

**AN EVALUATION OF THE  
COMPETITIVENESS OF THE  
SOUTH AFRICAN AGRIBUSINESS  
SECTOR**

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**An evaluation of the competitiveness of the South African  
agribusiness sector**

by

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Dirk Esterhuizen

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# **An evaluation of the competitiveness of the South African agribusiness sector**

by

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## **ABSTRACT**

The objective of this study is to conduct a comprehensive analysis on the competitiveness of the agribusiness sector in South Africa. Neither a clear definition of competitiveness nor a comprehensive framework for analysing competitiveness has been developed for agriculture in South Africa. Hence, a definition for competitiveness has been formulated as being *the ability to compete successfully in order to achieve sustainable growth within the global environment, while earning at least the opportunity cost of returns on resources employed*. The definition is driven by factors related to the comparative and competitive advantages of an industry and the manner in which this is manifested by sustainable trade.

Five important aspects regarding competitiveness emerged, namely: competitiveness is a dynamic process, and not an absolute state of affairs; competitiveness can only be

assessed within a relative sense; competitiveness is a tool to enable a continuously exploitation of the market reality for gain and profits relative to other competitors; competitiveness is a holistic viewpoint on the ability to sustain the gains achieved through trade and it is dependant on certain key success factors and constraints that must be identified and managed; and in order to sustain competitiveness it is important to continuously attract scarce resources from other economic endeavours.

A 5-step framework has been developed for measuring and analysing competitiveness in the agribusiness sector. Three instruments emerged from this *viz* the **Agribusiness Competitiveness Status** index (ACS) based on the Relative Trade Advantage (RTA) method; the **Agribusiness Executive Survey** (AES) based on the determinants of competitiveness, as described by Porter; and the **Agribusiness Confidence Index** (ACI) measuring the status of the decision-making environment in which agribusinesses are positioned to perform

The ACS index supports the definition developed on competitiveness. From the measurement it is evident that the South African agribusiness sector is marginally competitive but ever increasing. A definite positive trend is present in the competitiveness of the sector from 1992 onwards. There are, however, varying rates of competitiveness between the different value chains in the sector; some are highly competitive i.e. wine, some are marginally competitive i.e. sunflower and some are not competitive i.e. cotton. A general notion of decreasing competitiveness exists in the value chains - implying that value adding opportunities in the sector are restricted.

The AES is used to determine the views and opinions of executives in the agribusiness environment on factors constraining and enhancing competitiveness. The high cost of crime, inflexible labour policy and the competence of the personnel in the public sector are some of the factors constraining the competitiveness of the sector. The production of affordable, high quality products, intense competition in the local market and continuous

innovation are some of the important key success factor enhancing the competitiveness of the sector. The sector also demonstrates a positive trend in the determinants of competitiveness.

A clear relationship exists between changes in the decision-making environment and the competitiveness performance of the sector. This relationship influences the sustainability of the competitiveness status of the sector. The **ACI** analysis indicated that trends in the business confidence of the sector are influenced by a complex set of activities and expectations which includes climatic conditions, changes in the exchange and interest rates, economic growth and changes in turnover and nett operating income.

The framework developed in this study combine quantitative and qualitative analyses to develop strategies to enhance the competitiveness of the sector. The analytical and empirical content and the resulting findings therefore enable this study to act as a basis for strategic planning, policy development and strategic positioning by the agribusiness sector in South Africa and will allow for future monitory and analysis of competitive performance. A number of agricultural industries i.e. wine, beef, wool have already made use of this framework with good effect.

For further research it is recommended that the framework be used to do comprehensive industry analysis on the competitiveness of the most important food chains in Southern Africa. This information can be used to investigate opportunities for supply chain integration in Southern Africa that can provide the agricultural drive required by NEPAD to be successful.

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## LIST OF ACRONYMS AND ABBREVIATIONS

ABC	Agricultural Business Chamber
ACI	Agribusiness Confidence Index
ACS	Agribusiness Competitiveness Status
AES	Agribusiness Executive Survey
AGRIMASS	Agribusiness Management Aptitude and Skills Survey
AVCASA	Crop Protection and Animal Health Association
BEE	Black Economic Empowerment
CPI	Consumer Price Index
DRC	Domestic Resource Costs
EU	European Union
FAO	Food and Agricultural Organisation of the United Nations
FDI	Foreign Direct Investment
FSSA	Fertiliser Society of South Africa
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
HO	Hechsher-Ohlin
IMD	International Institute for Management Development
ISMEA	Institute of Mathematical and Economic Sciences Applied
NAMC	National Agricultural Marketing Council
NCM	National Chamber of Milling
OECD	Organisation for Economic Co-operation and Development
PAM	Policy Analysis Matrix
PPI	Production Price Index
R&D	Research and Development
RC	Revealed Competitiveness
RCA	Revealed Comparative Advantage
RER	Real Exchange Rate
RMA	Relative Import Advantage
ROR	Rate of Return

RSA	Republic of South Africa
RTA	Relative Trade Advantage
RXA	Relative Export Advantage
SAAMA	South Africa Agricultural Machinery Association
SACOB	South African Chamber of Business
SADC	Southern African Development Community
SAGIS	South African Grain Information Services
SANSOR	South African National Seed Organisation
UK	United Kingdom
USA	United States of America
WEF	World Economic Forum
WTO	World Trade Organisation