

# ADOPTION OF GENETICALLY MODIFIED CROPS IN SOUTH AFRICA: EFFECTS ON WHOLESAL MAIZE PRICES

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## ABSTRACT

The ability of genetically modified (GM) crops to increase yields and reduce use of pesticides is well established. Based on food security needs and the central role of agriculture, Africa may stand to benefit from green biotechnology given the low agricultural productivity and the looming food crises in most urban areas. However, the adoption of GM crops in Africa has been slow and limited to a handful of countries. The primary objective of this paper is to evaluate the impact of GM maize adoption in South Africa by looking at wholesale spot prices. We apply a threshold autoregressive model to time series data on the price of maize and GM adoption rates in South Africa to address the following questions: (1) Does the adoption of GM maize excite the growth rate of price of maize in South Africa; (2) Does the error variance of the maize price growth rate exhibit regime-switching behaviour to impact the volatility? The results show evidence that the adoption of GM maize influences the dynamics of the maize price growth rate in South Africa. Further, there is strong evidence that the error variance exhibits regime-switching behaviour with the posterior mean for the error variance in the first regime about twice as large as that of the second regime.

Keywords: genetically modified crops, wholesale maize prices, South Africa, threshold autoregressive model

JEL Classification: Q13, Q16, O33

## 1 INTRODUCTION

The ability of genetically modified<sup>1</sup> (GM) crops to increase yields and reduce the use of pesticides is well established (National Academies, 2012; Brookes and Barfoot, 2012; Benbrook, 2012). According to the recently published report on the “Global status of commercialized biotech/GM crops”, developing countries are,

1 Genetically modified crops are those that have had specific changes introduced into their DNA by genetic engineering techniques or modern biotechnology to carry one or more beneficial new traits. The terms genetically modified crops, biotechnology and genetically engineered crops are used interchangeably in this paper. “Green biotechnology” refers to application of this technology on agriculture as opposed to “blue biotechnology” that refers to medicinal and pharmaceutical applications.

for the first time in history, growing more GM crops than industrialized countries as measured by total area planted (Clive, 2012). For a technology that represents the efficiency frontier in food and fibre production, this key milestone positions GMO crops as a new tool for improving food security and alleviating poverty in developing countries.

Based on food security needs and the central role of agriculture to economic development, Africa may stand to benefit from green biotechnology given the low agricultural productivity especially among smallholder farmers and the looming food crises in most urban areas. Yet, despite scientific consensus about the safety of GM crops, public skepticism about this technology continues to grow. In most African countries, public policies and regulations on GM crops are increasingly shaped by public opinion, civic organization and pressure groups. Empirical evidence from African countries that have commercialized GM crops is crucial for an informed dialogue on the economic, environmental and public health implication of GM crops adoption in Africa.

This paper evaluates the effects of GM maize adoption in South Africa. To put the analysis into context, we first explore the key trends on green biotechnology adoption in Africa. This is followed by a brief discussion of the structure, conduct and economic performance of maize production in South Africa. Against this background we chronicle the adoption of GM crops in South Africa with a focus on maize. The quantitative part of the paper starts with the econometric model, followed by a description of the data, and a discussion of the results. The model applies the Threshold Autoregressive (TAR) methodology to the growth rate of wholesale maize prices in South Africa by evaluating if GM maize adoption rates excite grain price series.

## 2 ADOPTION OF GM CROPS IN AFRICA

As of 2012, GM crops were being grown in 20 developing countries and eight industrial countries conferring beneficial traits such as herbicide tolerance, insect resistance and nutritional enhancement (Clive, 2012). Ironically, in the same year when developing countries take the lead in GM crop adoption, three European countries – Germany, Sweden and Poland – discontinued planting GM crops. This anomaly in technology adoption trends perhaps confirms Paarlberg's (2008) thesis that without tangible consumer benefits, citizens in rich countries consider GM foods as unnecessary. Developing countries, on the other hand, are increasingly looking at GM crops to sustainably feed their ever growing populations. Indeed, many tropical crops crucial to the livelihoods of smallholder farmers, such as cassava, bananas and papaya, are currently being decimated by diseases for which resistance imparted into GM varieties represents the only protection against devastating crop losses (GMO Compass, 2006).

African agriculture is characterized by low productivity. While in Asia, cereal yield grew by about 2.3 per cent per year in the past two decades, cereal yield in sub-Saharan Africa has been practically stagnant. Furthermore, over the last four decades, less than 40 per cent of the gains in cereal production in Africa came from increased yields (FAO, 2011). The rest of the increased production resulted from expanding cultivated land. Africa's low agricultural productivity has been attributed to a host of factors related to the range and intensity of biophysical constraints to plant growth, large agro-ecological variation, the absence of policies that encourage crop improvement, very low and declining soil fertility, and the underdeveloped state of seed sectors in most countries (DeVries and Toenniessen, 2001). Increased productivity in these agrarian systems, achievable through green biotechnology bears great potential to reducing poverty and improving food security.

Despite the potential advantages, adoption of GM crops in Africa has been slow. At present only four African countries – Burkina Faso, Egypt, Sudan and South Africa – have fully commercialized GM crops. Table 1 shows the area planted to GM crops in Africa during the 2012 cropping year.

Table 1: GM crop adoption in Africa (Hectares planted in 2012)

Country/Crop	Cotton	Soybean	Maize	Total
Burkina Faso	313 781	0	0	313 781
Egypt	0	0	1000	1 000
South Africa	11 000	450 000	2 430 000	2 891 000
Sudan	20 000	0	0	20,000
Total	344 781	450 000	2 431 000	3 225 781

Source: Compiled from James (2012)

Yet Table 1 does not tell the full story of GM adoption in Africa. Most African countries are at various stages of creating the enabling environment for GM crop commercialization. Of note, five countries (Cameroon, Kenya, Malawi, Nigeria and Uganda) are currently conducting field trials of biotech crops, the final step before full approval for commercialization. One level lower on the adoption ladder are countries that have put in place the requisite policy and regulatory frameworks. Most African countries have signed and ratified the Convention on Biological Diversity as well as the Cartagena Protocol on Biosafety (Nang'anyo, 2006). That said, there is growing public opposition to GM crops in Africa that is best described as a fear of the unknown, with little or no scientific merit. For

example, in November 2012 the Kenyan government banned all imports of GM foods citing public health concerns.

### 3 MAIZE PRODUCTION AND CONSUMPTION IN SOUTH AFRICA

South Africa is a net exporter of maize, producing about 50% of the maize grain output in southern Africa. In the 2011/12 cropping season, South Africa produced about 6.74 million tonnes of white maize and 5.09 million tonnes of yellow maize at an average yield of 4.1t/ha and 4.8t/ha, respectively (Grains SA, 2013). Figure 1 below shows the total production area planted and average yields for maize in South Africa from 1990 to the present. Note that with the possible exception of drought years in 1991/92, 1994/95 and 2006/07, increased production was primarily due to rising yields while the area under cultivation has declined.

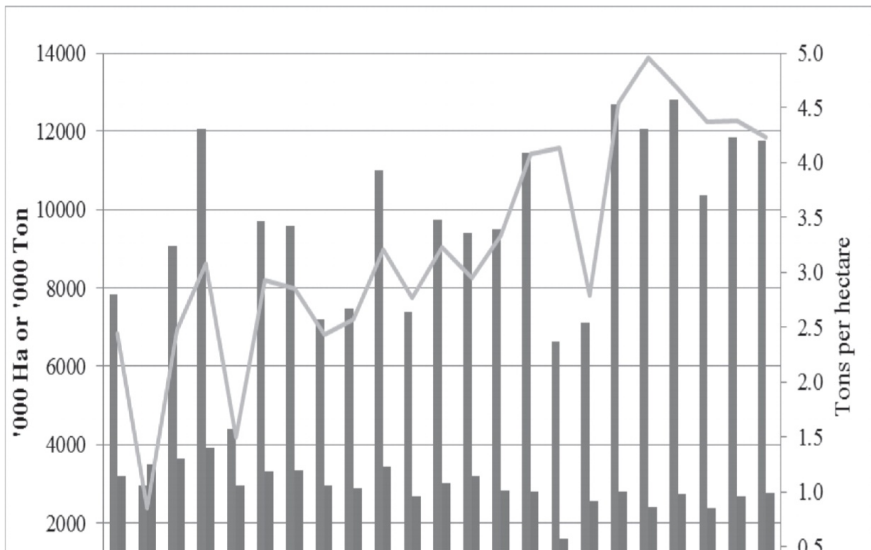


Figure 1: Maize production in South Africa (Data source – Grains SA, 2013)

Maize production in South Africa is dominated by commercial growers who produce more than 90% of the country's maize crop (Gouse *et al.*, 2009). While maize is grown in all nine provinces of the country the bulk of the production is in the Free state, Mpumalanga and North West provinces. The bulk of South Africa's maize production is rain fed. However, the irrigated maize area has more than doubled during the past 12 years from 100 000 hectares in 2000/01 to 240 500 hectares in 2011/12 (USDA/FAS, 2013). Although the cropping calendar varies by location and year, the bulk of the planting takes place in November and harvesting starts in April.

In this paper, we seek to measure the impact of GM maize adoption in South Africa by looking at the dynamics of prices over the period of adoption. White maize is one of the major staple foods in South Africa (particularly for low income households) with the gains from adoption of GM maize expected to be seen in low prices or reduction in the growth rate of the price. Also, high volatility in prices is undesirable to both farmers and final consumers. We also seek to measure if GM maize adoption has any impact on volatility in South Africa.

## 4 GM MAIZE ADOPTION IN SOUTH AFRICA

South Africa was the first African nation to commercialize GM crops with the planting of Bt cotton in 1997. This was followed closely by the commercialization of Bt maize (Monsanto 810) in 1998 and herbicide tolerant (HT) cotton and soybean in 2000. South Africa established a government committee, South African Committee on Genetic Experimentation (SAGENE) to draft biosafety guidelines as early as 1978 and field tested its first biotech crop, Bt cotton, in 1990 that was first commercialized in 1997. Bt cotton was followed by Bt maize (MON 810) commercialized in 1998, herbicide tolerant (HT)<sup>2</sup> cotton and soybeans in 2000, the dual Bt in cotton (Bollgard II) in 2002, and another insect resistant maize (Bt11) in 2003.

GM crop adoption in South Africa was rapid especially among commercial farmers. In the 2011/12 growing season, GM crops were planted on an estimated 2.3 million hectares of land in South Africa, up slightly from 2.2 million hectares in the previous year. Leading this high adoption are maize farmers who planted 1.873 of 2.6 million hectares (Clive, 2013). The adoption rate for GM maize by area planted was approximately 72% shared equally between white and yellow maize. Based on 2009/2010 figures GM yellow maize adoption consisted of the following events (number in parenthesis representing the percentage for yellow

2 Herbicide-tolerant crops are genetically modified to withstand the application of specific herbicides that will kill or stunt weed growth, while leaving the crop unharmed.

maize): Bt (26%), herbicide tolerant (15%), and stacked Bt/Herbicide tolerant (20%). Similar figures for white maize are as follows: Bt (60%), herbicide tolerant (5%) and stacked Bt/herbicide tolerant (8%) (Clive, 2013).

This paper uses adoption rates data for GM maize from 1999/00 to 2011/12 growing seasons as presented in Table 2. Most data sources on the adoption of GM maize in South Africa are incomplete and inconsistent. The primary data are derived from self-reported seed sales by private companies that are extrapolated into the total area planted using either recommended or average seeding rates. Three data sources were used to derive adoption rates for GM maize in South Africa as given in Table 2. Total areas of GM maize and GM white maize from 2001/02 until 2011/12 were either sourced directly or derived from ISAAA reports. Adoption rates for GM maize prior to 2001 were sourced from Gouse *et al.* (2009). Data on total area planted with maize and the percentage planted with white maize was sourced from Grain SA database (Grain SA, 2013).

Table 2: Adoption rates for GM maize in South Africa

Year	Total (Thousand Hectares)	Proportion White Maize of Total	GMO adoption rate (% of land planted)		
			White Maize	Yellow Maize	All maize
1999/00	3429.40	0.61	0.00	0.23	0.09
2000/01	2673.90	0.58	0.00	5.00	2.21
2001/02	2636.17	0.57	0.40	14.08	6.30
2002/03	2950.71	0.68	3.00	18.51	8.00
2003/04	2940.16	0.61	8.00	17.28	11.60
2004/05	3216.69	0.57	8.00	19.07	12.75
2005/06	1531.41	0.63	29.00	31.11	29.78
2006/07	2641.95	0.61	44.00	50.67	46.63
2007/08	2848.02	0.59	62.00	48.44	56.43
2008/09	2829.88	0.56	56.00	58.60	57.14
2009/10	2510.92	0.61	79.00	68.19	74.79
2010/11	2599.70	0.58	75.00	70.21	73.01
2011/12	2600.00	0.57	71.99	71.97	72.04

Source: Compiled from various sources

## 5 PRELIMINARY FINDINGS OF GM MAIZE IMPACT IN SOUTH AFRICA

Empirical evidence from several studies suggests that there are economic benefits to GM crop adoption in South Africa. Brookes and Barfoot (2012) estimate that the farm level economic gains to biotech crop adoption in South Africa from inception in 1998 to 2010 was US\$809 million (R6 179 million) of which US\$133 million (R1 015 million) is attributed to 2010 alone. The rapid adoption of GM crops in South Africa can also be taken as *prima facie* evidence of economic benefits to farmers. Farmers spend more on improved seeds when their characteristics give them greater benefits in terms of higher profits, lower costs or greater convenience.

While much of this benefit has gone to commercial farmers who grow the bulk of GM crops in South Africa, smallholder farmers have also participated. A study of smallholder farmers growing GM crops in Mpumalanga, KwaZulu-Natal, Eastern Cape and Limpopo provinces in South Africa shows significant gains in productivity (Gouse, 2005). For example, over a six-season period from 2002 to 2005, Bt maize seed yielded 12% more grain on average than conventional maize. According to the same study, GM maize performance per unit of land was even more impressive, yielding 22% more than conventional maize in 2005/06 season. The same study concludes that GM maize had enabled significant cost savings on pesticides that offset the higher seed cost. Overall, the net benefit of Bt maize for commercial farmers was on average US\$24 (R152) per hectare on dry land conditions in the North West Province, US \$47 (R299) per hectare dry land in Mpumalanga, US\$85 (R540) per hectare under irrigation in Mpumalanga, and US\$149 (R947) per hectare under irrigation in the Northern Cape (Gouse, 2005).

In highlighting the benefit of GM crop adoption, it is important to point out four key caveats. First, the benefits of GM crops are not restricted to yield maximization. In fact, the most commonly used GM traits, Bt and herbicide tolerance, are primarily cost-saving technologies for farmers. Second, while the net environmental benefits of biotechnology are still contested, there is strong evidence to suggest positive externalities from Bt crops resulting from overall decreases in pests. For example, in China, Bt cotton has lowered bollworm populations to a level where producers of non-Bt cotton and other crops also susceptible to bollworm benefited (Pray et al., 2001). Third, we have to be mindful of the dynamic nature of benefit to GM crops. Specifically, recent studies show diminishing efficacy of both Bt and herbicide tolerate crops as widespread use of the biotechnologies have spurred an increase in “superweeds” and hard-to-kill insects that are resistant to Bt toxins (Benbrook, 2012). Last, and perhaps most importantly in the case of South Africa, there is no evidence to suggest that benefits to farmers will translate to lower prices for the consumer. Thus, making

the leap from increase production efficiency to improved food security through lower prices may be a *non sequitur*. The modern agribusiness value chain often dampens price transmission between wholesale level agricultural commodity prices and retail prices of value added food products.

## 6 ECONOMETRIC MODEL

The Box-Jenkins method of expressing any covariance stationary time series as an autoregressive moving average to find the best fit of the series, based on present and past innovations, has been widely used in the literature to study many important macroeconomic variables. In this section we present a model that is in the spirit of the Box-Jenkins method to capture the impact of an outside shock on the dynamics of a series. Specifically, we employ the threshold autoregressive (TAR) model that is a class of nonlinear time series model, to understand the dynamics of the growth rate of the wholesale spot price of maize in South Africa. While the simple and popular Box-Jenkins method has been applied on numerous times, the nonlinear TAR models have gained popularity in recent years because the dynamics of a series might change over a period due to changes in the series itself or by exogenous factors.

The model we use in this paper follows the earlier Bayesian treatment of TAR models similar to Potter (1995), Geweke and Terui (1993) and Chen and Lee (1995). However, in contrast to the Self-Exciting Threshold Autoregressive (SETAR) model by Potter (1995) and many similar extensions of the TAR that have been useful in empirical work, we use a model with a threshold trigger outside itself. A series is said to be self-exciting when changes in the parameters of the autoregressive model are a result of changes in the variable itself. For instance, there are policies and events that may be solely linked to the series itself that may cause a break in the series.<sup>3</sup> One of the main advantages of our Bayesian Framework is the ability to compare a model with SETAR versus the model we propose in this paper that is triggered by an outside series based on the probability of each model. We will use the Bayes Factor to compare each of these models to test if our TAR model fits the data better than a SETAR model. The model comparison framework we adopted is similar to that in Abidoye and Labuschagne (2014) that highlights the benefit of the Bayesian model selection and/or averaging. The Bayes Factor can be written in likelihood function form as:

3 As highlighted by an anonymous referee, the South African market changed a lot over the tested period. For instance: In 1998 the options started to trade on the South African market, which could have an enormous effect in terms of prices and volatility. The South African market started to establish a constant demand, with improved exports. All of the above could also have an impact on prices and volatility.



$$BF_{kj} = \frac{p(y | \tau, k)}{p(y | \tau, j)} = \frac{\iint L(\beta, h | \tau, k) p(\beta, h | \tau, k) d\beta dh}{\iint L(\beta, h | \tau, j) p(\beta, h | \tau, j) d\beta dh}$$

We will compare the different time series characterization of the growth rate of prices based on the Bayes Factor to understand which of the models fit the data best.

Thus, consider a TAR model for a time series  $y_t$  for  $t = p+1, \dots, T$  and  $t = 1, \dots, p$ , initial conditions, represented as:

$$y_t = \beta_0^{(r)} + \sum_{k=1}^{p_r} \beta_k^{(r)} y_{t-k} + \varepsilon_t^{(r)} \text{ for } \tau_{r-1} \leq z_{t-d} < \tau_r \dots (1)$$

Where  $r = 1, \dots, R$  are the  $R$  possible regimes and  $d$  is a positive integer commonly referred to as the delay parameter or threshold lag of the model. The innovation  $\{\varepsilon_t^{(r)}\}$  is a sequence of independent and identically distributed

(i.i.d) normal random variates:  $\varepsilon_t^{(r)} \stackrel{iid}{\sim} N(0, h_r^{-1})$ . The  $\tau_s$  are real numbers that partitions the space of the threshold trigger variable  $z_{t-d}$  into  $R$  regimes. This model, as Chen and Lee (1995) put it, is a piecewise linear model in the space of  $z_{t-d}$ , but not a piecewise linear model in time.

For the purpose of this study, consider a case where  $r = 2$  such that:

$$y_t = \begin{cases} \beta_0^1 + \beta_1^1 y_{t-1} + \dots + \beta_p^1 y_{t-p} + \sqrt{h_1^{-1}} \varepsilon_t \text{ if } z_{t-d} \leq \tau \\ \beta_0^2 + \beta_1^2 y_{t-1} + \dots + \beta_p^2 y_{t-p} + \sqrt{h_2^{-1}} \varepsilon_t \text{ if } z_{t-d} > \tau \end{cases} \dots (2)$$

If we assume that the error variance does not exhibit regime-switching and  $h_1^{-1} = h_2^{-1} = h^{-1}$ , then we can simplify the above equation by using the

notation  $\beta = \begin{pmatrix} \beta_1 \\ \beta_2 \end{pmatrix}$  to stack all the parameters of the AR model where

$\beta_r = [\beta_0^r \quad \beta_1^r \quad \dots \quad \beta_p^r]$ ,  $r = 1, 2$ . Given this, we can write the TAR as:

$y = X\beta + \varepsilon$ , Where  $X$  is the  $(T - p) \times 2(p + 1)$  matrix with the row  $t$  given by

$$\begin{bmatrix} D_t & D_t y_{t-1} & \dots & D_t y_{t-p} & (1-D_t) & (1-D_t)y_{t-1} & \dots & (1-D_t)y_{t-p} \end{bmatrix}$$

, where  $D_t$  is a dummy variable

$$D_t = \begin{cases} 1 & \text{if } z_{t-d} \leq \tau \\ 0 & \text{if } z_{t-d} > \tau \end{cases}; y = \begin{bmatrix} y_{p+1} \\ \vdots \\ y_T \end{bmatrix}; \varepsilon = \begin{bmatrix} \varepsilon_{p+1} \\ \vdots \\ \varepsilon_T \end{bmatrix}$$

When the  $\tau$ 's are known, the estimation of the parameters can proceed as a normal linear regression model. For example, Tong and Lim (1980) and Tong (1993) apply least squares conditional on  $d$  and  $r$  chosen using the AIC. In this paper, we treat  $\tau$  and  $d$  as unknown parameters determined within the model and also allow the error variance to exhibit regime-switching behaviour. Our TAR model (conditional on  $d$  and  $r$ ) with switching error variance will therefore be:

$$y^r = X^r \beta_r + \varepsilon^r,$$

where the matrix  $X^r$  contains an intercept and  $p$  lags of the dependent variable for observations in the  $r$ th regime;  $y^r$  contain all the observations on the dependent variable in the  $r$ th regime.

## 7 PRIOR SELECTION AND POSTERIOR DISTRIBUTION

We follow Koop *et al.* (2007) by using a normal-gamma prior for  $\beta_r$  and  $h_r$  of

the form  $NG(\underline{\beta}_r, \underline{Q}_r, \underline{s}_r^{-2}, \underline{\nu}_r)$  in each regime. We also assume that the delay

parameter ( $d$ ) has a non-informative prior over  $1, \dots, p$  such that each value of  $d$  has equal probability of being chosen. That is  $\Pr(d = i) = \frac{1}{p}$  for all  $i = 1, \dots, p$ .

The conditional distribution for  $\beta_r$  and  $h_r$  is calculated by assuming discrete distribution for the threshold parameters in  $\tau$  and  $d$ . The only restriction is that they are chosen such that a sufficient number of observations is placed in each regime (typically we want at least 15 per cent of the observation to lie in each regime so that the result is not biased by a small sample in a particular regime). The procedure in this section hinges on the fact that there are finite numbers of possible threshold values  $\tau$ , i.e.  $\tau = \tau_1, \dots, \tau_\sigma$  is the set of possible threshold.

*Posterior Conditional Distribution of*

$$p(\beta_r, h_r | y^r, \tau, d) :$$

One of the benefits of using the Normal-Gamma prior is that the posterior is a closed form solution. Using Bayes's theorem and the properties of the normal-

gamma density, the joint posterior distributions for  $\beta_r$  and  $h_r^{-1}$  (conditional on

$\tau$  and  $d$ ) is also normal-gamma parameterized as  $NG(\bar{\beta}_r, \bar{Q}_r, \bar{s}_r^{-2}, \bar{\nu}_r)$ , where:

$$\bar{\nu}_r = T_r + \underline{\nu}_r$$

$$\bar{Q}_r = (\underline{Q}_r^{-1} + X^{r'} X^r)^{-1}$$

$$\bar{\beta}_r = \bar{Q}_r (\underline{Q}_r^{-1} \underline{\beta}_r + X^{r'} X^r \hat{\beta}_r),$$

and

$$\bar{s}_r^{-2} = \frac{\underline{\nu}_r \underline{s}_r^2 + SSE_r (\hat{\beta}_r - \underline{\beta}_r)' X^{r'} X^r \bar{Q}_r \underline{Q}_r^{-1} (\hat{\beta}_r - \underline{\beta}_r)}{\bar{\nu}_r}$$

$T_r$  is the number of observations in the  $r^{\text{th}}$  regime;  $SSE_r = (y - X\hat{\beta}_r)'(y - X\hat{\beta}_r)$

and  $\hat{\beta}_r$  is the OLS estimate of  $\beta_r$  using data from regime  $r$ .

*Posterior Conditional Distribution of*

$$p(\tau, d | y) :$$

We can use the Bayes' theorem to simplify the joint distribution of  $\tau$  and  $d$  such that the posterior conditional distribution of  $\tau$  and  $d$  is:

$$p(\tau, d | y) \propto p(y | \tau, d) p(\tau, d)$$

By calculating the marginal likelihoods ( $p(y | \tau, d)$ ) for the normal linear regression model for every possible value of  $\tau$  and  $d$ , we can build up the posterior  $p(\tau, d | y)$ . Thus, for a given value of  $\tau$  and  $d$ , the standard marginal likelihood is:

$$p(y | \tau, d) = \iint L(\beta, h | \tau, d) p(\beta, h | \tau, d) d\beta dh$$

Given the

$$p(y | \tau, d) = p(y^1 | \tau, d) p(y^2 | \tau, d)$$

Where the relevant formula for the marginal likelihood in each regime will be:

$$p(y^r | \tau, d) = \frac{\Gamma\left(\frac{\bar{v}_j}{2}\right) \left(\bar{v}_j s_j^2\right)^{\frac{\bar{v}_j}{2}}}{\Gamma\left(\frac{v_j}{2}\right) \pi^{\frac{T_j}{2}}} \left(\frac{Q_j}{Q_j}\right)^{\frac{1}{2}} \left(\bar{v}_j s_j^2\right)^{\frac{\bar{v}_j}{2}}$$

## 8 MODEL APPLICATION AND DATA DESCRIPTION

We apply the above model to measure the relationship between the price of South African white maize and the adoption of GM maize. South African maize producer prices for white maize were obtained from the South African Futures Exchange (SAFEX) for the period 2000 to April 2012. The monthly prices are calculated by averaging daily prices for a given month. The South African white maize spot prices are non-stationary based on the Augmented-Dickey Fuller (ADF) and Phillips-Perron tests (the series also has a unit root that is difference stationary). However, the growth rate in the price of maize that we are interested in for this study is stationary and allows for application of the TAR model. Standard Box-Jenkins estimation can be applied to understand the dynamics of prices and allows for forecasting. The data for the same period on GM maize adoption as captured by percentage of area planted was already described in section 4 and presented

in Table 2. Figure 2 shows a graph of the series of white maize prices and the adoption rate of white maize in South Africa between January 2000 and April 2012. The graph shows the adoption rate and the price level trending together between 2005 and up to late 2009.

Relating this to our model, we let the GM area planted for white maize be the threshold trigger ( $z_{t-d}$ ), and the growth rate of the price of white maize be  $y_t$ . We assume that GM maize adoption rates affect wholesale spot market prices at harvest time (assumption would be different for futures prices) and therefore we include lags to allow for the period between planting and harvesting periods. One way to measure the influence of GM maize on welfare in South Africa is by looking at the dynamics of the growth rate of prices in the country and evaluate if it is excited by the GM maize adoption rate in the country.



Figure 2: Spot price (R) and GMO adoption rate (%) for white maize in South Africa

## 9 RESULTS

We fit our TAR model with an outside threshold trigger using the posterior distribution highlighted earlier. Conditional on the delay parameter and threshold parameter, our posterior for  $\beta_r$  and  $h_r$  has a convenient form and means and standard deviations can be calculated using analytical formulas highlighted in the model section. We perform posterior inference for every possible combination of  $\tau$  and  $d$ .

This paper is primarily interested in applying the threshold autoregressive model to time series data on the price of maize in South Africa to address the following questions: (1) Does the adoption of GM maize excite the growth rate

of price of maize in South Africa; (2) Does the error variance of the maize price growth rate exhibit regime-switching behaviour to impact volatility?

We begin to address these questions by estimating a simple model with one lag. Our definition of the delay parameter ( $d$ ) implies that it is bounded at the top by the lag length. This makes sense because the influence of the threshold trigger  $d$  periods ago can only be important if that period of the series influences the series itself. This model estimates an AR (1) model with two regimes triggered by the adoption rate of GMO. The posterior properties of  $\beta_r$  and  $h_r$  show differences in the dynamics of the series in the two regimes. Parameter estimates and diagnostic statistics are reported in Table 3. The autoregressive coefficient of price growth is estimated at 0.40 (s.d. 0.1060) for the first regime and -0.1462 (0.1969) for the second regime. There is strong evidence that the first regime AR parameter indicated moderate persistence of shocks. The properties of maize price growth rate are characterized as a function of only its own past (depending only on its one period lagged value), while the second regime shows that there is little evidence that the properties are not characterized as a function of its one period lagged value.

Table 3: Posterior results for the TAR model with switches in error variance

Model A with p=1 (Model Marginal Likelihood = 90.04)					
Regime 1			Regime 2		
Parameter	Mean	Std. Dev.	Parameter	Mean	Std. Dev.
$\beta_0$	0.2981	1.1210	$\beta_0$	0.8199	0.9547
$\beta_1$	0.4511	0.1099	$\beta_1$	-0.0156	0.1279
$\sigma_1^2$	87.6264	14.4223	$\sigma_2^2$	49.2063	9.9395

The results show evidence that the adoption of GM maize influences the dynamics of the maize price growth rate in South Africa. Another important aspect of the result is the volatility of the price growth rate. Table 3 also shows that there is strong evidence that the error variance exhibits regime-switching behaviour. The posterior mean for the error variance in the first regime (87.6264) is about twice as large as that of the second regime (49.2063). That is, before the threshold trigger, the growth rate in prices was more volatile than after implying that adoption of GM food has helped reduce market risk too. Our findings indicate that prices become less volatile at certain levels of GMO adoption (given that GM and non-GM maize are not perfect substitutes). It should be noted that while the world price of corn

also has an influence on the price of maize in South Africa, unless GMO adoption and world price is highly correlated, the change in regime picked up by our model cannot be attributed to world prices. Abidoye and Labuschagne (2014) show that in the long run, 98% of changes in world prices are eventually transmitted to South African prices. This implies that a SETAR model will be appropriate to capture the influence of World Prices on the growth rate of local prices. We will show later a comparison of this model with the one proposed here within our Bayesian Framework. Lastly, the posterior for the thresholds ( $\tau$ ) is presented in Figure 3. Appreciable posterior is found for a number of possible thresholds with the mode of the posterior roughly at about 44% adoption rate corresponding to 2006 planting season.<sup>4</sup> Interestingly, almost none of the posterior distribution is allocated to the adoption rates after the mode.

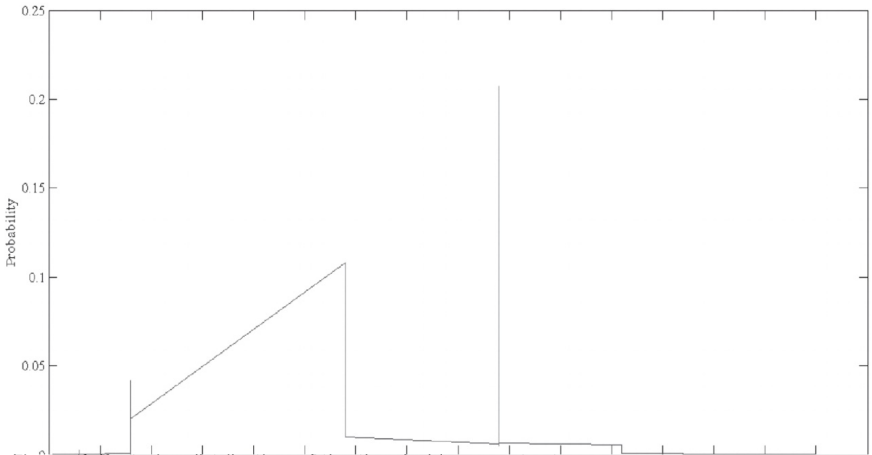


Figure 3: Posterior distribution of the threshold parameter tau.

The above result tells us that there is some evidence that the adoption of GM maize triggered the regime switch observed. However, there is reason to believe that it may take longer than one period to induce the regime switch. That is, the annual average adoption rate over a period is what will actually induce the regime switch and not necessarily the previous month's adoption rate. In the spirit of this, we compare models with different delay parameters using the Bayes Factor to

4 The initial buzz of GM adoption seems to have excited the price growth rate with some posterior probability support from the data found at about 8% adoption rate. There is also an appreciable percentage of the posterior at around the 29% adoption rate, which is also part of 2006 harvest season.

choose the model supported by the data. We use the average rate of adoption as the trigger such that the threshold trigger is the average adoption rate of GM over the last  $d$  months:

$$z_{t-d} = \frac{\sum_{d=1}^p z^*_{t-d}}{d}$$

Where  $z^*$  is the area planted to GM maize for that period.

Figure 4 plots the posterior of  $d$ . Given that values of  $d$  imply different threshold triggers, there is no point plotting the posterior of the threshold parameter  $\tau$ . From the figure, the posterior allocates most of the probability to  $d = 6$ . This indicates that what triggers a regime shift is the sustained adoption rate averaged over 6 months, which are about the average growing season length. Table 4 (Model B) presents the autoregressive parameter estimates for this model. The results of the switches in the error variance and that the properties of maize price growth rate are characterized by its one period lagged value in the first regime are still consistent. However, the result also shows that for the second regime, volatility is lower (12.74) and the properties of maize price growth rate are characterized by its second, eighth and ninth period lags.

Figure 4: Posterior Distribution of Delay Parameter



Table 4: Posterior results for the TAR model with switches in error variance

Model B with p=9. Model Marginal Likelihood = 221340					
Regime 1			Regime 2		
Parameter	Mean	Std. Dev.	Parameter	Mean	Std. Dev.
$\beta_0$	0.1392	0.9159	$\beta_{10}$	4.5262	1.238
$\beta_1$	0.3389	0.0926	$\beta_{11}$	-0.2972	0.1931
$\beta_2$	0.0042	0.0985	$\beta_{12}$	0.0025	0.1581
$\beta_3$	0.023	0.0998	$\beta_{13}$	0.1272	0.1317
$\beta_4$	0.0493	0.1011	$\beta_{14}$	0.1766	0.1161
$\beta_5$	-0.1047	0.1012	$\beta_{15}$	0.0513	0.1152
$\beta_6$	-0.0303	0.102	$\beta_{16}$	-0.0223	0.1183
$\beta_7$	0.0805	0.1014	$\beta_{17}$	0.1034	0.113
$\beta_8$	-0.0065	0.0978	$\beta_{18}$	-0.2242	0.1153
$\beta_9$	0.0114	0.0929	$\beta_{19}$	0.3013	0.1143
$\sigma_1^2$	76.8629	10.2339	$\sigma_2^2$	12.7347	5.0789

Finally, in order to test if the above model is a good fit for the data compared with a SETAR model and a model without thresholds, we look at the marginal likelihood for the different models in the spirit of the Bayes Factor. The marginal likelihood below (Table 5) shows that the heterogeneous TAR model with GM adoption as the trigger better fits our data than a model that assumes that changes in the series are caused by things related to itself. Thus, while there is some evidence that changes in the South African market for maize occurred in the time period, the evidence is stronger that these changes in the growth rate of the prices is as a result of GM adoption.

Table 5: Classes of Models and Corresponding Marginal Likelihood for  $p=9$ 

Model	Marginal Likelihood
Heterogeneous TAR with GM Adoption Trigger	221340
Homogenous TAR with GM Adoption Trigger	2612.4
Heterogenous TAR with SETAR	5.19
Homogenous TAR with SETAR	2.599
Linear AR NO threshold	4.2429e-241

## 10 SUMMARY AND CONCLUSIONS

GM crops have been extensively tested and found to be as safe as conventional crops. They are being adopted worldwide because of their benefits to farmers and society. Despite the potential advantages, adoption of GM crops in Africa has been slow. South Africa represents the vanguard of GM crop adoption in Africa with full commercialization of GM cotton, soybean and maize. Given the polarized public views on the potential role of GM crops in alleviating food security and possible environmental effects, other African nations (and the rest of the world) are closely monitoring South Africa as a case study. This paper informs the public debate and policy dialogue by examining the empirical evidence on the effects of GM maize adoption in South Africa.

In this paper we evaluated the impact of GM crop adoption on wholesale maize prices in South Africa. A threshold autoregressive model was applied to time series data on wholesale price and GM adoption rates of maize in South Africa for the period between January 2000 and April 2012. Our results show that the adoption of GM maize in South Africa has had an impact on the dynamics of wholesale maize price growth rate in the country. Our analysis shows a regime switch in the 2006/07 growing season when adoption rates for GM white maize reached 44% of the area planted. Further, the analysis shows strong evidence that the error variance exhibits regime-switching behaviour with the posterior mean for the error variance in the first regime about twice as large as that of the second regime. Simply put, the growth rate in prices was stabilized by GM adoption, thereby reducing price risk. We speculate that the increased stability comes from increased integration with key exporters such as USA, Brazil and Argentina that have also adopted GM maize.

We are careful not to make further inference on consumer welfare. Assuming perfectly competitive markets, we expect these beneficial price effects to be transmitted to consumers in the long-run. However, in the South African context, the welfare gains on consumers are a *non sequitur* for two reasons. First, South Africa has a highly industrialized food processing system wherein food commodities often represent a small percentage of the value added final consumer product. Second, there have been many instances of anti-competitive behaviour within the country's grains and milling industries that could delay or prevent symmetric transmission of price signals from wholesale through retail levels. For other African nations seeking to draw lessons from the South African example, we conclude that adoption of GM maize has had a stabilizing effect on wholesale prices *ceteris paribus*.

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## FOOTNOTES

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