tariffs in developing country destinations, for South Africa's main agricultural exports products, have very high bound rates on these products and that a tariff cut in the next WTO round will not have a large effect on many such products. This was due to dirty tariffication by developing countries in the GATT Round. These developing countries will

be the main future markets for South African agriculture in the next two decades. Developed countries on the other hand had relatively low tariffs on commodities important for South African exports, but bound rates are also relatively close to the applied rates, which means that WTO cuts on bounds will substantially effect market access on applied tariffs. South Africa should therefore be careful in its strategy towards a methodology in tariffs cuts in a follow-up round and should also be ready to negotiate bi-laterally in the next round as well as bilaterally outside the WTO in order to reduce tariffs on it's important export commodities.

New Free Trade Initiatives

A possible pessimistic scenario is that slow tariff reductions in follow-up WTO Round due to factors mentioned above could mean that South Africa will benefit relatively little from tariff cuts in future WTO Rounds over the next two decades. Therefore bi-lateral agreements and Free Trade Agreements could ensure that South Africa benefits from liberalization in developing countries in the next two decades.

Most of the African countries have bound rates of 100% and more on most products, while LDC's have no commitments. To improve tariff predictability, the elimination of tariff peaks should be an important issue for South Africa in the South African Development Community (SADC) Free Trade Protocol.

In the next two decades Asian Pacific (APEC) economies, which include countries from the United States and Far East Asian countries (many of these countries were identified as important potential markets for South Africa), will negotiate a free trade agreement for the elimination of trade barriers by 2010 for developed members and by 2020 for developing members. Results from USITC (1998) studies reveal that the overall gains of the APEC free trade agreement amounts to over 1% of GDP, which is impressive given that the starting point is post-Uruguay Round. (When agriculture is excluded from the experiment, the reduction in gains amounts to 60% of the original benefits from liberalization of traded

goods. Countries with high protection in agriculture will especially suffer from the exclusion as they no longer free up the resources to take advantage of liberalization in other sectors). Studies also show that smaller countries with large trade shares and higher levels of protection gain most from their own trade liberalization, but welfare gains are even higher when the other members participate in the liberalization. This could imply that South Africa would benefit from liberalization of its own market.

Presently South Africa will be left out of the liberalization of this region. Therefore South Africa should consider having bilateral negotiations with APEC countries, which will have real benefits in terms of market access and comparative advantage, unlike the Indian Ocean Rim initiative which will not deal at this level for the foreseeable future. Our most promising future markets are situated in many of the countries in the APEC region.

6.2.2.5 Local tariff reforms

Stoeckel et. al. (1997) argues that experiences in other countries such as Indonesia show that countries who liberalized their own trade, experience dramatic increases in imports and exports (normally balancing with each other). The trade balance of a country is usually balanced by adjustments in the currency by which export competitiveness is effected, interest rates for attracting foreign capital and inflation adjustments mainly on the labour market, which also effect competitiveness. The most successful importer countries are often the most successful exporters. McKibbin (1998) finds that smaller countries with large trade shares and higher levels of protection gain most from their own trade liberalization. Tariff policy and liberalization of protection is therefore an integral part of promoting exports and growth in the economy. Liberalization can lead to short term GDP losses and unemployment. Yet some of the long term gains can be tapped early on through access to forward looking asset markets. Moreover if a number of other countries join in the liberalization, the collective efficiency gains and investment flows serve to reduce short-term losses and increase long term gains.

6.3 RECOMMENDATIONS FOR FURTHER STUDY

South African Customs and Excise export data was used in this study to identify growth in exports. In future world data should be used to compare South African export growth with the rest of the world's export growth. Using a broader database, will identify whether a certain commodity is relatively rising or declining in importance, comparing to other commodities traded in the world market. This approach will also be more useful in identifying potential markets. Furthermore, primary research is recommended on consumption projections. Unfortunately the necessary data is not always available for developing countries, especially for products important for future potential growth. Where this study only covers the promising market of East-Asia, studies should be done on other promising markets for South African agriculture.