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IDENTIFYING POTENTIAL EXPORT OPPORTUNITIES FOR SOUTH AFRICAN AGRICULTURE: A FOCUS ON EAST ASIA

by

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Abstract

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Department: Agricultural Economics, Extension and Rural Development
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This study constitutes one of the first attempts in understanding the importance of the different export destinations and export commodities for the South African agriculture. This knowledge of agricultural trade movements will now make it possible to reprioritise efforts in an agricultural export promotion strategy. The study uses a technique called the 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. An analysis of agricultural export share and growth shows that traditional export products and countries are still important, though declining steadily. Major shifts have taken place over the last decade, but especially after 1993 (post-sanction period). High growth export destinations have grown from a 3½% share to an almost 30% share (1992 to 1996). High growth export products have grown from a 3½% share to a 33% share (1988 to 1996). The European Union's importance as an export destination has systematically diminished. Africa's importance has dramatically increased during the sanction years, but levelled off

after 1993, yet retained a high base. South Africa's greatest export growth opportunities are in countries in Asia and the Americas.

The East Asian markets were explored because dramatic changes occurred in these markets resulting in new opportunities. From a historical trade perspective they were identified to perform well. However, it was especially the future trends that made East Asia an attractive market to study because of the enormous potential growth prospects, policy changes, varying consumption patterns and demographic factors. The fast growth in Asia and globalisation will draw resources away from agriculture in these economies and create agricultural markets as a result of a shift in their comparative advantages. Most of the world's fixed investment is in Asia and over the next two decades 50% of the world-wide growth will occur in Asia. Before 1996 the Asian region accounted for about 70% of the increase in the global consumption of commodities. It is especially the East Asian economies that have experienced sustained rapid growth over the past half century.

Changes in consumption patterns are mainly determined by income changes in the developing countries of East Asia. The rapid industrialisation in these economies, higher incomes and several social trends resulted in a significant shift in diet- and eating habits towards western-style foods, high-quality- and high-protein foods and convenience- and health products. Generally consumer demands are roughly the same everywhere: more convenient- and nutritious foods at a lower cost. The modernisation of the retailing and food-service sectors and the opening of the economy also resulted in new markets. New free-trade agreements in South East Asia and Asia Pacific, the next World Trade Organisation negotiations and reforms in East Asia because of the currency crisis, will accelerate the opening up of these economies.

The need has arisen for South Africa to extend its strategic focus to the non-traditional markets of the East. Relations with these countries providing new markets will stimulate future export potential.

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Uittreksel

IDENTIFISERING VAN POTENSIËLE UITVOERGELEENTHEDE VIR DIE SUID-AFRIKAANSE LANDBOU: 'N FOKUS OP OOS-ASIË

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Hierdie studie is een van die eerste pogings om die belangrikheid van verskillende uitvoerlande en uitvoerprodukte vir die Suid-Afrikaanse landboubedryf te verstaan. Hierdie inligting van landbou handelstendense maak dit moontlik om verdere werk op 'n uitvoerstrategie te prioritiseer. Die studie gebruik 'n tegniek genaamd 'n 'groei-aandeel' matriks waarvolgens lande gerangskik word volgens hulle belangrikheid in landbou uitvoeraandeel asook die koers waarteen uitvoerbestemmings (lande) belangriker of minder belangrik vir Suid-Afrikaanse landbouhandel word. Ontleding van die landbou uitvoeraandeel en die groei van die aandeel het uitgewys dat tradisionele uitvoerprodukte en lande steeds belangrik is, maar dat dit aan die afneem is. Groot veranderinge het plaasgevind oor die laaste dekade, maar veral na 1993 toe sanksies opgehef is. Geselekteerde hoëgroei uitvoerbestemmings het gegroei in hulle aandeel van uitvoere van 'n 3½% in 1992 tot ongeveer 'n 30% aandeel in 1996. Geselekteerde hoëgroei uitvoerprodukte het gegroei van 'n 3½% in 1988 tot 'n 33% aandeel in 1996.

Die uitvoeraandeel van die Europese Unie het sistematies afgeneem in belangrikheid. Uitvoere na Afrika se aandeel het dramaties toegeneem gedurende die sanksiejare en 'n

plato bereik op 'n hoë vlak. Suid-Afrika se belowendste geleenthede word gesien in die groeimarkte van Asië en die Amerika's.

Die Oos-Asiatiese lande is nagevors omdat groot veranderinge plaasgevind het in hierdie markte wat gelei het tot nuwe markgeleenthede. Vanuit 'n historiese handelsoogpunt het hierdie lande goed presteer, maar dit was egter toekomstendense wat Oos-Asië 'n aantreklike mark maak. Belangrikste faktore is die groot groeipotensiaal, beleidsveranderinge, veranderinge in verbruikerspatrone en demografiese faktore. Die vinnige groei in Asië en globalisering sal veroorsaak dat hulpbronne onttrek van landbou weens veranderinge in vergelykende voordeel, en wat tot gevolg sal hê dat nuwe markte ontstaan. In die volgende twee dekades sal die meeste van die wêreld se vaste-investering en 50% van die wêreldwye groei in Asië geskied. Tot 1996 was 70% van die toename in wêreldvoedselverbruik in Asië. Veral die Oos-Asiatiese ekonomieë het volgehoue, vinnige groei gehad die afgelope 50 jaar.

Veranderinge in verbruikerspatrone was meestal die gevolg van verbeterde inkomste in ontwikkelende Oos-Asië. Die vinnige industrialisering in hierdie ekonomieë, toenemende inkomste en verskeie sosiale tendense het gelei tot veranderings in die eetgewoontes na meer westerse voedselsoorte, hoëwaarde- en hoëproteïnvoedsel en gerieflikheids- en gesondheidsprodukte. Oor die algemeen is verbruikersaanvraag oral dieselfde: meer gerief en voedingswaarde teen laer pryse. Modernisering van die kleinhandel en voedseldiensektore en liberalisering het ook nuwe markte laat ontstaan. Nuwe vryhandelsooreenkomste in Suidoos-Asië en die Stille Oseaan, die volgende onderhandelingsronde van die Wêreld Handels Organisasie (WHO) en hervormings in Oos-Asië weens die ruilhandelskrisis sal die liberalisering van hierdie ekonomieë versnel.

Die behoefte het ontstaan vir Suid-Afrika om sy strategiese fokus uit te brei na die nie-tradisionele markte van die Ooste. Verhoudings met hierdie lande sal nuwe markte voorsien, wat toekomstige uitvoerpotensiaal kan verbeter.

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CHAPTER 1

Introduction

1.1 BACKGROUND AND MOTIVATION FOR STUDY

In response to political reforms and the process of deregulation of the 1990s, 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 agriculture exports since 1993. Deregulation of the agriculture industry followed the political reforms and marketing boards and their state-intervention functions have been dissolved. Producer support measured either by Aggregate Measurement of Support or by Producer Subsidy Equivalent, is amongst the lowest in the world compared to developed countries. All agricultural products are now subject to tariffs of which 340 tariff headings (38 %) receive 0 % tariffs and 72 % have tariff levels less than 15 %. Local producers, manufacturers and traders have become more dependent on international markets now that the strategy has changed from one of protection, isolation and import replacement to one of competition and sustainable growth of investments, that give the highest returns. The increased participation of South African agriculture in world markets also highlighted South Africa's lack of knowledge of international agricultural trade and an inability to identify new export opportunities. On a commodity level little knowledge existed about the international markets and government efforts were often made on an *ad hoc* basis, lacking a systematic approach. The office of the Deputy President (before the 1999 elections), Mr. Thabo Mbeki, has called for a comprehensive government strategy on foreign relations.

In order to attain national policy goals, the exploration of potential trade opportunities and its promotion is of strategic importance. Foreign-trade studies and monitoring form the

basis of sound policy-making and strategic planning regarding international trade. Dramatic changes in government policy internally and in the world-trade arena externally, necessitate urgent concentration of the government's focus on marketing intelligence and matters regarding international trade policy. Timing of research is of critical importance from a strategic point of view in order to stimulate timely adaptation to a changing environment.

This study is one of the first attempts in understanding the importance of the different export commodities of the South African agriculture and its destinations. The study presents an overall view on historical trends in South African agriculture exports in an attempt to understand the shifts that have taken place in agriculture exports since the sanction era, that were caused by 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). The last part of the study explores the potential East Asian markets, which were identified as a promising export-destination region.

South Africa's position amongst stable net exporters of agricultural products has deteriorated from being amongst the first ten countries in the 1980's to roughly being among the first twenty in the 1990s. However, this could to a large degree have been due to the policy of import replacement.

Shifting of economic powers during the next decade will change the face of world trade. Changing consumption patterns is the major factor determining shifting market powers in world trade. Simultaneously, trade policies change continually, which eventually affects market access and trade opportunities. The world trade: GDP ratio has increased three times faster than during the previous decade (OECD 1996a). These subjects need to be studied for product groups and countries of relevance to South African agriculture exports.

A major force in world-policy reform that will shape agricultural markets, is the Uruguay Round (UR). The UR Agreement is the first round of negotiations succeeding in placing agriculture under the rules and disciplines of the multilateral trade system. Concessions made by members came into effect in 1995 and will continue until the year 2000. This will result in reduced protection and, consequently, the enhancement of trade in agricultural products worldwide. The next round, commencing in 1999, will, according to expectations, lead to a further enhancement of trade concessions on world agriculture markets.

There has been an acceleration of globalization over the last decade, notably through the rapid development of a growing number of the developing economies. Dynamic and emerging economies are "linking" themselves to the global economy through trade, investment, capital flow and technology exchanges. The development of "competent societies", notably through skilled labour, infrastructure and good governance, has enabled many developing countries to participate in the global economy. Countries which have not developed this competence are excluded from the global economy.

Unprecedented growth rates of certain industrializing countries in Asia, Latin America and Central and Eastern Europe are evidence that a huge shift in economic power is under way. Especially the "big five", Brazil, China, India, Indonesia and Russia are becoming major players in the world economy. Developing countries in Asia sustained average real GNP growth rates of close to 7 % for nearly two decades, more than double the average world real GNP growth. Asia's growth is regarded as one of the major stimulants in the recovery of the global recession as trade expansion serves as a major source of growth for the global economy. China, especially, has grown during the period of global recession, and is seen as a leading force in Asia's growth and recovery since 1994. Asia is ideally located to benefit from the results of the UR, which will strengthen their rising food-consumption trends. Garnaut (1996) mentions that a continuation of globalization will reinforce the gradual shift in global economic weight, which has been underway for 50 years, towards the Asia-Pacific region. It is especially the East Asian rather than the Asia Pacific (APEC) economies that have experienced sustained rapid growth over the past half

century (OECD 1996a).

Manufacturing, in the more developed Asian countries, particularly in labour-intensive industries, is shifting to places like Malaysia, Indonesia, Thailand and, more recently, China. The shift has fuelled growth and rising domestic demand in South east Asia and, in turn, has led to soaring intra-regional trade. Fifty percent of the world's fixed-asset investments of foreigners goes to China and 50 % of the world's economic growth during the next twenty years will take place in Asia. Growth generates higher incomes, increased consumption, which spurs off a cycle of further trade, investment and growth. Of importance is the rise in consumption generated by rapid disposable household-income growth. As a result, more and more Asian countries will become dependent on the importing of agricultural products. Rising disposable incomes will lead to diets containing more meats and processed-food products, as well as to an increased demand for household goods and luxury items. A trend of moving away from foodstuff to final-product imports into East Asia has also begun.

Asian developing countries are the fastest growing markets. Prior to the Asian currency crises, between 1990 and 1995 the volume of imports into Asia as a whole grew at an annual rate of 10 %. Asia's import growth of 13 % in 1995 exceeded the world average for the fourth consecutive year. During 1995, for the forth consecutive year, the volume of imports into Asia expanded more rapidly than Asia's exports. Within the next five years the increase in volume of merchandise imports into the ten leading Asian developing countries could well become as large as that into the European Union and the United States combined. More than a third of the real increase in global imports could go to just these ten markets.

Many trade partners of Asia experience tremendous growth in their exports to the region. During 1990 to 1995, North American exports to developing Asian countries grew by 13,5 % per annum compared to 7,5 % for exports to the rest of the world. Exports from western Europe and Japan to developing Asia grew even faster at 15% to 16,5 % per annum respectively, about tree times the growth in their exports to all other regions.

Many political and policy changes already mentioned, took place recently: the GEAR strategy of the government, implementation of the UR, restored trade relations with Asia and other markets and new multilateral trade negotiations. Spending resources on foreign studies to increase understanding of the underlying forces which necessitate the evolution of trade policy, could not be more timely, critical and precious for South Africa.

There has long been a "gap" between potential export opportunities and local production orientation. Even in a more open marketing system, the "upcoming" emerging farmers, especially, will not be able to utilize the international export opportunities automatically, owing to constraints in bridging this gap. The modernization of agricultural production and processing, the upgrading of information systems and marketing intelligence, the facilitation of export promotion, the strengthening of co-operative export arrangements, will be beneficial in stimulating especially small- to medium commercial farmers to become export orientated.

1.2 THE RESEARCH PROBLEM

South Africa has only recently changed its policy from protection and import replacement to one of export orientation. With the little protection that the industry has, the attainment of these policy goals will be largely dependent on export performance. This can be attained only with surplus production of goods in which South Africa has a comparative advantage, in terms of premium prices, quality and variety or out of season supply.

Shifting international economic powers will change the face of world trade during the next decade. Changing consumption patterns is the major factor that determines shifting market powers in world trade. Simultaneously, trade policies change continually in favour of market liberalization, which eventually opens up market access and trade opportunities. Economic powers and trade growth are shifting from the traditional developed western economies to the fast-growing developing economies of Asia and Latin America. Asia has the fastest growing markets in the world. South African agriculture has already opened up to the extent that changes in world-trade patterns have a direct impact on the wellbeing of the

sector, both in terms of opportunities and threats. Analysis of trade data and projections of Asian consumption trends and responses to growth in those countries will reveal to what extent future opportunities for certain select products will exist for South Africa.

Asia's import dependence in the future, due to its limited resource base, high growth rate, increased real-expenditure rates and urbanization, and the resulting changes in consumption patterns, will create huge export opportunities for southern Africa. Developing countries in Asia, in the long term, will not be able to expand crop output significantly because of its limited cultivated-land area and expanding population. As the diet of people in developing countries of Asia changes—possibly following the pattern of their developed Asian neighbours, with increased and varied consumption of meats, fruits, vegetables, and prepared food—there will be increased opportunities for South Africa to export its intermediate high-value commodities and consumer foods.

Although South Africa, compared with her competitors, has a limited advantage in the production of raw agricultural products, the spill-over effect of Asia's rapid economic growth rate will have a positive effect on especially high-value food exports from South Africa to Asia. The degree to which South Africa will benefit will depend on the strategy that South Africa follows to increase her competitiveness in international trade. For South Africa, opportunities and comparative advantages increasingly lies largely in the high-value and processing agro-food sectors with a raw-product resource base that will increasingly be provided by many southern African countries.

Another major force that will shape agriculture markets of the world, is the implementation of the Uruguay Round of negotiations, commencing in 1995. Negotiations will recommence in 1999. Large countries like China and Russia, as well as various others, are in the process of accession to the World Trade Organization (WTO). This will give a more representative multilateral system and will increase market-access opportunities as more countries come under the trade rules and discipline of the WTO. Increasing interdependence in global trade is a growing reality.

1.3 AIM AND OBJECTIVES OF THE STUDY

The aim of this study is firstly to identify the most important agriculture export markets by country and by commodity. This will provide a basis for further elaboration of fast-growing markets. The analysis forms the basis for prioritizing South Africa's agricultural trade interests and for identifying possible markets. The analysis aims at forming a basis for the following studies:

- Reference guide on the export performance of certain regions or countries and of commodities
- Export promotion of fast-growing agriculture markets
- Prioritizing the monitoring of WTO members' commitments on market access, domestic support and export subsidies
- Prioritizing the targeting of foreign countries' policies for bilateral agreements or for the next multilateral round of WTO negotiations
- Designing aggregations of countries and commodities for the Global Trade Analysis Project (GTAP) general equilibrium model, by which trade agreements could be simulated
- Prioritizing and strengthening foreign offices for export enhancement
- Prioritizing appropriate supply measures and export promotion.

It would be ideal to extend this project to all identified fast-growing agriculture markets, which will form a valuable basis for exploring South African trade-policy issues as well. The delimitation of the further elaboration of the study is to focus on the underlying forces that will affect the potential trade opportunities of East-Asian markets. Potential export opportunities will be discussed for selected important South African export destinations for agricultural commodities.

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1.4 METHODOLOGY AND DATA USED

This study attempts to overlay South Africa's [Southern African Customs Union (SACU) figures] agricultural export shares and export growth. Agricultural export products as used in this study are products defined as agricultural products under the Agreement on Agriculture of the World Trade Organization (WTO) (Annex 1). 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 report trade statistics only for the countries in SACU. However, it is now estimated that more than 90 % of SACU agricultural trade is 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.

When reading the growth performances one should clearly distinguish 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 summarized for the relevant period (in 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. These growth-in-share percentages for different years are then summarized, 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 at which a particular export destination or commodity is becoming more or less significant in context of the total agriculture export basket. The growth in shares is a much stricter measurement for growth and will indirectly neutralize the effect of inflation and also, to a certain extent, take into account the changes in exchange rates on the growth figures, giving a much better indication of real growth.

Owing to the variability of agricultural production, the possibility exists that the growth figures will not present a slope but rather just be an average of fluctuating figures. In order

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to confirm that the growth figures indeed do present a slope, graphs were drawn for 9 years, (1988 to 1996) 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 products.

At one end of the continuum we have identified a high-share, high-growth category of countries which should take priority in future efforts. At the other end of the spectrum is a range of low-growth, low-share markets which are the least important 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 for the sake of simplicity and clarity. Approximately 99 % of trade was covered by the country analysis and 90 to 99 % by the product trade matrices (depending on the aggregated level).

1.5 OUTLINE

Chapter 1 gives the background on why it became important to do the study on potential export opportunities. It also aims to establish a basis for various other studies and analyses. The methodology and data used are discussed so as to enable later updates by the Department of Agriculture.

Chapter 2 contains an overview of the history of South African trade. The chapter presents an overview of the economic and political changes that occurred in South Africa, which ultimately also effected the macroeconomic environment of the agricultural industry. The last part of the chapter relies heavily on the Global Economic Strategy Project study done by Kuper & Cassim (1996) to identify South Africa's most important trade partners. It attempts to show agriculture in perspective to the national picture.

In Chapters 3 and 4 an attempt is made to understand the importance of the different

export destinations and export commodities for South African agriculture. These chapters present an overall view on historical trends in South African agriculture exports in an attempt to understand the shifts in agriculture exports that took place after the lifting of sanctions, but before the Asian financial crises in 1997/98. This knowledge of agricultural trade movements will now make it possible to reprioritize efforts in an agriculture 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). These chapters do not, however, attempt to provide a complete picture of potential export markets. This would require an analysis of world data as well as a study on consumption patterns in countries that are potential markets. The study is only an attempt to shed some light on shifts in South African agriculture trade over the past decade. It can serve as a basis for discussion of the areas that need to be prioritized and focused on.

Chapter 5 explores the potential export opportunities in the East Asian markets in detail. The study was based on secondary sources which include various reliable studies and sources. The East Asian markets were explored because from a historical perspective they were identified to performed well, but also because of their enormous sustained growth prospects and because they contain a quarter of the world's population. Five countries were identified to be studied in detail namely Japan, Korea, Malaysia, Indonesia and China. For each country the study explores the general economic trends, consumption developments, potential export opportunities for various commodity groupings as well as barriers to market access.

Chapter 6 provides a summary of all the chapters. It briefly describes the results of where the growth in South African exports occurred during the post sanction period. It further summarizes on a per country basis the export opportunities that exist in the studied five East Asian markets. Conclusions were drawn on the importance of these markets for South Africa. Various actions were identified which could be taken by government and industry to open up new market opportunities for South African exporters.

CHAPTER 2

A historical perspective on South African trade

2.1 INTRODUCTION

South Africa is still seen as an emerging and promising country and there is ample potential for future growth. South Africa's successful democratic transition in 1994 created the conditions necessary to embark on ambitious development. The democratic transition simultaneously laid the basis for South Africa's return to the international community and to more active participation in the multilateral trading system. In this chapter an attempt is made to give an overview of the development of the South African economic policy in broad and trade in general since the early 1990s until the present. Markets are prioritized according to their importance for South African trade. It is also revealed to what extent South Africa was successful in its economic reforms.

2.2 A HISTORICAL OVERVIEW OF THE SOUTH AFRICAN ECONOMY AND TRADE

Prior to the 1990s, unrest and sanctions paralysed the country's economic growth. The establishment of sanctions only had limited effect on growth and export and terms of trade deteriorated. During 1990 to 1993, the country experienced the largest post-1945 recession in history owing to political uncertainty and the lower prices for raw materials on the world market. South Africa was and still is mainly an exporter of raw materials.

Political parties initially failed to agree on the desired economic policy and reforms, but have since reached an agreement on the blueprint for the economy: the economic

development should be based on an open (outwardly directed) market economy which must grow and in which private ownership is an important condition. The government apparatus would have to be rationalized and reduced.

The political chaos was then replaced by the government's social and economic development programme: the Reconstruction and Development Programme (RDP), which was complemented by Growth, Employment and Redistribution Strategy (GEAR). The GEAR strategy is more pragmatic, focusing on the optimal use of national and international opportunities. RDP and GEAR gave rise to reliability and predictability regarding economic policy.

The GEAR enumerates, amongst others, the following main targets for the year 2000:

- a 6% growth in real GDP
- 400 000 new jobs per annum
- an inflation rate in the region of 7,6% and a real interest rate of 3%
- 10% real growth in non-gold exports
- real private-sector-investment growth of 17% and US $800 million in additional foreign direct investment.

In general, central to GEAR, is the promotion of sustainable and job-creating economic growth, supported by:

- fiscal and monetary discipline;
- tax reform and investment-friendly tax incentives;
- the gradual abolition of exchange controls;
- a competitive exchange rate;
- the promotion of international competitiveness;
- the speeding up of tariff reductions;
- the restructuring of state assets;
- an expansionary infrastructural programme;
- the upliftment of skills; and
- greater labour-market flexibility.

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In IDC & DTI (1998) mention was also made of the fact that since its announcement, significant progress has been made with, *inter alia*:

- a reduction in the budget deficit;
- a consistently restrictive monetary policy which resulted in the resumption of a downward inflation trend;
- the relaxation of exchange controls;
- the prevalence of a competitive exchange rate;
- the introduction of industrial support measures;
- the lowering of protective tariffs;
- the privatization of state assets; and
- the delivery of social RDP-related objectives.

These factors triggered significant structural shifts in the economy, thereby improving industry's globalization drive, advancing exports towards nontraditional higher-value-added finished goods and permitting a general retention of South Africa's broad industrial base.

One factor that was necessary in order to realize the goals of Government, was that economic growth would have to increase to 6% by the year 2000. Since 1994, economic growth has recovered only to the level of close to 3% in real GDP (Figure 2.1).

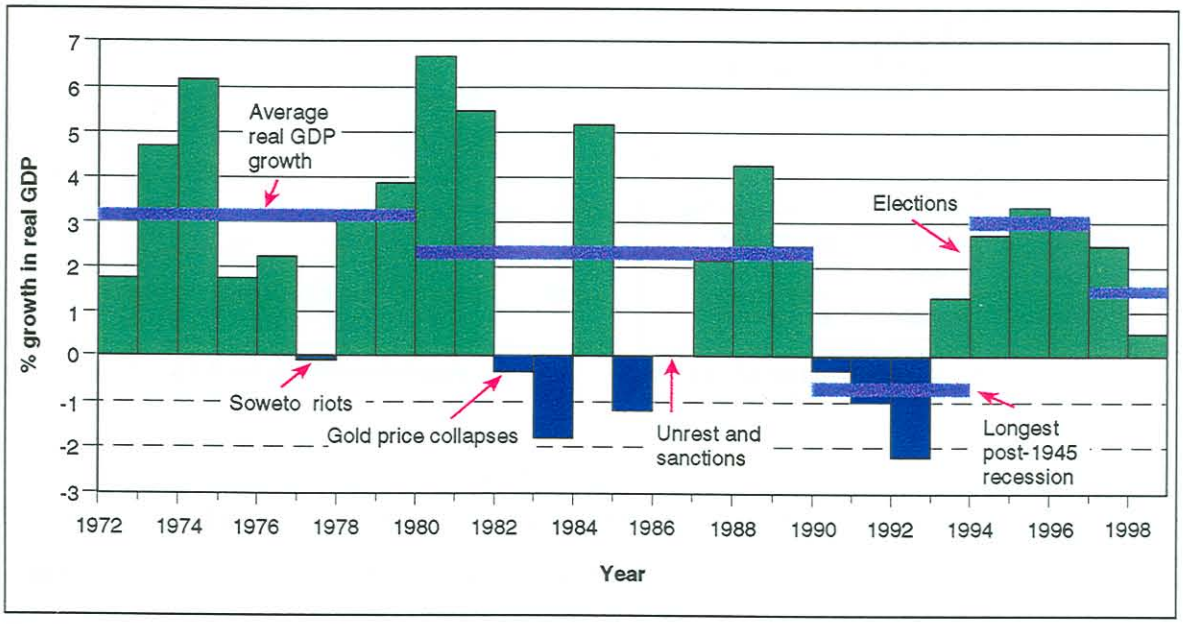


FIG. 2.1 Real economic growth has re-emerged
Source: SA Reserve Bank

Since 1993, exports have been of primary importance for growth. The increase in export value has resulted in positive spillover effects and improvement of balance of payments.

An improved export position could be a major stimulus for future economic growth in South Africa. It would also be realistic to expect a rapid improvement in exports after sanctions, with policies directed to facilitate an open economy and reintegration in the world economy.

In response to the country's reintegration into the world economy, a sharp depreciation of the Rand was experienced. Between February and May 1996, the South African currency experienced a single devaluation of nearly 30% (Figure 2.2). Because the Rand was overvalued, the devaluation was in the interest of economic development. Although the financial and business community as well as growth in investment and consumption suffered, the currency adjustment, in conjunction with ongoing efforts by domestic producers to enhance their international competitiveness, increasingly resulted in an improved performance by South Africa's export sector from 1996 to 1997 (Figure 2.3). The slowdown in domestic economic activity is thought to have reached its lowest point in 1997, with GDP growth at 1,7% for the year (IDC & DTI 1998).

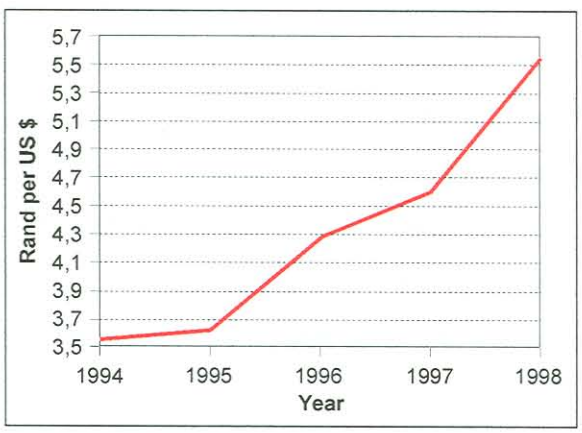


FIG. 2.2 The SA Rand depreciated sharply
Source: SA Reserve Bank

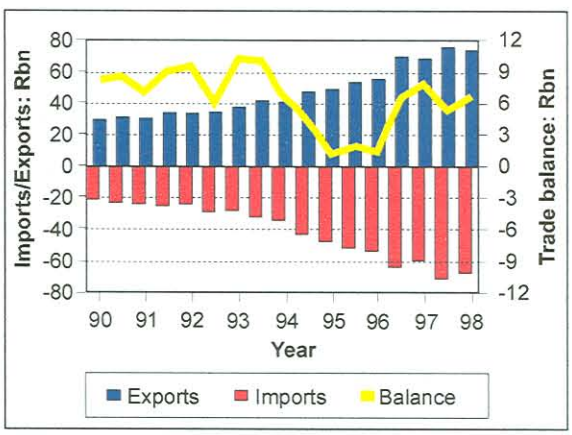


FIG. 2.3 SACU trade balance
Source: IDC (1998)

In the international arena, world economic growth for 1998 was forecast at just over 3%, in contrast with earlier projections prior to the East Asian crises in the order of 4%. The Asian

crisis, slower world growth and a low inflation environment underscore a poor outlook for commodity markets. For agricultural commodities, the supply impact of the El Niño weather phenomenon may be somewhat offset by subdued East Asian import demand. Prospects for commodity prices should improve as signs of an economic recovery in East Asia become progressively visible. An acceleration of growth momentum towards the turn of the century is likely to be led by the recovery of the Japanese and other East Asian economies, while world demand could be bolstered by increased consumer spending on the eve of the new millennium. A significant recovery is anticipated in the year 2000 (IDC & DTI 1998).

South Africa could not escape the turmoil on the Asian markets. When the first semester of 1998 is compared with the equivalent period in 1997, the anticipated negative short-term spillover effects of the Asian financial crisis on SACU's trade flows become visible. A 12% surge in imports, coupled with only a moderate 8% growth in exports, gave rise to a R1,4 billion decline in the trade surplus on a year-on-year basis (IDC 1998). See Figure 2.3. The global economic slowdown and falling commodity prices, through adverse effects on the country's export performance, will constrain growth in 1998. The economy grew by just more than 2% in 1998 and the growth rate is expected to rise to above the 3% level by the year 2000.

Export growth will be affected by a lower import demand from East Asia and a reducing agricultural output in 1998. Nonetheless, the recovery in continental Europe's consumption demand, the improved price competitiveness of South African products on British markets and high levels of economic and construction activity in neighbouring Mozambique, should still permit a reasonable rate of export growth.

The projected higher rates of import growth in 1998 and 1999 reflect the anticipated recovery in private consumption and fixed-investment spending, as well as domestic responses to the increased price competitiveness of East Asian products. Since 1994, about 250 foreign companies have entered South Africa, while South African companies continue to invest abroad (WTO 1998). The revival in economic activity in South Africa since 1993 was driven mainly by fixed investments, particularly from the private sector

(IDC 1997). Sources indicate that foreign direct investment (FDI) into South Africa amounted to R4,9 billion in 1994, R5,5 billion in 1995, R8,2 billion in 1996 and R13,6 billion in 1997. FDI increased by 49% for the period 1995/1996 and by 65% for the period 1996/1997 (WTO 1996). Improved levels of consumer confidence and rising real personal disposable incomes have, in turn, underpinned high rates of growth in real private consumption since late 1993 (Figure 2.4). According to authoritative surveys, the recent changes and developments on the political, social and economic fronts were welcomed by the country's business community, resulting in an upward trend in the level of business confidence. After having remained at double-digit levels for 19 years consumer-price inflation broke through the 10% floor in 1993 (IDC 1997). See Figure 2.5.

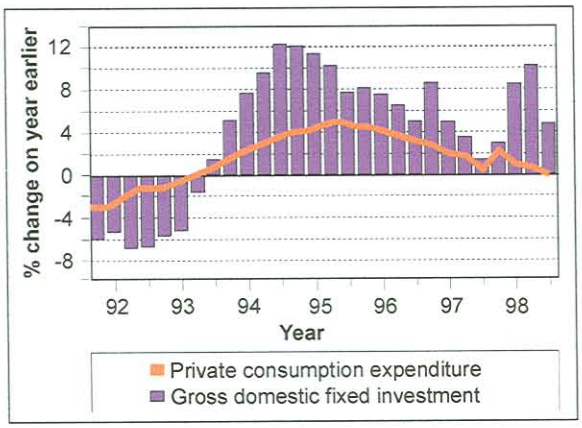


FIG. 2.4 Revival in fixed investment and private consumption
Source: SA Reserve Bank

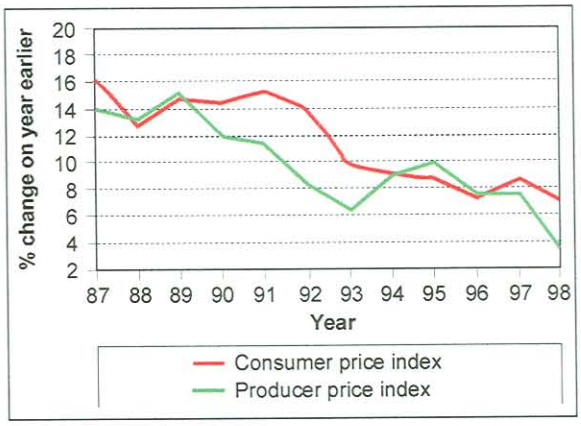


FIG. 2.5 Consumer and producer price inflation considerably reduced
Source: Central Statistical Service

Some bottlenecks for growth still prohibit optimal performance of the economy. Bottlenecks mentioned by Kievit (1997) are, briefly, high taxes and import duties, labour market, investment climate, underdevelopment of small and medium-sized companies and lack of diversification in the economy.

Nevertheless, improvement of the export position is still regarded as the engine for growth. Increased exports will enlarge the foreign reserves and also raise the available national money supply which will elevate general economic development. Increases in value-added exports will counter deteriorating terms of trade and increase the share of labour-intensive

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products which contribute to employment. The extent to which exports will boost future growth will depend on the expansion of the relative export share of higher-added-value and labour-intensive products. Kievit (1997) argues that general growth in exports since the mid 1990s was caused, amongst others, by the devaluation of the Rand, high exports in agricultural products and growth in new and emerging markets. The main source of growth in 1996 was the recovery in agricultural production (WTO, 1998). Real value in agriculture, which contracted by 15% in 1995, rebounded by 26% in 1996. In contrast with the high degree of volatility in agricultural production volumes and generally steady decline in mining output, the real value in nonprimary sectors has consistently recorded growth since the beginning of 1993. The real value added by the tertiary sectors increased by 3% in 1996 (WTO, 1998).

Long-term improvements in employment and wealth creation will require a shift away from dependence on raw materials to value-added manufactured exports. The reduction of tariffs and phasing out of subsidies in South Africa have been accompanied by a shift in industrial policy towards market-led supply-side support measures. A wide range of supply-side measures, compatible with the rules of the WTO, has been put in place to promote industrial restructuring, technology upgrading, investment and export promotion, small, medium and micro-enterprises (SMMEs) development, and black economic empowerment (WTO, 1998).

Another question that arises is how government should go about improving relations with other countries. Traditionally, although relatively stable, markets like the European Union are, in the long term, declining in importance, and this has implications for future alliances with other markets. Despite the EU-SA Free Trade Agreements, agriculture could still remain largely unaffected, although it is one of the sectors that has a comparative advantage over the EU.

The need has arisen for South Africa to extend its strategic focus to other markets such as Asia, the Americas and probably Eastern European countries. The significance of less traditional and new markets for South Africa is increasing considerably, which will necessitate a change in the government's focus, and good relations with these countries

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will instigate future export growth. However, the most effective immediate drive for the economy towards improved exports will be to liberalize its import tariffs. Tax on imports is also a tax on exports. The most efficient importing countries have also proved to be the most efficient exporters.

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 (Kievit 1997). Kievit (1997) also mentioned that it is mainly primary and semiprocessed goods that are suited to the Asian markets. For higher-value-added products, Africa and particularly southern Africa, shows increasing promise. Consumer demands in the US are still a driving force behind world growth. Latin American growth has shown growth prospects similar to those of the growing Asian market.

2.3 PRIORITIZING SOUTH AFRICA'S EXPORT MARKETS

A study, the Global Economic Strategy Project, was undertaken by Kuper & Cassim (1996) to determine the priority markets for South Africa, especially for the purpose of placing foreign offices and also for that of prioritizing the government's focus on trade initiatives. This study laid the foundation for further analysis to determine the priority markets for South Africa in general.

In the next section of this chapter it is attempted to overlay South Africa's total export shares and export-growth patterns in individual countries onto an assessment of these countries' overall import performances. The technique used is that of a growth-share matrix which maps countries according to their significance in South Africa's current export picture (share) and the rate at which they are becoming increasingly more or less significant (growth) in South African trade. (Calculation of growth in exports in this chapter differs from the calculation of growth in share used in chapter 3 on agriculture. In this chapter growth refers to growth in South Africa's exports in nominal terms. In the latter chapter, growth in share refers to growth in share of exports of agricultural commodities. See 1.4 on the methodology.)

The result of this study confirms the view that countries where South Africa's export growth has been phenomenal are countries where we have a very low base. What this means is that a slight increase in exports could dramatically effect growth rates. It would therefore be misleading to base decisions on the rate of export growth only. Instead, decisions based on export growth with a certain threshold share of exports, should be a more reliable guide as to what priority markets should be. Countries with very limited or relatively non-existing trade with South Africa, have been excluded for the sake of simplicity and clarity. It is on these grounds that the World Slide was developed with three categories, low-, medium- and high share and growth, incorporating all the countries of the world. In these categories, high share refers to South Africa's total exports that are over R1 billion and low share refers to South Africa's exports that are less than R100 million. High export growth on the other hand refers to export growth above 25% over a period of 4 years (1992 to 1995) and low growth refers to less than 10% growth.

South Africa needs to expand, or at least maintain, market share in its traditional markets, but also critically needs to increase its imports into new growth markets. Some of the market diversification is taking place because of the sanctions effect, while other facts signify the growing importance of successful emerging markets (eg the South-east Asian countries).

Overlaid on the information above is the objective picture of each country's overall import performance internationally, although the latest available data dates from 1994. The names of those countries which are among the top 50 importers worldwide are not in brackets. Only those among the top 50 importers will have their growth rates indicated through the use of 'italics' or 'underline' as indicated in the 'Font Key' on the right of the matrices slides. However, this key gives a broad picture only of the import growth of the various countries and does not allow us to compare SACU's growth in export to these countries with their growth in import on a far more disaggregated sectoral level.

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2.4 MARKET PRIORITIZATION BY REGION

2.4.1 Europe

Europe accounts for 23,4% of SACU's total exports (42% of allocated exports). This includes EEC, EFTA and Central Europe. The EEC accounts for 19,4% of SACU's total exports to Europe, but higher growth is evident in the EFTA countries. EFTA accounts for 3,5% of SACU's total exports to Europe, and Central Europe accounts for 0,3%. Exports increased by 20% to Europe as a whole in 1995, increased by 35% to the EU, by over 90% to Central and Eastern Europe and decreased to EFTA. Overall annual growth from 1992 to 1995 was 10%, higher for EEC and Central Europe and lower for EFTA.

Products with a high share in Europe are vegetable products, prepared foodstuffs, mineral products, chemicals, wood-pulp products, textiles and products, pearls, metals, stones and jewellery, base metals and products, mechanical and electrical equipment, transportation equipment and miscellaneous manufactures. High growth in manufactures (mechanical and electrical, instruments and apparatus) is visible for the low-share markets of Romania, Austria and Finland (chemicals and miscellaneous).

2.4.2 Asia

The Asian region takes 14,8% of SACU's total exports at a value of R19,7 billion. Japan takes R5,1 billion of these exports which means 74% of SACU's exports go to Asia, excluding Japan. South Asia takes 0,8% ASEAN takes 2,3%; the China region—Hong Kong, Taiwan and PRC—takes 4,1% of SACU exports. The rest of East Asia (Japan, North and South Korea) takes 5,3% of total exports, of which Japan takes two-thirds. Exports to Asia increased by 30% in 1995. Annualized growth to Asia during 1992 to 1995 was 18%. It was 98% to South Asia, 16% to East Asia, 57% to ASEAN and 13% to the China region.

High-share products in ASEAN are base metals and products, wood-pulp products, vegetable products with a second tier of chemicals, transport equipment (Malaysia) and mechanical and electrical equipment. Growth was significant across the spectrum, including manufactures, in Indonesia, Singapore, Malaysia, the Philippines and Thailand.

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In all of South Asia, high-share products are chemicals, minerals, base metals and products and wood-pulp products and textiles (Pakistan). Growth has been across the spectrum and particularly from India and Pakistan.

High-share products in the China region are base metals and minerals, with a second tier of chemicals, textiles and products, wood-pulp products, pearls, stones and jewellery (Hong Kong) and transportation equipment (PRC). The growth has been fairly evenly spread, but not in the traditional sectors of metals and minerals.

In Japan and the Koreas, high-share products are base metals, mineral products and vegetable products (including prepared foodstuffs in South Korea). A second tier, ie products of over R50 million, are found in wood, cork, straw, textiles and products, chemicals and wood-pulp products. Japan and South Korea have seen significant growth across all sectors, including high-value-added manufactures.

2.4.3 Middle East (including Turkey and Iran)

The Middle East takes 2% of SACU's exports. Israel, Turkey, Bahrain, Saudi Arabia, UAE and Iran take over R100 million each. The next tier of over R20 million includes Lebanon, Jordan, Oman and Kuwait. During 1992 to 1995, the average export growth to this region was 13% p.a.

High-share products in this region are base metals and mineral products. High-growth products into Israel are mainly manufactures, such as chemicals, mechanical and electrical equipment, transportation, instruments and apparatus, miscellaneous manufactures, woodpulp and products and prepared foodstuffs. To UAE across the board, but with chemicals, prepared foodstuffs and mechanical and electrical equipment in the manufacturing sector. For Bahrain, the bulk of our exports is agricultural, but with significant growth also in miscellaneous manufactures and instruments and apparatus. Iran's significant import growth from SACU came from base metals, wood, cork, straw products and mineral products.

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0143488 22

Turkey takes mainly base metals and minerals, but no growth was recorded in any sectors. Oman's major products are base metals and minerals, but it is only in vegetable products that spectacular growth occurred. Kuwait also saw spectacular growth in vegetable products, as well as a significant rise in stone, plaster, cement and base metals.

2.4.4 Southern Africa

SACU's exports to southern Africa (non-SACU SADC excluding Mauritius) forms 6,99% of total SACU exports. Export growth to this area was 9,48% in 1992, increased to 23,45% in 1994 and to 57% in 1995. Annualized growth between 1992 and 1995 was 28,6%.

High-share products to this region are base metals and products, minerals, mechanical and electrical equipment (highest), transportation equipment and chemicals. Growth in exports has occurred in most categories except works of art and antiques. Spectacular growth in exports has occurred in live animals and products, chemicals, minerals, wood, cork, straw products, wood-pulp products, pearls, metals, stones, jewellery, instruments and apparatus and miscellaneous manufactures. High-value-added manufactures have obtained consistently high growth to this region.

2.4.5 Rest of Africa

SACU's exports to Africa, including southern Africa, forms 10,4% of total exports. Of this, 6,9% goes to southern Africa. Therefore only 3,43% of total SACU exports go to Africa, excluding southern Africa. However, exports increased by 71% to this region in 1995, while an annualized growth of 44,25% was experienced during 1992 to 1995.

Products which have a high share are chemicals, minerals, and base metals, and mechanical- and electrical equipment. Products having a spectacular growth (on average over 100% growth) are all categories with the exception of raw hides and products, pearls, metals and stones, instruments and apparatus and works of art and antiques, which have had negative growth rates.

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2.4.6 North America

SACU's exports to the Americas constitute 5,8% of its total exports. Exports to the USA have grown by just over 2% annualized (with wide variations), to Canada by 30% and to Mexico by 120%. Exports to NAFTA increased by 11% in 1995, but by 1,34% annualized from 1992 to 1995.

The US and Mexico mainly takes base metals and chemicals from SACU, while Canada mainly takes these and prepared foodstuffs. Exports to the US have grown predominantly in upstream products although there is some growth in textiles and products and prepared foodstuffs. In Canada there has been more significant growth in downstream products such as prepared foodstuffs, chemicals, transport equipment and miscellaneous manufactures (also unclassified). In Mexico, the growth has been mainly in upstream products, but there have also been increases in exports of chemicals, textiles and miscellaneous manufactures.

2.4.7 Latin America and the Caribbean

This region accounts for 1,6% of SACU's exports, most of which goes to South America. Brazil takes the bulk of South Africa's exports (R1 billion), while Argentina, Venezuela, Colombia and Chile form the next tier. In Central America and the Caribbean there appears to be growth, but insufficient time-series data prevents clear trend determination. In Puerto Rico, Paraguay and Uruguay, exports from SACU range between R20 million to R40 million and in Cuba amounting to R62 million. Exports to Central America increased by 106% annualized from 1992 to 1995 off a miniscule base, and by 39%, annualized over the same period to South America.

SACU's main exports to Brazil are prepared foodstuffs, mineral products, base metals and chemicals. Brazil has also experienced a major increase in manufactured imports from SACU. These include prepared foodstuffs, chemicals, wood pulp and products, mechanical and electrical equipment, textiles and products, and miscellaneous manufactures.

SACU's main exports to Colombia are vegetable products and base metals. It has however experienced increases in both commodities and manufactures. The latter concentrated on chemicals and prepared foodstuffs. Venezuela's main imports from SACU are wood-pulp products, textiles and products and base metals. Increases in wood pulp and textiles have occurred.

The low-share, high-growth countries mainly receive chemicals and base metals and they have experienced increases mainly in base metals and minerals, but also significant increases in chemicals and mechanical and electrical equipment.

2.4.8 Oceania

Oceania takes 0,8% of SACU exports, of which Australia takes 86% and New Zealand 12%. Exports to Oceania increased by 51% in 1995 but by 44%, annualized from 1992 to 1995.

The bulk of exports to Australia are chemicals and base metals (R100 million plus), with a second tier of wood-pulp products and mechanical and electrical equipment (over R60 million). New Zealand takes prepared foodstuffs, chemicals, plastics and rubber and transportation equipment in approximately similar shares (R11–15 million).

Exports to Australia and New Zealand have increased significantly across all sectors (excluding minerals, for New Zealand).

2.5 INTERPRETING THE FINDINGS

A deduction can be made from the world matrix (Table 2.1) which countries in each region have potential for exports from South Africa. Not only is this important if South Africa wants to reprioritize its trade resources internationally, but also in as far as spending them in a way that exhibits fairly comprehensive regional penetration. For example, in southern Africa, Zimbabwe and Mozambique clearly are leading markets for

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Table 2.1 World matrix by individual country (includes total SACU exports)

	High share (over 25 % in 3 years)	Medium share (10 – 25 %)	Low share (less than 10 % in 3 years)
High growth (over R1 billion)	(Zimbabwe) (Mozambique) South Korea *Thailand* Singapore *Australia* **A**	(Tanzania) (Zaire) (Kenya) (Nigeria) (Ghana) (Madagascar) (Seychelles) Sweden *Denmark* *Austria* *Canada* Mexico Brazil (UAE) Iran New Zealand Malaysia *Indonesia* *India* Pakistan **B**	(Liechtenstein) Finland (Romania) (Ukraine) (Hungary) (Czechoslovakia) (Bulgaria) (Iceland) *Luxembourg* (Niger) (CAR) (Senegal) (Uganda) (Comores) (Sierra Leone) (Somalia) (Sao Tome) (Djibouti) (Liberia) (Tunisia) (Gambia) (Gabon) (Togo) (Eq. Guinea) Egypt (Mali) (Congo) (Bahrain) (Kuwait) (Oman) (Cuba) (Peru) (Bolivia) Colombia **C**
Medium growth (R1 billion – R100 million)	*Israel* *Japan* (Zambia) Saudi Arabia *UK* *Belgium* *Netherlands* *Germany* *Italy* *France* *Spain* *Hong Kong* **B**	(Cote d'Ivoire) (Angola) (Mauritius) Argentina Chile *Portugal* *Poland* *China* *Sri Lanka* Philippines **C**	(Morocco) (Cameroon) (Uruguay) Venezuela (Equador) **D**
Low growth (less than R100 million)	*USA* *Taiwan* *Switzerland* **C**	(Malawi) Greece *Norway* Russian Fed. *Ireland* (Reunion) Turkey **D**	*Algeria* (Libya) (Sudan) (Paraguay) (Guatemala) (Rwanda) (Burundi) (Ethiopia) (Cape Verde) (Guinea) (St Helena) **E**

Note: growth in SA exports based on average growth 1992-1995

High share: >R1 billion
High growth: >25 %
Medium share: R100 million–R1billion
Medium growth: 10-25 %
Low share: <R100 million
Low growth: <10 %

FONT KEY

Normal: minimal growth in imports
Italics: import growth of 10-19 %
Underline: import growth of 20 % or more
(in brackets): Not in top 50 importers worldwide & overall import growth unavailable

South African exports. The leaders in Asia are South Korea, Thailand and Australia, but of the three, South Korea is showing objectively greater import growth compared with still significant but less import growth in Australia and Thailand.

Looking globally to where values of share and growth are comparable across regions, one can clearly discern some markets which are significant in both value and growth terms for South Africa. These are labelled 'A' and represent Zimbabwe, Mozambique, Thailand, Singapore, Australia and South Korea, although some have had greater import growth overall. The rest of the countries are labelled 'B' to 'E' according to the level of importance they may represent in any future trade strategy.

It is difficult to prioritize a country in the high-share, medium-growth category as more or less significant than a country in the medium-share, high-growth category. A small percentage increase in exports to Zambia may have as significant an effect on overall export performance as high-growth in a country where share has been somewhat less, such as India. Although the high-growth category may indicate significant potential for South African exports in the future, as in many of the Asian countries, traditional markets where only medium growth has been recorded must not be ignored.

While countries in the high-growth and high-share categories are clearly markets which South Africa should focus on, a range of other criteria would also have to be overlaid on the categories labelled 'B' in order to determine which of high-growth, medium-share or high-share, medium-growth should take priority. Both would appear to be important markets in which to expend resources, although for different reasons. Those categories labelled 'C' would be less important although high-growth, low-share markets may offer potential that could be exploited with effort in a way high-share, low/no-growth markets would not. Low-growth, low-share markets would be those least worthy of greater resource expenditure by Government.

2.6 DEVELOPING A TRADE-POTENTIAL INDEX FOR SOUTH AFRICA

2.6.1 Analyzing achievements in trade

This phase provided an overview of international trade patterns and trends with an identification of major importers and key growth markets. It also provided an overview of South Africa's position in different markets based on geographical and limited-product disaggregation. In the analysis above, South Africa's export growth and value on different markets from 1992 to 1995 were examined with an identification of key growth products and total import growth of these markets. The above analysis was based on South African Customs and Excise statistics.

The world matrix (Table 2.1) is believed to hold the key for policy decision makers because it provides a simple framework from which to determine relative market potential and pinpoint overall trends as far as South Africa's recent export performance is concerned. The next step was developed to deepen the previous analysis by building more disaggregated and reconcilable data into the picture in order to develop a more comprehensive approach to analyzing trade potential for South Africa. Table 2.3 gives a picture of achievements of various sectors in terms of export share and growth.

2.6.2 Analyzing trade potential

The criteria for assessing South Africa's trade potential in the respective countries were based on several approaches. Firstly, the share of South Africa's exports was taken as a percentage of total exports in a specific market and it was combined with the average rate of growth of South Africa's exports in that market from 1992 to 1995. This exercise was done on the basis of South African Custom and Excise data.

The second step, based on UN country-compatible data, was to compare the growth of South African exports in broad sectors, namely food and agricultural products, minerals and fuels and manufactures to specific markets, with the rate of total import growth of these broad sectors in those markets. From this it was possible to compare South Africa's export growth in these sectors with the total import growth in the partner countries and to determine whether we were gaining market share or simply responding to high growth.

Specific attention was given to growth in the export of manufacturers, which is the sector that is likely to generate high-value-added export more than any other sector. A trade-potential index (Table 2.2) was developed to rank countries accordingly.

The weighing of different factors which, if combined, formed an index, was based on an attempt to reconcile the South African data set with the ITC mirror data in order to provide more disaggregation and thereby focus more on countries where South Africa has greater targeted potential. The ranking was biased towards net export products. Manufactures were given priority above other products and was biased towards partner countries with higher import growth.

2.7 CONCLUSIONS

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

Prior to the 1990s, unrest and sanctions paralyzed the country's economic growth. During 1990 to 1993 the country experienced the largest post-1945 recession in history owing to political uncertainty and as a result of the lower prices of raw material on the world market. Political parties then reached an agreement on the blueprint for the economy. The political chaos was 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 to expect a rapid improvement in exports after sanctions, with policies directed to facilitate an open economy and reintegration in the world economy.

In 1996, the South African currency experienced a single devaluation of nearly 30% to adjust to its market value. Although the financial and business community suffered, as well as growth in investment and consumption, the currency adjustment, in conjunction with ongoing efforts by domestic producers to enhance their international competitiveness, resulted in an increasingly improved performance by South Africa's export sector during 1996 to 1997.

South Africa could not escape the turmoil on the Asian markets. The global economic slowdown and falling commodity prices, through adverse effects on the country's export performance, constrained growth in 1998. Prospects for commodity prices should improve as signs of an economic recovery in East Asia become progressively visible. An acceleration of growth towards the turn of the century is likely to be led by the recovery of the Japanese and the East Asian economies, while world demand could be bolstered by increased consumer spending on the eve of the new millennium. A significant recovery is anticipated in the year 2000.

The higher projected rates of import growth in 1998 and 1999 reflects the anticipated recovery in private consumption and fixed-investment spending, as well as domestic responses to the increased price competitiveness of East Asian products. Sources indicate that South Africa's Foreign Direct Investment has increased by 49% for the period 1995/1996, and 65% for the period 1996/1997. Some bottlenecks for growth still prohibit optimal performance of the economy which, amongst others, are high taxes, high import duties, the labour market and the investment climate. Nevertheless, improvement of the export position is still regarded as the engine for growth.

A question that arises is how Government should go about improving relations with other countries. Traditional markets are declining in importance. 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 larger 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 for South Africa were Thailand, Singapore, Republic of Korea, Australia, Mozambique, Zimbabwe, Mexico, India, Indonesia and Malaysia. Of these, seven were in the Asia and Oceania region. For higher-value-added products, southern Africa also shows increasing promise.

Although the high-growth markets have significant potential for South African exports in the future, as in many of the Asian countries, traditional markets such as the European Union should not be ignored because of the sheer size of the market. The European Union-South African free-trade agreement might also spur a re-growth in opportunities, at least in the medium term.

Table 2.2 Trade potential index and ranking

Country	Index /60	Rank
Thailand	60	1
Singapore	58	2
Republic of Korea	58	3
Australia	56	4
Mozambique*	50	5
Zimbabwe	50	6
Mexico	50	7
India	49	8
Indonesia	48	9
Malaysia	48	10
Saudi Arabia	47	11
UAL	47	12
Brazil	47	13
New Zealand	46	14
Nigeria	46	15
Ghana	46	16
Zambia	46	17
Madagascar	46	18
Seychelles	46	19
Kenya	46	20
Zaire	46	21
Tanzania	46	22
Denmark	46	23
Canada	46	24
Sweden	46	25
Pakistan	45	26
United Kingdom	45	27
Israel	44	28
Spain	43	29
France	43	30
Netherlands	43	31
Germany	42	32
Italy	42	33
Hong Kong	42	34
Iran	41	35
Japan	41	36
Austria	40	37
Phillippines	38	38
Bahrain	37	39
China	36	40
Belgium/ Luxemburg	36	41
Taiwan	36	42
Finland	36	43
Ukraine	35	44
Cuba	35	45
Djibouti	35	46
Hungary	35	47
Gambia	35	48
Liberia	35	49
Bulgaria	35	50
Senegal	35	51
CAR	35	52
Niger	35	53
Uganda	35	54
Sao Tome	35	55
Somalia	35	56
Sierra Leone	35	57
Angola	35	58
Equatorial Guinea	35	59
Comores	35	60
Congo	35	61
Mali	35	62
Cote d'Ivoire	35	63
Gabon	35	64
Togo	35	65
Peru	35	66
Chile	34	67
Colombia	34	68
Romania	34	69
Mauritius	34	70
Czechoslovakia	34	71
Egypt	34	72
Liechtenstein	34	73
Argentina	33	74
Kuwait	33	75
USA	33	76
Sri Lanka	33	77
Poland	32	78
Oman	32	79
Tunisia	32	80
Iceland	31	81
Bolivia	31	82
Portugal	30	83
Switzerland	30	84
Norway	25	85
Malawi	24	86
Venezuela	24	87
Cameroon	24	88
Russian Federation	24	89
Ireland	24	90
Reunion	23	91
Equador	22	92
Algeria	20	93
Morocco	20	94
Turkey	20	95
Uruguay	20	96
Greece	20	97
Paraguay	16	98
Cape Verde	12	99
Ethiopia	12	100
St Helena	12	101
Guinea	12	102
Burundi	12	103
Libya	12	104
Sudan	12	105
Rwanda	12	106
Guatemala	10	107

Source: Kuper & Cassim (1996)

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Table 2.3 Relative attractiveness of export markets by industry classification

Relative export market growth (CAGR 1992 – 1995)	**CAGR (>25 %)**	Other nonmetallic mineral products Leather products Plastic products Other food Beverages Scientific, optical equipment, watches Rubber products Petroleum and coal products Printing and publishing	Chemical products (1) Paper and pulp products Electrical machinery Machinery Metal products Chemical products (2) Petroleum refineries
	CAGR (0 – 25 %)	Pottery and china Wooden furniture and fixtures Tobacco manufacture Wearing apparel Wood and wood products Footwear Glass and glass products	*Agriculture* Unclassified Iron and Steel B-Met Ind. Mining Other manufacturing Nonferrous metal industries Transport equipment Food Textiles
		Exports < R1b	**Exports > R1b**
		Relative export market size (based on 1995 exports)	

Source: Flemming Martin Securities
Note: CAGR is cumulated average growth rate

CHAPTER 3

Trends in agricultural exports and prioritizing agricultural export markets

3.1 INTRODUCTION

During the last decade, SACU agriculture exports grew from a value of approximately R4 billion (1988) to over R12 billion (1997) (Figure 3.1). Most of this growth took place after 1992, with the first dramatic increases in 1994. The lifting of sanctions and domestic political and economic policy reform which led to improved consumer and business confidence after 1992/1993, had a major effect on the stimulation of growth in exports in value terms. Other important factors which led to improved trade were tariffication of agricultural products in 1993/1994, the abandonment of government intervention in the marketing of agricultural products in 1996 as well as the devaluation of the Rand in 1996. Prior to 1992 (1988 to 1992) agriculture attained only 9% average annualized growth in

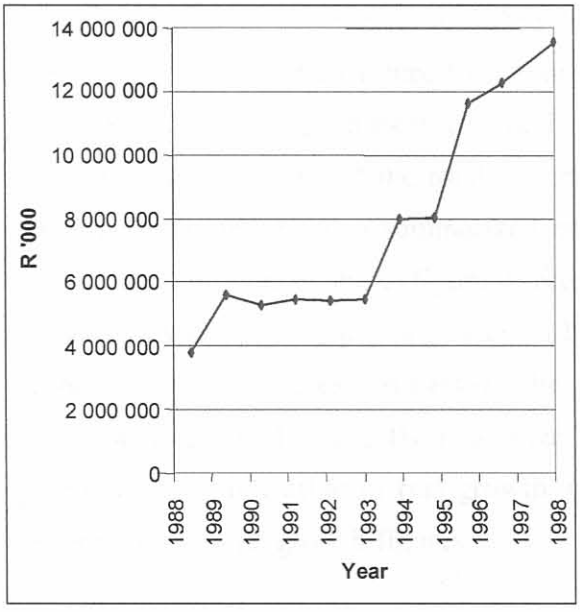


FIG. 3.1 SACU agricultural exports (1988 to 1998)

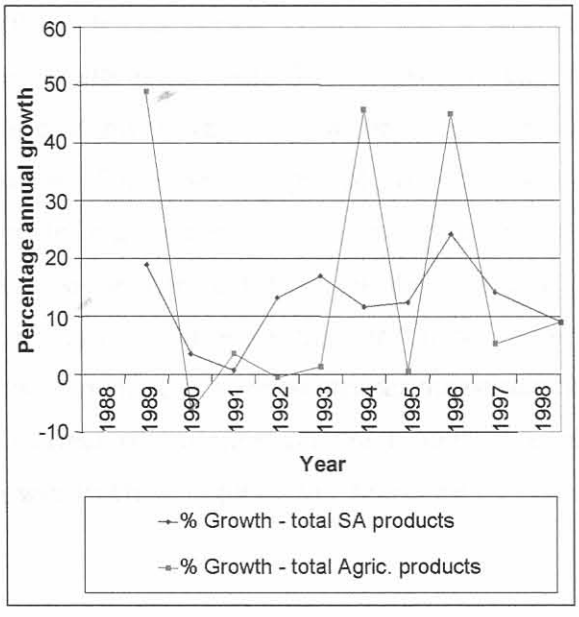


FIG. 3.2 SACU export growth (1988 to 1998)

export value, while post-1992 agriculture experienced an average annualized growth rate in export value of 19% (numbers are in nominal terms—not deflated). This figure corresponds with the average growth rate of the total SACU exports of approximately the same rate. However, growth in agriculture export value is volatile and reached approximately 40%, and 5% growth in export value during 1996 and 1997, respectively, compared with just over 10% growth for total SACU exports during the years mentioned (numbers in nominal terms) (Figure 3.2).

In this chapter South African agriculture export destinations are prioritized. Trends reveal which export destinations contributed to new growth in agriculture exports after the lifting of sanctions, but before the Asian crises in 1997/98.

3.2 TRENDS OF SACU AGRICULTURE EXPORTS

3.2.1 "Growth in exports" vs "growth in exports share"

When reading the growth performances one should clearly distinguish between growth in exports and growth in export share. Growth in exports, for the purpose of this document, means growth in the value of exports in Rand (numbers taken in nominal terms—not deflated) and it is usually summarized for the relevant period (years), and a straight average gives the growth figure (for example growth as in Table 3.5). Growth in export share means the growth in export value in Rand (nominal values) of a certain country or product as a percentage of the total export basket. These percentages of growth in share for different years are then summarized and a straight average is taken over the relevant period. The growth-in-share figure presents a slope (straight line) of the rate that a particular export destination or product is becoming more or less significant in the 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 on the growth figures, giving a better indication of real growth. Growth-in-share figures will therefore be much lower than nominal growth figures.

Owing to the fluctuating nature of agricultural production, the possibility exists that the growth figures may not present a slope but rather just be an average of fluctuating figures. In

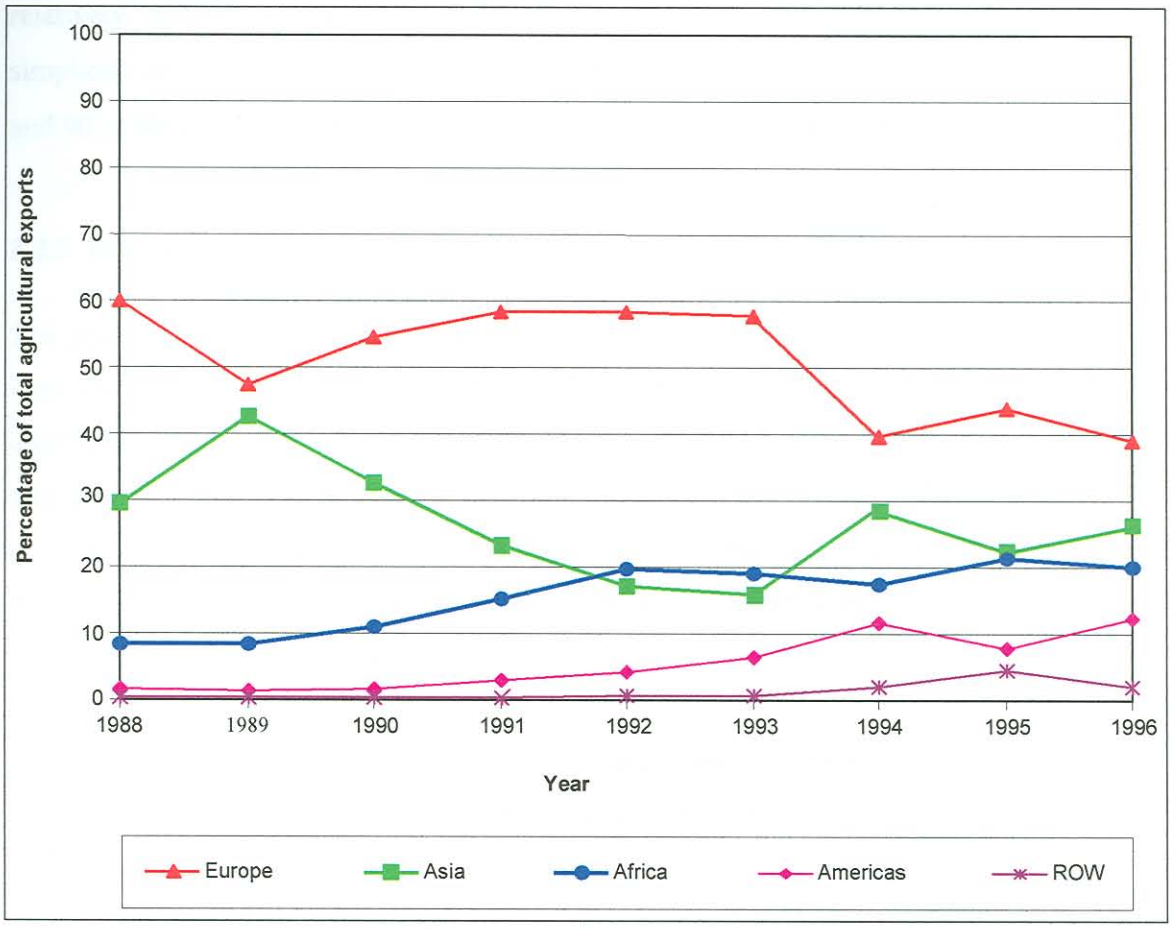


FIG. 3.3 Percentage agricultural exports from SACU to different continents

order to confirm that the growth figures do indeed present a slope, graphs were compiled for 9 years (time series available at the time of the analysis). In almost all cases the graphs confirm that generally speaking 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 can therefore be used as a rough filter to classify countries according to their importance.

3.2.2 Prioritizing export markets

At one end of the continuum we have identified a high-share, high-growth category of countries which should take priority for the sake of future efforts. At the other end we find a range of low-growth, low-share markets which are the least important markets for South Africa to consider, at least in the short to medium term. Countries with very limited trade or

relatively non-existent trade with South Africa, have been excluded for the sake of simplicity and clarity. Approximately 99% of trade was covered by the analysis of countries and 90 to 99% by the product trade matrices (depending on the aggregated level).

3.2.3 Developing regional and world matrices on export performance

The scales of continental and regional matrices (Table 3.1, Table 3.2 and Table 3.3) differ from the country matrix (Table 3.4). This difference serves to accommodate the effect of aggregation. When exports to continents or regions had a value higher than R1 billion it was regarded as high-share and when higher than R0,1 billion, as medium-share. What is considered as high, medium and low share or growth markets, is the same from region to region for the per-country world matrix (Table 3.4). This enables readers to compare countries according to the same scale.

The result of this study confirms the view that countries where South Africa's export growth has been phenomenal are countries where we used to have a very low base. What this means is that a slight increase in exports could effect dramatic growth rates. The figures of low-share countries are less reliable because of the great effect that a variation in exports has on the average growth rate. It would therefore be misleading to base decisions on the rate of export growth only. Instead, decisions based on growth-in-share of exports with a certain threshold-share of exports provide a more reliable guide than what priority markets should be. On these grounds a 'world slide' was developed with three categories—low, medium and high share as well as three levels of growth in share of exports—incorporating all the countries of the world of major importance for SACU agriculture exports (Table 3.4). In the per-country world matrix, the high share category, refers to South Africa's export values over R100 million, medium share refers to values over R30 million and low share to values over R10 million. High growth refers to annualized growth in share of exports over 25% and low growth refers to less than 10% growth (but positive). Below-zero growth in share is negative growth. All figures are over a 5-year period (1992 to 1996). Although data gathered over 9 years were available, the last 5 years represented the post-sanction era, where trade patterns were expected to normalize.

South Africa needs to expand or at least maintain market share in her traditional markets, but also critically needs to increase her exports to new growth markets. Market diversification took place because of the sanctions effect. Other facts signify the growing importance of successful emerging markets. The objectives of diversifying both South Africa's export products and markets could be achieved by aggressive marketing in the right markets as well as by appropriate market research and information.

3.2.4 Interpretation of regional and world matrices

The world matrix (Table 3.4) holds the key for decision-makers since it provides a simple framework from which to determine relative market potential. If one looks at the world matrix one can deduce which countries exhibit potential for South Africa. Taking into account the reprisal matrices, it is important for South Africa not only to re-prioritise its trade resources internationally, but also spending them in a way that exhibits fairly comprehensive regional penetration. For example, in southern Africa, Angola, and in northern Africa, Kenya, clearly feeds markets for South African agriculture exports. In Asia, the leaders are Japan and Korea. In South America, Brazil, and in the Middle East, Iran leads the way. These countries are labelled A. The rest of the countries are labelled 'B' to 'F', according to the level of importance they may represent in any future trade strategy.

When countries were categorized in Table 3.4, it was difficult to decide which countries should be categorized together. For example, it was difficult to decide whether a country in the high-share and medium-growth category (Category B) should be more or less significant than a country in the medium-share and high-growth category (Category B). Although high-growth categories may indicate significant new markets for South African exports, traditional markets, where only medium growth has been recorded, must not be ignored. Slow growing- or declining markets are loosing its importance, but even they can still provide stability. For instance, the Asian currency crises made exports to Asia less

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Table 3.1 World continental matrix

Growth in share of agricultural exports (SACU figures 1992 to 1996)

Average export share (SACU figures 1992 to 1996)

	High growth 25 %	**Medium growth 10 – 25 %**	**Low growth 0 – 10 %**	**Negative growth < 0 %**
High share (> R1 billion)		Asia *[R1,8 bill (24 %), 18 %]	Africa *[R1,5 bill (20 %), 1 %]	Europe *[R3,5 bill (45 %), -8 %]
Medium share (> R0,1 billion)	Americas *[R0,7 bill (9 %), 39 %] #ROW *[R0,2 bill (1,6 %), 64 %]			
Low share (<R100 million)	Oceania [0,03 bill (0,4 %), 35 %]			

*[Share of total exports in Rand (% Share), Growth in Share %]
** 1 billion = 1 000 million
# ROW = Rest of World (includes Oceania, unallocated)

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Table 3.2 World regional matrix A

Growth in share of agricultural exports (SACU figures 1992 to 1996)

Average export share (SACU figures 1992 to 1996)	High growth 25 %	Medium growth 10 – 25 %	Low growth 0 – 10 %	Negative growth < 0 %
High share **(> R1 billion)		Far East Asia *[R1,3 bill (17 %), 24 %]	South of Sahara *[R1,5 bill (20 %), 2 %]	Western Europe *[R3,4 bill (44 %), -9 %]
Medium share (> R0,1 billion)	South America *[R0,3 bill (4 %), 95 %] ROW *[R0,1 bill (2 %), 88 %]	North and Central America *[R0,4 bill (5 %), 22 %]	Middle East *[R0,5 bill (6 %), 7 %]	
Low share (<R100 million)	South Asia *[R45 mill (6 %), 36 %] Central and Eastern Europe *[R45 mill (6 %), 44 %] Oceania *[R34 mill (0,4 %), 35 %] Russian Fed. *[R41 mill (0,3 %), >100 %] North Africa *[R9 mill (0,1 %), 37 %]			

*[Share of total exports in Rand (% Share), Growth in Share %]
** 1 billion = 1 000 million
# ROW = Rest of World

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Table 3.3 World regional matrix B (Further disaggregation)

Growth in share of agricultural exports (SACU figures 1992 to 1996)

Average export share (SACU figures 1992 to 1996)	High growth 25 %	Medium growth 10 – 25 %	Low growth 0 – 10 %	Negative growth < 0 %
High share **(> R1 billion)	Japan and Korea *[R0,8 bill (10 %), 31 %]		SADC (Exclu. BLNS) *[R1 bill (15 %), 6 %]	EU – 15 *[R3,3 bill (43 %), -9 %]
Medium share (> R0,1 billion)	South America *[R0,3 bill (4 %), 95 %] Asean *[R0,2 bill (3 %), 62 %] ROW *[R0,1 bill (2 %), 88 %]	North and Central America *[R0,4 bill (5 %), 22 %]	Middle East *[R0,5 boll (6 %), 7 %] China and China 3 *[R0,3 bill (4 %), 5 %]	South of Sahara (Excl. SADC) *[R0,4 bill (5 %), -2 %] Western Europe (Excl. UE15) *[R0,1 bill (2 %), -79 %]
Low share (< R100 million)	South-Asia *[R45 mill (0,6 %), 36 %] Central and East Europe *[R45 mill (0,6 %), 44 %] Oceania *[R34 mill (0,4 %), 35 %] Russian Fed. *[R41 mill (0,3 %), > 100 %] North Africa *[R9 mill (0,1 %), 37 %]			

*[Share of total exports in Rand (% Share), Growth in Share %]
** 1 billion = 1 000 million
# ROW = Rest of World

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Table 3.4 World matrix by individual country

Growth in share of agricultural exports (SACU figures 1992 to 1996)

Average export share (SACU figures 1992 to 1996)

	High growth 25 %	**Medium growth 10 – 25 %**	**Low growth 0 – 10 %**	**Negative growth < 0 %**
High share > R100 million	Angola *[3,4 %, 39 %] Kenya *[1,39 %, > 100 %] Brazil *[2,79 %, > 100 %] Japan *[8,2 %, 27 %] South Korea *[1,8 %, 76 %] Iran *[1,4 %, > 100 %] A	Zimbabwe *[1,9 %, 13 %] USA *[3,2 %, 11 %] Saudi Arabia (97 data) Italy (97 data) Angola (97 data) B	Mozambique *[5,6 %, 0 %] Belgium *[8,1 %, 2 %] Netherlands *[3,2 %, 3 %] C	Zambia *[1,8 %, -1 %] Hong Kong *[1,8 %, - 8 %] Saudi Arabia * [1,8 %, - 5 %] UK *[14,2 %, -13 %] Germany *[7 %, - 17 %] Italy *[4,1 %, - 2 %] France *[2,7 %, - 8 %] Switzerland *[1,4 %, - 11 %] Spain *[1,3 % , -16 %] D
Medium share > R30 million	Tanzania *[0,5 %, >100 %] Canada *[1,1 %, 36 %] Mexico *[0,5 %, >100 %] Venezuela *[0,5 %, >100 %] Malaysia *[1,2 %, >100 %] Macao *[1,1 %, >100 %] Indonesia *[0,5 %, >100 %] UA Emirate *[0,5 %, 45 %] Sweden *[0,5 %, >100 %] B	Turkey *[0,5 %, 17 %] C	Zaire *[1,1 %, 2 %] Malawi *[1,1 %, 8 %] Singapore *[0,8 %, 0 %] D	Reunion *[0,9 %, 22 %] Taiwan *[0,9 %, 7 %] Israel *[1,1 %, -8 %] Bahrain *[0,6 %, -8 %] Portugal *[0,5 %, -16 %] Austria *[0,5 %, -25 %] E
Low share >R10 million	Coté d'Ivoire Ghana Belize Colombia Paraguay China Philippines India Kuwait Denmark Finland Norway Russian Fed. Bulgaria New Zealand C	Australia *[0,3 %, 23 %] D	Mauritius *[0,3 %, 10 %] Sri Lanka *[0,3 %, 10 %] E	Seychelles *[0,3 %, -8 %] Comoros I. Fed. Rep. *[0,2 %, - 4 %] Argentina *[0,4 %, -19 %] Greece *[0,2 %, -10 %] F

"Growth" refers to growth in export share.

* [Share of total exports in %, Growth in Share %]

Table 3.5 Growth in SACU exports 1992 to 1997

Country	Avg Growth (%) (92 -97)	Rank (92 -97)	Growth (%) (96 -97)	Rank (96 -97)	% of agric. exports
> 1% of agriculture exports					
High growth					
Iran, Islamic Republic of	>100	1	-15	20	1.55
Malaysia	>100	2	-38	22	1.07
Brazil	>100	3	-25	21	2.54
Kenya	>100	4	596	1	2.12
Korea, Republic of (South)	>100	5	-45	25	1.60
Canada	91	6	29	6	1.11
Japan	57	7	-42	23	7.26
Medium growth					
Saudi Arabia	50	8	221	2	2.14
United States	44	9	10	12	3.31
Angola	43	10	-42	24	3.60
Zimbabwe	32	11	20	8	2.06
Italy	31	12	77	4	4.66
Low growth					
Mauritius	27	13	17	9	1.50
Netherlands	25	14	8	14	3.17
Malawi	20	15	-6	19	1.16
Belgium	19	16	24	7	7.68
Mozambique	15	17	-5	18	5.41
Very low growth					
France	14	18	4	15	2.56
United Kingdom	12	19	30	5	14.41
Zambia	11	20	3	16	1.77
Spain	11	21	17	10	1.25
Switzerland	10	22	9	13	1.29
Hong Kong	8	23	-3	17	1.83
Germany	4	24	12	11	6.55
Zaire	4	25	-96		1.13
<1% of agricultural exports					
Taiwan, Province of China	11		20		0.91
Israel	20		-36		0.87
Venezuela	>100		87		0.84
Reunion	-10		-22		0.83
Russian Federation	-		-46		0.77
Singapore	19		-18		0.73
Tanzania	81		1		0.60
United Arab Emirates	80		-28		0.51

attractive for the short term while export earnings from the EU performed well during 1997 owing to the devaluation of the Rand.

While countries in the high-growth and high-share categories are clearly markets which South Africa should focus on in terms of export assistance, a range of other criteria could also be overlaid to determine priorities from a political-economic perspective. Reasons why markets or regions are important, differ. This study is limited to facts on export performance only. The regions to which most priority was given, namely the European Union and SACD, have shown relatively stagnant or negative growth since 1992. In the past these markets were given priority for historical political-economic reasons. Nevertheless, the negotiations on the EU-SA FTA as well as the SA-SADC protocol could spur another growth cycle to these markets.

High-share markets are important even if only to maintain market share as a buffer for the unstable world economic climate as far as is possible. Higher-growth countries have better potential in terms of future growth for fundamental reasons such as population growth, economic-growth potential and changing consumer behaviours. Low-growth, and low- and negative-share markets would be least worthy of greater resource expenditure by the National Department of Agriculture and the Department of Trade and Industry.

3.3 A DETAILED ANALYSIS OF AGRICULTURE EXPORTS AND EXPORT DESTINATIONS

3.3.1 Continental perspective

Continental aggregations of share and growth shows that greater Asia, with a 24% share and an 18% growth in share, constitutes the most significant group of markets and that the Americas constitute the most significant upcoming market (9% share and 38% growth in share). The growth in the African and European markets was rather poor (Table 3.1).

During the last decade, especially after 1992, large trade diversions of SACU agriculture-trade exports took place between continents and countries. During 1992 to 1996, the share of agriculture exports to Europe, compared with the total agriculture-export basket,

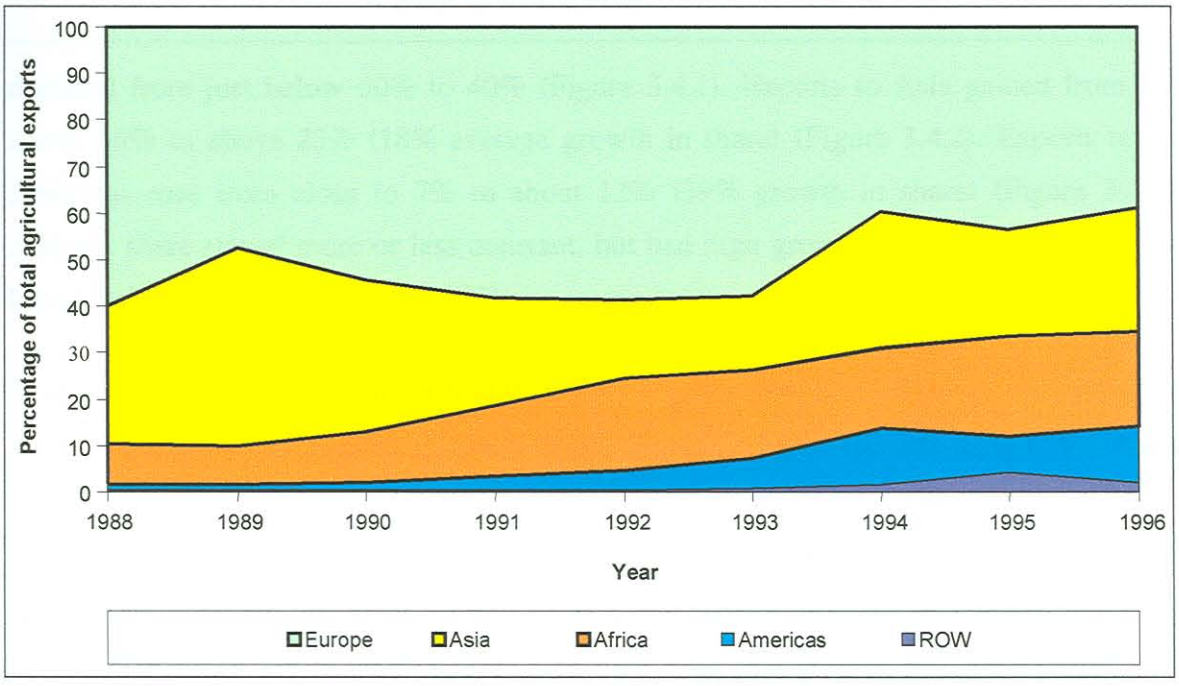


FIG. 3.4 Percentage agricultural exports from SACU to different continents

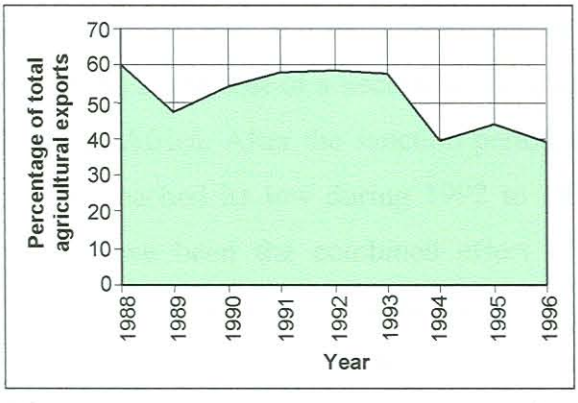


FIG. 3.4.1 Percentage agricultural exports from SACU to Europe

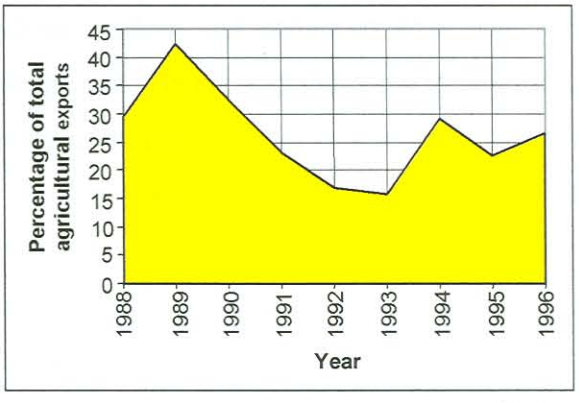


FIG. 3.4.2 Percentage agricultural exports from SACU to Asia

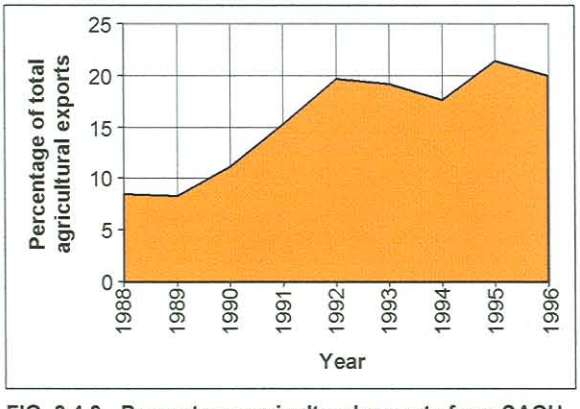


FIG. 3.4.3 Percentage agricultural exports from SACU to Africa

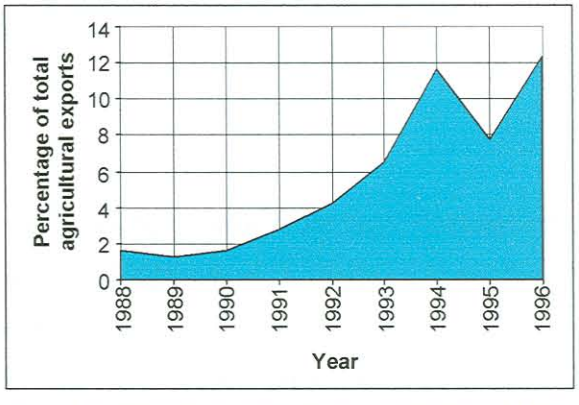


FIG. 3.4.4 Percentage agricultural exports from SACU to the Americas

declined from just below 60% to 40% (Figure 3.4.1). Exports to Asia gained from just above 16% to above 25% (18% average growth in share) (Figure 3.4.2). Exports to the Americas rose from close to 7% to about 12% (39% growth in share) (Figure 3.4.4). Africa's share stayed more or less constant, but had high growth and reached a relatively high level prior to 1992 (Figure 3.4.3).

A remarkable trend is the mirror image in SACU agriculture exports between Europe and Asia, respectively, as export destinations (Figure 3.3). Since the late 1980s, the Asian markets have had a steady decline in their share as an export destination for SACU agriculture, while Europe, Africa (mainly SADC countries) and the Americas had a progressive increase in share. During these years, Africa became an equally important export destination, rising from a lower base than Asia, to a level at which both continents contributed about 20% each to the total export basket in the early 1990s. The post-sanction period, 1993/1994, 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. After the sanction period, the Asian market experienced re-growth, after having reached its low during 1992 to 1993. The low Asian figures in the early 1990s could have been the combined effect of sanctions, the politically and economically unstable climate, as well as the 1992 drought, since large quantities of surplus products such as cereals and sugar had usually been exported to Asia. Exports to Asia show a v-shaped trend, with a low export share in 1992/1993 followed by re-growth (Figure 3.4.2), and this compares well with the v-shapes of surplus-removal products such as cereal exports (Figure 4.7) and sugar (Figure 4.9) in the next chapter.

3.3.2 Regional perspective

The main performers in Asia were Far East Asia with a re-growth from large destinations, Japan and Korea (from a high-share base) and ASEAN (from a medium-share base) mainly from Malaysia, Indonesia, Singapore and the Philippines, and South Asia (from a low-share base), mainly India (Tables 3.2, 3.3 and 3.4). China (mainland) and China3 (Macao, Hong Kong and Taiwan) as a group, showed relatively slow growth in their agriculture export share, but nevertheless have much potential owing to their high economic growth rates and large populations. However, if they are split up, Macao and

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China mainland are shown to have experienced high growth in export shares (compare Table 3.3 and 3.4).

To the Americas as a group, growth was from a medium-share base and the main contributor(s) to growth in the high-share category was mainly the USA. In the medium-share grouping they were mainly Brazil, Mexico and Venezuela, and in the low-market-share grouping, Colombia and Paraguay. Aggregations of countries into continental and regional groupings are shown in Annex 2.

Generally, these trends show tremendous changes in the composition of export markets for SACU agriculture over the last decade, especially for Africa, which caught up from a very low base, and the Americas, which are still growing steadily (Figure 3.3). Exports to non-traditional export destinations became more and more important.

3.3.3 Country perspective

Export destinations for SACU agriculture, with export shares larger than 1% of the export basket, showed positive average export growth in value from 1992 to 1997 (nominal values—not deflated). Countries at the higher end of the growth scale (above 50%) were Iran, Malaysia, Brazil, Kenya, South Korea, Canada and Japan (Table 3.5). This corresponds with the results of growth in share analysis for 1992 to 1996 (Table 3.4). Owing to the Asian crises, 1997 data have to be taken into account to confirm the relevance of the 1992 to 1996 growth tends. By comparing Tables 3.4 and 3.5 for the high-share and high-growth-in-share category, the same countries were identified as high performers (except for Angola, which showed a decline in 1997, probably due to the ongoing war in Angola).

For medium growth, between 30 and 50%, Saudi Arabia, the United States, Angola, Zimbabwe and Italy were identified (Table 3.5). Saudi Arabia and Italy were originally ranked lower in the 1992 to 1996 growth-in-share analysis. However, new data up to 1997 shows that they experienced a positive average growth in share, especially after Asia's economic problems and currency crises in 1997 and 1998. This change is also indicated in Table 3.4. In the lower-growth ranks are Mauritius, the Netherlands, Malawi, Belgium and Mozambique and at the bottom end usually losing share in the export basket, were France,

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the United Kingdom, Zambia, Spain, Switzerland, Hong Kong, Germany and Zaire. Although the latter countries are losing their share in total SACU agricultural exports, most of them are from a very high base and their importance should not be underestimated in the medium term at least.

With the devaluation of the Rand and the currency crises in Asia, which had a ripple effect on developing economies, the European markets showed themselves to be stable and their relative growth increased dramatically during 1997/1998. During 1997, the adverse effects of the Asian crises started to show their effect on the Asian countries' performance as export destinations, and Iran, Malaysia, Korea and Japan fell from their 1st, 2nd, 5th and 7th places in terms of average export growth (1992 to 1997 average) to a mere 20th, 22nd, 25th and 23rd in rank in export growth for the period 1996/1997, respectively (Table 3.5). Nevertheless, their average growth rates, as well as the long-term expectation (therefore the long-term trend) still remain high. Other developing countries—Brazil, Angola, Malawi and Mozambique—also showed a decline in growth for 1997/1998. This also had a very detrimental effect on some of the main traditional export products such as sugar, cereals, milling products, and beverages and spirits to Asia, Africa and South America. During the slump in the Asian market (1996/1997 period), Kenya, Saudi Arabia, Italy, Canada, US, Zimbabwe, Belgium, Mauritius and Spain were stable higher-growth performers. Very large European markets like the UK (14%) and Germany (6%) also proved to be stable during these adverse times and were amongst the better performers in 1996/1997 (Table 3.5).

3.4 A DETAILED ANALYSIS OF THE WORLD COUNTRY MATRIX

3.4.1 Categorizing countries based on share and growth results

Table 3.4 roughly groups the countries according to their performances, taking into account both the share of the export market and the growth in share and develops indices A, B, C and D. Generally most high-growth countries have started off from a very low base since the early 1990s. Figures suggest tremendous changes in the importance of markets since the early 1990s. If, for instance, all the shares of the high-growth countries

presented in Figures 3.5, 3.8, 3.10 and 3.14 are added up, they grew from a 3,5% share to almost 30% in 4 years (1992 to 1996). These are relatively new markets.

3.4.1.1 Category A countries

Category A (high share and high growth in share) countries were Kenya, Iran, Brazil and Angola (Table 3.4). Figure 3.5 shows a 9-year trend of this category. This trend clearly shows that this group of countries indeed experienced a dramatic growth in share of SACU exports, from a very low base close to zero to almost 12% of the export basket. Korea and Japan showed re-growth (Figure 3.6) due mainly to the fluctuations in the traditional surplus-removal products, cereals and sugar, which showed a similar trend. These trends could have been influenced largely by climatic conditions in South Africa.

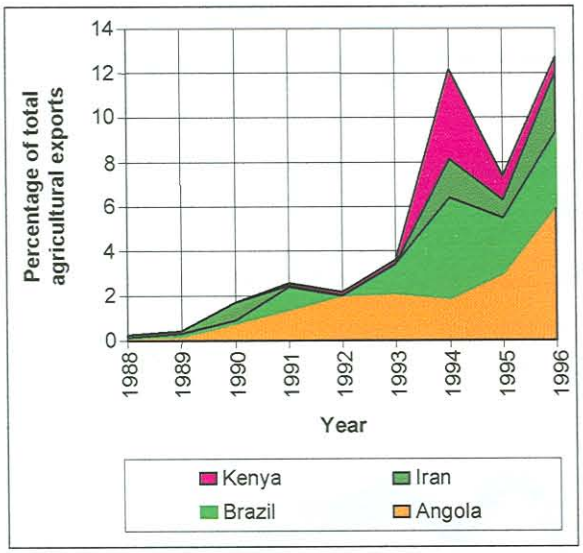


FIG. 3.5 SACU agricultural exports (high share, high growth in share) Category A

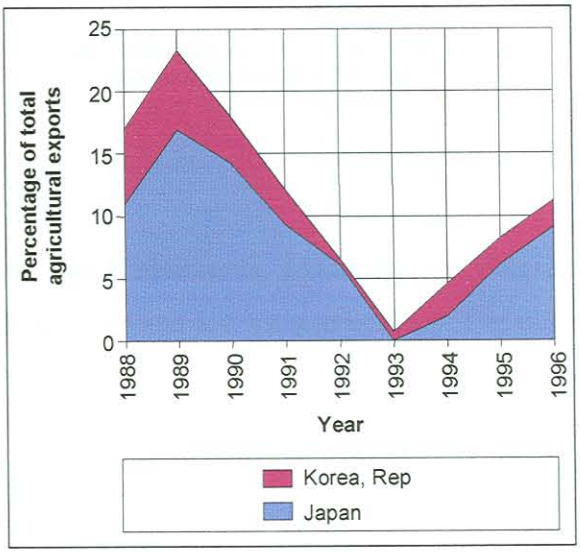


FIG. 3.6 SACU agricultural exports (high share, high growth in share) Category A

3.4.1.2 Category B countries

Category B (high-share, medium-growth grouping) countries were identified as Zimbabwe and the United States (Table 3.4 and Figure 3.7). Updated 1997 figures suggest that Saudi Arabia and Italy could also belong to this grouping. The other part of the B category (medium share and high growth) clearly shows in Figure 3.8 that, as a group, these countries have shown tremendous growth in the share since 1993, from 1% in 1988 to above 10% in

1996. The group consists of Tanzania, Indonesia, Canada, Macau, Malaysia, UA Emirates, Venezuela, Sweden and Mexico.

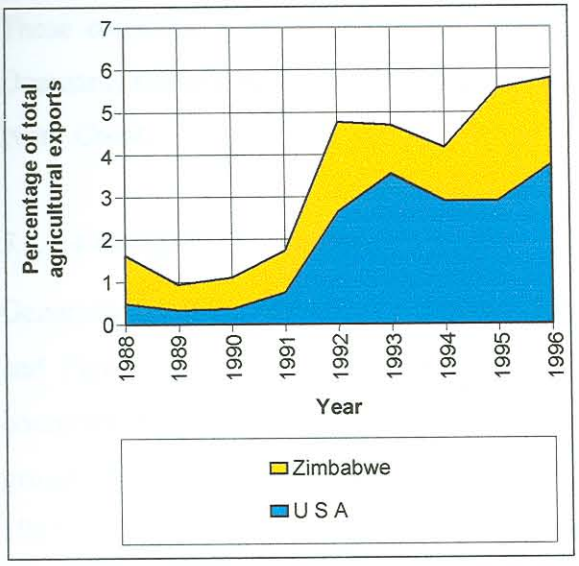


FIG. 3.7 SACU agricultural exports (high share, medium growth in share) Category B

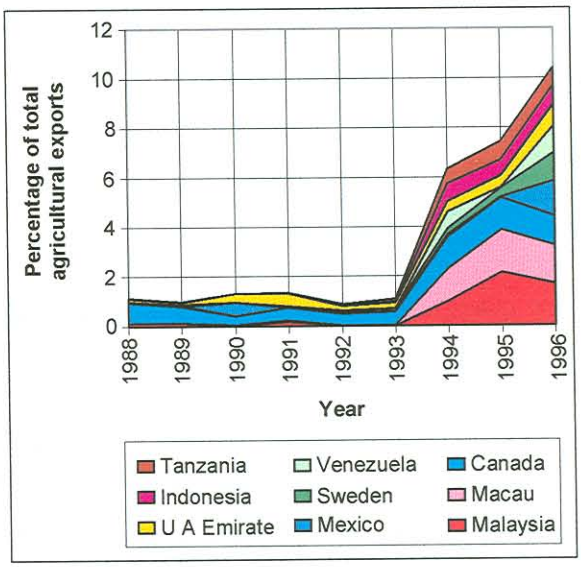


FIG. 3.8 SACU agricultural exports (medium share, high growth in share) Category B

3.4.1.3 Category C countries

The category C countries (Table 3.4), namely the Netherlands, Mozambique, Belgium (Figure 3.9) and Turkey were identified as medium share and low growth in share. The other

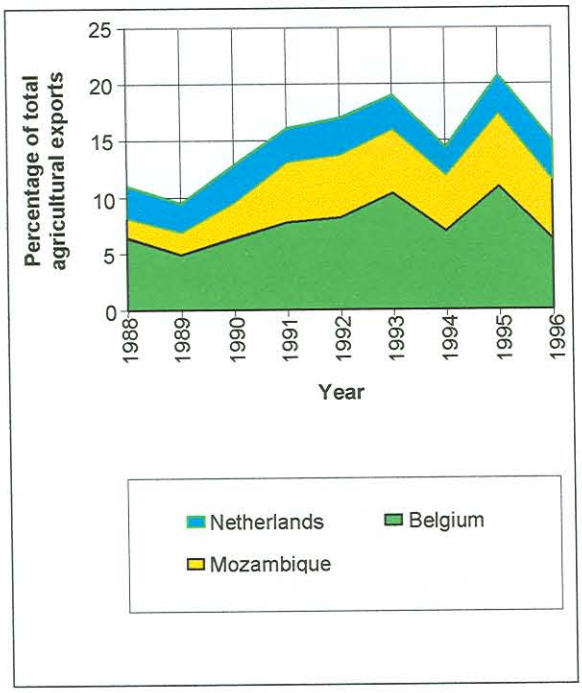


FIG. 3.9 SACU agricultural exports (high share, low growth in share) Category C

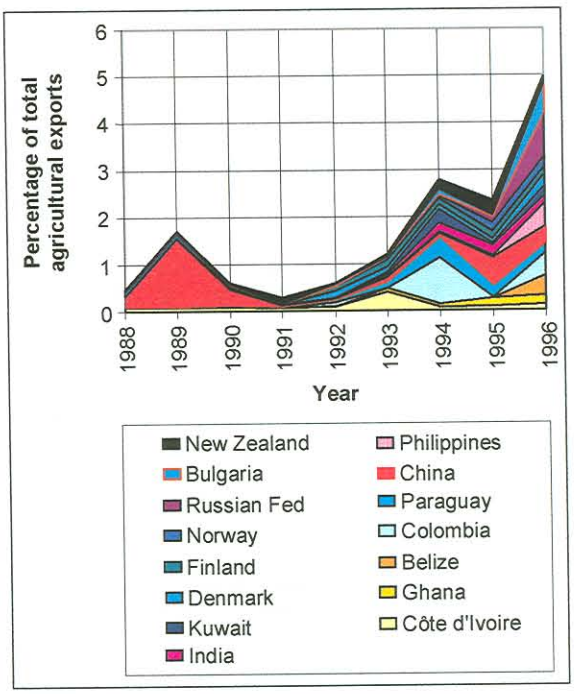


FIG. 3.10 SACU agricultural exports (low share, high growth in share) Category C

group of category C countries (low share, high growth in share) showed a tenfold increase from a very low base, 0,5%, in 1988 to 5% of agriculture exports in 1996 (Figure 3.10). These countries were New Zealand, Bulgaria, the Russian Federation, Norway, Finland, Denmark, Kuwait, India, the Philippines, China, Paraguay, Colombia, Belize, Ghana and the Ivory Coast.

3.4.1.4 Category D countries

Generally speaking category D shows a declining trend in SACU export share (Table 3.4 and Figures 3.11 and 3.12). The major part of this grouping consists of the European countries, which are also still the largest single markets. Figure 3.11 shows that, as a group, the high-share, negative-growth-in-share grouping declined from a 50% share in 1988 to a 30% in 1996. These countries were Spain, Switzerland, Zambia, Saudi Arabia, Hong Kong, France, Italy, Germany and the UK. Although probably temporary, in 1997 many of these countries performed very well in relative terms, owing to the Asian crisis. Nevertheless, the long-term historical trend is a declining one. The other countries in this category are Singapore, Malawi and Zaire (Figure 3.12).

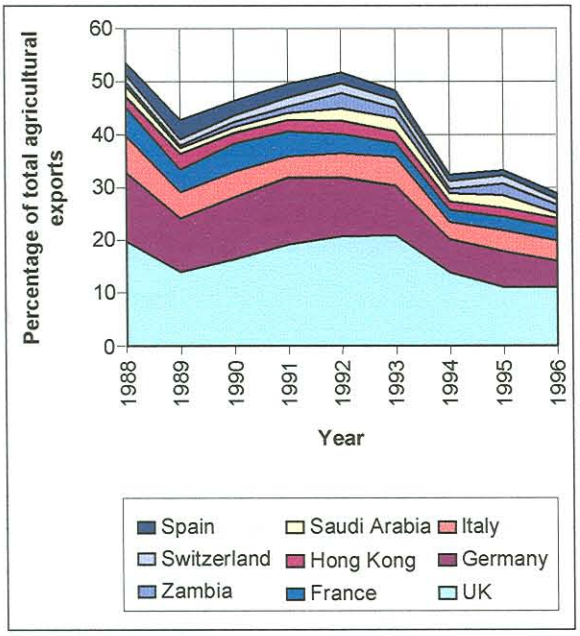


FIG. 3.11 SACU agricultural exports (high share, negative growth in share) Category D

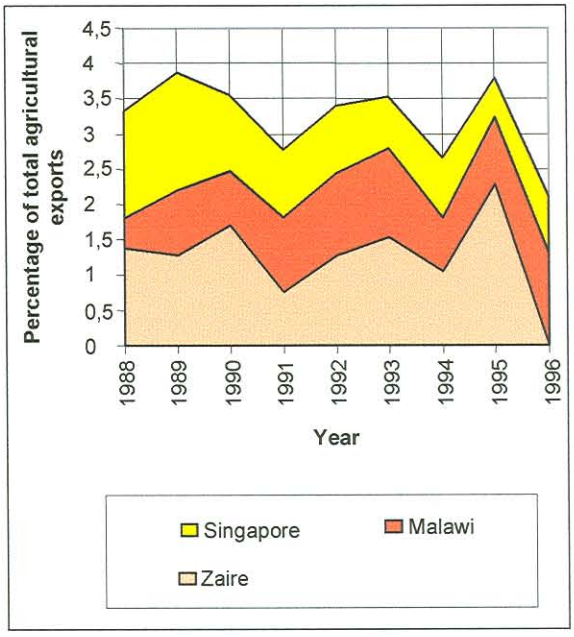


FIG. 3.12 SACU agricultural exports (medium share, low growth in share) Category D

3.4.2 Country categories and product indications in a continental and regional context

World matrix (Table 3.4) was used to summarize the growth and share results. These are presented in a 9-year time-series analysis in Figures 3.5 to 3.25. The main important products on a 2 HS code level were mentioned (the results obtained from Annex 5).

3.4.2.1 Europe

Details of share and growth are summarized in Table 3.4. Time-series growth in share trends of SACU agriculture exports is presented in Figures 3.13, 3.14 and 3.15. The results shows that the Russian Federation, Bulgaria, Norway, Denmark, and Finland—countries that started from a very low base—showed tremendous growth. Other markets either had slack growth or are declining.

(i) High share, low growth in share
Belgium
Netherlands

(ii) High share, negative growth in share
UK
Germany
Italy (this figure changed to a positive growth in share in the 1997 analysis)
France
Switzerland
Spain

(iii) Medium share, high growth in share
Sweden

(iv) Medium share, negative growth in share
Portugal
Austria

(v) Low share, high growth in share

Denmark

Finland

Norway

Russian Federation

Bulgaria

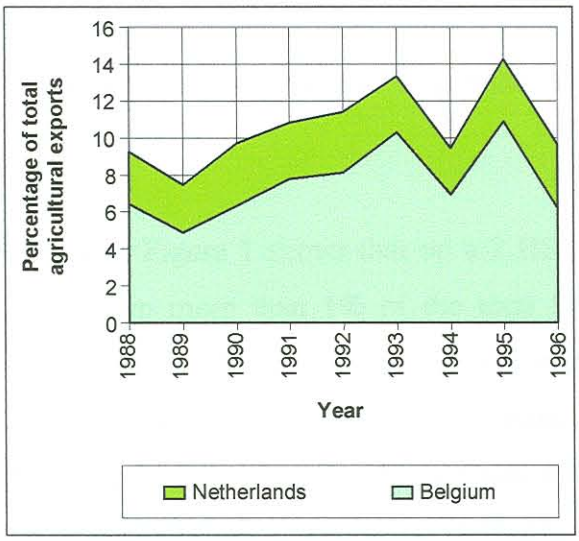


FIG. 3.13 SACU agricultural exports to Europe (high share, low growth in share) Category C

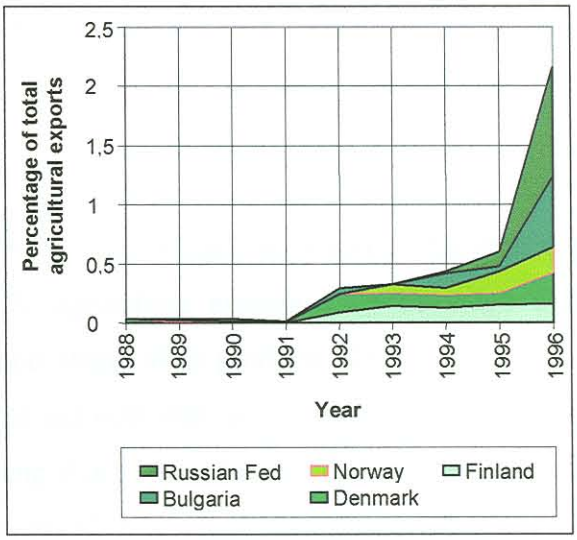


FIG. 3.14 SACU agricultural exports to Europe (low share, high growth in share) Category C

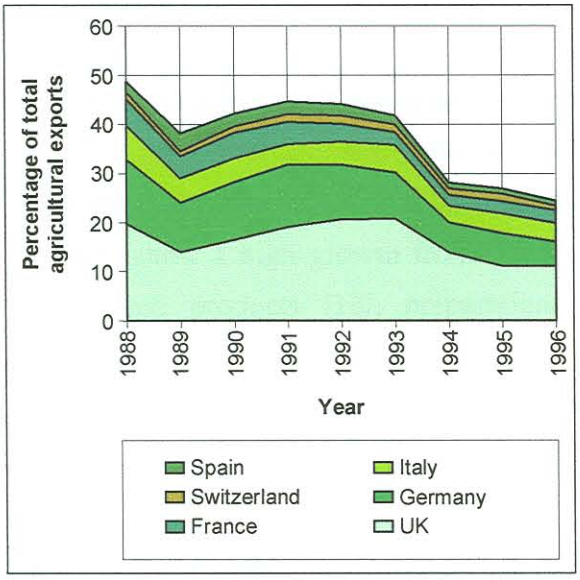


FIG. 3.15 SACU agricultural exports to Europe (high share, negative growth in share) Category D

(vi) Low share, negative growth in share

Greece

Europe accounts for 45% of SACU's agriculture exports. The EU15 accounts for 43% of SACU's total agriculture exports to Europe.

The annualized agriculture exports (nominal values) increased by 13% to Europe as a whole through 1992 to 1996, while it increased by 11% to the EU15. However, the growth in export share to Europe, in general, and to the EU15, decreased by 8% and 9%, respectively.

Annex 5, Figure 1 shows that on a 2 HS code level (indicated in brackets) for products making up more than 1% of the total SACU agriculture exports, only beverage (22) exports to the EU15 had a high growth in export share. Meat products (02) had a medium growth in share (10%). The largest groups, fruit and nuts (08), prepared fruits and nuts and vegetables (20) and sugar (17) showed a losing-share trend. Some smaller products still show high growth in exports, for instance oilseeds (12), fats and oils (15), cereals (10) and meat preparations (16). Western Europe (excluding the EU15) shows much the same patterns as the EU15 (Annex 5, Figure 2).

Almost all products to Central and Eastern Europe show high growth, although from a very low base. Products are, fruits and nuts (08), sugar (17), prepared fruits and nuts & vegetables (20), beverages (22) and tobacco (24). To the Russian Federation, almost all products show a high growth from a very low base. Products are vegetables (07), sugar (17), cocoa products (18), preparations of fruits and nuts (20) and miscellaneous preparations (21) (Annex 5, Figures 3 and 4). These markets are relatively new and growth is from a very low base and will naturally show high growth rates.

3.4.2.2 Asia

Details of share and growth are summarized in the world matrix (Table 3.4). Time-series trends of SACU agriculture exports are presented in Figures 3.16, 3.17, 3.18 and 3.19.

Middle East

(i) High share, high growth in share

Iran

(ii) High share, negative growth in share

Saudi Arabia (in the 1997 analysis this figure changed to a positive growth in share)

(iii) Medium share, high growth in share

UA Emirate

(iv) Medium share, medium growth in share

Turkey

(v) Medium share, negative growth in share

Israel

Bahrain

(vi) Low share, high growth in share

Kuwait

The Middle East takes 6% of SACU's agriculture exports. During 1992 to 1996, the growth in agriculture-export share to this region was an average of 7% per annum. The most important products with high growth are, cereals (10), sugar (18) and beverages (22) (Annex 5, Figure 5).

Far East Asia

(i) High share, high growth in share

Japan

Korea

(ii) High share, negative growth in share

Hong Kong

(iii) Medium share, high growth in share

Malaysia

Macao

Indonesia

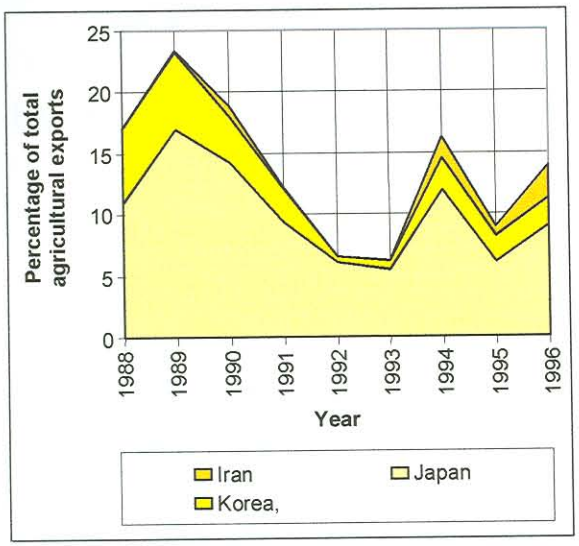


FIG. 3.16 **SACU agricultural exports to Asia (high share, high growth in share) Category A**

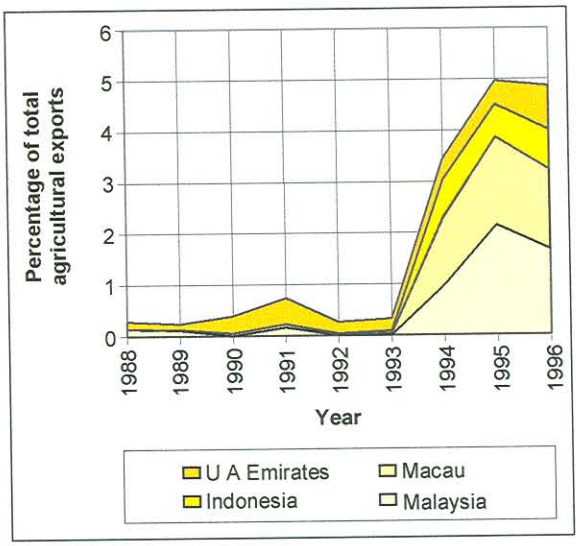


FIG. 3.17 **SACU agricultural exports to Asia (medium share, high growth in share) Category B**

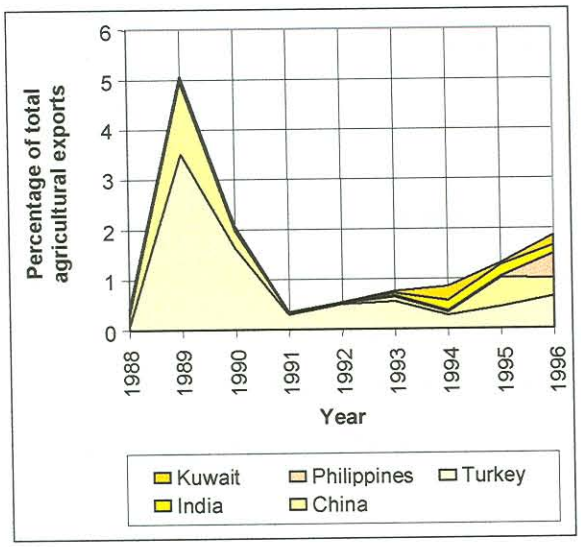


FIG. 3.18 **SACU agricultural exports to Asia (low share, high growth in share) Category C**

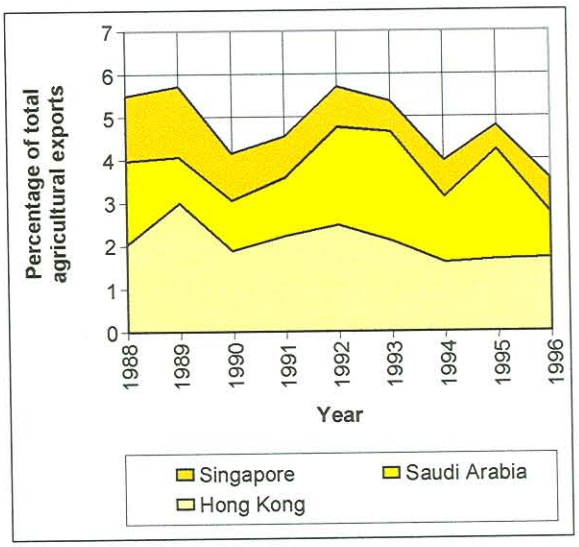


FIG. 3.19 **SACU agricultural exports to Asia (high and medium share, low and negative growth in share) Category D**

(iv) Medium share, low growth in share

Singapore

(v) Medium share, negative growth in share

Taiwan

(vi) Low share, high growth in share

China

The Philippines

India

(vii) Low share, low growth in share

Sri Lanka

The Asia region takes 24% of SACU's agriculture exports at an average value of approximately R1,8 billion and 17% of the agriculture exports go to the Far East. Japan takes 8,2% of the exports and the remaining 9% of SACU's agriculture exports go to the Far East (excluding Japan). Korea takes an average of R143 million (1,8%) of the agriculture exports.

South Asia takes R45 million (0,6%), ASEAN takes R0,2 billion (3%), East Asia takes R0,8 billion (10%) and China4 (China , Macao, Taiwan, and Hong Kong) takes R0,3 billion (4%) of total agriculture exports from SACU. Annualized growth to all of Asia from 1992 to 1996, was 18%. It was 36% to South Asia, 62% to ASEAN, 31% to East Asia and 5% to larger China4 (China, Macao, Taiwan and Hong Kong).

The major exports to Far East Asia on a 2 HS code level (indicated in brackets) are cereals (10) and sugar (17) to Japan, Korea and ASEAN countries (Annex 5, Figures 6 and 7). Owing to relatively good climatic conditions as well as a favorable trade environment, exports to Asia showed a re-growth after 1993. To Japan and Korea as a group, prepared fruits and nuts and vegetables (20) showed a large constant share in agriculture exports

(Annex 5, Figure 6). Beverage (22) exports are becoming increasingly more important to South Asia and China and China3 (China4) as export destinations (Annex 5, Figures 8 and 9). In later chapters product exports to Asian destinations will be discussed in detail.

3.4.2.3 Africa

Details of share and growth are summarized in the world matrix (Table 3.4). Time-series growth-in-share trends of SACU agriculture exports to Africa are presented in Figures 3.20, 3.21 and 3.22 under their respective categories A, B, C and D.

Southern Africa

(i) High share, high growth in share

Angola (it is not certain whether a large amount of exports are from Namibia)

(ii) High share, medium growth in share

Zimbabwe

(iii) High share, low growth in share

Mozambique

(iv) High share, negative growth in share

Zambia

(v) Medium share, high growth in share

Tanzania

(vi) Medium share, low growth in share

Zaire

Malawi

(vii) Low share, low growth in share

Mauritius

(viii) Low share, negative growth in share

Seychelles

SACU agricultural exports to the Southern African Development Community (SADC) constitutes 15% of the total agriculture exports, while growth in annualized export share of 6% was experienced over this period (1992 to 1996) (Table 3.3).

Most agricultural products exported to SADC showed a positive growth in share (Annex 5, Figure 10). Vegetables (02) and cereals (10) were the most important high-growth exports. The most important medium-growth export products were beverages (22), dairy (04), milling products (11) and fats and oils (15). Sugar had a negative growth in share.

Rest of Africa

(i) High share, high growth in share

Kenya

(ii) Low share, high growth in share

Coté D'Ivoire

Ghana

(iii) Medium share, negative growth in share

Reunion

(iv) Low share, negative growth in share

Comoros Islands Federal Republic

From SACU's agriculture exports, 20% of total agriculture exports were to Africa, including southern Africa. Of this, 15% goes to southern Africa. Therefore only 5% of the total SACU agriculture exports go to Africa, excluding southern Africa. An annualized

growth in export share of 2% was experienced from 1992 to 1996. Growth and share of product exports are presented in Annex 5, Figures 11 and 12.

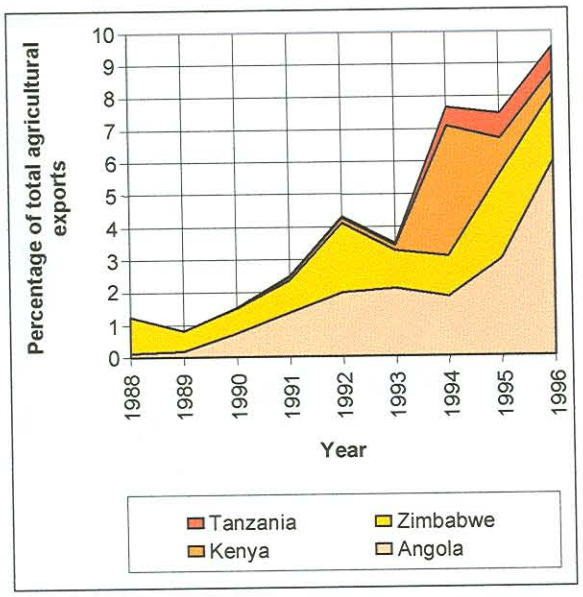


FIG. 3.20 **SACU agricultural exports to Africa (high and medium share, high and medium growth in share) Category A and B**

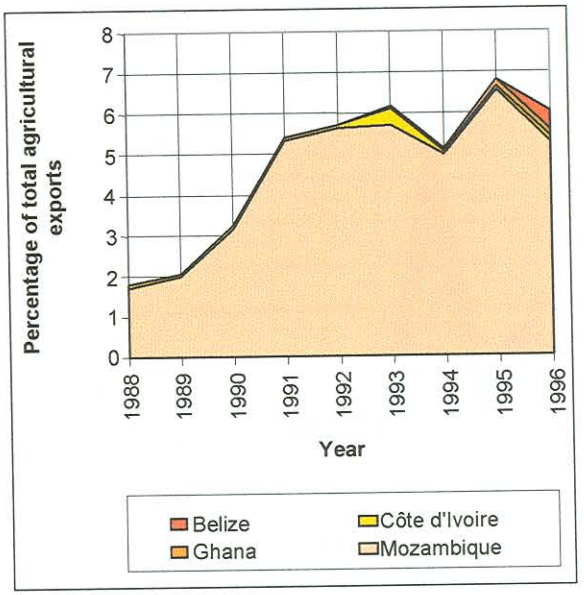


FIG. 3.21 **SACU agricultural exports to Africa (high share and low growth in share, and low share and high growth in share) Category C**

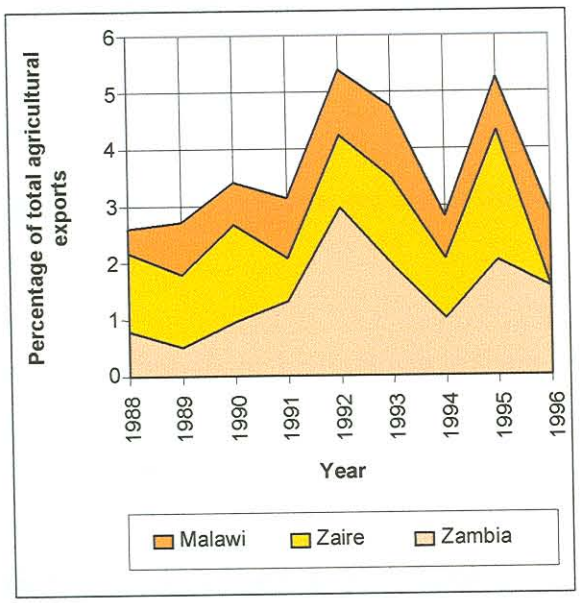


FIG. 3.22 **SACU agricultural exports to Africa (high share and negative growth in share, and medium share and low growth in share) Category D**

3.4.2.4 The Americas

Details of share and growth are summarized in the world matrix Table 3.4. Time-series analysis (growth in share trends) of SACU agriculture exports is presented in Figures 3.23 and 3.24.

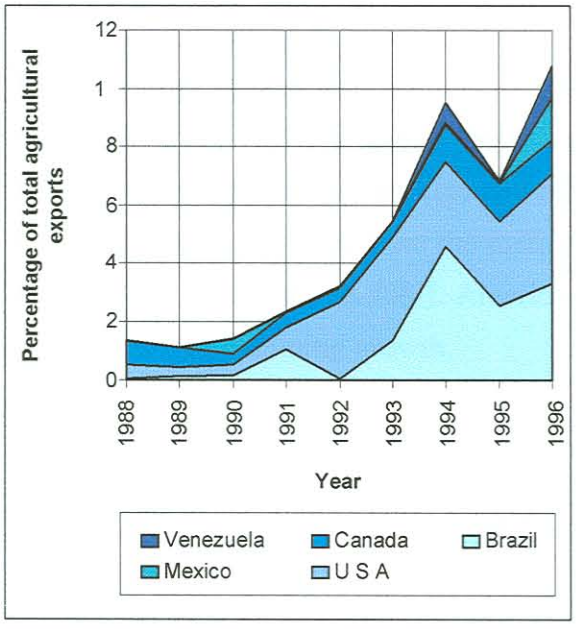


FIG. 3.23 SACU agricultural exports to the Americas (high share and medium growth in share, and medium share and high growth in share) Category A and B

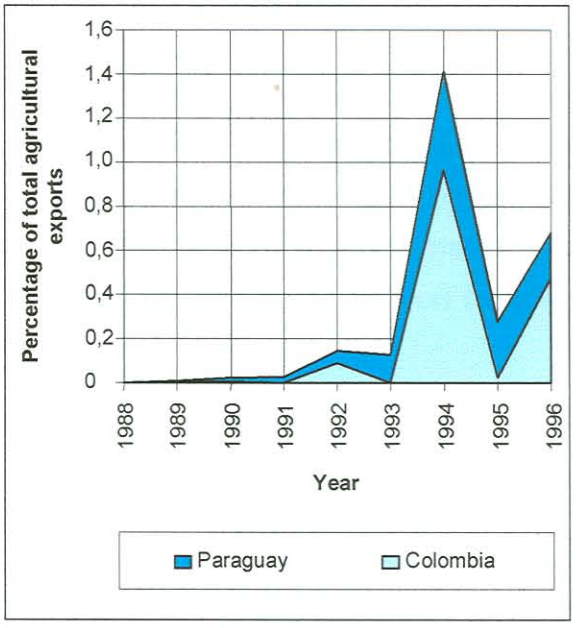


FIG. 3.24 SACU agricultural exports to the Americas (low share and high growth in share) Category C

North and Central America

(i) High share, medium growth in share
USA

(ii) Medium share, high growth in share
Canada
Mexico

(iii) Low share, high growth in share
Belize

SACU's agriculture exports to all the Americas constitute 9% of its agriculture exports. Of this, 3,2% goes to the USA, 1,1% to Canada, 0,5% to Venezuela and 0,5% to Mexico. The share in exports to the USA has grown just over 11% annualized, to Canada 36% and to Venezuela and Mexico more than 100% from a low base.

Important export-product groupings on a 2 HS level (indicated in brackets) are fruit and nuts (08), sugar (17), prepared fruits and vegetables (20) and beverages (22). Other important products are cereals (10) and oilseeds (12) (Annex 5, Figure 13). It appears that trade diversion took place from the traditional EU15 market to the American markets [for example for fruit and nuts (08)]. America still shows high growth for products for which the EU shows a declining growth.

Latin America and the Caribbean

(i) High share, high growth in share
Brazil

(ii) Medium share, high growth in share
Venezuela

(iii) Low share, high growth in share
Colombia
Paraguay

(iv) Low share, negative growth in share
Argentina

This region accounts for 4% of SACU's agriculture exports, most of which go to South America. Brazil takes the bulk of South Africa's agriculture exports, while Venezuela, Argentina and Columbia form the next tier. The annualized growth rate of export share to South America was 95%. Brazil, Venezuela, Colombia and Paraguay showed high growth rates. Most of the important high-growth export products on a 2 HS Code level (indicated in brackets) are beverages (22) and cereals (10) and, to a lesser extent, prepared fruits and vegetables (20) (Annex 5, Figure 14).

3.4.2.5 Oceania

Details of share and growth are summarized in the world matrix (Table 3.4). Time-series trends of SACU agriculture exports are presented in Figure 3.25.

(i) Low share, high growth
Australia

(ii) Low share, medium growth
New Zealand

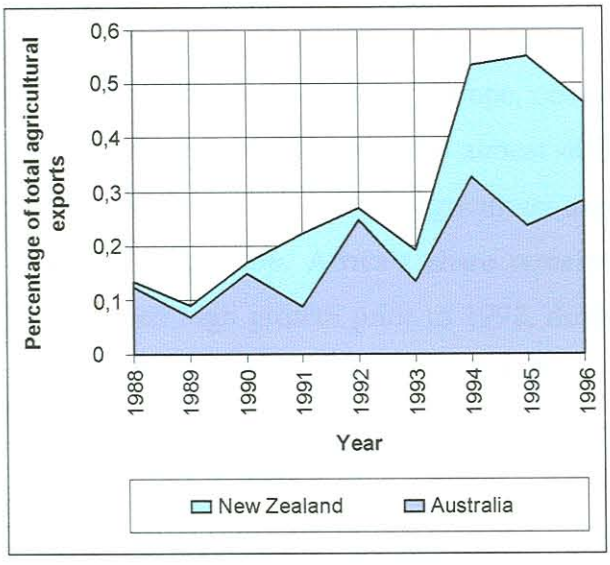


FIG. 3.25 SACU agricultural exports to Oceania

Oceania takes 0,4% of SACU's agriculture exports, of which Australia takes 0,26% and New Zealand, 0,18%. Exports to Oceania increased by 35% annualized over 1992 to 1996.

Oceania is a very small export destination in percentage terms. The most important products on a 2 HS code level (indicated in brackets) were prepared fruits and nuts and vegetables (20), beverages (22) and sugar (17). Other important products are oilseeds (12), fruits and nuts (08) and meat preparations (16) (Annex 5, Figure 15).

3.5 SUMMARY AND CONCLUSIONS

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

During the last decade, especially after 1992, large shifts in SACU agriculture export destinations took place between continents and countries. Between 1992 and 1996, the share of agriculture exports to Europe, compared with the total agriculture export basket, declined from just below 60% to almost 40%. Exports to Asia gained from about a 16% share to above a 25% share of agriculture exports. The Americas rose from close to 7% in share to about 12%. Africa's share remained more or less constant after 1993, but it experienced high growth prior to 1992, during which trade picked up from about an 8% share (1988) to one of 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 agriculture exports reached a low in the 1992 to 1993 period. The low Asian figures in the early 1990's could have been the combined effect of sanctions, the politically and economically 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) was experienced;
- ASEAN (from a medium-share base), mainly as a result of increased exports to Malaysia, Indonesia, Singapore and the Philippines, and
- South Asia (from a low-share base), mainly India.

China (mainland) and China3 (Macao, Hong Kong and Taiwan), as a group, showed relatively slow growth in agriculture export share possibly due to trade restrictions, but nevertheless have large potential owing to their high economic growth rates and population. Viewing Macao and China mainland separately, we found that both had 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 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 have shown a sharp increase although from a very low base. Exports to the Americas have still been growing steadily since 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 crises in Asia, which had 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 crises started to show their 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 the period 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 such as sugar, cereals, milling products, beverages and spirits to Asia, Africa and South America. During the slump in the Asian market, Kenya, Saudi Arabia, Italy, Canada, US, Zimbabwe, Belgium, Mauritius and Spain were stable higher-growth performers. Very large European markets like the UK (14%) and Germany (6%) also proved to be stable during these adverse times and were amongst the better performers in 1996/97. However,

these trends are expected to be only short-term. In the longer term, Europe shows a progressive decline in export share.

Generally, the statistics and analysis suggest significant changes in the importance of markets since the early 1990s. If, for instance, shares in export of the few high-growth countries selected by the results are added up, they grew from a 3,5% share to one of almost 30% in 4 years (1992 to 1996). These are all relatively new markets.

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CHAPTER 4

Prioritizing agricultural export commodities

4.1 INTRODUCTION

Agriculture is still a very important sector if the upstream and downstream industries linked to agriculture are taken into account. Adverse climatic and economic circumstances of agriculture affect the national GDP by as much as 0,5 to 2%. This is a large percentage for a sector that contributes only 4 to 5% to national GDP. Agriculture's strong, indirect role in the economy is that of backward and forward linkages to other sectors. About 66% of agricultural output is used as intermediate products in the sector. The share of agriculture exports in the country's total exports increased from about 8% or less before 1994 to almost 10% by 1997. The share of processed agricultural products within the country's total agriculture exports has also increased, namely from 34 to 50%, further strengthening the linkage to the industry (NDA 1998).

The rest of this chapter attempts to prioritize South African agricultural export commodities. Trends reveal which of the commodities contributed most to the new growth trends after the lifting of sanctions. Trends also reveal the changes in export shares of commodities during the past decade which, to a certain extent, also reflect changes in production patterns as certain commodities became more profitable to export.

4.2 ACHIEVEMENTS OF AGRICULTURAL EXPORT COMMODITIES

4.2.1 Export performance of commodity sections

Agricultural commodities can be aggregated into different groupings of commodities according to the classification system of Customs and Excise. Sections are the most aggregated group of commodities used in this chapter. Sections and their descriptions are

shown in Annex 3. A further description of the 2 HS code products according to the Harmonized System, is given in Annex 4, as well as the relationship with the section grouping. Commodities could also be further dis-aggregated to 4 HS, 6 HS and 8 HS.

The two major export-product groupings, prepared foodstuffs (Section IV) and vegetable products (Section II), have contributed most to the growth-in-export share. Combined, they showed a more than 15% gain in share, of the total SACU agriculture 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 declined from 25% of share of agriculture exports in 1988 to 10% of share in 1996. (Figures 4.1, 4.1.1, 4.1.2, 4.1.3 and 4.1.4) (Section-aggregation break-down to 2 HS code products is shown in Annex 4).

4.2.1.1 Prepared foodstuffs (Section IV)

After the sanction period, prepared foodstuffs was the high-share aggregation with the most rapid export growth (Figure 4.1.1). Prepared foodstuffs (Section IV) include preparation of meat, sugar, cocoa products, preparation of cereals, preparation of vegetables, fruit and nuts, beverages, spirits, vinegar, prepared animal feed, tobacco, and miscellaneous products (Annex 4). The growth in share in prepared foodstuffs was also at the cost of growth in share of the vegetable section (Figure 4.1). 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 constitute the largest group of products (12% share) that has shown a high growth in share (larger than 25%) (Figure 4.6). Beverages increased from approximately 2% to close to 15% of agriculture exports in value terms within less than a decade (1988 to 1996) (Figure 4.7 and Table 4.1). The main products of beverages are alcohol, wine, beer and mineral water. Especially an increase in wine exports in the post sanction period was a major factor. Other important contributors to growth in the prepared foodstuffs section were sugar and sugar confectionery, cocoa and cocoa preparations, preparation of meat and fish, miscellaneous edible (food) preparations and tobacco products, preparations of cereals, starches and milk products,

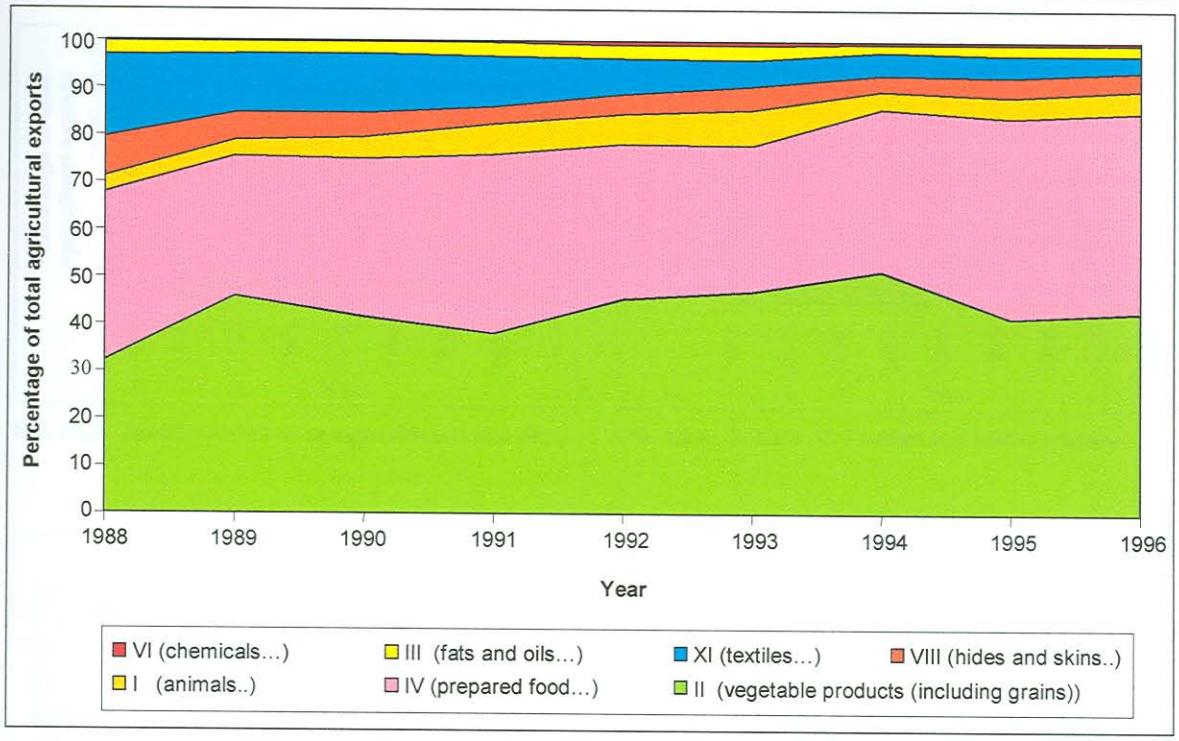


FIG. 4.1 Percentage agricultural exports (section grouping) from SACU

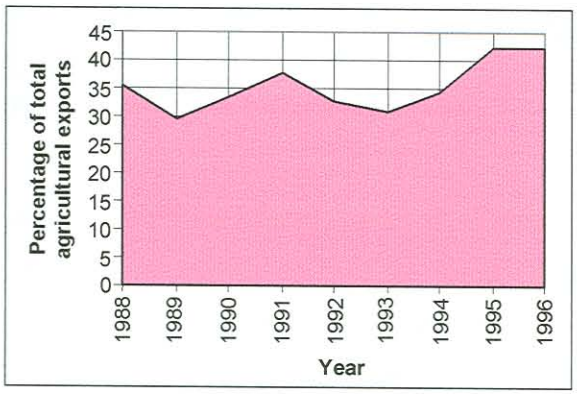


FIG. 4.1.1 Section IV; Prepared foodstuffs...

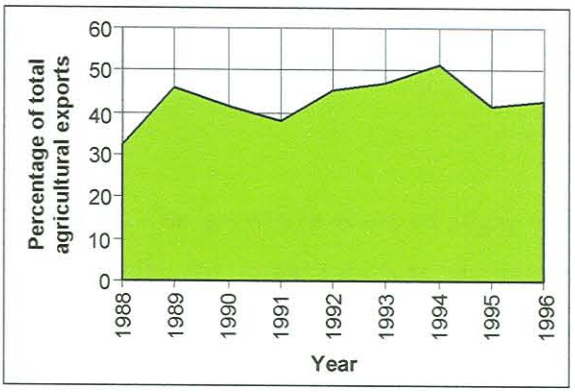


FIG. 4.1.2 Section II; Vegetable products (including grains)

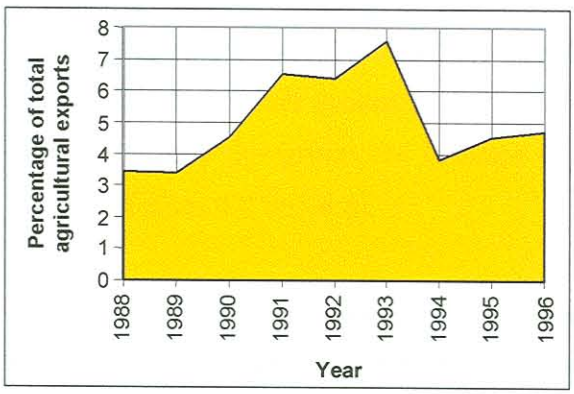


FIG. 4.1.3 Section I; Live animals, animal products...

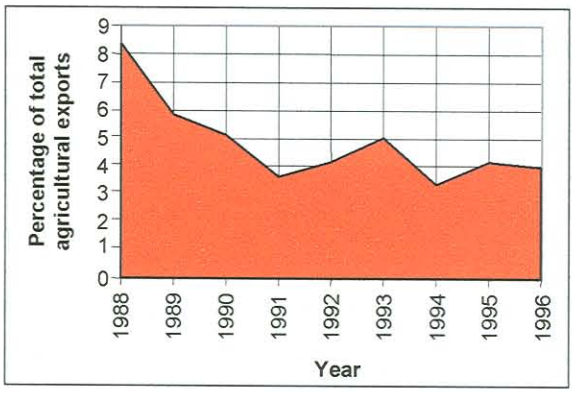


FIG. 4.1.4 Section VIII; Raw hides and skins...

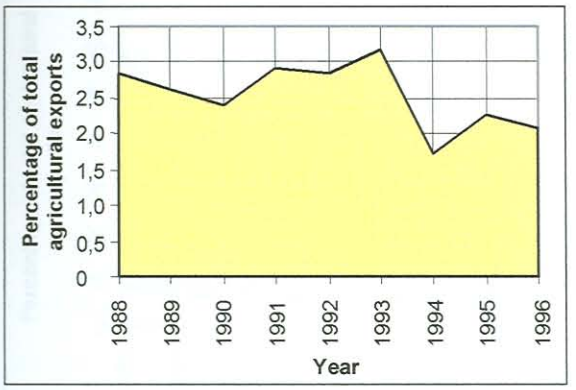


FIG. 4.1.5 Section III; Animal or vegetable fats and oils...

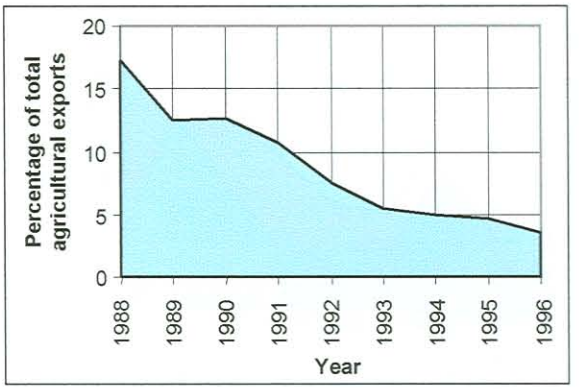


FIG. 4.1.6 Section XI; Textiles and textile articles

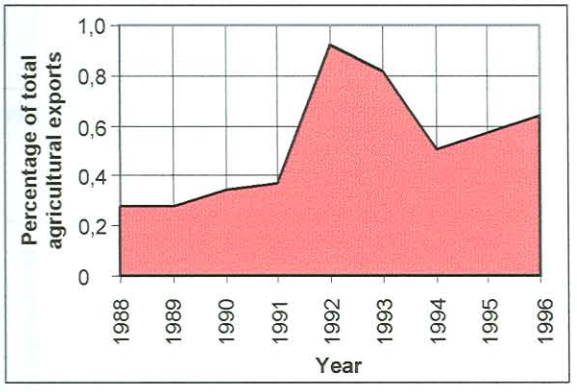


FIG. 4.1.7 Section VI; Products of chemicals...

and preparations of meat and fish (Tables 4.1 and 4.2). The growth in share of sugar was rather a re-growth or cyclical trend (Figure 4.9), while the other products showed a definite constant growth-in-share over the last decade (Figures 4.8, 4.10, and 4.12). A major category in the prepared-food section that showed low- to stagnant growth (taking inflation into account) and a declining share in growth of export value, was preparations of vegetables and fruit (20) (this includes fruit juices) (Tables 4.1 and 4.2). Although the latter category didn't perform well in growth, it is from a very high base and is one of the largest export-product groupings (Figure 4.6). A further break-down reveals that certain products within this group, for instance mixtures of juices (Category B), did very well in growth (Tables 4.4 and 4.8).

Prepared foodstuffs (Section IV) has shown increasing shares in total exports since 1992 for all the continental destinations—Europe, Asia, Africa and the Americas (Figures 4.2,

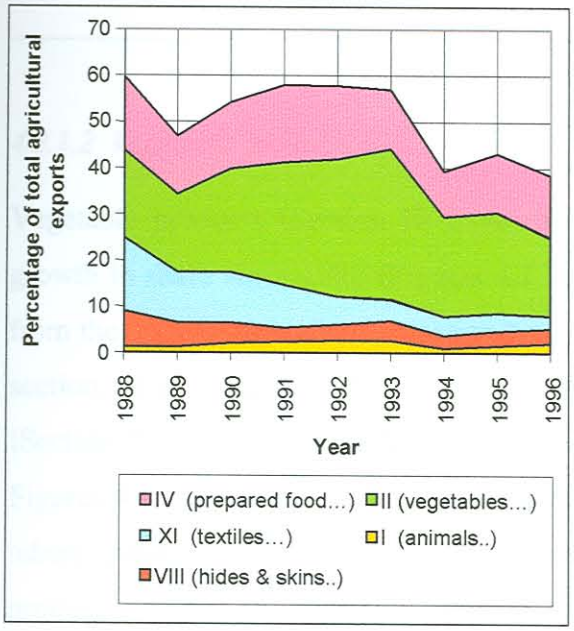


FIG. 4.2 Percentage agricultural exports (section) from SACU to Europe

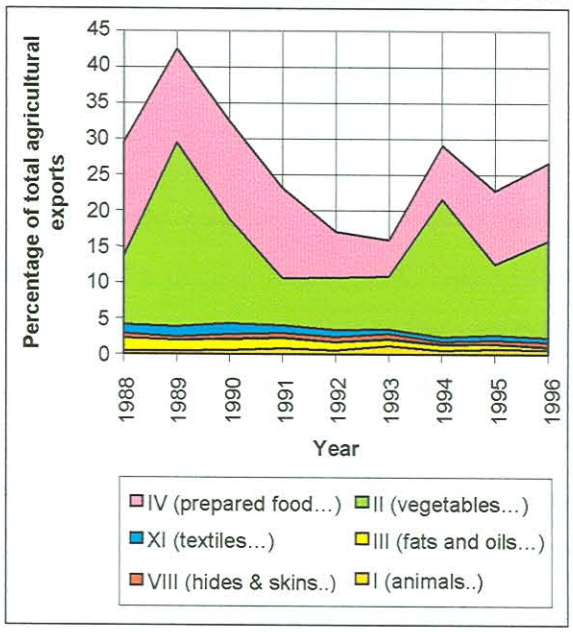


FIG. 4.3 Percentage agricultural exports (section) from SACU to Asia

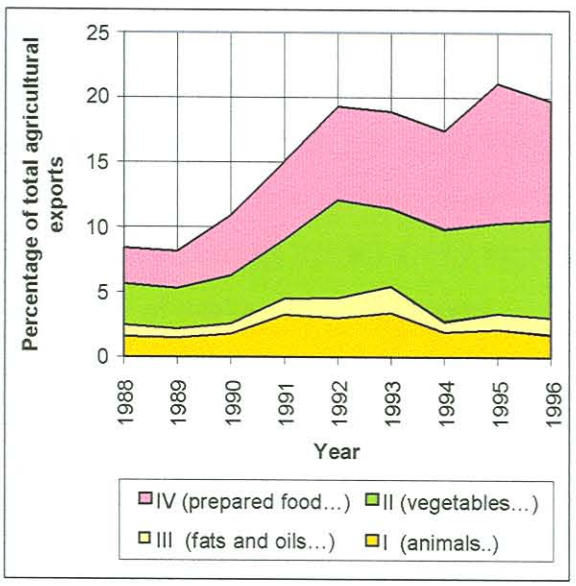


FIG. 4.4 Percentage agricultural exports (section) from SACU to Africa

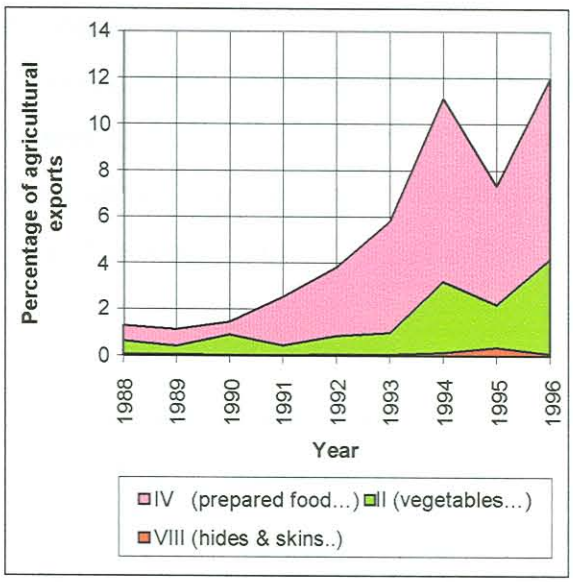


FIG. 4.5 Percentage agricultural exports (section) from SACU to the Americas

4.3, 4.4, and 4.5, respectively). By far the most drastic increases since the 1990s have occurred in exports to the Americas, from a very low base of 1% to almost 8% of total agriculture exports in 1996 (Figure 4.5).

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4.2.1.2 Vegetable products (Section II)

Vegetable products (Section II) have shown a relatively stagnant- to slightly negative growth in share since 1992 (Figures 4.1 and 4.1.2) and a decline since 1994. Huge gains from the processed-foodstuffs section have occurred since then at the cost of the vegetable section. It is noticeable that vegetable products (Section II) and prepared foodstuffs (Section IV) have a more or less an inverse trend toward each other (compare the peaks of Figures 4.1.1 and 4.1.2). Vegetable products (Section II) include cereals, vegetables, roots, tubers, products of the milling industry, oilseeds, edible fruits and nuts and miscellaneous products (Annex 4). Vegetable-products exports to Asia have shown a re-growth (Figure 4.3) since 1992, although the exports might be cyclical owing to the nature of the largest products group in this section, namely cereals (maize included), which is a traditional export commodity. Increase in exports in cereals after the devastating drought of 1992 also contributed to the apparently high growth rate in cereal exports which is similar to that of sugar. The high growth rate of 100%+ for cereals (Table 4.1) is therefore over-rated, especially in the light of long-term trends, which show huge fluctuations (Figure 4.7). Nevertheless, cereals remain a very important export-product group, which contributed to over 11% of total agriculture exports.

Since 1992, vegetable products (Section II) has shown an increase in share of exports to Asia (re-growth), Africa and the Americas but not to Europe, which showed a decline in share (Figures 4.2, 4.3, 4.4, and 4.5, respectively). The contribution to the re-growth in share to Asia and the decline in share growth to Europe, was caused by the increased trade of the so-called 'surplus-removal' products (cereals and sugar) to Asia. Although, generally there could be trade diversion between Europe and Asia, it is not obvious for the vegetable-products section. Further analysis without the surplus-removal products is necessary to establish the exact trend in trade diversion. An increase in surplus-removal products to Asia will indicate an apparent trade-diversion trend, although this might not necessarily be the case.

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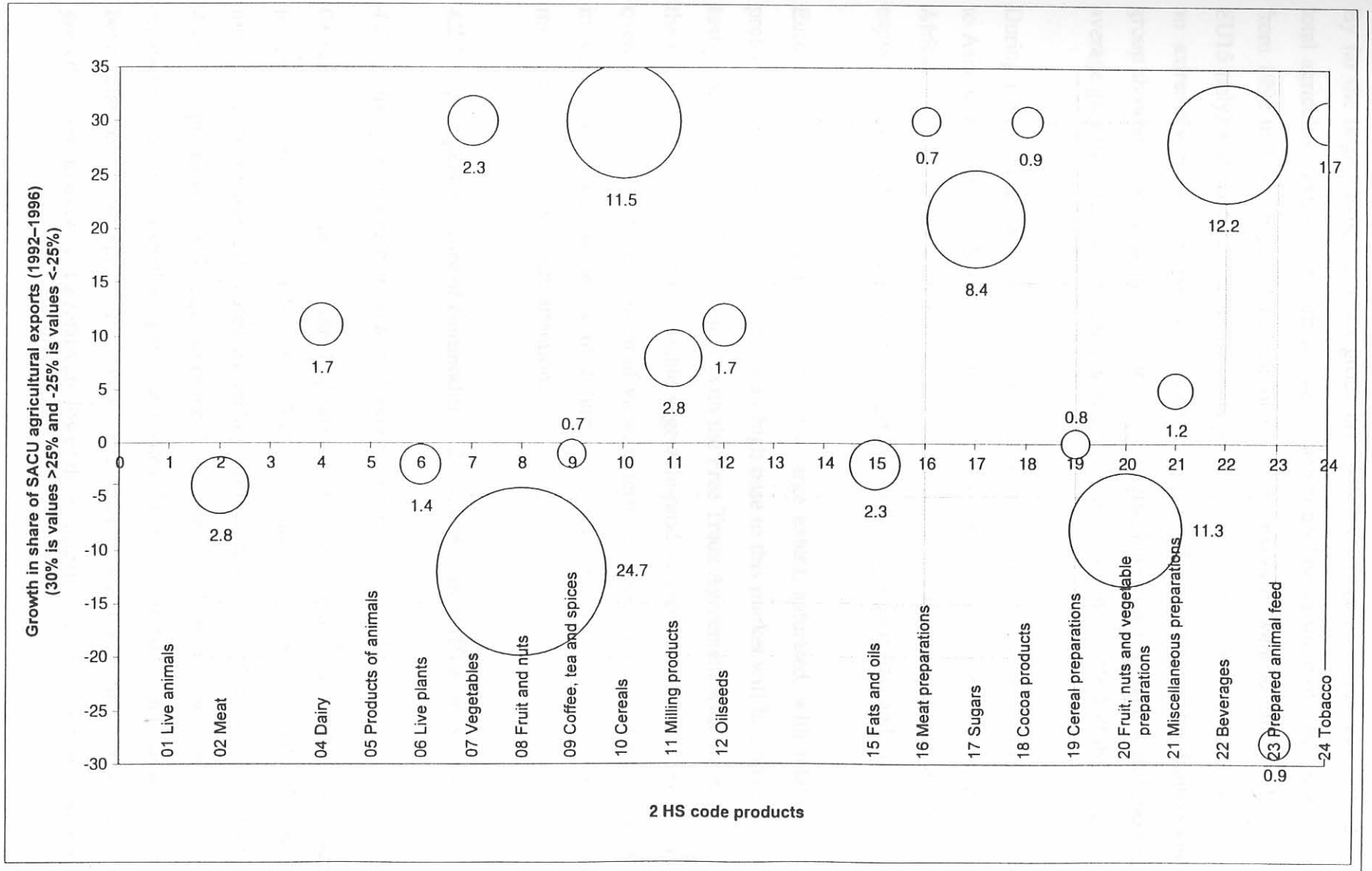


FIG. 4.6 SACU agricultural exports (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (Y-axis)]
For example: Fruit and nuts has an SACU agricultural export share of 24.7% (bubble size) and a growth in share of between -10 to -15%. Vegetables for example has a 2.3% share in SACU agricultural exports and a growth in export share of larger than 25%.

By far the largest export-product group on 2 HS level is edible fruits and nuts (25% of total agriculture exports), which showed a steady decline in share of agriculture exports from 1992 to 1996 (Figure 4.11) and of which the majority went to Europe (19% to the EU15 only) and relatively small percentages to Asia. Nevertheless, fruit and nuts remain an extremely important export-commodity group. Although the edible-fruits-and-nuts group showed a decline in its share of the total agriculture export basket, it still showed an average growth of 12% in value terms (not deflated) from 1992 to 1997 (Table 4.2).

During 1997, edible fruits and nuts showed a growth of 30%, when traditional cereal exports to Asia declined by –25%, owing to the Asian crisis as well as climatic conditions in South Africa (Table 4.2). Therefore the type of products and the type of market could also explain the apparent trade diversion of vegetable products between Asia and Europe.

Europe is a sophisticated market and, to a large extent, saturated, with relatively high protection, therefore exports from a very high base to this market will lose share for other fast-growing markets. Nevertheless, with the Free Trade Agreement with the EU in place, the importance of the relatively stable vegetable-product exports to Europe should not be overlooked. From a strategic point of view, in terms of negotiations, all large markets are important. However, in terms of future strategies for export enhancement, growing markets should receive more attention.

4.2.2 Export performance of commodities (2 HS, 4 HS and 6 HS aggregations)

4.2.2.1 High-performing commodities (generally category A and B)

Growth in export share of the high-growth products (excluding cereals and sugar) increased from approximately 3,5 to 33% in a decade (1988 to 1996). This tenfold increase in share was calculated by adding up the values in Figures 4.14.3, 4.14.4 and 4.15. The products (4 HS code) were alcohol, wine, cereal groats, chocolates, cigars and cigarettes, onions and shallots, garlic and wheat flour. The growth in new destinations has been relatively more spectacular since 1993 than it was for commodities due to fast growth of new markets and a relatively lower diversification in production and exports.

High-performing (high-growth) export products, with an export value of more than 1% of the export basket (1992 to 1997), with average annualized growth rates of about 50% (not deflated) and above, were (2 HS code in brackets) cereals (10), sugar (17), vegetable products (07), cocoa products (18), food preparations (21) and beverages (22) (Table 4.2). These values correspond with the average growth in share of the agriculture exports (1992 to 1996) results in Table 4.1. In Table 4.1 these are broken down to high-, medium- and low-share products. Tables 4.3 and 4.4 show the performance of the products further down to 4 HS and 6 HS code levels. Tables 4.5 to 4.10 show the links between Tables 4.1, 4.2 and 4.3. Each table has its own scale and the scales were roughly synchronized to make the relationships between the tables as clear as possible. Variations in the performance of aggregations of similar products occurred, because the products performed differently at various aggregations and aggregations alter the share a product has of the total. However, despite the fact that it is an imperfect method, it provides a rough filter so that a picture of the performance of products at each level can be formed, and it can be seen which products performed well on a dis-aggregated level. Since 2 HS is such a gross aggregation, the 4 HS code and a 6 HS code breakdown helps one to form an idea of exactly what it boils down to. The high-growth performers can be presented with a value above 1% of agricultural production in the table below (Table 4.11. Also refer to Table 4.2).

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Table 4.1 Growth in share of agricultural exports (SACU figures 1992 to 1996)

Average export share (SACU figures 1992 to 1996) — 2 TARIFF CODE

	High growth > 25 %	**Medium growth** 10 – 25 %	**Low growth** 0 – 10 %	**Negative growth** < 0 %
High Share (70% of exports) >500 mill (to 2 bill)	22 Beverages, Spirits and Vinegar… *[R942 mill (12,2 %), 28 %] 10 Cereals… *[R888 mill (11,5%), >100 %] *17 Sugars and sugar confectionery (97 data)* **A**	17 Sugars and sugar confectionery…. *[R650 mill (8,4 %), 21%] **B**	**C**	08 Edible Fruit and Nuts… *[R1,9 bill (24,7 %), -12 %] 20 Preparations of veg., fruit, nuts… [R873 mill (11,3 %), -8 %] **D**
Medium Share (90% of exports) >100 mill (to 500 mill)	07 Vegetables, roots, tubers… *[R180 mill (2,3 %), 40 %] 24 Tobacco… *[R131 mill (1,7 %), 32 %] **B**	11 Product of Milling Industry… *[R218 mill (2,8 %), 8 %] 04 Dairy produce… *[R135 mill (1,7 %), 11 %] 12 Oil Seeds… *[R130 mill (1,7 %), 11 %) **C**	41 Raw hides and skins… *[R313 mill (4 %), 2 %] **D**	51 Wool, hair… *[R366 mill (4,7 %), -17 %] 02 Meat & Edible offals… *[R213 mill (2,8 %), -4 %] 15 Fats and oils… *[R177 mill (2,3 %). –2 %] 06 Live trees, bulbs, roots… *[R111 mill (1,4 %), -2 %] **E**
Low Share (98% of exports) >50 mill (to 100 mill)	18 Cacoa and Cacoa prep…. *[R68 mill (0,9 %), 40 %] 16 Prep. Of Meat, fish… *[R53 mill (0,7 %), 60 %] (29 Organic chemicals)… *[R2 mill (0,03 %), 62 %] *21 Miscellaneous preparations (97 data)* **C**	*24 Tobacco (97)* **D**	21 Miscellaneous prep…. *[R92 mill (1,2 %), 5 %] 33 Essential oils… *[R31 mill (0,4 %), 1 %] 19 Prep. of Cereals, starch, milk.. *[R58 mill (0,8 %), 0 %) 09 Coffee, tea, spices… *[R54 mill (0,7 %), - 1 %] **E**	23 Animal Feed… *[R66 mill (0,9 %), -28 %] **F**

* [Share of total exports in Rand (% share), Growth in share %]

Note: If added up, the high-, medium- and low share categories count up to 70%, 90% and 98% of SACU exports respectively

Table 4.2 Growth in SACU exports per products 1992 to 1997

Product (2 HS code) and description	Average growth (%) (92-97)	Rank (92-97)	Growth (%) (96-97)	Rank (96-97)	R ' 000 000 avg. (92-97)	% of agric exports (92-97)
>1% of agricultural exports						
High growth						
10 Cereals	199	1	-25	14	957	1.50
17 Sugar confectionery	91	2	-6	12	722	8.68
07 Vegetables..	82	3	83	1	304	3.65
18 Cocoa and cocoa preparations	67	4	35	2	86	1.03
21 Miscellaneous edible preparations	52	5	23	4	139	1.67
22 Beverages, spirits and vinegar	47	6	-8	13	906	0.89
Medium growth						
12 Oilseeds and oleaginous fruit..	32	7	16	5	148	1.78
04 Dairy..	28	8	11	6	156	1.87
11 Milling products..	20	9	-31	15	228	2.74
Low growth						
41 Raw hides and skins..	18	10	-2	11	340	4.09
06 Live trees..plants..	17	11	6	8	118	1.42
08 Fruit & nuts..	12	12	30	3	2086	5.06
20 Preparations of vegetables..	12	13	8	7	930	1.17
Very Low growth						
15 Animal and vegetable fats & oils	10	14	3	9	198	2.38
02 Meat...	7	15	-32	16	225	2.70
51 Wool, animal hair..	4	16	0	10	379	4.55
<1% of agricultural exports						
43 Furskins..	603		-94		0.2	0.00
50 Silk	357		8		0.4	0.00
52 Cotton	110		481		10	0.12
53 Vegetable textile fibres..	103		-31		0.06	0.00
14 Vegetable plaiting material..	88		-11		2	0.02
29 Organic chemicals	87		7		1	0.01
01 Live animals	55		141		33	0.40
09 Coffee & tea & spices	32		80		69	0.83
16 Preparations of meat	32		103		20	0.24
33 Essential oils...	26		-23		19	0.23
13 Lac; gums..	26		99		13	0.16
24 Tobacco	22		41		69	0.83
19 Preparations of cereals..	18		12		66	0.79
05 Products of animal origin..	16		41		27	0.32
38 Miscellaneous chemical products	11		46		0.1	0.00
35 Albuminoidal substances..	0		-24		9	0.11

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Table 4.3 Growth in share of agricultural exports (SACU figures 1992 to 1996)

4 TARIFF CODE

Average export share (SACU figures 1992 to 1996)

	High growth > 25 %	**Medium growth** 10 – 25 %	**Low growth** 0 – 10 %	**Negative growth** < 0 %
High Share (70% of exports) > 100 million	1005 Maize (Corn)... *[R840 mill (10,9 %), >100 %] 1701 Sugar... *[R556 mill (7,2 %), 29 %] 2204 Wine... *[R397 mill (5,1 %), 43 %] 2207 Ethyl alcohol... *[R264 mill (3,4 %), 92 %] A	1101 Wheat flour... *[R115 mill (1,5 %), 8,9 %] B	4102 Raw skins of sheep... *[R190 mill (2,5 %), 2,8 %] 2203 Beer... *[R168 mill (2,2 %), 1,9 %] 4101 Raw hides and skin... *[R107 mill (1,4 %), -1,7 %] C	0805 Citrus #[8.6 %,-13 %] 0808 Apples, pears #[7 %,-15 %] 2008 Fruit, nuts #[7 %,-8 %] 0806 Grapes #[5.7 %, -2 %] 5101 Wool #[3.8 %,-18 %] 2009 Fruit juices #[3.3 %, -8 %] 0201 Meat #[1.4 %, -13 %] D
Medium Share (80% of exports) > 50 million	0703 Onion, garlic... *[R757 mill (1 %), >100 %] 2402 Cigars... *[1%, >100 %] 1806 Chocolate... *[R66 mill (0,9 %), 42 %] 1103 Cereal groats... *[R59 mill (0,8 %), >100 %] 0202 Meat of bovine animals, Frozen... *[R50 mill (0.7 %, 18 %] B	0402 Condensed Milk and cream... *[R85 mill (1,1 %), 12 %] 1512 Sunflower... *[R58 mill (0,8 %), 14 %] C	1202 Groundnuts... *[R72 mill (1 %), 7 %] 5102 Animal hair... *[R55 mill (0,7 %), 5 %] 2401 Tobacco... *[R53 mill (0,7 %), 5 %] D	0804 Fruit (dates, figs, pineapples, ...) #[1,1 %, -6 %] 0800Apricots,cherries,... #[1.1 %, -18 %] 2202 Waters...#[1 %, -9 %] 0603 Cut flowers...#[0.8 %, -3 %] 1704 Sugar confectionery... #[0.8 %, -6 %] E
Low Share (90% of exports) > 20 million	0807 Melons... *[R26 mill (0,3 %), >100 %] 1703 Molasses... *[R25 mill (0,3 %), 45 %] C	0207 Meat... *[R22 mill (0,3 %), 11%] D	2106 Food prep... #[0.6 %, 1 %] 2007 Jams, jellies... #[0.5 %, 7 %] 2208 Ethyl alcohol... #[0.5 %, 9 %] 3301 Essential oils... #[0.4 %, 1 %] 0604 Foliage... #[0.3 %, 7 %] 0813 Fruit, dried ... #[0.3 %, 1 %] E	0710 Vegetables... #[0.5 %, -12 %] 1905 Bread, cakes, #[0.5 %, -3 %] 2005 Other vegies.. #[0.4 %, -5 %] 904 Pepper... #[0.4 %, -1 %] 1508 Groundnut oil... #[0.4 %, -14 %] (2304 oilcake?)... #[0.3 %, -23 %] 1209 Seeds ... #[0.3 %, -8 %] 1517 Margarine... #[0.3 %, -12 %] (0505 Skins?)... #[0.3 %, -8 %] F

* [Share of total exports in Rand (% share), Growth in Share %]
\# [% Share, Growth in share %]

Note: If added up, the high-, medium- and low share categories count up to 70%, 80% and 90% of SACU exports respectively

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Table 4.4 Growth in share of agricultural exports (SACU figures 1992 to 1996)

6 TARIFF CODE

Average export share (SACU figures 1992 to 1996)

	High growth > 25 %	Medium growth 10 – 25 %	Low growth 0 – 10 %	Negative growth < 0 %
High Share (70% of exports) >50 million rand	100590 Maize (Other)...*[10,2, >100%] 170111 Cane Sugar ..*[5,8%, 31%] 220421 Wine (<2 l) ..*[3,1%, >100%] 220720 Ethyl alcohol, spirits ..*[3%, >100%] 100510 Maize seed ...*[1,8%, >100%] 070310 Onions and shallots .. *[1,1%, >100%] 240220 Cigarettes ...*[1%, >100%] 220710 Undenatured ethyl alcohol ...*[3%, >100%] **A**	170199 Sugar (Other) ... *[2,1 %, 18 %] 200990 Mixtures of juices .... *[1%, 12 %] 220210 Waters ... *[0,8 %, 13 %] **B**	080610 Fresh grapes .. *[5 %, 1 %] 220300 Beer from Malt ..*[2,4 %, 1 %] 220429 Wine (Other) .. *[2,3 %, 9 %] 080540 Grapefruit .. *[2 %, 1 %] 110100 Wheat or meslin flour ...*[1,6 %, 8 %] 120220 Groundnuts ... *[0,8 %, 0 %] **C**	080510 Oranges .. *[6,6 %, -10 %] 080810 Apples .. *[5,5 %, -13 %] 080820 Pears and quinces .*[2,3 %,-14%] 200870 Peaches ..*[2,2 %, - 9 %] 200892 Fruit, nut mixtures *[2,1 %, -3%] 020130 Meat of bovine, Boneless .. *[1,5 %, -15 %] 080620 Dried grapes .. *[1,3 %, -7 %] 200970 Apple juice .. *[1 %, -7 %] 200840 Pears .. *[1 %, - 18 %] 200850 Apricots .. *[1 %, - 7 %] 200820 Pineapples .. *(0,9 %, -14 %] **D**
Medium Share (80% of exports) >25 mill	110313 Cereal (groats) of maize .. *[0,7 %, 100 %] 180690 Chocolate (other) ..*[0,6 %, 20 %] 040229 Milk and cream (other) ..*[0,4 %, 31 %] **B**	020230 Boneless meat, frozen ..*[0,7 %, 18 %] 220799 Ethyl alcohol .. *[0,7 %, 24 %] 240110 Tobacco .. *[0,5 %, 19 %] **C**	210690 Food preparation (other) .. *[0,7 %, 0 %] 200980 Juice of single fruit .. *[0,4 %, 3 %] **D**	080940 Plums and sloes .. *[0,8 %, -3 %] 060310 Cut flowers .. *[0,7 %, -5 %] 151219 Sunflower, cotton seed oil .. *[0,7 %, -6 %] 170490 Sugar confectionary (other) .. *[0,6 %, -2 %] 080440 Avocados .. *[0,8 %, -7 %] 080530 Lemons and limes .*[0,6 %, -23 %] 200960 Grape juice .. *[0,5 %, -15 %] 190530 Biscuits, waffles, wafers.. *[05 %,-7 %] 071080 Other vegetables .. *[0,4 %, -18 %] 150890 Groudnut oil .. *[0,4 %, - 18 %] 090420 Fruits .. *[0,4 %, -8 %] **E**
Low Share (90% of exports) >10 million rand	170310 Cane molasses .. *[0,3%, 58%] 040221 Milk and cream.. *[0,3%, 25%] 020890 Other meat .. *[0,3%, 33%] 100700 Grain sorghum .. *[0,3%, >100%] 080520 Mandarins .. *[0,2%, 61%] 100300 Barley .. *[0,2%, >100%] 240120 Tobacco .. *[0,2%, 25%] 180620 Chocolate (Other) ..*[0,2%, >100%] 120600 Sunflower seed .. *[0,2%, >100%] 120210 Groundnuts in shell ..*[0,2%, >100%] 200819 Fruit, nut (other) .*[0,2%,>100%] 230690 Oilcake (other) .. *[0,2%, 62%] 060110 Bulbs, tubers .. *[0,2%, 1%] 220830 Whiskies .. [0,2%, >100%] 151211 Crude oil .. [0,2%, >100%] **C**	080290 Other nuts .. *[0,2%, 14%] 220410 Sparkling Wine .. *[0,2%, 11%] 070190 Other potatoes .. *[0,2%, 23%] 040299 Milk and cream (other) ..*[0,2%, 17%] 060390 Cut flowers (other) .. *[0,2%, 12%] **D**	060499 Fiolage (other) .. *[0,3%, 9%] 080450 Guavas, mangoes ..*[0,3%, 0%] 081310 Apricots .. *[0,2%, 1%] 151710 Margarine .. *[0,2%, 0%] 010600 Live animals (other) ..*[0,2%, 6%] **E**	200940 Pineapple juice .. *[0,4%, -23%] 230400 Oilcake .. *[0,4%, -24%] 080930 Peaches, incl nectarines... 200830 Citrus fruit .. *[0,3%, -10%] 040210 Milk and cream (powder) 200540 Asparagus .. *[0,3%, -15%] 050590 Other skins .. *[0,3%, -8%] 220890 Undenatured ethyl alcohol (other) .. *[0,3%, -3%] 230990 Preparations – animal feeding .. *[0,2%, -1%] 170410 Chewing gum .. *[0,2%, 0%] 120991 Vegetable seeds .. *[0,2%, -3%] 150200 Fats .. *[0,2%, -14%] 200920 Grapefruit juice .. *[0,2%, -21%] 110220 Maize flour .. *[0,2%, -6%] 160250 Prepared, preserved meat(bovine) .. *[0,2%, -6%] **F**

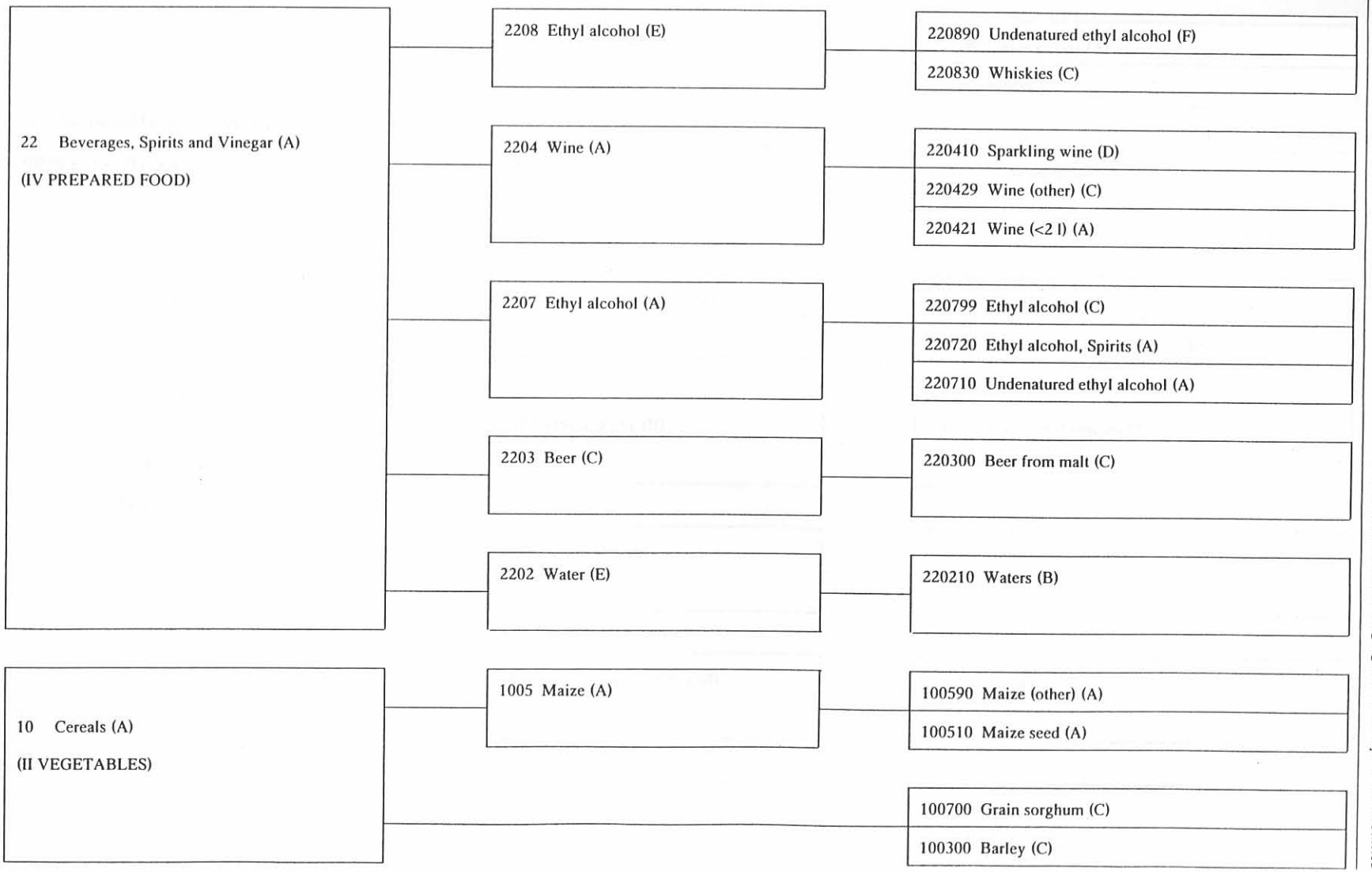
* [Share of total exports %, Growth in share]

Note: If added up, the high-, medium- and low share categories count up to 70%, 80% and 90% of SACU exports respectively

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Table 4.5 Classification according to growth and share performance (A, B, C, D or E) on a 2 HS code, 4 HS code and 6 HS code respectively

A



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Table 4.6 Classification according to growth and share performance (A, B, C, D or E) on a 2HS code, 4HS code and 6HS code respectively

B

17 Sugars and Sugar Confect. (B) (IV PREPARED FOOD)	1701 Sugar (A)	170199 Sugar (other) (A)
		17011 Cane sugar (A)
	1703 Molasses (C)	170310 Cane molasses (C)
	1704 Sugar Confectionery (E)	Chewing gum (E)
		170490 Sugar confectionery (other) (E)
07 Vegetables, roots, tubers (B) (II VEGETABLES)	0703 Onion, garlic (B)	070310 Onions and shallots (A)
	0710 Vegetables (E)	071080 Other vegetables (E)
23 Tobacco (B) (IV PREPARED FOOD)	2402 Cigars and Cigarettes (B)	240220 Cigarettes (A)
	2401 Tobacco (D)	240110 Tobacco (C)
		240120 Tobacco (C)

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Table 4.7 Classification according to growth and share performance (A, B, C, D or E) on a 2HS code, 4HS code and 6HS code respectively

ℂ

11 Products of Milling indust. (C) (II VEGETABLES)	1101 Wheat flour (B)	110100 Wheat or meslin flour (C)
		110220 Maize flour (F)
	1103 Cereal groats (B)	110313 Cereal (groats) of maize (B)
		110812 Maize, starch
04 Dairy Products (C) (I ANIMALS)	0402 Milk and cream (C)	040210 Milk and cream powder (F)
		040229 Milk and cream (B)
		040221 Milk and cream (C)
		040299 Milk and cream (D)
12 Oil seeds (C) (II VEGETABLES)	1202 Ground nuts (D)	120210 Groundnuts in shell (C)
		120220 Groundnuts shelled (C)
	1209 Seeds (F)	120991 Vegetables seeds (F)
		120600 Sunflower seed (C)
18 Cocoa & Cocoa prep. (C) (IV PREPARED FOOD)	1806 Chocolate (B)	180690 Chocolate (other) (B)
		180620 Chocolate (other) (C)
16 Prep. of Meat, fish (C) (IV PREPARED FOOD)		160250 Prep., preserved meat, bovine (F)
(29 Organic chemicals) (C)		

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Table 4.8 Classification according to growth and share performance (A, B, C, D or E) on a 2HS code, 4HS code and 6HS code respectively

D

08 Edible Fruit, nuts (D) (II VEGETABLES)		080290 Other nuts (D)
	0813 Fruit, dried (E)	081310 Apricots (E)
	0809 Apricot, cherries (E)	080930 Peaches (F)
		080940 Plums and sloes (E)
	0804 Fruit (dates, figs, pineapples) (E)	080450 Guavas, mangoes (E)
		080440 Avocados (E)
	0807 Melons (C)	
	0805 Citrus (D)	080530 Lemons and limes (E)
		080510 Oranges (D)
		080540 Grapefruit (C)
		080520 Mandarins (C)
	0808 Apples and pears (D)	080810 Apples (D)
		080820 Pears (D)
	0806 Grapes (D)	08060 Fresh grapes (C)
		080620 Dried grapes (D)
19 Prep. of vegetables, fruit, nut (D) (IV PREPARED FOOD)	2005 Other vegetables (F)	200560 Asparagus (F)
	2008 Fruit, nut (D)	200870 Peaches (D)
		200819 Fruit, nut (C)
		200892 Mix fruit, nut (D)
		200840 Pears (D)
		200850 Apricots (D)
		200820 Pineapples (D)
		200830 Citrus (E)
	2009 Fruit juices (D)	200990 Mixtures of juices (B)
		200970 Apple juice (D)
		200980 Juice of single fruit (D)
		200960 Grape juice (E)
		200940 Pineapple juice (F)
		200920 Grapefruit juice (F)
	2007 Jams, jellies (E)	
41 Raw hides and skins (D) (VIII HIDES / SKINS)	4102 Raw skins of sheep (C)	
	4101 Raw hides and skin (C)	

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Table 4.9 Classification according to growth and share performance (A, B, C, D or E) on a 2HS code, 4HS code and 6HS code respectively

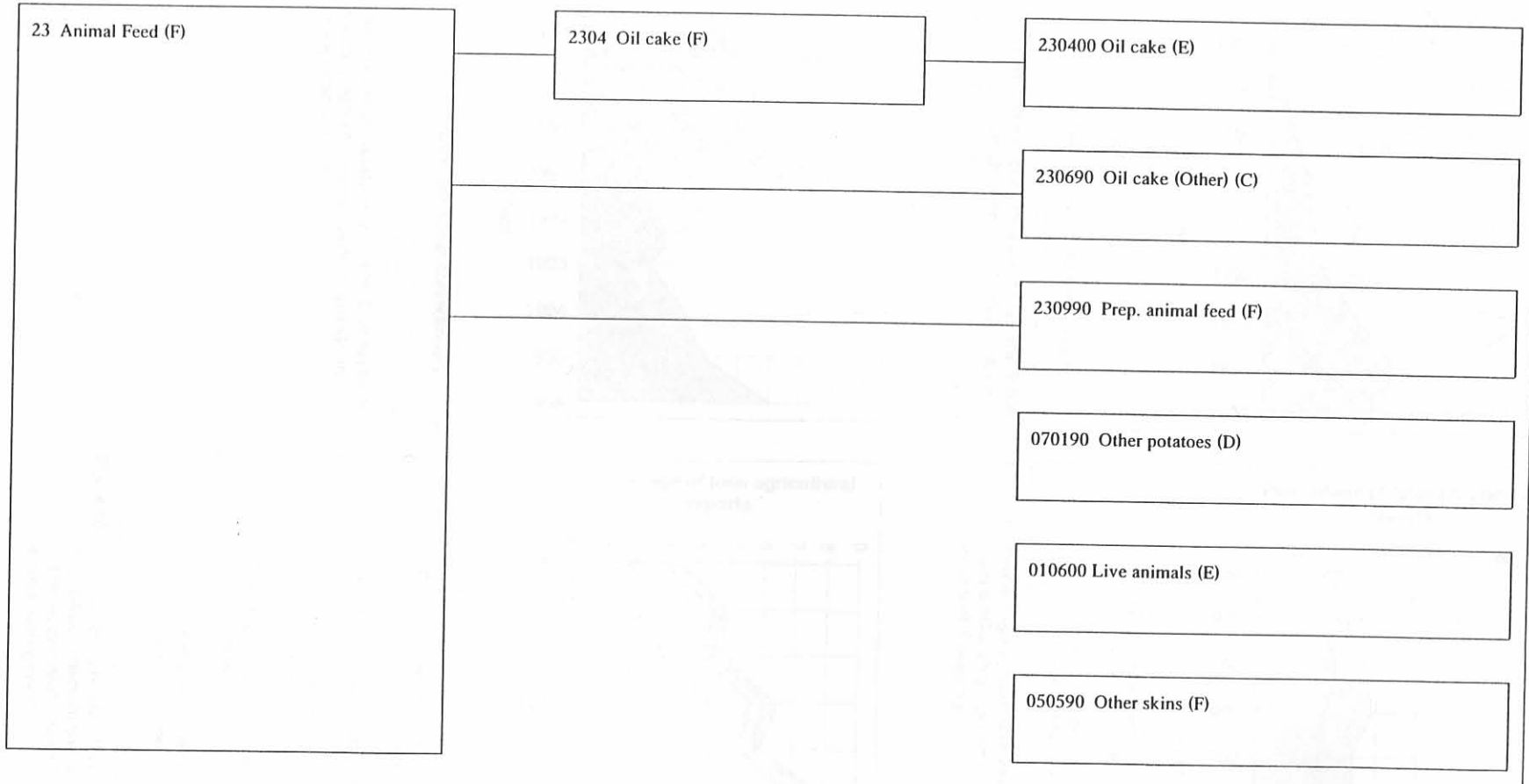
E

51 Wool, hair (E) (XI TEXTILES)	5101 Wool (D)	
	5102 Animal hair (D)	
02 Meat and edible offal (E) (I ANIMALS)	0202 Meat of bovine, frozen (B)	020230 Boneless meat, frozen (C)
	0201 Meat (D)	020130 Meat of bovine, boneless (D)
	0207 Meat (D)	
		020890 Other meat (C)
15 Fats and oils (E) (III FATS and OILS)		150200 Fats (F)
	1512 Sunflower (C)	151211 Crude oil (C) 151219 Sunflower, cotton oil (E)
	1508 Groundnut oil (F)	150890 Groundnut oil (E)
	1517 Margarine (F)	151710 Margarine (E)
05 Live trees, bulbs, roots (E) (II VEGETABLES)	0603 Cut flowers (E)	060310 Cut flowers (E) Cut flowers (D)
	0604 Foliage (E)	060499 Foliage (E)
		060110 Bulbs, tubers (C)
20 Miscellaneous prep. (E) IV PREPARED FOOD)	2106 Food prep. (E)	210690 Food prep. (D)
33 Essential oils (E) (VI CHEMICALS)	3301 Essential oils (E)	
19 Prep. of cereals, starch, milk (E) (IV PREPARED FOOD)	1905 Bread, cakes (F)	190530 Biscuits, waffles, wafers (E)
09 Coffee, tea, spices (E) (II VEGETABLES)	0904 Pepper (F)	090420 Fruit (E)

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Table 4.10 Classification according to growth and share performance (A, B, C, D or E) on a 2HS code, 4HS code and 6HS code respectively

F



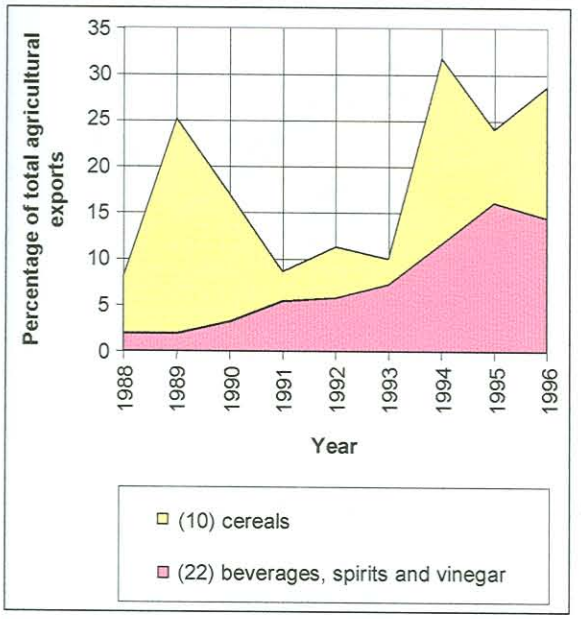


FIG. 4.7 Percentage agricultural exports (2 tariff code) from SACU. (high share and high growth in share). Category A

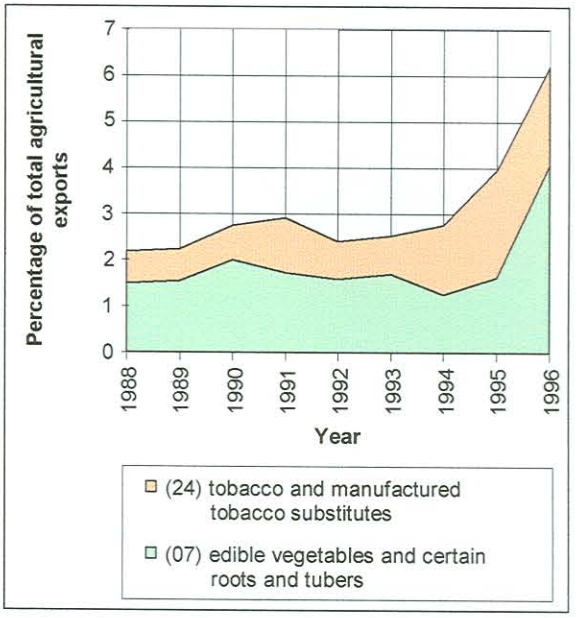


FIG. 4.8 Percentage agricultural exports (2 tariff code) from SACU. (high growth and medium growth in share). Category B

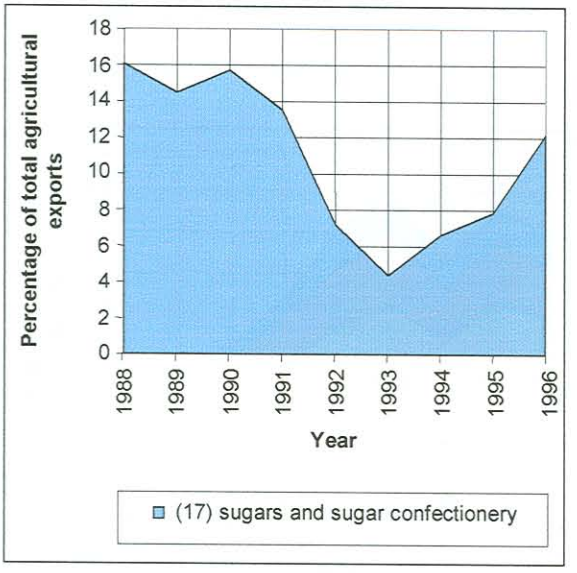


FIG. 4.9 Percentage agricultural exports (2 code) from SACU. (high share and medium growth in share). Category B

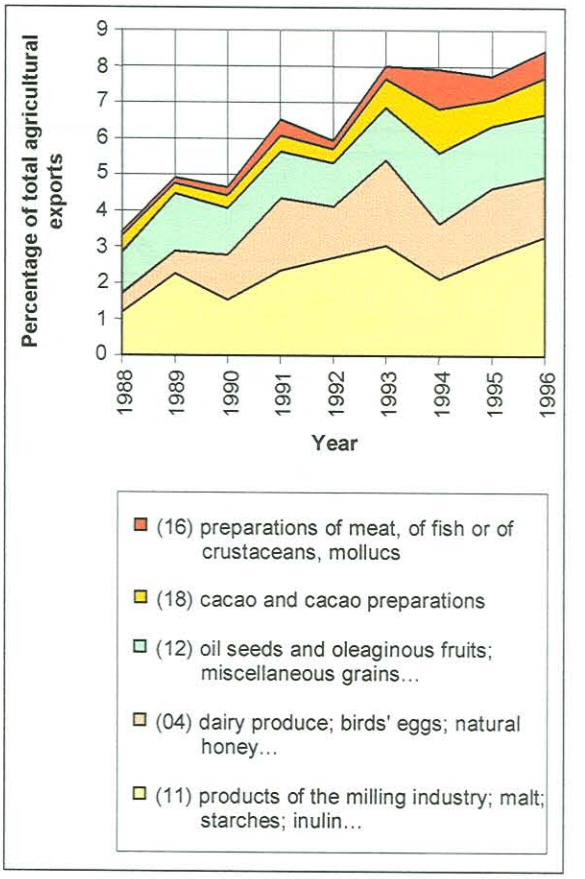


FIG. 4.10 Percentage agricultural exports (2 tariff code) from SACU. (medium share and medium growth in share, and high share and low growth in share). Category C

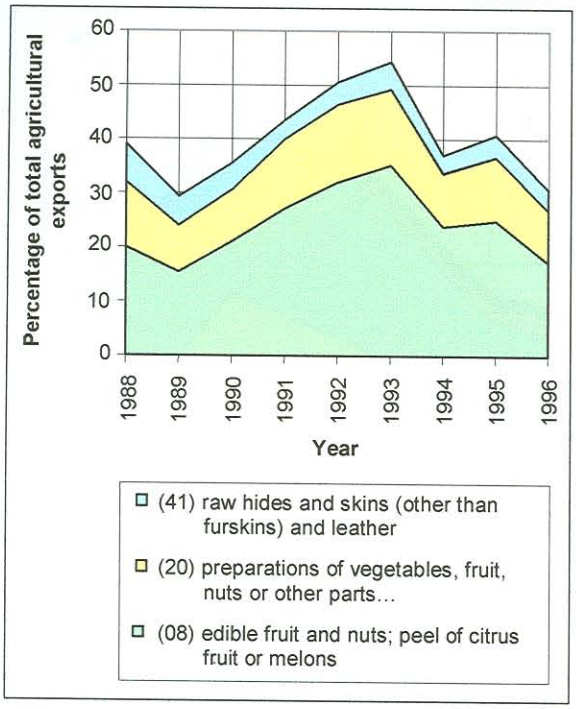


FIG. 4.11 **Percentage agricultural exports (2 tariff code) from SACU. (high share and negative growth in share, and medium share and low growth in share). Category D**

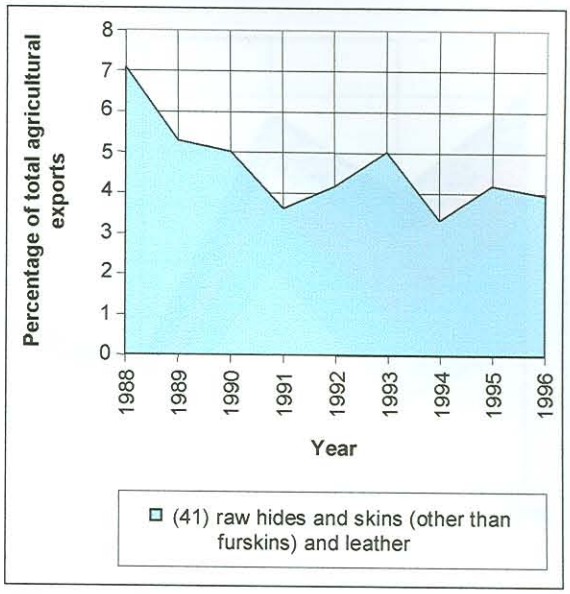


FIG. 4.11.1 **Percentage agricultural (2 tariff code) from SACU. (high share and low growth in share). Category D**

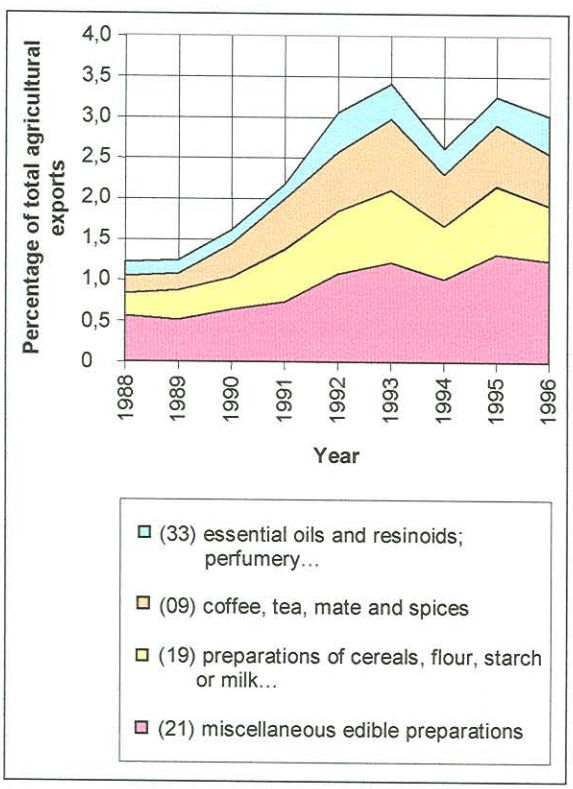


FIG. 4.12 **Percentage agricultural exports (2 tariff code) from SACU. (medium share and low growth in share). Category E**

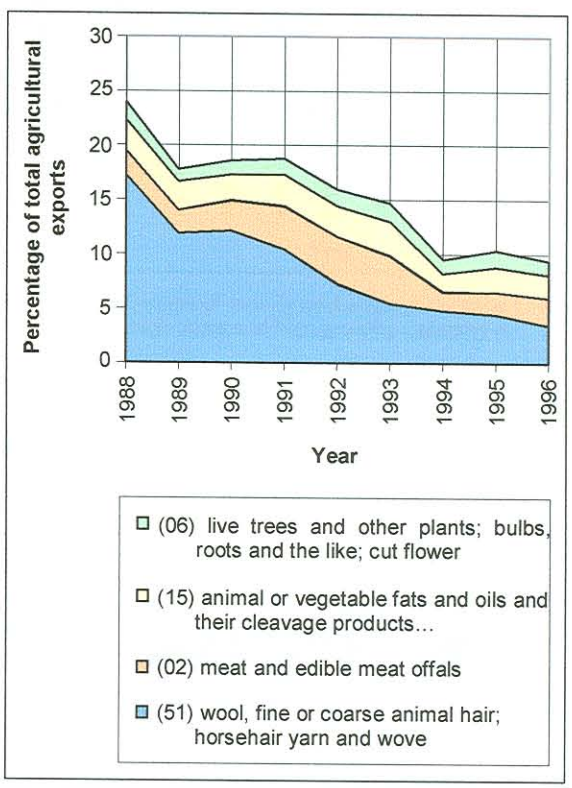


FIG. 4.13 **Percentage agricultural exports (2 tariff code) from SACU. (medium share and negative growth in share). Category E**

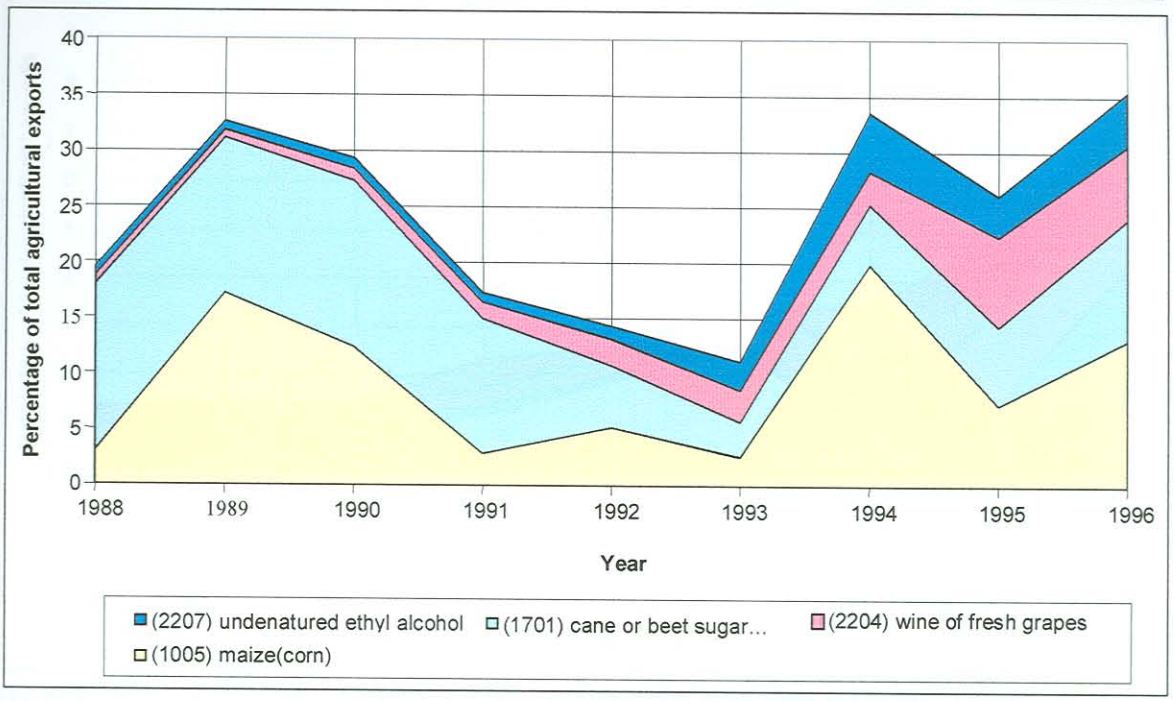


FIG. 4.14 Agricultural exports (4 tariff code) from SACU. (high share and high growth in share). Category A

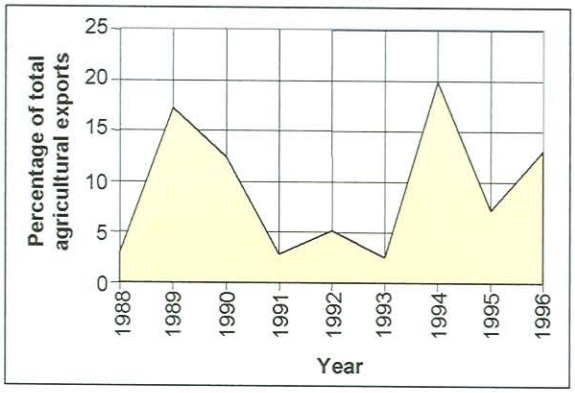


FIG. 4.14.1 Exports of Maize (corn) (tariff code 1005). (high share and high growth). Category A

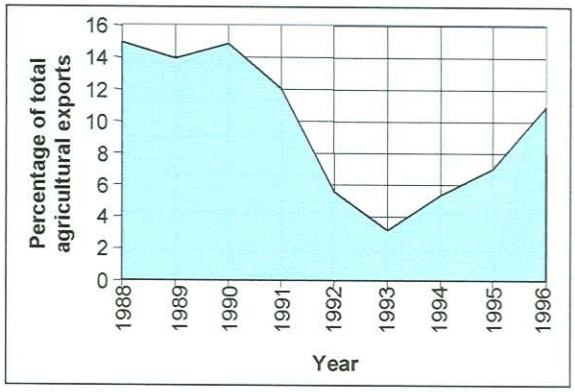


FIG. 4.14.2 Exports of cane or beet sugar (tariff code 1701). (high share and high growth). Category A

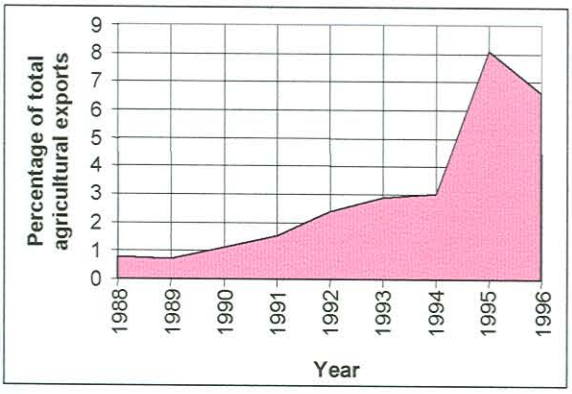


FIG. 4.14.3 Exports of wine of fresh grapes (tariff code 2204). (high share and high growth). Category A

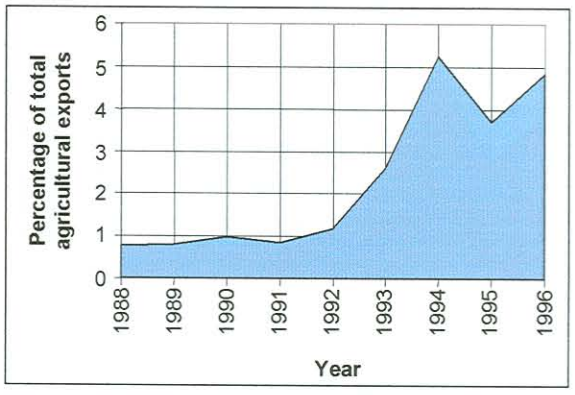


FIG. 4.14.4 Exports of undenatured ethyl alcohol (tariff code 2207). (high share and high growth). Category A

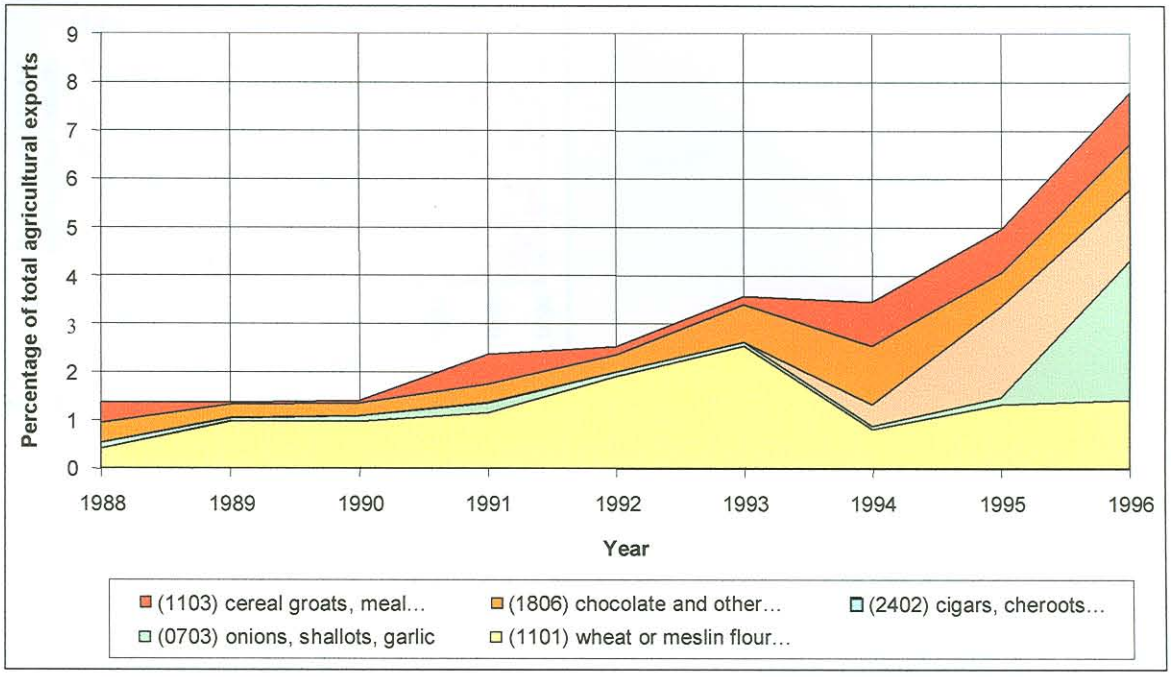


FIG. 4.15 Percentage agricultural exports (4 tariff code) from SACU. (high share and medium growth in share and medium share and high growth in share). Category B

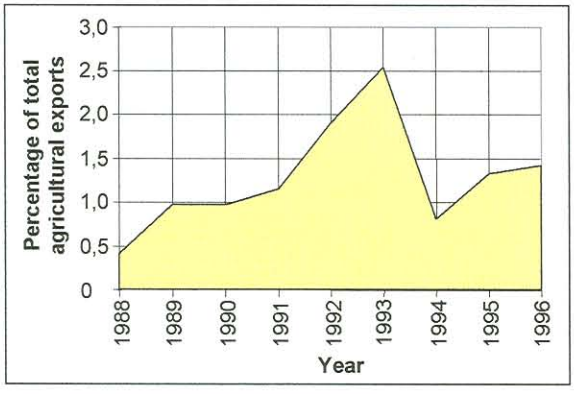


FIG. 4.15.1 Exports of wheat or meslin flour (tariff code 1101). (high share and medium growth in share)

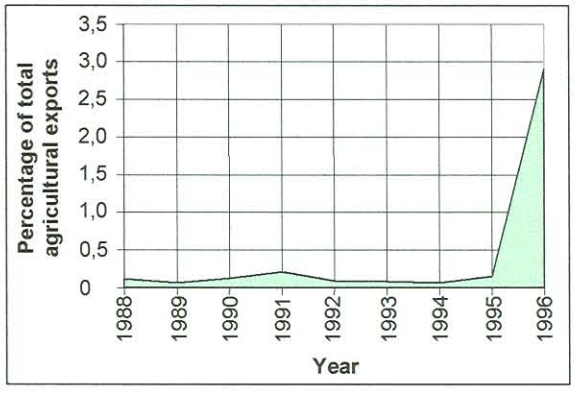


FIG. 4.15.2 Exports of onions, shallots and garlic (tariff code 0703). (high share and high growth in share)

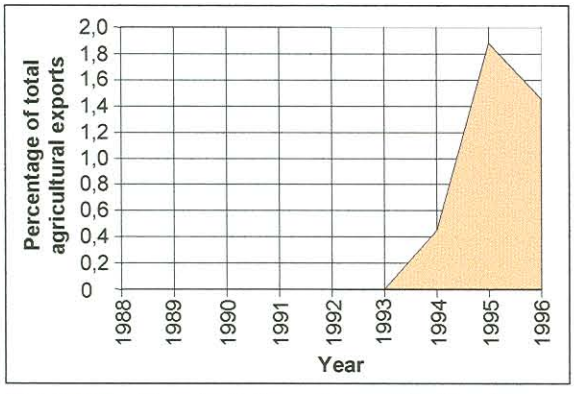


FIG. 4.15.3 Exports of cigars, cheroots (tariff code 2402). (medium share and high growth in share)

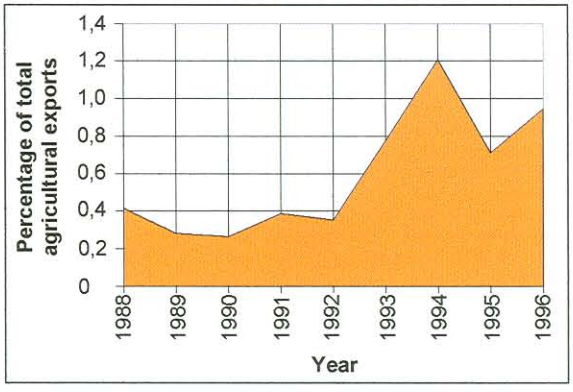


FIG. 4.15.4 Exports of chocolate and other (tariff code 1806). (medium share and high growth in share)

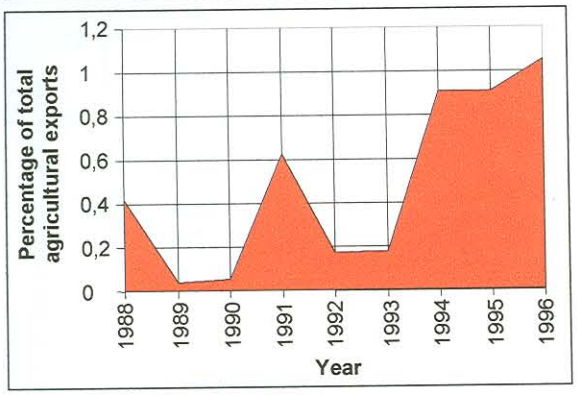


FIG. 4.15.5 **Exports of cereal groats, meal (tariff code 1103). (medium share and high growth in share)**

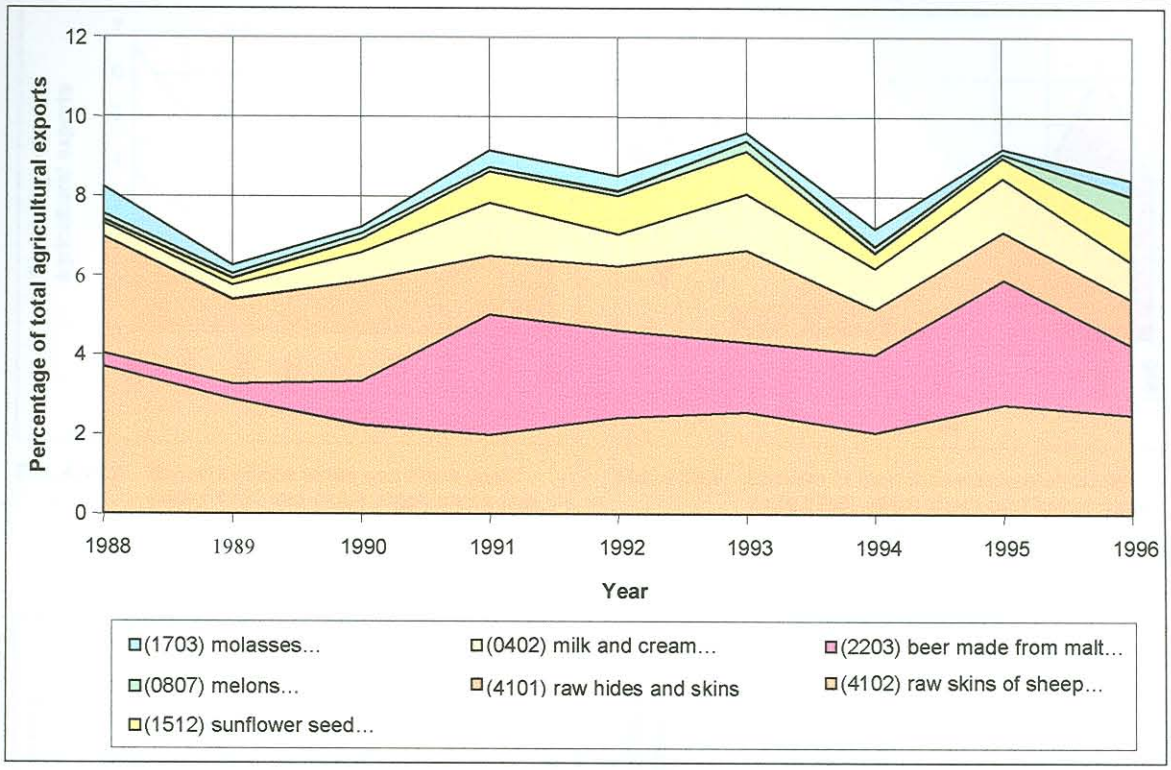


FIG. 4.16 Percentage agricultural exports (4 tariff code) from SACU. (high share and low growth in share, medium share and medium growth in share and low share and high growth in share). Category C

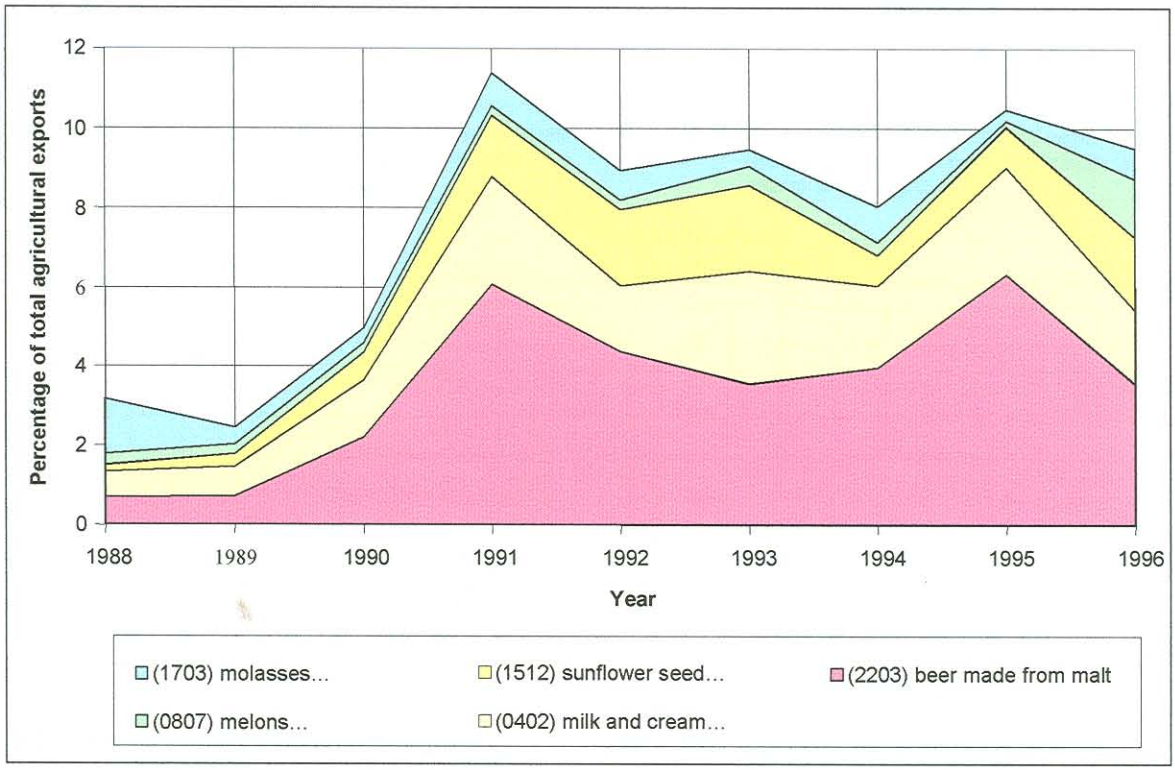


FIG. 4.16.1 Percentage agricultural exports (4 tariff code) from SACU. Category C (excluding Raw skins)

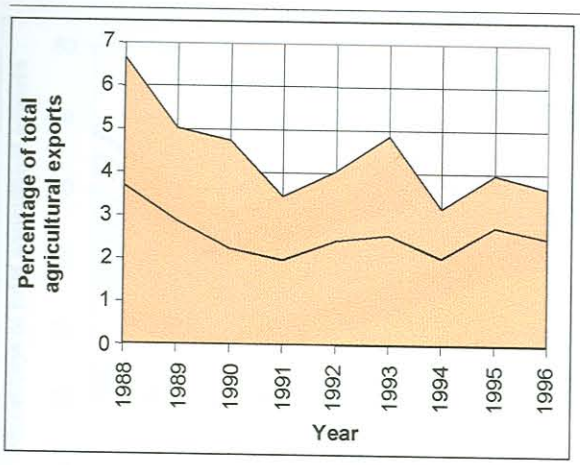


FIG. 4.16.2 Exports of raw hides and skins (tariff codes 4101 and 4102). (high share and low growth in share). Category C)

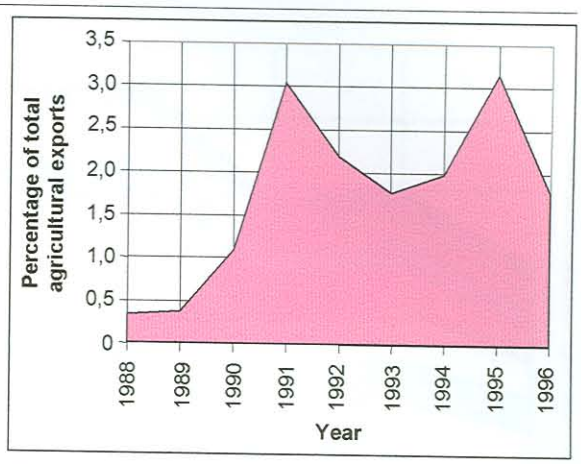


FIG. 4.16.3 Exports of beer made from malt (tariff code 2203). (high share and low growth in share). Category C

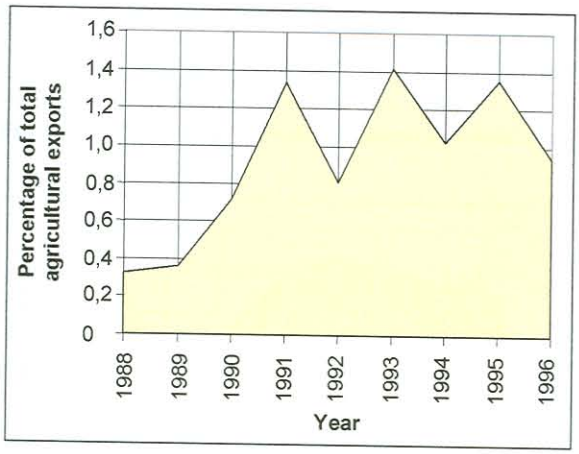


FIG. 4.16.4 Exports of condensed milk and cream (tariff code 0402). (medium share and medium growth in share). Category C

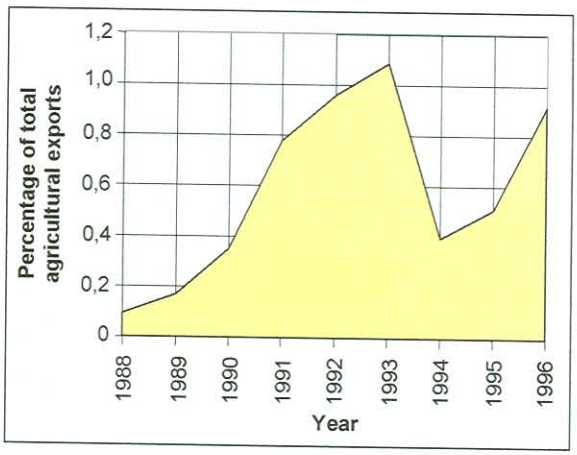


FIG. 4.16.5 Exports of sunflower...(tariff code 1512). (medium share and medium growth in share). Category C

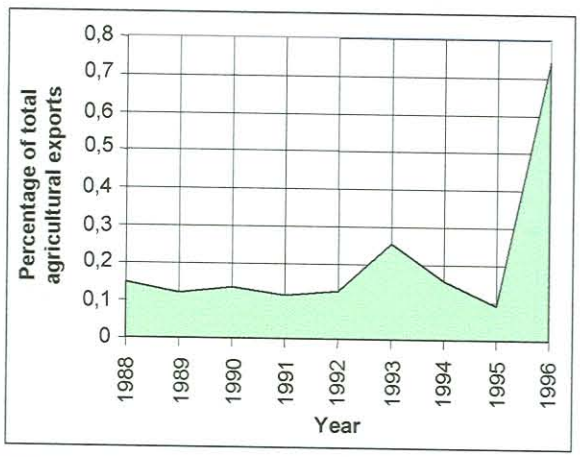


FIG. 4.16.6 Exports of melons (tariff code 0807). (low share and high growth in share). Category C

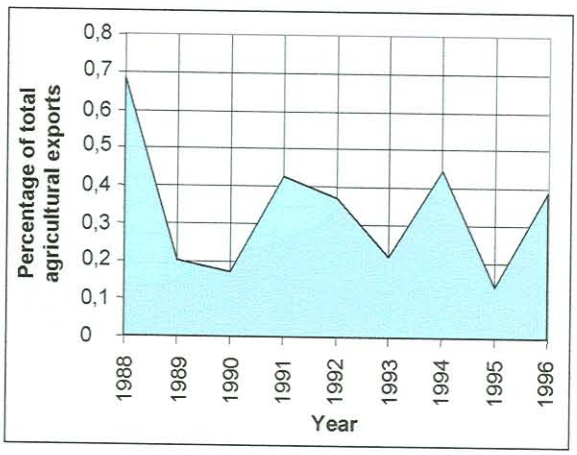


FIG. 4.16.6 Exports of molasses (tariff code 1703). (low share and high growth in share). Category C

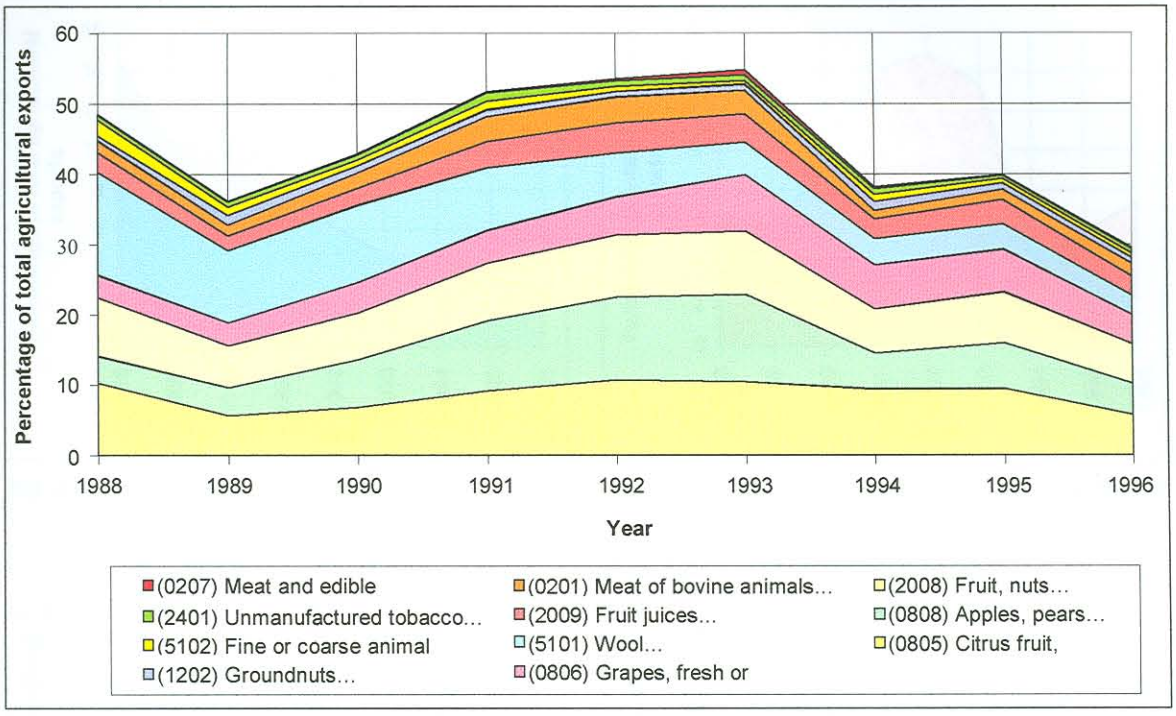


FIG. 4.17 Percentage agricultural exports (4 tariff code) from SACU. Category D

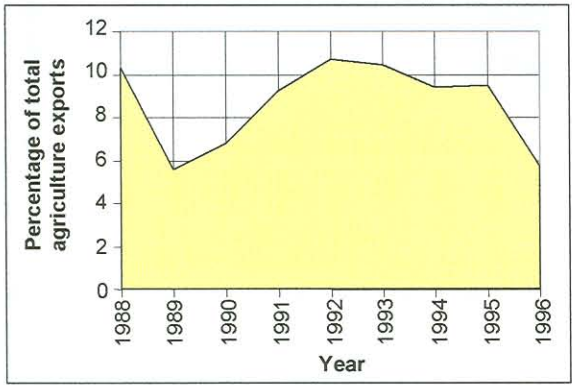


FIG. 4.17.1 Exports of citrus fruit,..(tariff code 0805). Category D

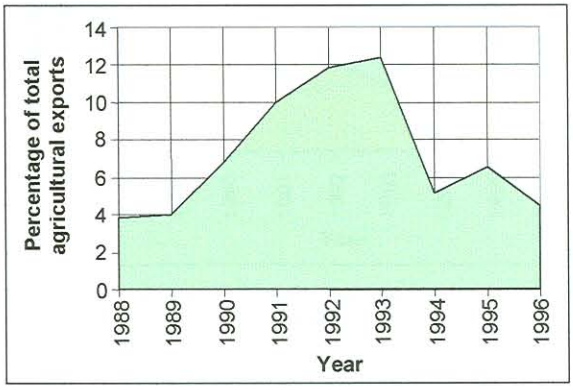


FIG. 4.17.2 Exports of apples, pears...(tariff code 0808) Category D

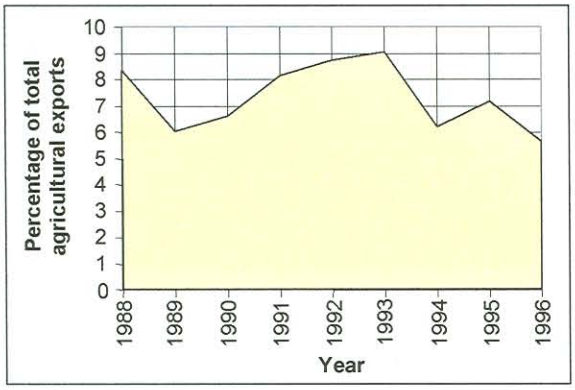


FIG. 4.17.3 Exports of fruit, nuts..(tariff code 2008) Category D

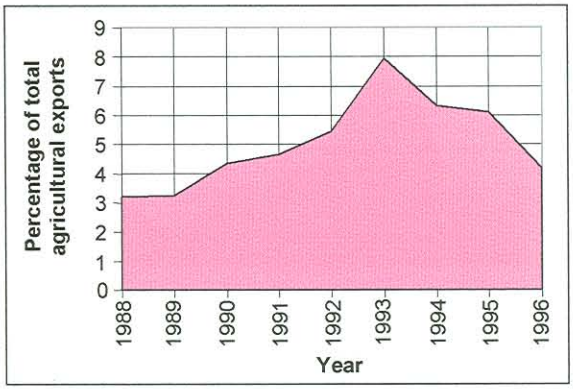


FIG. 4.17.4 Exports of grapes,...(tariff code 0806) Category D

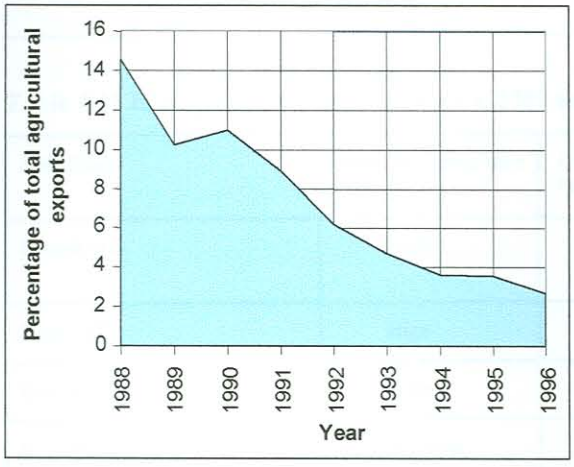


FIG. 4.17.5 Exports of wool,...(tariff code 5101) Category D

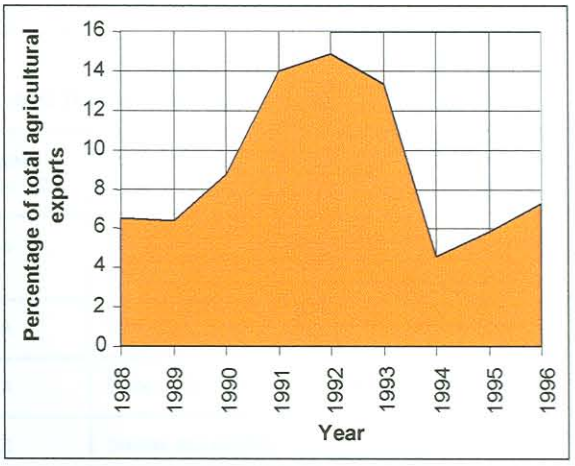


FIG. 4.17.6 Exports of meat of bovine..(tariff code 0201) Category D

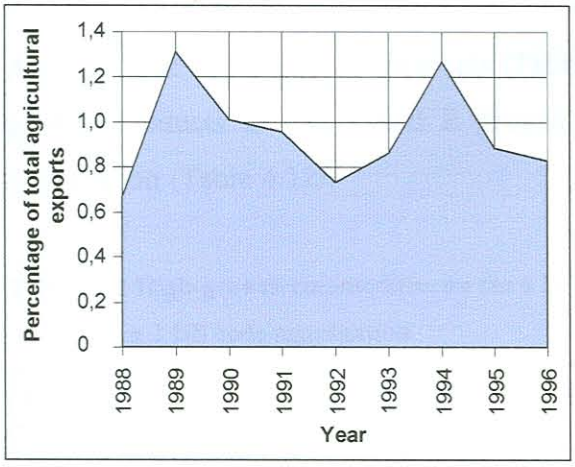


FIG. 4.17.7 Exports of groundnuts..(tariff code 1202) Category D

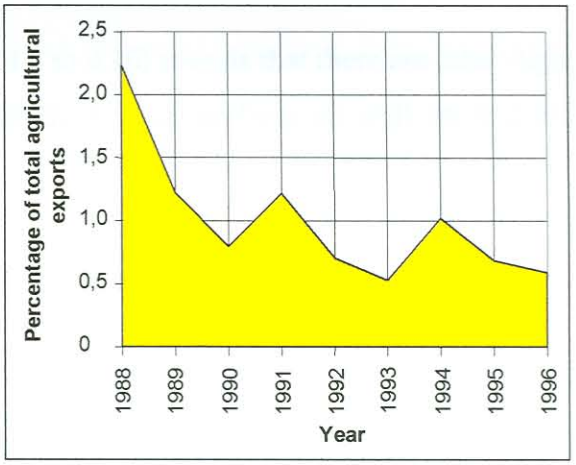


FIG. 4.17.8 Exports of fine or coarse animal hair..(tariff code 5102). Category D

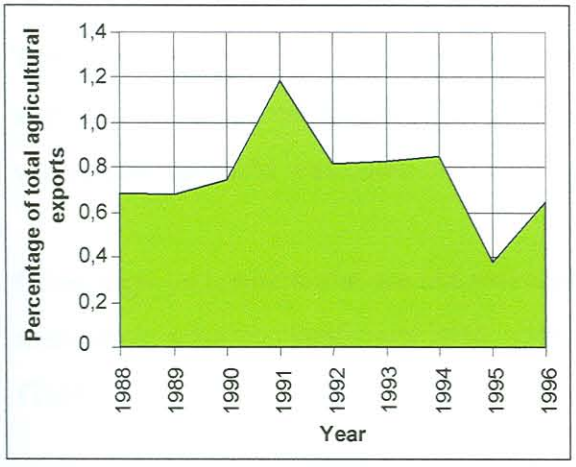


FIG. 4.17.9 Exports of unmanufactured tobacco..(tariff code 2401) . Category D

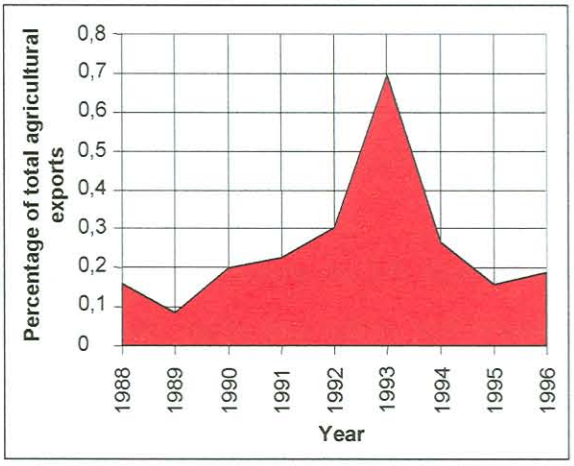


FIG. 4.17.9 Exports of meat and edible offal..(tariff code 0207) . Category D

Table 4.11 High-growth commodities on a 2 HS code and further dis-aggregation

2 HS Code	Share in agriculture exports	Category (Table 4.2)	Dis-aggregated products description (Tables 4.5, 4.6 and 4.7, on 4 HS and 6 HS code levels)
Cereals (10)	High	A	Maize (corn), maize seed, groats of maize, sorghum, barley
Sugar (17)	High	A	Cane sugar, cane molasses
Beverages (22)	High	A	Wine (<2l), ethyl alcohol, whiskies, mineral waters
Vegetables (07)	Medium	B	Onions and shallots
Cocoa products (18)	Low	C	Chocolate
Food preparations (21)	Low	C	Food preparations (miscellaneous)

A closer look at the 6 HS code levels (Tables 4.5 to 4.10) reveals that there are other high-growth products in the A and B groups, which did not perform so well on a 2 HS aggregation (Table 4.12).

Table 4.12 High-growth commodities on the 6 HS code which did not perform well on a 2 HS code aggregation

6 HS Code	Share of agriculture exports	Category
Cigarettes (240220)	High share	A
Milk and cream (040229)	Medium share	B
Mixtures of juice (200990)	Medium share	B

The products above are the high performers in the A and B groups at all three levels of aggregation for products above a threshold of approximately 1% of agriculture-export value. The threshold was taken on a 2 HS code aggregation from 1992 to 1997.

Other high performers that are not included above and that are below the 1% threshold are mandarins, tobacco, sunflower seed, groundnuts in shell, bulbs and tubers and crude oil (Tables 4.5 to 4.10).

4.2.2.2 Middle-range performers (generally category C and D)

Medium-growth performers on the 2 HS code level were (2 HS code in brackets) oilseeds and oleaginous fruit (12), dairy products (04), milling products (11), with growth of 20 to 35% (not deflated) (Tables 4.2 and 4.1). Low- to medium-growth performers were raw hides and skins (41), live trees and plants (06), fruit and nuts (08) and preparations of vegetables (20). At the low-growth end were animal- and vegetable fats and oils (15), meat (02) and wool (51) (Table 4.2).

From 1996 to 1997, sugar (–6% annual growth), beverages (–8% annual growth), cereals (–25% annual growth) and milling products (–32% annual growth) dropped out and showed negative growth figures, partly because of the present slump in Asian demand. It appeared that other developing countries such as African countries had also had a slowdown in demand for South African agricultural goods. During this period, the stable, large, high-performing markets were mainly in the developed world and products were vegetables, cocoa products, fruit and nuts and food preparations (Table 4.2). The medium- to low (but positive) performers were oilseeds, dairy, preparations of vegetables, live trees and plants and animal and vegetable fats and oils (Table 4.2).

4.3 CONCLUSIONS

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 a 15% gain in share of the total SACU agriculture 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 25% of share in 1988 to 10% of share in 1996.

The prepared-foodstuff (Section IV) section was the high-export-share commodity group, which has shown the fastest growth since the sanction period. Beverages constitute the largest group of products (12% share) that have shown a high growth in share (larger than

25%). Within less than a decade beverages increased from approximately 2% of agriculture exports to close to 15% in value terms (1988 to 1996). It can rightly 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, tobacco products, preparations of cereals, starches and milk products, fruit juices (especially mixed juices) 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.

Exports of vegetable products (Section II—including grains) to Asia have shown some re-growth since 1992. This could be mainly 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, which contribute to over 11% of the total agriculture exports in value.

Between 1992 and 1996, by far the largest export-product group on the 2 HS level, edible fruits and nuts (25% of total agriculture exports), showed a steady decline in share of exports, of which the majority went 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 to 33% in a decade (1988 to 1996). This tenfold increase in share was from the products (4 HS code), alcohol, wine, cereal groats, chocolates, cigars and cigarettes, onions and shallots, garlic and wheat flour. The growth in new destinations since 1993 has been relatively more spectacular than that in products. 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.

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CHAPTER 5

Identifying potential export opportunities for South African agricultural exports to East Asia

5.1 INTRODUCTION AND GENERAL TRENDS IN EAST ASIA

Because of the large changes occurring in Asian food markets, it is appropriate to review developments in these economies and their implications for South African food exporters. The major trends determining shifting market powers in Asia's changing consumption patterns, are simultaneously trade policies changing continually, eventually affecting market access and trade opportunities. These developments in combination with population growth, changing diets, increasing urbanisation, structural reforms and improved market access, indicated a positive long-term trend for food exports to Asia.

Unprecedented growth rates of certain industrialising countries in Asia is evidence that a huge shift in economic power is under way. Asia's growth is regarded as one of the major stimulations in the recovery of the global recession, because trade expansion serves as a major source of growth for the global economy. 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 (Fisher, 1999). Especially China, has grown in the period of global recession and is seen as a leading force in Asia's growth and recovery since 1994. Fifty percent of the world's fixed-asset investments of foreigners goes to China and 50% of the world's economic growth in the next twenty years will take place in Asia (The Farmer, 1997). Asian developing countries are the fastest growing markets. 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. The regional growth rate was 8,2% in 1995, 7,5% in 1996 and 6,1% in 1997 (FAO, 1998). The decline in growth

was the result of the Asian currency crisis. In general, the Asian developing countries with economic problems (Indonesia, Malaysia, Korea), are expected to gradually regain international confidence throughout 1999 and to show, on average, about 4% growth (RIRDC, 1998a). China is projected to show strong continual growth (above 7% in 1999) despite the troubles of neighboring economies (RIRDC, 1998a). Supermarket to Asia Ltd (1999) reported that the latest export figures show that aggregated Australian exports to Asia and the rest of the world have recovered to above pre-Asian crisis levels and continue to grow strongly for the second consecutive year. All indications are that Asia is recovering from the crises and will probably be on pre-crisis growth trends in the early years of the new millennium.

Because of the rapid development of a growing number of the developing economies in the world, especially in Asia, there has been an acceleration of globalisation over the last decade. One major force on world policy reform that has enhanced accelerated globalisation in agricultural markets, is the multilateral negotiations of the World Trade Organisation. Many Asian economies are in the process of aligning their policies with the transparent and nondiscriminatory rules of the World Trade Organisation. China, a major economy, is close to acceding the World Trade Organisation (WTO). 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 that are underway, such as the Association of South-East Asian Nations (ASEAN) Free Trade Area (AFTA), which has already been implemented, and a possible Free Trade Area of APEC members by 2020, will noticeably accelerate globalisation of the Pacific Basin. Garnaut (1996) argues that a continuation of globalisation will reinforce the gradual shift in global economic weight towards the Asia-Pacific region, which 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 (OECD, 1996a).

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 globalisation, more Asian countries will become dependant on the import of agricultural products. Garnaut and Ma (1992) have identified three distinct changes that occur in the evolution of food consumption as personal income rises. These are first (phase I) growth in consumption of traditional foods such as rice and starchy root crops, followed by (phase II) an increasing consumption of nontraditional staple foods and finally (phase III) a shift in consumption patterns away from nontraditional staples to higher protein foods.

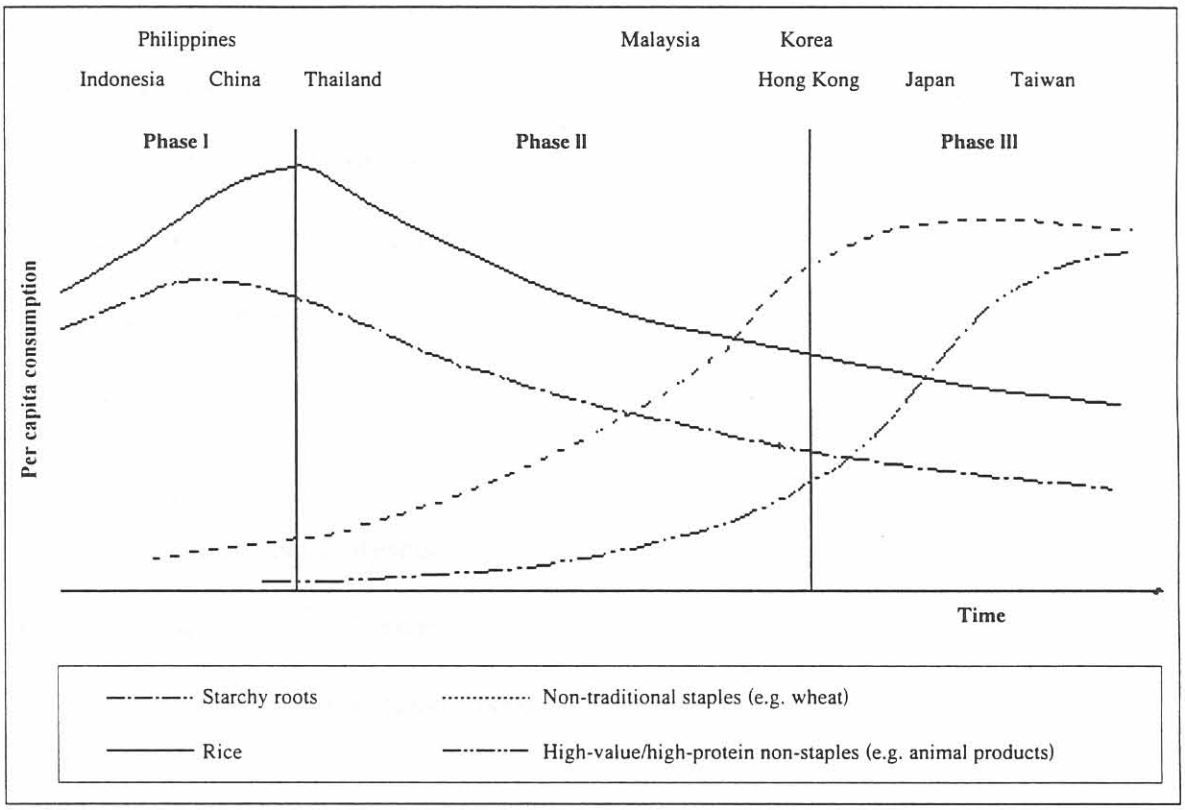


FIG. 5.1 Recent distribution of the studied countries relative to phases in food consumption
Source: Garnaut and Ma (1992)

Indonesia, the Philippines and China would still appear to be in the first phase, with China about to leave that phase as a result of its stabilising intake of rice and relatively strong growth in wheat and livestock products consumption. Japan and Taiwan would appear to have entered the third phase. The remaining four countries, Malaysia, Korea, Hong Kong

and Thailand, would appear to be positioned between the first and the third phases. Hong Kong, Malaysia and Korea could be close to entering the third phase. A casual review of the data suggests that differences in income levels could offer at least a partial explanation for the distribution of countries across the three food consumption phases or their progression from one phase to another (Rae, 1995).

Robert (1993), Rae (1995) and Blumenthal (1997) identified a few factors that led to changing food consumption patterns in Asia and the Pacific Rim, which include:

- increases in per capita income
- urbanisation
- more women in the workforce
- a demand for high-value foods
- westernisation of diets
- health consciousness
- more people eating out
- a concern for product freshness
- a decrease in household size
- the consumption of traditional foods

Robert (1993), Rae (1995) and Blumenthal (1997) have also observed that the increase in per capita income is the primary reason for diversification of diet. People can now afford a wider variety and choice in diet. Rising disposable incomes will lead to diets containing more meat and processed food products, as well as an increased demand for household goods and luxury items. A trend away from feedstuffs to final product imports into East Asia has also begun. The developing countries in Asia use their new wealth to increase

their consumption of animal proteins, vegetable oils, fruits, vegetables and other processed or high-value foods.

The average household size is shrinking and the impact is towards a greater demand for easy-to-prepare foods in smaller portions. Another trend is a greater number of women in the workforce. This has increased the number of double-income families. Increased participation in the workforce increases the opportunity cost of food preparation and may shift demand towards foods that require a shorter preparation time (Sanauer et al., 1986).

Westernised diets has led to an irreversible consumption trend in Asia. More bread, milk and breakfast cereals are being consumed instead of traditional rice, noodles and soup. At the same time, there is a greater demand for dough mixes, biscuits, crackers, pasta, cakes and pastries. The rapid growth in the number of western-style supermarkets leads to opportunities for exports of frozen and other convenience foods. Exporters may find it possible to sell directly to chains and therefore bypass the inefficient system that caters to small shops and vendors. The consumer demand for frozen foods has soared. Fast-food restaurant chains are major buyers of frozen potatoes, beef and chicken. The shift towards healthier diets has also resulted in a rise in fruit consumption. Consumers are willing to pay high prices for a year round supply of top-quality fruit.

Generally, consumer demands are approximately the same everywhere: more convenient and nutritious foods at lower cost. Looking at the Asian diet now becoming westernised, we can assume that as developing countries, concern about health issues such as smoking, nutrition and a myriad of other matters grows, consumption habits will eventually change. The demand for various nutritionally improved foods is well defined because sales have increased regardless of the consumption trend for the regular version counterparts of these products. (Blumenthal, 1997)

Experiences of the major trading partners of Asia, for example the United States, Europe and Australia, suggest that a large potential for Asia as an export destination exists. Many of Asia's trade partners experience tremendous growth in their exports to the region. During 1990 to 1995, North American exports to developing Asian countries grew by 13,5% per annum, compared to 7,5% for exports to the rest of the world. Exports from western Europe and Japan to developing Asian countries grew even faster at a rate of 15% to 16,5% per annum respectively, about tree times the growth in their exports to all other regions.

A trend that is on the increase is that the global trade in processed foods is growing rapidly with annual increases in value at 15% or higher. As a leading exporter, the United States is experiencing an upsurge in processed food exports. (The processed foods category encompasses foods that have undergone either intermediate (for example vegetable oil) or substantial (canned) levels of manufacture. (Blumenthal, 1997.)

5.2 A SELECTION OF COUNTRIES STUDIED

The stages theory of internationalisation suggests that the dominant export market for most enterprises will be the market which is geographically and culturally nearest. However, trade statistics prove this wrong. The dominant markets are those in Europe and Asia. (Viviers & Botha, 1997). It appears that distance does not play the most important role in the determination of a country's competitiveness for distant markets.

Far East Asia (North-East Asia as well as South-East Asia) has been selected as the focus of this study, not because it is the only promising market, but because of its huge potential as a market, based on the combination of the exceptionally high growth performance of South African agricultural exports and share of the total export basket (Table 3.2). Trends are not only exceptionally favourable for some individual East-Asian countries, but also to the entire East-Asian region. Other factors taken into account, such as the fast rate of

globalisation and integration of Asian economies and demographic characteristics eg large population size and urbanisation rates, make East-Asia one of the priority markets to be studied from the perspective of future potential export opportunities. The OECD (1996a) argued that it is especially the East Asian - rather than Asian Pacific (ASEAN) economies that have experienced sustained rapid growth over the past half century.

Results from the analysis done on the share and growth performance (for the period 1992 to 1996) of South African export destinations, identify Far-East Asia to be the most promising export destination for South African agricultural commodities. The post-sanction period was chosen (after 1992), because as sanctions were dismantled, many markets previously closed to South Africa have been opened. South Africa has not only re-established, but is also re-negotiating new trade partnerships/agreements with countries around the world, including Asia (Viviers & Botha, 1997). Statistics prior to the Asian crisis were used (prior to 1997) to identify the export achievements of Asian countries. Not only were 1996 figures the latest figures available at the time of the analysis, but figures prior to the crisis (in 1997) would be the most suitable to evaluate Asia, especially South-East Asia and Korea. The crisis plunged some economies e.g. Korea and Malaysia into negative GDP growth. The crisis lead to a 30% decline in imports to Asia (Theage, 1998). The period 1997 to 1999, which was affected by the Asian crisis, would not have been representative of the longer term trend which was recorded to be an average GDP growth for the Asian region of about 7% for nearly two decades (FAO, 1998). It is therefore argued that the period between 1992 and 1996 is the most suitable to date to evaluate East Asia as a potential export destination based on analysis of South African export trade statistics. All evidence indicates that East Asia will fully recover their GDP growth to close to the pre-crisis levels from the year 2000 onward. An exceptional case study is Indonesia, which could take three- to seven years to recover after the crisis in 1997, depending on the progress they make on their reform programme.

East-Asian countries chosen 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 the export share of SACU exports for the period 1992 to 1996. Macau was omitted because of the unavailability of information. Other important markets which have been omitted are Hong Kong and Taiwan, because they showed low growth in SACU agriculture exports. Nevertheless, they would not be unimportant from the viewpoint of a government export strategy, because of, for instance, the relatively large volume of exports to Hong Kong. As much as 80% of produce exported to Hong Kong is destined for mainland China. In the same manner Macau and Taiwan are ports for commodities destined for mainland China. Although China comprises a relatively small percentage of SACU exports, it was included in the study because of its strategic importance as a future potential market. China has a population of 1,2 billion people (approximately one fifth of the world population). China has also a maintained continued high GDP growth rate of about 1 0% in the second half of the 1990s (EC, 1999b). Valentine and Krasnik (1998), in their analysis on the SADC's comparative advantage, has identified China as an important trading partner, ranking higher than for instance Japan, India the United States or the European Union. They suggest that the SADC should engage in trade with other less-developed countries which are also less "traditional" trading partners.

In general, little information is freely available or affordable on specific market opportunities to Asian destinations. Nevertheless, recently the Australian government has created a 'Supermarket to Asia' council aiming to significantly increase the value of Australia's exports to Asia over the next 5 years. This chapter on potential Asian export markets is a secondary study of various sources, but relies substantially on information obtained from Australia. During the author's visit to Australia in February 1999, information was obtained from the Research and Development Corporation of Australia as well as Austrade. Information from these sources were substantially used and recognition is due to these reliable sources, because some of the more detailed and up-to-date information was obtained from these resources. In many instances South African

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agriculture has characteristics similar to Australian agriculture and therefore information from these sources are applicable to South Africa.

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. The Government should promote such work or facilitate it through agencies and industrial organisations.

5.3 A PROFILE OF AGRICULTURAL EXPORT OPPORTUNITIES TO JAPAN

5.3.1 Overview and outlook of Japanese economy

Japan, a country with a population of 120 million, is the world's second-largest economy. Japan remains the biggest Asian economy by far and its GDP is almost 10 times larger than that of China. It accounts for around 10% of world exports and imports (EC, 1999c). The economy is in recession, with major financial adjustments to occur (Austrade, 1998c). This creates considerable uncertainty regarding food imports in the immediate future.

The falling yen, growing unemployment and negative-growth prospects will continue to be a damper to consumer demand in Japan and will generally constrain growth in the imported food market in the short term. The Economic Planning Agency calculated that the real gross domestic product (GDP) growth for the fiscal year 1997 to March 31 came to a negative 0.7%. Large reductions in consumer demand, capital spending and a 30% slump in exports to Asia are held responsible for the recession (Theage, 1998).

The EC (1999c) predicted that the downward trend in Japan's trade and current account surpluses over the last four years has reversed and Japanese external surpluses increased sharply in 1997. The Japan Centre for Economic Research forecasts economic growth of

an average 1.6% per annum between 1997 and the 2002 fiscal year, with a modest acceleration of growth after that (AgraFood Asia, 1998).

5.3.2 Agricultural trade environment

In general high tariffs are currently established and state trading arrangements remain largely intact, but as restrictions are reduced, opportunities are created especially in the high-value products market. However, the Japanese market is one of the most demanding in terms of quality. Consumers are concerned about getting value for money and competition is high. Caplan and Tala, (1994) pointed out that several factors lead to increased competition in the Japanese market. First, with fewer barriers (tariff and non-tariff) to agricultural imports in Japan, food exporters from many countries are seeking to expand opportunities there. Secondly, Japanese food processors have stepped up investment in manufacturing plants of foreign countries, where costs are lower to tap the host country's market as well as to produce for the local market and exports to other countries. Many of these plants are located in Southeast Asia and China. South African food exports should have a competitive advantage because of the lower exchange rates over competitors such as the United States, Europe and Australia.

While Japan's high-value-products (HVPs) imports from all sources have been rising steadily for more than two decades, they accelerated after 1985. Several factors provided this impetus, which include tariff reductions, deregulation of cigarette imports, the 1988 Beef-Citrus Agreement, a GATT agreement that removed or expanded quotas for some processed farm products and the substantial appreciation of the yen (Caplan & Tala, 1994). The United States has since the mid-1980s expanded its exports of processed and high-value products (HVPs), including beef and citrus. HVPs are agricultural products other than raw grains, oilseeds, cotton, and tobacco. Japan is the largest foreign market for U.S. processed foods (Caplan & Tala, 1994).

5.3.3. Self-sufficiency trends (changing comparative advantages)

Food imports to Japan 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 accounted for about half the demand for imported food in Asia (Austrade, 1998c). According to Austrade (1998c) various factors contribute to the increasing imports: the agricultural sector in Japan is declining, the Japanese Government is committed to further trade liberalisation and the Japanese diet patterns are increasingly becoming westernised and more health conscious. Agriculture accounts for about 2% of Japan's GDP and 5% of employment and Japan's food self-sufficiency ratio stands at 42% (Austrade, 1998c). The sector faces major structural problems and an aging workforce, while output continues to decline.

5.3.4 Consumption patterns

Caplan & Tala, (1994) argues that population growth and economic expansion are likely to have little effect on food consumption patterns and total food demand in Japan. This is because for many food products income growth will have only a small effect on consumption, because of already high per capita consumption levels. Rae (1995) observed that Japan and Taiwan appear to have entered the third phase (see Figure 5.1.1) (a shift in consumption from nontraditional staples to high-value and high-protein foods). Despite their increasing demand for value, consumers are not reducing food expenditure, but instead have become more sophisticated in spending their money. Japanese consumers are still amongst the most discriminating in the world in terms of quality: they will not purchase poor-quality products, irrespective of low prices (Barber, 1998).

While the total per capita daily intake of the Japanese has stabilised in recent years at about 2 600 calories, the caloric composition has shown substantial change over the past four decades. In Japan per capita consumption of fats and oils, while still only about half the daily intake in a typical United States diet, increased substantially from 1955 to 1990.

(A demand for fats and oils reflects a derived demand for meat.) Rae (1995) projected that Japan will increase their dependence on the imports for beef. However, the already high per capita consumption of fruit and vegetables has levelled off since the early 1970s. Sugar consumption declined after peaking in 1973, as other sweeteners (including high-fructose corn syrup) have partly substituted sugar. In addition, the Japanese diet today contains more processed foods, such as pasta, ham, bacon, ketchup and fruit beverages (Caplan & Tala, 1994). These food consumption trends are likely to continue into the early 21st century. Imports of high-value products should expand and increase as a share of total imports.

Several social trends have made convenience a major factor in Japanese consumers' food purchases that will result in changes in food consumption patterns. These trends are likely to intensify. Firstly, Caplan and Tala (1994) argues that because the proportion of older consumers in the population will be higher, a demand for foods that are easily prepared, such as pre-cooked frozen foods, is forecast to grow. Secondly, Barber, (1998) as well as Caplan and Tala (1994) identified several other factors indicating a growing demand for convenience goods: more women enter and remain in the workforce. They pursue career opportunities, marry later and have fewer children. The number of unmarried men is also rising. Generally the people in these demographic groups have little time, energy or inclination to cook for themselves. An increasing number of homes have microwave- and toaster ovens. Consequently, the already strong demand for products that cut down on cooking time and effort, such as frozen foods, microwavable foods and those in retort pouches, will continue to grow. Finally, while Japanese today are consuming a greater variety of foods and are more adventurous about experimenting with new flavours and cuisines than in the past, in the frozen food sector consumers are turning increasingly to traditional Japanese-style cuisine.

5.3.5. Opportunities for food exports

5.3.5.1 Grain and processed grain products

Generally there is a low potential in the grain sector. Rice production for instance is highly politicised and subsidised. In 1996 half of all shipments of grain consisted of unmilled maize (not sweetcorn). A further 25% consisted of unmilled 'other wheat, including spelt and meslin'. Unmilled grain sorghum accounted for 8% of shipments, malt accounted for 7% and unmilled barley for 6% (Austrade, 1998c). Most of South Africa's agricultural exports to Japan consist of maize (corn) (40%). Applied tariffs for maize are low (1%) (Annex. 7). Relatively small quantities of processed grain-based commodities are exported, such as: bread, pastry, cakes and other bakers' wares, starches (inulin), pasta, cereal flours and prepared cereals (eg cornflakes) (Annex. 6, Table 1).

Abare (1997) mentioned a few opportunities in the meal and flour of wheat and flour of meslin. Barley, for instance, is used in the brewing of alcohol and the United States is exporting frozen pancake- and waffle mixtures for processing. Further prospects for flour, meal and pellets of meat or meat offal are in the pet food sector. Carter, (1997) observed that 69% of United States frozen sweetcorn is destined for the Japanese market.

5.3.5.2 Meat

Rae (1995) made a projection that the consumption of meat will increase most rapidly in Japan, Korea, China and Malaysia. Japan will also require increased import volumes of white meat to meet increasing consumption. Although the demand for beef grew continuously in Japan until 1995, it has declined recently because of several incidents relating to diseases such as 0-157 coliform and mad cow disease.

In 1996, Japan imported US$9.3 billion of meat from all over the world. The principal item was fresh pig meat, chilled and frozen, accounting for 41% of the total shipments. As

a result of an outbreak of foot-and-mouth disease amongst Taiwanese pig herds, the United States became the market leader in value terms. Fresh or chilled beef accounted for 19% and frozen beef for a further 10% of shipments. Imports of meat and edible offal of poultry accounted for 14%. Other significant lines included prepared and preserved meat/offal (not liver) of poultry (3%) and pigs (3%) (Austrade, 1998c). South Africa's meat exports to Japan are very small and mainly comprise of live animals and 'other meat'.

Abare (1997) observed that Australia exports significant quantities of beef jerky (an equivalent to South African biltong). However, quarantine restrictions pose problems. Ostrich meat has been gaining recognition in the health food sector, although there is not a significant market at present. Many potential customers are trying to import frozen and chilled ostrich as well as live birds.

5.3.5.3 Dairy

In 1996, Japan imported dairy goods worldwide valued at US$818 million: 40% more than in 1992. In 1997, imports of cheese and curd to Japan represented 61% of the total dairy market (Austrade, 1998c). Reflecting the change in diet, it is expected that imports of cheese will increase steadily. Ice cream imports were liberalised in April 1990. Sharp increases in imports of ice cream were evident in supermarket chains. Although there was no significant increase in imports, the demand for prepared milk-blended products is increasing in accordance with its lower rate of duty when compared to powdered milk. South Africa exports a relatively small volume of 'milk and cream (concentrated) to Japan (Annex. 6, Table 1).

5.3.5.4 Horticulture

Rae (1995) observed that vegetable- and fruit consumption in Japan is decreasing, the reason being the fact that the younger generation appears to be eating less fresh fruit. Annual per capita consumption dropped from 49.7 kg in 1975 to 32.8 kg in 1994 (Austrade, 1998c). Fruit is considered a luxury in Japan and is often purchased as gifts for special occasions.

The Japanese market for fresh vegetables relies mostly on local production, with imports limited to a narrow range of products. The self-sufficiency rate for vegetables is about 90% (Austrade, 1998c). The market is described as the most demanding in the world in terms of quality and uniformity of shape, colour and size. The Japanese market for fresh fruit is also largely reliant on local production. The self-sufficiency ratio is 70% to 80% (Austrade, 1998c). Principal items produced domestically include mandarins, apples, Nashi pears, persimmons, peaches, table grapes, strawberries, melons and watermelons. Quality and appearance are of paramount concern. There is a general preference for imported citrus fruit, which are large in size, juicy, very sweet and low in acidity with no peel blemishes. Consumers prefer fruit that has not been waxed or chemically treated. United States exports to Japan with a very high export dependency index are mainly citrus fruit; grapefruit (56%), lemons (75%) and oranges (Carter, 1997). General exports of citrus fruit from South Africa also have a high export-dependency index in terms of income, in general about 90% or higher.

In 1996, Japan imported US$4.5 billion of horticultural products, 30% more than in 1992. The principal items included 'other fresh and chilled vegetables' (19%), fresh and dried bananas (10%), fresh or dried fruit (10%), 'other citrus fruit' (9%), uncooked vegetables (9%), edible nuts (8%) and noncitrus fruit or vegetable juices (7%) (Austrade, 1998c). Agricultural exports to Japan are mainly citrus fruit (7%) and grapes (2%). Cut flowers constitute a relatively small percentage (1%) (Annex. 6, Table 1).

Austrade (1998c) and Abare (1997) have identified that in recent years, diet diversification has led to import opportunities for vegetables such as chicory, shallots, leeks, capsicums and truffles. There are good prospects for the supply of other fresh vegetables such as bamboo shoots, burdock, bunching onions, cabbage, carrots, Chinese cabbage, celery, garlic, ginger, lettuce, onions, peas, radishes, taro and turnips. Asparagus is the biggest import item from Australia. About 60% of imported vegetables is channeled through wholesale markets and the remainder is sold directly to consumers. Japan is gradually lifting import restrictions on items, including pumpkins and beans, which provides opportunities for exporters (Austrade, 1998c). 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.

There is a strong demand for convenience foods, particularly frozen- and prepared vegetables, such as semi-processed or pre-cut vegetable products. Imported frozen vegetables now account for 80% of domestic requirements in Japan (Austrade, 1998c). The Japanese food-service sector is the largest consumer of imported frozen vegetables. This, however, this is a very competitive market.

Avocado's are increasingly becoming known as a healthy food in Japan and a double-digit growth in consumption is expected to be resumed in the future. Imports had a value of US$ 14,3 million CIF in 1996 (AgraFood Asia, 1998). The *ad valorem* import tariff is 4.5% in the case of United States avocados and 3% in the case of Mexico.

Abare (1997) has identified cut flowers and foliage for ornamental purposes as a potential export opportunity. The Japanese market for cut flowers is the largest in the world as well as in Asia. The share of imported flowers is only 6%. There is significant potential for growth in these figures if the restrictions regarding non-quarantine organisms are lifted.

Emphasis should be on quality and observing quarantine requirements. The EC, (1999c) reported that Japan operates a system of zero tolerance concerning all pests not included on its lists of non-quarantine organisms, even though they may not be harmful. Pre-shipment inspection procedures are also applied to cut flowers. Japan further requires each lot of flower bulbs to be labelled with a number, by means of which it can be traced back to the grower. This is costly and has rarely proved necessary because there have been very few incidents over the last ten years.

There is a strong demand for organic produce, which is being stimulated by the consumer in the supermarket and food-service sector. However, there is a high probability that imported vegetables will be fumigated to meet entry requirements for the Japanese market and would therefore not receive a premium as organic products.

5.3.5.5 Beverages

Japan imported beverages valued at nearly US$2 billion in 1996. Just more than half the shipments consisted of spirits, (27% wine, 8% beer and 11% nonalcoholic beverages) (Austrade, 1998c). Beverage exports from South Africa to Japan consisted of about 11% of SACU agricultural exports to Japan; fruit juices (8%) and wine (3%) (Annex. 6, Table 1). Beverages are just as an important export commodity as fresh- and dried fruit and is the third largest commodity group to be exported to Japan (after cereals and processed fruit).

Austrade (1998c) further observed that the total sales of imported wine in Japan increased by 42% compared to sales in 1996 and that there has been consecutive growth over the past five years. The volume of imported beer dropped by 25.6% in 1997. The main contributing factors are the popularity of domestic sparkling liquor (Happo-shu) and its competitive price (cheaper than beer). The total volume of imported fruit juice decreased by 12.8% (1997) compared to 1996. This is partly as a result of a shift to sugar-free,

unsweetened packaged drinks such as oolong tea, green tea and nutritious water-based supplement drinks.

Abare (1997) observed that there is currently a wine consumption upsurge in Japan. In conjunction with the craze in health products in Japan, red-wine sales have shown tremendous growth in 1997 (Austrade, 1998c). Potential exists for South Africa to increase its wine exports to Japan. Greater coordination, focus and resources are needed in wine promotion to gain a significant market share.

Japan (compared to Korea, Singapore and Hong Kong) accounts for the largest share of imports of fruit juices, with 72.6% of total import value into this market in 1994 (ITC, 1995). The major reason for the strong juice market in Japan was the complete removal of the import quota system in Japan in 1992. Japan and the Republic of Korea mainly import fruit juices in bulk, usually in concentrated form, eg frozen, concentrated orange juice. The main types of fruit used for domestic production of fruit juice concentrates are citrus fruit (39% of the market share) and apples (24%). Others include grapefruit, grapes and pineapples (Japan is the largest market for pineapple juice). South Africa is a major supplier of pineapple juice, grape juice, apple juice, 'other single fruit or vegetable juice' and 'mixes of fruit or vegetable juice'. Generally, beverages from tropical fruit juices are not well accepted by Japanese consumers.

According to trade sources, overall consumption of beverages from fruit juices may be stagnant. However, because sales of 100% juices are on the increase, imports of fruit juice raw material (mainly fruit juice concentrate) have increased considerably between 1990 to 1994. The average juice content in fruit beverages has increased from 34.4% to 44.8% during the period 1988 to 1992 and is expected to increase further (ITC, 1995). In general 100% fruit juice is too expensive for the Japanese consumer. However, Austrade (1998c) as well as ITC (1995) confirmed that there is a high demand for healthy drinks such as pure juice (100% carrot juice or 100% green juice) and mixed juices because of to the

health-food craze. The ITC (1995) study revealed that carrot juice imports have grown tremendously. Carrot juice sales have surpassed those of tomato juice. Major suppliers of carrot juice includes Australia, Chile and South Africa. Opportunities also exist for fruit juice concentrate to be used as a substitute sweetener for sugar in jelly and other desserts (Austrade, 1998c).

Fruit juices and juice beverages are in competition with other soft drinks. In Japan almost all processed beverages (including tea drinks and mineral water), except alcoholic drinks and milk, are considered soft drinks. It is interesting to note the spectacular growth of oolong tea that has taken place. Oolong tea is believed by the Japanese to be a healthy drink (low sugar content) (ITC, 1995). It appears that canned coffee and tea beverages are promoted very strongly by manufacturers; these products offer bigger profits than fruit juice beverages. In Japan, some customers consider imported mineral water as a health supplement drink providing iron, magnesium and natural mineral content (Austrade, 1998c).

5.3.5.6 Confectionery

Recent tariff reductions provide an opportunity for imported confectionery suppliers to increase their market share. Chocolate confectionery still remains the most significant category. There is a strong trend towards healthy, natural and low-calorie confectionery (Austrade, 1998c). Packaging is vital. Many Japanese producers supply individually packaged bite-size candy or chocolate, etc. In 1997, the Minister of Health and Welfare certified xylotol as a food additive in Japan. It is said that this additive prevents the germs which lead to tooth decay (Austrade, 1998c).

5.3.5.7 Other products

Japan imported more than US$6 billion of other foods in 1996, almost 60% more than in 1992. The principal item included food preparations (15%), coffee (15%), prepared- and preserved vegetables (9%), raw sugar (9%) and prepared- or preserved fruit and nuts (8%). Other important lines include prepared- and preserved vegetables (other than vinegar), palm oil and its fractions, 'other sugars in solid form', coffee extracts, macaroni and spaghetti, bread, pastry, cakes and biscuits, as well as tea and spices (Austrade, 1998c). Processed fruit and nuts exports comprise about 22% of agricultural exports from South Africa to Japan and groundnuts 7% (Annex. 6, Table 1). Abare (1997) identified a niche market for jams, fruit jellies and marmalades. This is a very price-sensitive market. There is some scope for gourmet jams in hotels and other fine food outlets. Strawberry jam proves to be the most popular.

5.3.6 Barriers to agricultural trade

5.3.6.1 Tariff barriers, levies and charges

Tariffs in Japan are generally, on average, low. To meet their WTO commitments, 99% of the tariff lines are bound. Average tariffs will decrease from 3,91% to 1,7% by 1999, which represents a decrease of 56% (EC, 1999c).

Tariffs on frozen beef are scheduled to drop from 50 to 38% by 2000 but safeguard arrangements will continue to be used to control imports. Under the Uruguay Round, the domestic price for pork in Japan will be gradually reduced to 409.90 yen/kg by the year 2000. The import tax will also be reduced to 4.3% (Austrade, 1998c). Tariffs on dairy products are significant and safeguard mechanisms, including quotas and out-of-quota tariffs, apply to most products. Because of the tariff-quota system and a high rate of import duty, imports of powdered milk to Japan have not shown any increase in recent years (Austrade, 1998c). Import duties for most fresh vegetables are 5% of c.i.f. value.

Duties on sweetcorn and onions are 10%. As market-access commitments are put into effect, significant items expected to benefit include beef, oranges, natural cheese and ice cream (Austade, 1998c).

The long-standing dispute between the United States and Japan over Japanese discriminatory taxes on spirits, has been resolved. Tariffs on imports of vodka, rum, liqueurs, gin, whisky, brandy and other brown spirits will be completely eliminated by April 1, 2002. The tariff reductions go beyond those required by the World Trade Organisation (Barshesky, 1998). In April 1998 the import tariff on sparkling liquors was reduced to the same level as beer, providing an opportunity for exporters (Austrade, 1998c).

The average applied tariffs for products of general importance for agricultural exports are 14%. Following completion of the Uruguay Round negotiations, several product areas with unacceptably high tariffs remain according to the EC, (1999c), according to the analysis done on the UNCTAD TRAINS database (Annex. 7) and according to Annex. 6, Table 1:

Agar-Agar (Duty ¥122/Kilo)

Sugar (Duties between ¥35.3/kilo and ¥106.2/kilo)

Chocolates (tariff rates of 23 to 24%)

There is a considerable discrepancy between duties for small packages and those for bulk chocolates.

Cheese and dairy products (Duties between 22,4 and 40%)

Meat of bovine and boneless meat frozen (duties between 29 and 42%)

Sweet biscuits (Duties between 18% and 20.4%)

Jam (Duties between 12 and 34%)

Glucose syrup and maltodextrins are both subject to a high tariff of 50%.

Cereal groats and meal (maize) (duties of 23%)

Apple juices (duties of 28%)

Wine and alcohol (duties of 21 and 30% respectively)

Preserved- or processed fruits and nuts (duties are 17%)

Fruit juices (duties are 24%)

Bread and pastry products (duties are 23%)

5.3.6.2 Non-tariff barriers

Many specific domestic laws have the scope to prohibit or restrict the import of certain products by means of controlling the standards and certification of products. The Japanese Government is continuing its policies of rationalising and improving the transparency of its standards and certification procedures streamline these, where possible, to conform to international norms in an effort to remove trade impediments. Japan still applies import quotas to some products. Analysis from the UNCTAD (1999) database revealed that non-tariff arrangements to market access to Japan on the selected studied commodities of importance to South African products are; bulbs, tubers, grapefruit, fresh grapes, barley, maize (other) and ethyl alcohol (Annex. 8). Rice for example is subject to state import monopoly and to import quotas. The importing of rice is not generally permitted by government.

The Japanese approval procedures concerning the import of fresh fruit are without exception, very lengthy (2-3 years), costly and lack in transparency. Fruit and vegetables, carrying harmless insects, are treated by Japan in much the same way as if they are infested by harmful organisms. Even if it is listed as a non-quarintine organism, it still has to undergo unnecessary fumigation, which is very expensive due of a lack of competition

between fumigation companies (EC, 1999c). These restrictions also apply in the case of cut flowers.

Japan protects the local wheat-starch producers. The Japanese market for starches is estimated at around ¥3 million/year but is very difficult to penetrate, the highest import figure in recent years being 210 000 tons (EC, 1999c). There is a tariff quota of 175 4000 tons for imports of native starches, with an out-of-quota duty rate at a prohibitively high level. This quota is consistently underfilled because of the manner in which it is administered. Imports beyond the tariff quota are subject to a prohibitive duty of ¥136.5/kg (1995-1996) decreasing to ¥119/kg by 2000.

Problems are experienced with small consignments of high-quality (and highly-priced) vintage wines, which are subject to all of the testing and certification regulations relating to wine. Unless wine of the same year and same vineyard has been imported previously, a bottle must be opened for inspection and testing (EC, 1999c). It is unreasonable to require testing, which in practice makes it very difficult to import these vintage wines.

Some non-tariff barriers exist on beef products. The European Commission, (1999c) reported that its objectives regarding the removal of unnecessary non-tariff barriers for meat, amongst others are: (i) The abolition of the requirement of storage temperatures below 4°C for non-heat sterilised products; (ii) The abolition of labelling and classification of products by water activity; (iii) The abolition of restrictions on spray salting of meat.

5.4 A PROFILE OF AGRICULTURAL EXPORT OPPORTUNITIES TO SOUTH KOREA

5.4.1 Overview and outlook of the South Korean economy

Korea has developed rapidly over the past 30 years, resulting in the transition from a rural, undeveloped economy to an important role-player in the world economy. Although the Korean economy delivered "only" 7,1% GDP growth in 1996 and "only" 5,5% in 1997, the average annual rate of GDP growth over the previous three decades had been a staggering 8,6% (From 1960 to 1997 an average of 9% per year (Shull, 1999)). Korea experienced the longest and largest economic growth in the history of the world. In contrast, after the financial crisis, the GDP decreased to 7% in 1998. Private consumption dropped by 11% in 1998 and business investment was about a quarter lower than the 1997 level (EC, 1999a). Agriculture accounts for about 7% of South Korea's GDP and output is increasing at about 2.5% to 3.5% per annum.

The Korean economy is currently in the most serious trouble in its modern history. The booming economy was built on the bubble of aggressive business confidence, supporting extensive debt funding - largely in foreign currency. With events showing that the currency value was not adequately supported, a flight of capital bought unprecedented devaluation. The South Korean Won depreciated by about 40% between July 1997 and the end of the first quarter of 1998 (Austrade, 1998a). This has brought technical insolvency to many of the more adventurous, large Korean corporations. Devaluation has also taken affordability of foreign food out of the reach of many in the large Korean middle class, who had been leading an accelerated trend towards Western eating habits (RIRDC, 1998a). Initial attempts by the Government to support the Won resulted in the serious depletion of foreign reserves and a balance of payments crisis. Insufficient foreign competition on the domestic market has compounded Korea's economic difficulties (EC, 1999a). The Government negotiated a US$ 58 billion loan rescue package with the international Monetary Fund (IMF) and has agreed to further trade liberalisation, stringent

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monetary- and fiscal policy conditions, continued economic reform and financial restructuring (Austrade, 1998a).

Trade patterns have undoubtedly been disrupted by the crisis in Korea. In dollar terms, Korean exports dropped by 2,8% in 1998, while imports decreased by 35,5% (EC, 1999a). Since the beginning of the exchange rate crisis imports of wheat and some other crops have declined sharply. The weaker Won, growing unemployment and poor economic growth prospects, will weaken consumer demand in South Korea and will generally constrain the growth of the imported food market in the short term. In the medium- to longer term, however, prospects in this nation of 46 million consumers remain strong and South Korea is expected to grow in importance as an export destination.

The optimistic scenario is that economic stability and growth could return by the year 2000. If, however, there is no swift progress regarding major structural reform, the pessimistic scenario could prevail, that is, Korea's economic recovery to the pre-crisis level could take more than five years (RIRDC, 1998a). The EC (1999) forecasts that modest economic recovery is to be expected in 1999 (with GDP growth of about 2%) before more robust growth resumes in 2000, at a lower trend rate than before the crisis of perhaps 5% - 6% annually.

However, with a population of around 46 million having a relatively high income and education levels for Asia, Korea will again represent a strong, long-term market for food because of increasing urbanisation, the irreversible change to a western diet, declining food self-sufficiency creating the need for trade liberalisation to facilitate imports and the strong resource and capacity base of the country.

5.4.2. Agricultural trade environment

The Industrial Policy adopted by Korea during the transitional period until the late 1980s, when it considered itself as a Newly Industrialised Country, was highly protectionist in nature. In light of its inherent dependency on foreign trade, Korea has more recently been seeking to participate more actively in the world-trade system. South Korea agreed to minimum access levels and maximum tariffs for a number of sensitive agricultural products including rice, grains, dairy products and beef during the Uruguay Round negotiations in 1993. Since then it has gradually liberalised the import restrictions for most goods except beef and live cattle, due to be liberalised in 2001, and rice, to be liberalised in 2004 (DEFAT, 1997).

Despite considerable progress in recent years to globalise their agricultural system, the agricultural sector in Korea remains heavily protected. Food self-sufficiency is a top government priority and, while it negotiates market access guidelines with the World Trade Organisation (WTO) and other multilateral groups, it continues providing substantial subsidies to domestic producers in one form or another. Delivering the keynote address at the 24th Food and Agriculture Organisation Regional Conference for Asia and the Pacific in April 1998, the South Korean Minister for Agriculture and Forestry, Kim Sung-hoon, argued that the world grain supply was too heavily reliant on a few exporting countries (Austrade, 1998a). The Ministry of Agriculture of Korea (1998) also said that Korea would not consider any further cuts to trade-related subsidies or the number of agricultural goods subject to tariff-rate quotas. Agriculture is the main beneficiary of subsidies in terms of total value of assistance provided (EC, 1999a). The Producer Subsidy Equivalent of Korean agriculture is said to exceed that of Japan, which is about 80%. The Korean market still remains one of the most difficult in the world in which to trade and invest in spite of recent liberalisation. This is because of overburdensome and intransparent regulations and other import barriers. In addition, foreign companies face stiff competition from the "chaebol" business conglomerates which dominate all major industries (EC, 1999a).

Pressure for further reform of Korea's agrifood policies is likely to intensify as the economy recovers from the current downturn. On the domestic front, urban links to the countryside will weaken, as will the political power of farmers. The current level of public support for agriculture will not be sustainable.

International pressure for further policy reform will increase through future multilateral trade negotiations in the World Trade Organisation. Korea will face additional reform pressure now that it is a member of the Organisation of Economic Cooperation and Development (OECD) and the Government has to show to the world its willingness to adopt more transparent and market-orientated policies. Pressure for policy changes will also continue as APEC works its way through the process of implementing its vision of free trade by 2020.

5.4.3. Self-sufficiency trends in Korean agriculture (changing comparative advantages)

With rapid economic growth and industrialisation, the structure of the Korean economy changed and by 1997 agriculture contributed only 4,9% of the GDP (comparing to 23% in 1970) and employment only 11% (compared to 50% in 1970) of the labour force. The contribution of food processing (including beverages and tobacco) to manufacturing output declined from 21% in 1970 to 6,5% in 1997 (RIRDC, 1998a).

The importance of agrifood products in Korean trade has also been declining over time. In 1970, agriculture-intensive products accounted for 28% and 33% respectively of the country's exports and imports. The corresponding figures in 1996 were 5% and 12% (RIRDC, 1998a). Korea has a 75% dependence on imported food (Shull, 1999). This

implies that the country's comparative advantage in agrifood production has declined over time, heading to greater dependence on agrifood imports.

Korea's agrifood production will become more specialised, reflecting the country's comparative advantages. Further import liberalisation and consequently rapidly increasing food imports are expected early in the new century. For some products, especially processed foods, competition from foreign supplies will increase. Korea is already highly dependant on imports of a number for major foods eg barley, corn, soy-bean, sesame and beef (Table 5.1).

Table 5.1 Self-sufficiency ratios in Korea, 1997

Product	Self-sufficiency (%)
Barley	47,0
Corn	1,0
Soy-bean	8,4
Sesame	32,2
Beef	65,5
Potato	99,2
Garlic	95,4
Onion	99,2
Pork	100,1
Chicken meat	94,6

Source: RIRDC (1998)

5.4.4. Consumption developments

Korea's food consumption levels and patterns have changed significantly in tandem with the country's rapid economic growth, industrialisation, modernisation and expansion of urban areas. An understanding of consumer concerns about health and nutrition may assist to identify export opportunities or market approaches. Austrade (1998a) observed that eating patterns have changed dramatically in the last 25 years, with a nine-fold increase in the consumption of meat, poultry and their products, a six-fold increase in egg consumption, a seven- fold increase in fish and shellfish consumption and a 20-fold increase in the consumption of milk and dairy products. They also observed that the consumption of processed food (including non-traditional grains) increased 16-fold, but rice consumption decreased by about 40%. This has resulted in a diet that is lower in carbohydrates, higher in fat and higher in protein. In addition to the increasing consumption of high-protein food, the consumption levels of vegetables and fruit have risen rapidly, particularly since the early 1980s (RIRDC, 1998a).

The changing pattern in food consumption in Korea is expected to continue into the 21st century. However, it may be slowed to some extent in the short-term because of the current economic crisis as changes in food prices may have greater effects on the consumption pattern, especially the increase in dining out and meat consumption. The consumption of prepared meat and milk products, fruit and vegetables, edible refined oil and non-alcoholic drinks is expected to maintain relatively high growth. The best prospects for greater consumption rest with ice cream, cheese, yoghurt, milk powder, frozen vegetables, fruit, vegetable soup, sausages, ham, other prepared meat products, natural fruit and vegetable juices, soft drinks, and low-alcohol beverages such as wine and beer (RIRDC, 1998a). Shull (1999) has identified that a number of products, including fresh and frozen vegetables, processed and frozen fruit, refrigerated doughs, coffee, wine, poultry, certain dairy products and a wide range of microwavable foods, will be likely to start showing record imports in the next year or two.

5.4.5. Opportunities for food exports to Korea

The recent downturn in Korea's economy has most significantly affected the recently-imported retail products that could be considered luxury items, including wines and value-added products. Austrade (1998a) argues that the proposed reforms of the Korean economy and growth factors will serve to underpin the South Korean market as a strong medium and long-term market. These are the deregulation of the South Korean food and beverage market through to the year 2001, a declining domestic agricultural sector and increasing reliance on imports of all agrifood products, including the necessary staples, increased ownership of the domestic food manufacturing sector by multinationals, modernisation and restructuring of the retail and distribution system, a rapidly growing food service sector and greater acceptance of western foods by the younger generation together with increased exposure to western-style food chains. Shull (1999) has observed trends in Korea and is convinced that with Korea's 75% dependence on imported foods, including bulk commodities and consumer demand for high-quality foods, significant increases in food imports appear inevitable. A rapid recovery of food and beverage imports is expected.

Key opportunities as identified according to information sources are discussed on a commodity group basis.

5.4.5.1 Grain and processed grain products

Rae (1995) has observed that the consumption of rice has been dropping and wheat consumption has stabilised in Korea. Generally the long-term consumption trends of cereals have been declining, which is a feature of the higher-income Northeast Asian countries, but not of the East Asian region.

Nevertheless, Austrade (1998a) predicts that the continued westernisation of the diet and the proliferation of western food chains in Korea underpin a growing demand for grains in general and bread, pastries and cakes in particular. RIRDC (1998a) predicted that the imports of grain and pulses will increase and self-sufficiency is expected to drop to 30% in 2000 and 26% in 2004. South Korea has increased its total grain imports from US$1,5 billion in 1992 to US$2,5 billion in 1996. The principal items in 1996 included 'other unmilled maize' (not sweetcorn), which accounted for 62% of the total shipments and 'other unmilled wheat including spelt and meslin' (28%). Other important lines include unmilled rye (6%), unmilled grain sorghum (1%) and unmilled barley (1%) (Austrade, 1998a). Processed grain-product exports, such as 'bread, pastry, cakes and biscuits' comprised about 25% of South Africa's agricultural exports to Korea and constituted the major agricultural commodity exported to Korea (Annex. 6, Table 2).

A single tariff of 8% applies to imported bakery preparations (eg premixes and doughs) and finished products. Higher tariffs are imposed for raw materials, for example 40% for frozen cream and 30% for macadamias. Abare (1997) has identified opportunities for malt exports. Koreans are large beer consumers and this is a growing market (in terms of grain - malting barley). Applied tariffs of malt are 8% to 30%.

5.4.5.2 Opportunities for meat exports

Rae (1995) discovered that a rising trend in the per capita consumption of animal products in East Asia has been most rapid in Korea and China. He further noticed that in Korea, a 10% increase in expenditure was accompanied by at least a 10% rise in the consumption of animal products. Rae argues that the change to only tariff protection of Korea's beef sector in 2001 will probably result in a substantial drop in retail prices and a surge in consumption and imports over and above his projections. RIRDC (1998) predicts that beef self-sufficiency is projected to drop to 47% in 2004 (compared to 65,5% in 1997), when imports will be completely liberalised.

The Ministry of Agriculture and Forestry of Korea's figures show that the per capita meat consumption in South Korea is rising steadily. Austrade (1998a) observed that in 1996, South Korea imported US$762 million of meat from other world countries, 36% more than in 1992. Frozen beef was the principal item accounting for 65% of shipments. Fresh, chilled and frozen swine accounted for almost 20% of shipments. Other important lines included meat and edible offal of poultry (9%), meat of sheep or goats (2%) and edible offal of cattle, sheep, horses and pigs, ect. (2%).

Austrade (1998a) argues that further scheduled reductions in tariffs and quotas and increasing per capita consumption will increase growth, particularly for poultry. However, the RIRDC (1998a) has observed that prospects for the import of poultry meat are not promising in the short term because of the contraction of real incomes. Chicken consumption continues to increase in South Korea. The tariff duties on this products will be reduced to 20% by 2004. Fast-food sectors and traditional fried-chicken dishes tend to be the main demands.

Game meat is allowed to be imported into South Korea, subject to the condition that it is farmed and not obtained from the wild. Ostrich- and other meats have also generated significant interest in the market.

There are some interest in horse breeding stock programmes in Korea. Imports have increased by 21% (a 5-year trend noted in 1995) (Abare, 1997). The applied import tariffs for live horses are 8%.

5.4.5.3 Dairy

Rae (1995) observed that Korea was largely self-sufficient concerning dairy products until the late 1980s, but the deficit has been more substantial since then. Ongoing market liberalisation and steady increases in the per capita consumption of dairy products determine the demand for imported products. Ice cream is becoming increasingly popular (Austrade, 1998a).

Austrade (1998a) observed that in 1996, South Korea imported US$151 million of dairy products from other world countries, a more than fourfold increase on the figure for 1992. Whey products accounted for 51% of total shipments. Other cheese curd accounted for a further 28%. The newly-liberalised item 'other cheese and curd' accounted for most of the shipments and most of the growth over the period. Other important lines included yoghurt, buttermilk and ice cream (7%) and milk and cream, not concentrated or sweetened (6%).

It is evident that the South Korean market for dairy products is growing steadily. Per capita dairy products is still relatively low at 54.5 kg but is expected to reach 100 kg/year sometime in the next decade (Austrade, 1997a). This will require increased levels of imported dairy products based on decreased self-sufficiency from the local dairy industry. The increasing range of products available, including cheeses, yoghurt and ice cream, reflects the increasing popularity of dairy products amongst the younger generation (Austrade, 1998a).

5.4.5.4 Horticulture

Rae (1995) observed that the long-term per capita consumption of fruit has shown continual growth in Korea. Slower growth in vegetable consumption has occurred. Although the short-term market has contracted because of the Asian crisis, medium to long-term trends support the fact that the market is growing. Austrade (1998a) has

identified that hotels and restaurants provide good opportunities for quality counter-seasonal produce, including citrus, grapes, potatoes, carrots and onions.

Although fruit consumption has increased by almost 2% per year since 1990, local production has only increased by about 0,5%. Self-sufficiency rates of fruit were 100% prior to 1990, but have dropped since then as a result of import liberalisation (RIRDC, 1998a). This has led to a considerable boost to imports. South Korea's per capita consumption of fresh vegetables reached 153 kg in 1995, 9% more than in 1994 (Austrade, 1997b). Austrade (1998a) observed that in 1996 South Korea imported horticultural products to the value of US$485 million, 40% more than in 1992. The principal items included vegetable products, roots and tubers (22%), orange juice (14%), bananas (12%), dried non-leguminous vegetables (9%), edible nuts (7%) and the juice of non-citrus fruit and vegetables (8%). Other important lines included oranges, mandarins and clementines, leguminous vegetables and fresh or dried fruit. Tariffs of between 30% and 50% are applicable to fruit and vegetables. Horticultural exports from South Africa to Korea comprised mainly of dried grapes, 11% of agricultural exports to Korea. Recently a citrus protocol was approved and South Africa can now export fresh citrus fruit to Korea. Korea is evaluating South Africa's application in terms of sanitary and phytosanitary requirement protocols for the export of grapes, avocados, litchis and mangoes. However, the time it takes to evaluate one commodity can be two- to three years and it is done in series. This presents major non-tariff barriers for the export of fresh fruit to Korea.

The Government is heavily involved in the sector and manages imports, exports and supply through its agency, the Agriculture and Fishery Marketing Corporation. The import of certain fruit and vegetables, including oranges, garlic, onions, potatoes and sweet potatoes, is managed by designated industry associations in order to protect local growers (Austrade, 1997b).

Austrade (1998a) mentions that there are good opportunities for increased exports of asparagus, broccoli, radicchio, cauliflower, onion, carrot, and potato to South Korea because of the fact that there are no quarantine barriers (which is the major restriction for horticultural exports to South Korea). Furthermore, there are good prospects exist for the export of fresh potatoes as a result of an increasing demand from snack-food companies and fast-food outlets. There is a shortfall in the supply of potatoes between January and April. The liberalisation of the citrus market in 1997 created significant potential export opportunities. There are good prospects for imported navel oranges during May to July, particularly in supplying to large retailers. Tropical fruit led the import-fruit market in South Korea as recently as the early 1990s. Since 1995 the variety of imported fruit has become significantly diversified with the introduction of kiwifruit, table grapes and oranges. Hotels and restaurants provide one of the best prospects for imported fresh produce as they require continuous supplies of a variety of fresh fruit and vegetables.

5.4.5.5 Beverages

Wine and beer consumption is set to increase as these products are introduced to the younger generation. A demand for juices and health drinks will be determined by an increased awareness of the need for healthy lifestyles. The ITC (1995) observed that Korea is the second largest Asian market for fruit juices following Japan. The RIRDC (1998a) observed that on the short term, because of Korea's currency crisis and the resulting increases in prices of imported products, soft drinks have taken the market share from juices. Beverage exports from South Africa to Korea comprised about 6% of agricultural exports; fruit juices (5%) and tea (mainly black tea) (1%) (Annex. 6, Table 2).

Total beverage imports in 1996 were valued at US$240 million, an almost fourfold increase on the figure for 1992 (Austrade, 1998a). Spirits were the principal item, accounting for 85% of the total shipments. Although the wine market is still in its infancy, the volume of imported wine has increased markedly through 1997. The RIRDC (1998a) is of the opinion that the long-term future for wine in Korea is still very good, certainly

while beer taxes remain high and 'hard liquor' (whisky and cognac) is still under quota and subject to higher duties. Wine imports were valued at US$16.5 million, a 2.6-fold increase over the figure for 1992 and accounting for 6% of the total shipments in 1996. The major suppliers to the wine market include France, Germany, Australia, United States of America, Italy, Portugal and Chile. Consumption reached 70 million litres in 1995 and 89 million litres in 1996, representing a 27% growth in 12 months. Red wine continued to hold the dominant retail position with a 70% market share while white wine accounted for 30%. French wines dominated the market, because of the general South Korean perception that 'French means quality' (Austrade, 1998a).

South Korea imported US$5,18 million worth of beer in 1997, a figure double that in 1996. Beers are principally imported from the United States of America, the Netherlands, Germany and Japan. Teenagers and the younger generation are the main consumers of imported beers, particularly at trendy venues, including western-style cafes (Austrade, 1998a).

There is an increasing demand for fruit juices and health drinks resulting from the increasing trend towards health products and healthy living. Young females and the more affluent continue to be the main customers of the health-conscious sector. Beverages with varying degrees of fruit content (100%, 50%, 10%) have become very popular among Korean consumers. According to one of the major bottlers, 100% fruit juices may now account for three-quarters or more of total fruit-juice-beverage sales, as a result of a growing health awareness, higher standards of living and aggressive marketing (ITC, 1995). In a market traditionally based on orange and apple-juice sales, vegetable juices (such as tomato and carrot) are now becoming increasingly popular.

5.4.5.6 Confectionery

Further growth will be stimulated by lower import duties and the operations of recently-introduced foreign distribution giants. South Korea's imports of confectionery products have grown by about 46% from US$71 million in 1994 to US$104 million in 1996 (Austrade, 1998a). Lower import duty rates applied to confectionery products (principally 8%) compared to other food ingredients have been a significant factor fuelling import growth. Confectionery items which have shown the most significant import growth during the period 1995 to 1997 include candy, biscuits, chocolates, wafers and superpremium ice cream (Austrade, 1998a). Products using organic ingredients have been rapidly gaining market acceptance since early 1997. Sugar confectionery exports from South Africa to Korea comprise 16% of agricultural exports to Korea, the second most important export agricultural commodity to Korea following other grain-based confectionery such as processed grain products – including cakes, biscuits and other bakers' wares (25%) and is of equal importance as processed fruit products (16%) (Annex. 6, Table 2).

5.4.5.7 Other foods

In 1996, South Korea imported other foods from the rest of the world valued at US$1,5 billion, 70% more than in 1992. The principal item was raw sugar, which accounted for 28% of shipments. Other important items included yeast (13%), molasses (6%), coffee (9%), palm oil (7%), prepared and preserved vegetables (5%), prepared and preserved fruit and nuts (5%), sauces and preparations (3%) as well as bread, pastry, cakes and biscuits (2%) (Austrade, 1998a).

Annex 6, Table 2 shows that South African agricultural exports mainly comprised of prepared or preserved fruits or nuts, (16% of agricultural exports to Korea). Wool and fine coarse animal hair comprises 21% of agricultural exports from South Africa to Korea. South Africa is a major world exporter of wool and animal hair. It is a declining world market, however over the long term opportunities exist in niche products. Wool and

animal hair is a major export product to Korea and to larger China (mainland China, Taiwan, Macau and Hong Kong).

Some long-term opportunities for the Korean market include honey (currently restricted by high import duties, but these are scheduled to decrease by the year 2004), fruit jams, processed dairy products (more than only cheddar cheese), frozen processed vegetables and processed potato products such as French fries and potato crisps (RIRDC, 1998a).

5.4.6. Barriers to agricultural trade

5.4.6.1 Tariff barriers, levies and charges

Korea has undertaken an almost continuous process of tariff reduction since its adoption of outward-orientated policies in the early 1960s. As of January 1995, after the implementation of the Uruguay Round, almost all agricultural tariff lines were bound. However, duties remain high compared to other OECD countries as well as for a number of high-value agricultural products (eg wine, liquors, oils, beer, juices, dairy products) (EC, 1999a). Korea introduced In Quota Tariffs for 67 categories of agricultural products, in accordance with its World Trade Organisation (WTO) commitments to tarify quantitative restrictions on these products (EC, 1999a).

The average applied tariffs of Korea on selected agricultural products of general importance for South African exports is 89% (Annex 7). Almost prohibitively high tariffs exist on milk and cream powder (211%), mandarins (157%), barley, maize and sorghum (358 to 467%), cereal groats and meal (maize) (177%), groundnuts (251%) and undenatured ethyl alcohol (118%) (Annex. 7). High tariffs also generally exist on processed or preserved food. Tariffs on fresh- and dried fruit are between 30% and 50%. Tariff peaks exist on the main agricultural commodities exported by South Africa to Korea on:

- prepared or preserved fruit, nuts (16% of exports), 40% tariff;
- fresh or dried grapes (11% of exports), 40% tariff;
- fruit juices (5% of exports), 49% tariff;
- tea (mainly black tea) (1% of exports), 40% tariff;
- other food preparations (<1% of exports), 90% tariff (can reach 821% on some products) (Annex. 6, Table 2).

Negotiations on lowering tariffs in Korea, could open major trade opportunities for South Africa on these products.

A special excise tax and education tax is levied on sugar. Since 1996 a discrepancy has remained between taxes levied on imported alcoholic beverages and domestic products. The negative impact of both high tax rates and tax discrimination is reflected by the relatively low market share of imported spirits in Korea (less than 2% against 33-34% in the United States or France, or 42% in the United Kingdom). An Appellate Body of the World Trade Organisation (WTO) has confirmed in its report of 18 January 1999 that this practice is discriminatory and Korea will now have to bring its internal taxes on spirits within the WTO Panels' ruling (EC, 1999a).

5.4.6.2 Non-tariff barriers to trade

Agricultural products as well as processed food products are still facing a host of serious market access difficulties: Sanitary and phytosanitary regulations, often applied in an arbitrary and discriminatory way, restrict access for several products, for example lemons and oranges. Sanitary standards and conformity requirements for processed-food products significantly impede access to the market and require very costly and time-consuming efforts to collect up-to-date information on market-access conditions for these products (EC, 1999a). Quarantine issues have been a major impediment to market access for fruit

and vegetable producers. Some vegetables are allocated quotas which are managed by the relevant industry association or government agency.

An analysis on the UNCTAD (1999) database indicated that non-tariff arrangements to market access to Korea on selected studied commodities of importance to South African exports are boneless meat (frozen), milk and cream, powder, onions, garlic, shallots, mandarins, barley, maize), grain sorghum, cereal groats and meal (maize), groundnuts, chocolate as well as ethyl alcohol (Annex. 8). In 1990, all quota restrictions on wine were lifted. Although importers must hold a current licence, import permission is automatic. Imported wines are subject to taxes, including a 30% import duty, a 30% liquor tax, a 10% education tax and a 10% value-added tax (VAT) (Austrade, 1998a). Substantial labelling requirements apply.

Other related difficulties include Korea's requirement to submit tanned hides and skins to quarantine inspection, in spite of the absence of living organisms in tanned products (EC, 1999a). In the case of shelf-life limits for mineral water, it is still less than satisfactory despite improvements. Tests have to be carried out to allow a shelf-life limit longer than the previous 6 months mandatory limit. An extension of up to 24 months should be possible, subject to test results) (EC, 1999a).

Korea's standard requirements are in many instances higher than that required by international standards. For example, Korea seems to be the only country in the world that requires country-of-origin markings not only on the packaging of the products, but also on the product itself. The regulation results in technical difficulties and additional cost burdens for foreign exporters that lower their ability to compete with local manufacturers and therefore constitute market-access barriers.

A protocol enabling South African producers to export citrus has already been approved by the Korean government. Technical data were submitted for risk analysis for the export of grapes, avocados, mangoes and litchis. It takes up to three years for the Korean government approving a protocol, which is often done in series (one by one instead of simultaneously).

5.5 A PROFILE OF AGRICULTURAL OPPORTUNITIES IN MALAYSIA

5.5.1. An overview and outlook on Malaysian economy

The Malaysian economy grew at an average annual real rate of 6,7% from 1971 to 1990, making it one of the fastest-expanding economies in the world (EC, 1999d). With annual gross domestic product (GDP) growth rates in excess of 8% over the last decade, until recently Malaysia has also been one of the fastest-growing economies in the Association of South East Asian Nations (ASEAN). Even during 1997, when the Asian currency crisis hit and the Ringgit lost 30% of its value, the economy grew by 7,8% (Suthaker, 1998). However, the impact of the crisis was such that economic growth slowed down to an estimated negative 3.0% in just over a year (Trewin, 1998).

The weak currency and poor economic growth prospects will decrease consumer demand in Malaysia and will generally constrain growth in the imported food market in the short term. In the medium- to long term, however, growth prospects in a nation of nearly 22 million consumers and a very urbanised society, remain strong and Malaysia is expected to become increasingly important as an export destination. In mid-1996, the country had a population of 21,2 million, (12 million Malays, 5,3 million Chinese and 1,5 million Indians) (FAO, 1998). The population is concentrated on peninsular Malaysia, especially in the larger cities such as Kuala Lumpur. Urbanisation has been taking place rapidly; in 1991 less than 50% of the population lived in rural areas and this percentage has been dropping rapidly (RIRDC, 1998). Malaysia has been one of the world's economic success stories for the last three decades: in 1970 it had a GDP per caput of only 1 049 Malaysian

Ringgit ($M) ($342). By 1997, however, per caput income had risen to an estimated $M 11 303 ($4 316) (FAO, 1998). The average income per person reached US$4000 during the early part of 1997 and Malaysia had the aim of achieving 'developed-nation' status by the year 2020 (Athukorala, 1998). Malaysians spend approximately US$1 000 a year per person on food.

Positive factors in Malaysia are the gradual liberalisation 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 (Austrade, 1998d). The medium-term outlook for Malaysia remains uncertain. In the medium- to longer term, when the fundamentals are stronger, the outlook is good (RIRDC, 1998). According to the Asia Pacific Economic Group (1998), recovery was expected to begin relatively quickly - within a year - other factors being equal (no slowdown in the United States or China).

5.5.2. Agricultural trade environment

Malaysia's food production is determined mainly by the political economy, aimed at maintaining farm incomes rather than self-sufficiency (RIRDC, 1998b). External trade is of critical importance to the Malaysian economy, given the fact that the value of exports is in excess of 80% of the country's Gross National Product (EC, 1999d). Malaysia is a member of the World Trade Organisation (WTO) and the Association of South-East Asian Nations (ASEAN) and party to the ASEAN Free Trade Agreement (AFTA). Malaysia has concluded bilateral trade agreements with 29 countries. By mid-1996 Malaysia also had bilateral investment guarantee agreements with 45 countries and country groupings (EU, 1999d).

Austrade (1998d) discusses why Malaysia is an attractive market to Australia despite the recent slump in demand because of the currency crisis. Factors are as follows:

- The gradual liberalisation of market access. The Malaysian Government is committed to reducing tariffs on food items as part of an ASEAN agreement. By 2003, tariffs on all food items will be reduced to less than 5%.
- The declining domestic agricultural sector and increasing reliance on imports, particularly, rice, vegetables, beef and mutton.
- The recent strong development of the retail sector, with an explosion in the number of supermarkets, hypermarkets and convenience stores.
- Strong growth in the food service sector is being determined by high incomes, a greater propensity to eat out and the proliferation of western-style restaurants.
- A strong tourist trade which is currently estimated at approximately 7 million visitors per annum.
- Increasing demand for convenience foods, health foods and western-style foods, particularly from the younger generation.
- Increasing utilisation of imported foods in both Asian and western-style diets.

With the depreciation of the Ringgit (45% against the US dollar), the prices of South African products should be more attractive compared to, for example, Australia and the United States.

5.5.3. Self-sufficiency trends (changing comparative advantages)

The FAO, (1998) and RIRDC, (1998b) observed that structural changes occurred from 1970 to 1997, during which time agriculture declined in importance from 29,9% of GDP to 13,5%. Although agriculture achieved an annual growth rate of more than 4% during the two decades up to 1990 and a rate of 2% in the 1990s, other sectors grew much faster (FAO, 1998). Agricultural output expanded by 2,4% in 1996 compared to overall GDP growth of 8,2%. Because Malaysia is industrialising, agriculture's share of GDP is expected to be only 8,2% in 2005 (RIRDC, 1998b).

While agricultural output is declining as a proportion of domestic activity, agricultural products remain important as inputs in industrial processes. Agriculture-related manufacturing and services accounted for 36% of the GDP in 1997 (Pryor & Holt, 1998). About a fifth of agrifood imports are intermediate inputs for further processed products (Tan, 1998). 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 raw materials. The shortfall must be made up with imports. Malaysia's total food imports expanded by 20% between 1992 and 1996 to reach US$3,3 billion (Austrade, 1998d).

Consumption levels per person and self-sufficiency ratio's for selected food items in Malaysia illustrate the recent trends in consumption (Table 5.2). It is noticeable that the per kg consumption of beef has doubled in a decade. The self-sufficiency ratio's for rice, beef and mutton have dropped. Malaysian 'self-sufficiency' targets are set low: 80% for rice, 30% for beef and 5% for dairy products (Ministry of Agriculture, 1992).

Table 5.2. Consumption of food products per person (kg) and self-sufficiency ratio's (%) in Malaysia

	1986	1995
Rice	82,0	87,0
	(86%)	(76%)
Beef	2,4	4,7
	(39%)	(20%)
Mutton	0,5	0,7
	(9%)	(5%)
Pork	9,8	10,4
	(109%)	(142%)
Poultry	17,6	33,1
	(106%)	(114%)
Eggs	243,0	328,0
	(101%)	(112%)
Liquid milk	40,5	51,7
	(5%)	(4%)

Note: Figures in brackets indicate Malaysia's self-sufficiency for the product

Source: Ministry of Agriculture, Department of Veterinary Services of Malaysia

Agrafood Asia, (1999c) recently reported that the Malaysian Pineapple Industry Board is spending 35 000 Ringgit (US$9 200) to study the commercial potential of pineapple juice. This is part of a plan to turn the country into a leading exporter of pineapple-based products. Malaysia currently exported RM 70 million worth of canned pineapple-based products.

5.5.4. Consumption developments

Rae (1995) argues that Malaysia is close to entering the third phase in consumption evolution (a shift in consumption from non-traditional staples to high-value and high-protein foods) (See Fig. 5.1). Malaysians have traditionally been open to trying new foods and are becoming increasing familiar with Western foods. For example, breakfast in Malaysian households increasingly includes bread, butter and breakfast cereals (RIRDC, 1998b). Malaysia is also becoming more dependant on beef, mutton and milk imports.

Prior to the onset of the economic crisis in Asia, the Malaysian economy had been flourishing. Total retail sales grew by about 40% between 1991 and 1997. Supermarket sales grew by 142% over this period. A third of the households were regular supermarket shoppers up to 1997, compared to only one tenth in 1995 (RIRDC, 1998b). Street markets remain important as sources of fresh foods, particularly in rural areas, and traditional food retailers still account for between 50 and 70% of the market. Since the onset of the economic crises in Malaysia, there has been a switch from imported to local foods, mainly because of the higher prices of imported products and the income effects of the crisis. The currency crisis has resulted in price increase for major imported food items by as much as 40% to 50%. However, Malaysia's position is much better than the Republic of Korea's and much better than Indonesia's, where the economy has contracted very dramatically. Consumers are now more discreet in their purchases and have cut spending on non-essential items and reduced their volume of purchases (Austrade, 1998d).

The RIRDC, (1998b) observed that religious diversity still has a major impact on modern retailing. Dietary needs differ, as do product specifications and packaging. Most Malaysians eat chicken and most like lamb. Food is generally spicy and rice or noodles are served at most meals. AgraFood Asia, (1999b) reported that a 'halal food hub' is being planned for the Indonesian-Malaysia-Thailand (IMT-GT). The IMT-GT is an ambitious plan to create a virtually borderless free-trade zone including southern Thailand, northern Sumatra and northern Peninsular Malaysia. Foodstuffs in the special zone will be prepared according to Muslim dietary rules and will be sold to Muslim shops worldwide.

5.5.5. Opportunities for food exports

5.5.5.1 Grain and processed grain products

Ongoing westernisation of the diet is stimulating the increased demand for grains in the form of breakfast cereals, pasta, bread, pastries and cakes. Malaysia imported nearly US$1 billion of grain from the rest of the world in 1996 (Austrade, 1998d). Wheat, including spelt and meslin, maize, maize seed and rice were the major items. Austrade, (1998d) projected a significant growth for imported pasta, bread, pastry cakes, biscuits, mixes and dough, primarily as a result of the shortage of skilled labour and technology which is limiting domestic production. The breakfast cereals market has been growing at an average rate of 10% to 15% per annum in recent years. The demand for breakfast cereals is being determined by increasing concerns about health aspects.

5.5.5.2 Meat

Austrade, (1998d) identified existing opportunities for beef, sheep and goats' meat suppliers because domestic production is not likely to keep pace with rising demand. The Malaysian market for meat, and particularly beef, has not yet reached maturity. From the early 1980s to 1995, the demand for beef increased by 106%. According to Rae (1995) the share of animal products in the total diet in Asia is projected to increase most rapidly in

Malaysia. Total red-meat consumption is expected to rise by over 70% (year 2002) in Malaysia.

Malaysia imported meat to the value of US$182 million in 1996, 20% more than in 1992. Frozen beef was the principal item, accounting for 60% of shipments. Fresh and chilled sheep and goats' meat accounted for 14% (Austrade, 1998d).

Consumption of meat in Malaysia is greatly affected by custom and religion. Poultry is consumed by all Malaysians and is the most popular meat (Austrade, 1998d). Sixty-one per cent of Malaysians are Muslims and may only consume 'halal' meat, mostly beef.

5.5.5.3 Dairy

Dairy products are not part of the traditional Malay diet but better incomes and the gradual westernisation of the local diet have resulted in steady increases in the consumption of dairy products (Austrade, 1998d). The dairy sector in Malaysia is relatively undeveloped and can only supply about 5% of domestic requirements. Domestic production is increasing but cannot meet demand and Malaysia will remain reliant on imports to a great extent, providing export opportunities.

According to Austrade's (1998d) analysis there is currently no commercial production of butter, butterfat, ghee, cheese or spray-dried milk powder. Products include condensed milk, ice cream, pasteurised milk, yoghurt, sour cream and milk curd. Malaysia imported US$388 million of dairy products in 1996, about 50% more than in 1992. Concentrated or sweetened milk or cream was the principal item, accounting for nearly 80% of shipments. Butter and other milkfats, milk and cream (not concentrated) and yoghurt were also major lines.

Studies done by Austrade (1998d) indicated a few potential market opportunities. As Malaysians' tastes become more westernised and the tend to eat out continues, so will the consumption of ice cream. Further, the increasing consumption of yoghurt is being stimulated by the trend towards healthy eating. The increasing number of hotels, resorts and restaurants offers an emerging opportunity for UHT milk. Imports of processed cheese have doubled since 1993.

5.5.5.4 Horticulture

Malaysia produces a wide range of fresh fruit and vegetables, but is not self-sufficient. It has to import increasing quantities because arable land is generally no longer available for production. Consumption of fresh produce is increasing as consumers are increasingly aware of the health benefits. Until the end of 1997, Malaysian supermarket chains were experiencing at least a 10% to 20% growth in the turnover of fresh fruit and vegetables (Austrade, 1998d).

According to Austrade's, (1998d) analysis, Malaysia imported horticultural products to the value of US$453 million from the world in 1996. 'Other fresh or chilled vegetables' accounted for nearly 40% of shipments. Other major lines included fresh and dried fruit (12%), oranges, mandarins and clementines (9%) as well as dried and shelled leguminous vegetables (6%). Mandarins are the most popular imported fruit and demand is increasing. Fresh apples, grapes, potatoes, nuts, uncooked vegetables, dried vegetables and citrus juices were also major lines. Imported fruits and vegetables tend to be sold in Malaysia's hotels, restaurants, supermarkets and, more recently, in hypermarkets. The supermarket sector is expanding rapidly at the expense of traditional street markets and these offer good export opportunities. Malaysia currently has about 400 supermarkets (Austrade, 1997c).

Austrade (1998d) has identified the best prospects for Australian vegetable suppliers to exist in broccoli, lettuce, carrots, potatoes, cauliflower, tomatoes, red cabbage and exotic vegetables such as fennel, brussels sprouts, chicory and culinary herbs. There are also good prospects in butternuts. Opportunities exist for tomatoes around December and February when there are domestic shortages.

5.5.5.5 Beverages

The ITC (1995) and Austrade, (1998d) revealed that increased health consciousness and concern about the quality of locally produced juices will sustain the growing demand for imported fruit and health drinks. Popular flavours include orange, mango, guava and pineapple. An emerging opportunity in the beverage sector is for health and sports drinks. The importance of salt and vitamin replacements as a result of the hot climate, is becoming apparent. Growth in the hotel, resort and food-service sectors and reductions in import duties will spur further growth in demand for imported wines. Equal quantities of red and white wines are consumed.

5.5.5.6 Confectionery

The increase in the demand for imported confectionery will be determined by the expansion of the retail sector and the pronounced consumer preference for foreign brands. Between 1989 and 1994, total confectionery imports increased by 138% to reach US$28 million in 1994 (Austrade, 1998d). Expansion of the retail sector, for example supermarkets, hypermarkets and duty-free shops, have made chocolates more available. Recently, some interest has been expressed by local buyers for snackbars utilising fruit, nuts and yoghurt. Chewing gum has registered strong annual import growth of about 20% over the past few years. Cornbased snackfoods and chips are becoming increasing popular, followed by cereal and potato snackfoods. As the food services sector developed, the demand for prepared sauces, mayonnaise, dressings and pasta sauces has subsequently increased. Sugar confectionery exports from South African to Malaysia consisted of

approximately one third of exports; chocolate (18%), sugar confectionery (10%) and cocoa butter, fat and oil (3%) (Annex. 6, Table 3).

5.5.5.7 Other foods

Limitations on the local availability of raw materials and technology underpin the growing demand for prepared foods for the food-service sector. The main foods produced include processed cereals, processed fruit and vegetables as well as beverages (Austrade, 1997d). The industry relies heavily on imported food inputs. There are also increasing opportunities to supply frozen- and convenience foods for households (Austrade, 1998d).

Shipments of sugar beet and cane accounted for a third of shipments of 'other food', while food preparations accounted for a further third. Shipments of coffee, soy-bean oil, prepared- and preserved fruit and nuts, dried- and ground pepper and capsicum, sauces, condiments and preparations were also important items. Agricultural exports from South Africa to Malaysia principally consisted of prepared- or preserved fruits or nuts (55%), other food preparations (3%), animal and vegetable fats and oils (2%) (Annex. 6, Table 3). Important production, (such as livestock) is highly dependant on imported feeds and other inputs (RIRDC, 1998b).

5.5.6 Barriers to agricultural trade

5.5.6.1 Tariff barriers, levies and charges

Malaysia's trade reflects its competitiveness or comparative advantage. More than a decade ago, Malaysia recognised the fact that it had a comparative advantage in estate crops (mainly palm oil) but not in food crop production. This was reflected in the lowering of tariffs and sales tax on most food crops (Figure 5.2). Even when tariffs and other trade barriers apply, a flexible and pragmatic approach is taken to their implementation and imports enter free to meet consumer or processor-price objectives (RIRDC, 1998b).

Malaysia maintains high levels of protection for some small new industries in the manufacturing sector. Products protected by high tariffs and import licensing provisions include processed agricultural products (RIRDC, 1998b). A range of high tariffs remain. Tariff protection is high for automotives, textiles, clothing and leather, food and beverages (EC, 1999d). Overall, 65% of tariff lines in the agriculture sector and 57% in the industrial goods sector were duty-free. Out of the 3 825 tariff lines that have positive duties, 2 290 lines (approximately 60%) have duties not exceeding 20% (EC, 1999d). The rates of import duties range between 2 to 145%.

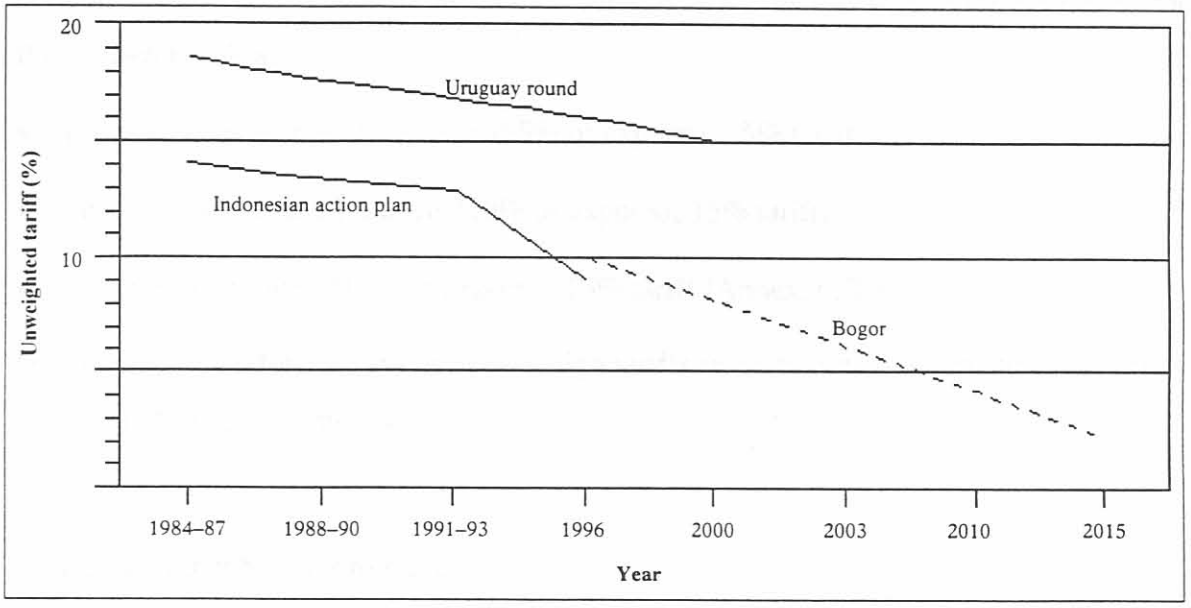


FIG. 5.2 Malaysian import tariffs

Data sources:1984-93 from UNCTAD (PECC 1995); 1996 from Indonesian Action Plan; Uruguay Round calculated from GATT (Martin and Winters 1996)

Canned fruit is an item of particular focus, continuing to attract a 20% tariff (RIRDC, 1998b). The current duty for major fruit, including oranges, mandarins, apples, pears, lemons, grapefruits, grapes, apricots, peaches and cherries is 10% of c.i.f. plus 5% sales tax (Austrade, 1998d). There are no import duties on most vegetables. Currently there are no import duties or sales taxes applicable to fresh, chilled or frozen meat and fish, milk powder or fresh or chilled vegetables. Butter, cheese and yoghurt attract duties of 5%, 10% and 25% respectively. Each attracts a 5% sales tax (Austrade, 1998d). Sugar

confectionery and chocolate attract an import duty of 15% and a sales tax of 10%. Cereal products attract an import duty of 10% and a sales tax of 10% (Austrade, 1997d).

Average applied tariffs of Malaysia on selected agricultural products of general importance for South African exports in terms of growth and share is 62% (Annex. 7). Almost prohibitively high tariffs exist on barley (220%), beer from malt (192%), wine (750%), undenatured ethyl alcohol (298%) and cigarettes (242%) (Annex. 7). These tariffs present major obstacles for South African beverage exports. South Africa generally trades commodities on which applied tariffs are relatively low. The main commodities traded and the applied tariffs are:

- prepared or preserved fruit, nuts (55% of exports), 15% tariff;
- chocolate and cocoa products (18% of exports), 15% tariff;
- sugar confectionery (10% of exports), 15% tariff (Annex. 6, Table 3).

Negotiations on reforming prohibitively high tariffs in Malaysia could create new markets for South African commodities.

5.5.6.2 Nontariff barriers to trade

There are currently no quarantine restrictions on imported fresh fruit (except rambutan, longan, nam-nam and pulasan from the Philippines and Indonesia). All fresh fruit consignments however are subject to inspection at the port of entry and, if necessary, treatment by their Department of Agriculture (Austrade, 1998d). According to an analysis done on the UNCTAD (1999) database it was revealed that non-tariff barrier arrangements to market access (such as quotas) to Malaysia on selected studied commodities of importance to South African exports are: meat, dairy, bulbs, tubers, onions, garlic, shallots, fresh and dried fruit, all grains and grain products, oilseeds, sugar and molasses, mineral waters and ethyl alcohol (Annex. 8).

According to World Trade Organisation authorities, Malaysia's system of import prohibition and licensing is not fully transparent (EC, 1999d). Import licensing still affects about 17% of the Malaysian tariff lines. Most items are restricted for health or sanitary reasons or used to protect domestic producers in order to ensure an adequate supply of essential raw materials. The persistent denial of sanitary certificates has the effect of an import prohibition. Under the Customs Act (1967), import licensing applies to rice, sugar, meat, milk, fresh vegetables, fats, fruit and cereals. Items for which licenses are required to afford temporary protection to local manufacturers are e.g. milk, cabbage, coffee and cereal flours. Products that may be imported only after meeting specific criteria are eg animals, animal products, plants, plant products, cigarettes, soils and fertilisers of animal origin. Labelling and halal production requirements also affects costs.

5.6 A PROFILE OF AGRICULTURAL EXPORT OPPORTUNITIES TO INDONESIA

5.6.1 Overview and outlook of the Indonesia economy

Indonesia's economic development over recent years has been astounding. Real economic growth had averaged 7% a year over a thirty-year period, increasing the average income per person from less than US$100 in 1972 to more than US$1000 in 1996 (RIRDC, 1998c). GDP growth rates were 7,8% in 1995 and 5,5% in 1996. Then the economic growth dropped from 7,8% to -15% between the June quarters of 1997 and 1998, reflecting a full year's effect of the Asian currency crisis (RIRDC, 1998c). This period of economic downturn had the effect of rising unemployment and inflation.

Imported foods have become very expensive and this, combined with the reduced purchasing power of consumers, has caused a sharp decline in the demand for imported food over the short term. Indonesia's economy is in serious difficulty and this has a huge impact on all sections of the community in Indonesia. The RIRDC (1998c) mentioned that the food situation even contributed to social unrest and rioting.

The medium-term outlook for Indonesia remains uncertain, because all economic changes needed to return the country to sustainable growth, have yet to be fully implemented. A number of groups have been examining Indonesia's medium-term outlook, for example, Asia Pacific Economics Group (1998) and the International Monetary Fund (1998). Their overall conclusion is that the outlook for growth is poor. It is expected to take at least two- to three years, and even as long as seven years, for the economy to recover (RIRDC, 1998c). The continued currency volatility has resulted in a loss of business confidence and growing external debt (Austrade, 1998e). The $43 billion International

Monetary Fund (IMF) rescue package for Indonesia's failing economy has - and continue to introduce - wide-ranging reforms designed to assist the economy to recover. Deregulation of long-protected sectors such as banking, foodstuffs and retail and wholesale distribution have now led to a more open and more transparent market and is part of the framework currently being established to put the Indonesian economy back on track (Austrade, 1998e). Companies becoming involved at an early stage of the recovery will be the main beneficiaries in the longer term.

In the medium- to long term, however, growth prospects remain good Indonesia's importance as an export destination is expected to grow. The RIRDC (1998c) and Austrade (1998e) argue that with the rapid increase in average income per person, in conjunction with some market fundamentals such as a population of about 200 million and its endowment of natural resources, Indonesia became a very attractive market which is expected to grow strongly once current economic difficulties are overcome.

5.6.2 Agricultural trade environment

Since 1983 the Indonesian government has implemented a policy of economic deregulation, undertaking monetary and tax reform, aimed at improving market access and liberalising trade and investment to maximise the benefit of trade opportunities and converting the challenges into trading opportunities. The result has been an increase in

merchandise exports from $18,6 billion in 1985 to $36,8 billion in 1994, while imports increased from $10,3 billion to $32,0 billion (Abbas, 1996). Measures have included reducing non-tariff barriers in favour of tariffs, lowering of transaction costs, lowering overall tariff levels in 1997 and a commitment to further reduce average tariffs to between 0% and 10% by 2003. Currently 62,5% of Indonesia's total tariffs fall in the range of 0% to 10%. The average unweighted import tariff is 11,9%, the second lowest in South-East Asia after Singapore (NDIO, 1998).

Despite its undeniable success in the early 90s in bringing about fast growth while keeping the economic fundamentals on a sound basis, Indonesia still presents several elements of uncertainty that are particularly responsible for the crisis. Indonesia's agrifood production and processing are highly organised by the Government, both directly and indirectly. Indonesia's agrifood production and trade tend not to reflect competitive and comparative advantages in a market economy, but more the policy directions that Indonesia has chosen to take (RIRDC, 1998c). Production and distribution in many sectors, including the most important commodities, are dominated by a limited number of politically-connected conglomerates which have been flourishing under condition of monopoly or oligopoly. The lack of any competition law or policy, corruption, red tape and the weakness of the legal system contribute to create a lack of transparency, which is perceived by the foreign business community as the major obstacle in doing business in this country. It is, therefore, not surprising that the International Monetary Fund requested liberalisation and the withdrawal of privileges and tax exemptions in that field (EC, 1999e).

The RIRDC (1998c) and Austrade (1998e) argue that the crisis has led to the opening up of new opportunities. The deregulation of long-protected sectors including foodstuffs and retail and wholesale distribution, have resulted in a more open market. For instance, government is revising competition policy in respect of monopolies. There has been concerted action to remove the influence of monopolies throughout the Indonesian economy, including the agrifood sector. One of the most significant developments is the reduction of food tariffs which currently stands at 5% for most imported products

(Austrade, 1998e). According to the free-trade agreement signed with Association of South-East Asian Nations in 1995, Indonesia must fully open its retail industry to competition by 2003 (RIRDC, 1998c).

5.6.3 Self-sufficiency trends - changing comparative advantages

Agriculture currently accounts for 15% of Indonesia's gross domestic product (GDP). Self-sufficiency remains a key government policy. Nevertheless, its relative importance has been diminishing as growth in manufacturing and other sectors has outpaced it but it still employs 50% of the workforce. Agriculture accounts for about 8% of non-oil exports. Although agricultural production has increased between 2% and 4% throughout the 1990s, agrifood imports have grown much faster as demand continues to outpace supply and the government gradually lowers import barriers in line with Asia Pacific Economic Co-operation (APEC) and Association of South-East Asian Nations Free Trade Agreement (AFTA) obligations (Austrade, 1998e).

Total food imports were valued at US$3,2 billion in 1996, 2,5 times more than in 1992. Grain was the principal item, accounting for more than 60% of the total. Other foods accounted for 22% of the total. Horticulture accounted for 7% and dairy for 6%. Meat, seafood, confectionery and beverages accounted for 1% to 2% respectively (Austrade, 1998e). The short-term outlook for food imports is poor. Since many people are jobless or earn much lower incomes and are struggling to feed themselves, the demand for higher-priced imported food products has dropped by as much as 60% (RIRDC, 1998c).

5.6.4 Consumption developments

A demand for food and agricultural products is stimulated by Indonesia's population of 200 million growing at 1.6% every year and the growing input requirements of its processed exports (Austrade, 1998e). 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 a greater choice than ever before. Food moved from representing about two-thirds of consumer spending in 1992 to approximately one-third in 1997. Trends are expected to continue as before the crisis after the recovery of the economy.

While the street markets continue to dominate the sale of fresh foods, a growing share of business is being taken by supermarkets and other modern retail formats. Prior to the crisis, food-services sales were being directed by a number of socio-economic factors. The RIRDC (1998c) has identified most of them including growing population, the increasing disposable income and purchasing power in urban areas, urbanisation, the increasing number of food-service outlets, changing consumer preferences, the increasing demand for convenience, deregulation of the retail industry, increasing tourism, improvements in infrastructure, the mobility of people, fresh food, more working women, refrigeration becoming more requent in both retail outlets and households new shopping centres, the willingness of young people to try new foods (60% are under 30 years old) and an increasing exposure to Western foods.

Rice dominates consumption; the levels of consumption of wheat flour, meats (poultry) and sugar are relatively low. The middle and high-income groups consume almost 100% of the poultry and wheat flour consumed in urban areas and about 80% and 90% respectively of the quantities consumed in rural areas (RIRDC, 1998c). The Indonesian diet is still dominated by rice, cooking oils, chicken, fish, vegetables and tea. Other important food crops for domestic consumption include cassava, corn, soy-beans and fruit. In general consumption levels of staples such as rice, cassava, maize and sweet potato were decreasing and those of wheat and pulses, fruit and vegetables as well as meat were increasing (RIRDC, 1998c). Prior to the crisis there was increasing consumption of western-style foods such as beef, dairy products, bread, noodles, snack foods, soft drinks and processed foods (RIRDC, 1998c). These trends are expected to re-establish themselves in the longer term, after the crisis ends. AgExporter (1999) regards the best prospects (based on an original study by the United States Department of Agriculture) to

be in the retail and tourism sectors, including beef, poultry, processed meats, frozen french fries, wines, fresh fruit, canned foods, sauces and seasonings, beans, pastas, cooking/salad oils and snack foods. Important estate crops for domestic processing or export include palm oil, coffee, tea, spices, cocoa beans, sugar, shrimp and tuna (NDIO, 1998).

5.6.5 Opportunities for food exports

5.6.5.1 Grain and processed grain products

Austrade (1998e) observes that although rice remains the key staple in the Indonesian diet, consumption of wheat-based foods such as noodles, biscuits, breads and cakes have shown significant increases over recent years. Indonesia imported almost US$2 billion of grain in 1996, more than three times the value of shipments in 1992.

Austrade (1998e) argues that because the monopoly power over the wheat flour market in Indonesia is being deregulated, market opportunities are created. Subsidies will also be gradually removed on the locally-milled product, which will enable the imported product to compete on an unrestricted basis. Subsidies have already been reduced and would have been totally abolished by October 1998. Opportunities are therefore now emerging to supply wheat flour to trading companies and end-users such as biscuit and noodle factories, as well as bakery operations, provided the price can compete with that of the locally-milled product. AgExporter (1999) foresees a large growth potential in the baking and confectionery industry: including an increased demand for flours and premixes, processed dairy and potato products, frozen dough, dried fruits, nuts, syrups/toppings and jams/jellies.

5.6.5.2 Meat

Although not a major consumer of meat products, Indonesia's per capita consumption of meat is rapidly expanding from a low base. Per capita consumption now stands at 8.9 kg

per year, rising from 2.2 kg in 1992 (Austrade, 1997e). Poultry is the cheapest and most popular meat.

Immediately before the Asian crisis, about 5% of the population earned incomes higher than US$4500 per annum. This 'middle class' totals some 10 million Indonesians and, along with foreign tourists, accounts for most of the growing demand for quality-imported meat (Austrade, 1998e). A demand for imported beef, which is the major meat being imported, has been increasing steadily, with the annual growth of imports averaging 37% per year (Austrade, 1998e).

Street markets still account for the greatest volumes of meat sold in Indonesia: about 60% of the total market. As the number of local cattle ventures and abattoirs increases, the Indonesian government has been gradually tightening the import restrictions for meat in an effort to foster local development. In addition to import duties there are quarantine- and halal requirements (Austrade, 1997h).

5.6.5.3 Dairy

Milk is not part of the traditional Indonesian diet and consumption remains at low levels. The local dairy sector is growing and the Government encourages its development. Indonesia imported US$185 million of dairy products in 1996, about 60% more than in 1992 (Austrade, 1998e). Sweetened- and condensed milk and cream were the principal items accounting for 60% of total shipments, although full cream, skim, UHT and fresh milk are becoming more widely available. Butter and cheese are consumed in the food-processing industry, hotels, restaurants and bakeries (Austrade, 1997f).

It is government policy to protect the local dairy industry and although full-cream milk and milk powder imports are permitted, they are restricted. Importers of milk powder must blend imports with local products. Other milk products may only be imported by state-

owned companies. While most of the imported dairy products are destined for the industrial sector, the market for value-added products for the retail and food-service industry, including cheese, yoghurt, cream and other products, will continue to grow (Austrade, 1998e).

5.6.5.4 Horticulture

Fresh fruit imports were prohibited until 1991, whereafter the market was opened to all. Indonesia is also open to vegetable imports but local growers supply most of the market. On a competitive basis Indonesia imported horticulture produce to the value of US$235 million in 1996, 2.5 times more than in 1992 (Austrade, 1998e). The principal items were 'other fresh and chilled vegetables' (34 %), fresh apples (12%), fresh or dried grapes (7%). Imported produce is mainly distributed to hotels, restaurants and supermarkets. The vegetables imported most frequently include onions, lettuce, broccoli and celery (Austrade, 1997g). The major fruit imports are apples, citrus, pears and grapes. Emerging markets also exist for stone fruit and other more expensive imported horticulture produce.

Following further deregulation, import tariffs for fruit and vegetables are currently set at 5%. While no VAT or other tax is applied to fresh fruit imports, dried fruit and fresh vegetables are subject to 10% VAT.

5.6.5.5 Beverages

Local production dominates the non-alcoholic beverage market in almost all sectors. At about 40%, bottled mineral water takes the biggest share of the market. Bottled water is not only the most-consumed product in the beverage industry in Indonesia, it also exhibits the highest growth rate compared to other beverage products. Insignificant volumes of mineral water are imported, because of the dominance of the local industry. Plain carbonated mineral water is the notable exception, where imported products currently represent the majority (Austrade, 1998e).

Austrade (1998e) concludes that carbonated beverages, sport- and health drinks represent some of the best prospects for beverage exports at present. Sports drinks and energy drinks are at the low- and medium level of consumption, but both exhibit a positive growth of 26% per year over the last six years until 1997. The consumption of sport- and energy drinks is expected to grow as the spending power of the teenage and young adult population increases. Sport drinks are regarded as part of a desirable lifestyle trend by the important teenage market through their health connection to sporting activities. Given the developing nature of this sector, it has not yet been flooded with a proliferation of brands. Fruit juices will continue to grow in popularity, although the market for both imported and local products is becoming increasingly competitive, with a huge range of brands and juice varieties now available in the Indonesian market.

5.6.5.6 Confectionery

The market is very competitive and is dominated by several major international companies which produce locally. The confectionery market is dominated by sugar-based sweets (66%) and chocolate (34%). Imports have to fill niche opportunities. Medicated sweets is a product category which experienced strong import growth over the period 1994 to 1996, increasing by 139% (Austrade, 1998e).

5.6.5.7 Other foods

While the bulk of consumer food purchases in Indonesia are made in traditional street markets, modern retailing and processed-food sales are expanding. There are now more than 500 supermarkets in Indonesia and these serve the wealthy middle and upper-income earners, expatriates and tourists (Austrade, 1998e). Indonesia imported other foods worth more than US$700 million in 1997, more than twice the value of imports in 1992 (Austrade, 1998e). Raw sugar beet or cane, other beet/cane sugar, chemically pure sucrose, molasses and other sugars in solid form accounted for slightly more than 70% of total imports. Other important lines included palm oil (9%), food preparations (8%), soy-bean and coconut oil, bread, pastry, cakes and biscuits, prepared and preserved vegetables,

spices, sauces and condiments and yeast. Agricultural exports from South Africa to Indonesia principally consist of unmanufactured tobacco (82%) and essential oils (16%) (Annex. 6, Table 4).

There is a growing demand for foods which comply with 'halal' requirements. 'Halal' is a term used for foods which are considered lawful under Islamic law. In addition to the growing demand from the large Muslim population in Indonesia, halal food is increasingly becoming recognised as a form of classification of 'safe' food.

5.6.6 Barriers to agricultural trade

5.6.6.1 Tariff barriers, levies and charges

There is a general lack of predictability and transparency concerning tariffs in Indonesia. As part of the Uruguay Round Indonesia has undertaken to bind 95% of its tariff-lines at ceiling rates of 40%. It also agreed to remove surcharges and non-tariff measures within ten years on bound items, ie by 2005 (EC, 1999e). Combined with the move away from non-tariff barriers, these changes will improve the transparency and predictability of the Indonesian trading regime.

Unweighted average import tariffs have dropped from 37% in 1985 to about 12% in 1996. Import tariffs range from 0 to 25% (Fane & Condon, 1996). Wide disparities in levels of effective protection exist, ranging from as low as 10% on basic metals to as high as 120% on food processing (EC, 1999e). The most significant of the recent reforms to exporters of food and beverages is the deregulation of food tariffs. Most have declined as a result of the crises and will decline further under various international agreements (see Fig. 5.3). For example, under AFTA these tariffs would end up in the range of 0% to 5% by 2010, but this liberalisation will be accelerated. According to PECC (1995) and RIRDC (1998c) non-tariff barriers, which have been substantially reduced as a consequence of reforms in the late 1980s, will be addressed similarly under these international agreements.

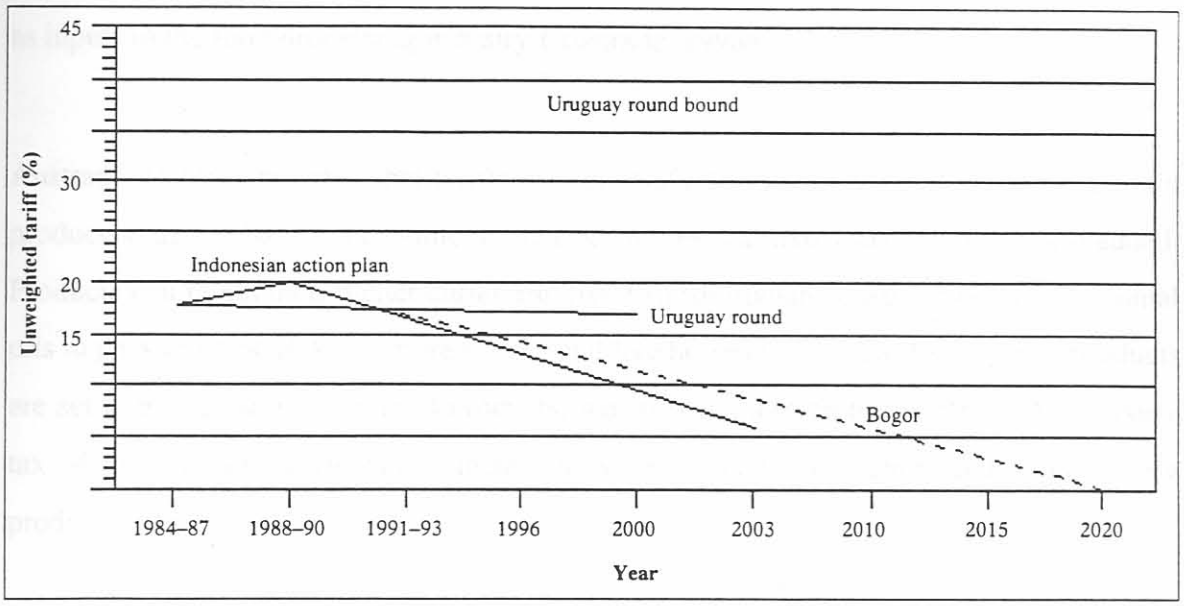


FIG. 5.3 Indonesian import tariffs

Data sources: 1984-93 from UNCTAD (PECC 1995); 1996 from Indonesian Action Plan; 2000 & 2003 calculations from Indonesian tariff schedule; Uruguay Round calculated from GATT (Martin & Winters, 1996).

The EU (1999e) reported that reforms which are part of the International Monetary Fund package 1997/1998 will, amongst others, result in a reduction by 5% tariffs on items currently subject to 15 to 25% (from March 1998) and the abolishment of local content regulations on dairy products (by February 1998), enabling foreign suppliers of industrial products to compete on much more favourable terms.

As a result of the continuing tariff reforms, the number of products subject to the lowest rate of duty (5% and lower) increased from 1 302 tariff lines in 1985 to 4 070 lines (43% of all tariff lines) in 1995. On the other hand, the number of products subject to the highest rate of duty of (40% and higher) has decreased significantly, from 1 690 tariff lines (40% of all tariffs lines) in 1985 to 120 (1,3% of all tariff lines) in 1995 (Abbas, 1996). The average tariff rate on final goods is double that for unprocessed products and substantial tariff escalation exists. Tariffs on imported processed foods average about 30% and some industry segments continue to receive special development assistance in various forms.

Effective from January 1998, total import tariff exemptions apply for products to be used as inputs to the food processing industry (Austrade, 1998e).

Austrade, (1998e) reported that tariffs are set at 5% for most imported products. Certain products attract a 10% VAT, while in the case of others a luxury tax of 10% is also added. Products that retain their higher duties are: live fish for human consumption (15%), animal oils in packaging of 10 kg or more (10%), and live horses (20%). Tariffs for dairy products are set at 5%, as with other food products, which is in addition to the 10% VAT. Luxury tax of 10% is also levied on selected dairy items such as yoghurt and some cheese products.

The average applied tariffs of Indonesia on selected agricultural commodities of general importance for South African exports are 25% (Annex. 7). Tariff peaks generally exist on boneless meat, frozen (25%), milk and cream, powder (20%), fresh or dried fruit (20 to 25%), groundnuts (25%), processed and preserved fruits and nuts (25%) and beer made from malt and certain ethyl alcohol products (30 to 40%) (Annex. 7). Tariff peaks on the main South African commodities exported to Indonesia exist on:

- unmanufactured tobacco (82% of exports), 137% tariff;
- pasta (2% of exports), 23% tariff (Annex. 6, Table 4).

5.6.6.2 Non-tariff barriers to trade

Although tariff and non-tariff barriers will be abolished, attention should be paid to new barriers that may emerge, such as dumping and subsidies, implementation of standards, environmental protection, measures associated with respect for democracy and human rights, health and sanitary regulations (Abbas, 1996). The main items affected by import licensing are, amongst others, agricultural commodities and processed food and beverages. The complicated nature of the licensing system is still the main non-tariff barrier to imports (EC, 1999e).

Under Decree No. 133 of 4 June 1996, only 2 companies, PT Rajawali Nusantara Indonesia and PT Tjipta Niagra, are approved importers for the following foods and beverages (EC, 1999e):

- milk and cream (HS 0402)
- buttermilk, cream and yoghurt (HS 0403)
- butter (HS 0405)
- cheese and curd (HS 0406)
- alcoholic food preparations (HS 2106)
- beer (HS 2203)
- wine (HS 2204)
- vermouth and wine flavored with plants (HS 2205)
- fermented beverages (HS 2206)
- spirits (HS 2208)

The State enterprise BULOG is the sole importer for the following agricultural products (EC, 1999e):

- garlic and dried garlic (HS 0703 and 0712)
- cloves (HS 0907)
- wheat and meslin (HS 1001)
- rice (HS 1006)
- cereal flour (HS 1102)
- soy- beans (HS 1201 and 1208)
- cane and beet sugar (HS 1701)

Horticulture imports must be accompanied by phytosanitary certification issued by an appropriate authority in the country of origin. Consignments are subject to plant and quarantine inspection upon arrival (Austrade, 1998e).

5.7 A PROFILE OF AGRICULTURAL EXPORT OPPORTUNITIES TO CHINA

5.7.1 Overview and outlook of the Chinese economy

China is emerging as the world's largest economy in the future. If the size of China's economy is measured using United Nations estimates of purchasing power parities, China is already the second-largest economy in the world (The Economist, 1993). By 2020, China's economy will probably be larger than that of the United States. Austrade (1998b) argues that as China accounts for a fifth (1,2 billion) of the world's population (the largest nation in the world) and a growing proportion of global trade, the Chinese food market is expected to grow strongly once current economic difficulties are overcome (Austrade, 1998b).

The opening of the Chinese economy in the late 1970s has brought an economic upsurge of historic proportions. China's GDP grew by an annual rate of about 10% in the second half of the 1990s (EC, 1999b). Growth in the gross domestic product (GDP) came to 8,8% in 1997 and economic growth for 1998 reached 7,8% (SSB, 1999). For 1999, the growth forecasts predict an expansion rate of 6% to 8% (EC, 1999b). Personal incomes are growing rapidly. Annual per capita disposable income has increased substantially, from 169 yuan ($98) in 1978 to 2 249 yuan ($272) in 1995 (Promar International, 1997). Consumer demands are expanding and evolving.

Food imports in China have been rising rapidly as incomes improve. However, in the short- term, as a result of the Asian financial crisis, the Chinese economy faces the prospect of reduced growth rates as exports to Asia slow down and the economy adjusts.

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Food imports in China have been rising rapidly as incomes improve. However, in the short- term, as a result of the Asian financial crisis, the Chinese economy faces the prospect of reduced growth rates as exports to Asia slow down and the economy adjusts.

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 in relation to that of industry is 1: 2.23 (Cheng, 1999). The growth of industry and cities is diverting resources away from agriculture (Promar International, 1997).

As China gradually relaxes its trade policies over the next decade and continue its "open-door policy", major export opportunities are expected to emerge in agriculture. The economy is modernising. Access to foreign technology and management methods was a major objective of China when it developed its "open door policy" in the late 1970s (OECD, 1996a). Technology change has been the force behind China's agricultural economy (Stone, 1988). This is the one reason why China could, to a large extent maintain its self-sufficiency. The explosive rate of structural change in the Northeast Asian NIEs (Hong Kong, Chinese Taipei and Korea) was the most powerful external trigger for the Chinese economy's upsurge in the first half of the 1990s. Chinese real output expanded by 58% in four years from 1991 to 1995, exports by 107% in United States dollars and imports by 107% (OECD, 1996a). China became the recipient of by far the largest flow of direct investment ever recorded to a developing economy. Fifty percent of the world's fixed-asset investments of foreigners goes to China (The Farmer, 1997). Britz (1996) mentioned that China draws four times as much investments compared to India, which is the country with the second largest population in the world.

In the face of the Asian financial crisis, Chinese authorities have indicated that they intend to speed up economic- and financial reforms in line with the World Trade Organisation (WTO) and International Monetary Fund (IMF) commitments (Austrade, 1998b). These reforms will continue to provide export opportunities for agrifood producers. In 1998, China launched an ambitious three-year infrastructure development plan to coincide with planned reforms to state-owned enterprises, the financial sector and government institutions (Austrade, 1998b). The rise in investment is expected to generate a significant expansion in employment and consumer demand.

While China is in the process of gradually reforming its trade regime, major export opportunities exist. Continued strong economic growth is being forecast for China, along with rapid population growth, rising disposable incomes and an increasing reliance on imported food sources. China's food imports are expected to grow substantially. More specifically, the factors for growth in China include the following (Austrade, 1998b):

- Population growth of approximately 1% per annum, coupled with a current population of 1,25 billion, representing an increase of 12,5 million people per annum.
- Continued strong economic growth projected at 8% per annum between 1996 and 2000.
- Increasing disposable incomes leading to greater purchasing power.
- Increasing reliance on certain food imports. This is the result of China's agricultural sector being unable to match the rapidly increasing demand.
- Changing diets, with greater diversity and acceptance of different ethnic foods and a greater demand for convenience and or/processed foods.
- Proliferation of foreign supermarkets and fast-food restaurants.
- Increasing refrigeration in homes and supermarkets, leading to a greater demand for fresh, chilled and frozen foods in certain provinces.
- Rapid increase in the number of households with microwaves, resulting in an increasing demand for convenience-food products.
- Further lowering of import tariffs, effective from 1 October 1997.

5.7.2 Agricultural Trade Environment

Only specified Chinese companies are able to act as trading companies, making use of quotas, or applying for import licences. Foreign trading rights are reserved for state-owned Foreign Trade Corporations (or for foreign-funded firms, but only regarding inputs necessary for their production, most of which is later exported). Until recently, individuals did not have the right to engage in direct import/export trade and foreign companies could

not establish branches in China to sell their range of products (EC, 1999b). This is a violation of Article XI, GATT. In October 1998, China announced the opening of export trade to the private sector by January 1999. Import Balancing Requirements are endemic in China. Nearly all foreign firms producing in China are held responsible, through the contract by which a joint venture is established, or through legal requirements, to export a fixed and major part of their production (EC, 1999b).

It is important to keep in mind that Chinese in foreign countries have a strong business influence and presence in many Asian countries. Hoffmann (1997) argues that China should be seen in the context of Natural Economic Territories (NETs). Various international NETs exist in Asia. One is the Bohai Belt NET: Beijing/Tianjin - South Korea - Japan. Another is the lesser China NET: S. Guangdong - Hong Kong/Macau - Taiwan as well as the greater China NET: Guangdong/Hainan/Fujian - Hong Kong/Macau - Taiwan. Also the South Korea-Philippines-Malaysia-Indonesia-Singapore-Thailand (Chinese in foreign countries). It is beyond the scope of this study to go into depth concerning the complexities of the greater China networks. Many imports to China also came to China through neighbouring ports such as Hong Kong and Macau. It is difficult to determine the true quantities of Hong Kong's re-exports to China: as low as 10% and as high as 70% or 80% of some agricultural products are re-exported (Promar International, 1997). This is of considerable value to exporters, as Hong Kong provides certain access to some of China's markets without having to actually deal with Chinese import restrictions. Macau also acts as a port of entry to China. Imports from any source may enter Macau (a Portuguese colony, but the majority of them are Chinese) on a duty-free basis and minimum controls (Dijk & Konstant, 1997).

5.7.3 Self-sufficiency trends (changing comparative advantages)

Anderson (1990) observed that China's economy has structurally adjusted, moving away from heavy reliance on agriculture. Its comparative advantage has been gradually transformed from primary products towards unskilled labour-intensive manufacturing.

Agriculture's share of China's net material products dropped from two thirds to one third between 1949 and 1978, while the industrial sector almost quadrupled its share from what was only one eighth in 1949. Anderson (1990) concluded that if China is following the example of its Asian neighbours, like Korea, in continuing to grow rapidly and to remain open to foreign trade, capital and technology, it will most likely lose its comparative advantage in agriculture.

A study done based on a general equilibrium model of the Global Trade Analysis Project (GTAP) undertaken by Anderson, Dimaranan, Hertel and Martin (1996) discovered that the opening of textile and clothing markets of members of the Organisation of Economic Cooperation and Development (OECD) countries, because of World Trade Organisation obligations would increase Asia's, but especially China's, comparative advantage on textile and clothing, divert resources away from agriculture and this would lead to increased imports of agricultural goods. Any delay in the removal of obstacles to textile exports from Asia could well come back to haunt countries seeking to export farm products to this region.

Another potential development that is likely to influence Asia-Pacific food markets significantly during the next decade is the Bogor Declaration of November 1994 by Asian Pacific (APEC) Heads of Government. This declaration commits APEC economies to move to Most Favoured Nation (non-discriminatory) free trade by 2010 in the case of developed countries and 2020 in the case of developing countries. Anderson, Dimaranan, Hertel and Martin (1996) discovered that if agriculture is included, this APEC reform would boost world trade in all products by an additional 6% (excluding the 10% boost as a result of the Uruguay Round plus the additional 4% boost as a result of China and Taiwan's WTO accession). Agricultural trade would be only 2% greater by 2005 if farm products are excluded from the APEC reform, but would be 18% greater if included.

All factors taken into account, China is expected to become a net importer of agricultural goods. Yang and Huang (1997) did an analysis using the Global Trade Analysis Project (GTAP) (global equilibrium model) to simulate global trade liberalisation. They came to the conclusion that China's food self-sufficiency is projected to decline and this will put pressure on the Chinese government to reformulate their food-security policy of self-sufficiency, taking into consideration the ever-increasing integration of China into the world economy. According to the World Bank News, China need to continue with market reforms to sustain its current levels of rapid economic growth and low inflation (D&C, 1996).

Promar International (1997) has identified enormous opportunities for increased exports of grain to China - especially maize (corn), other coarse grains, rice and wheat. Opportunities also exist for oil seeds, groundnuts and sugar. They also found that greater worldwide competition can be expected from China in labour-intensive, processed agricultural products and less land-intensive products, especially fresh fruit 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 (Promar International, 1997).

5.7.4 Consumption developments

Consumption in China is still mostly of processed items, or at least food processed at its most basic level. The food manufacturing industry developing today is racing to keep pace with the growing and evolving food demands of an increasingly urban and economically viable population. The proportion of the population that can afford to buy processed and high-value products is increasing fast. Combined with the large population, it creates enormous potential for future trade. In addition, by 2005, a sound nation-wide network of wholesale markets will have taken shape and will be becoming key links in the food distribution process (Promar International, 1997).

According to Promar International (1997) in actuality, Chinese consumers really fall into several categories by income and living standards, described as follows:

- The elite - the wealthiest, incomes of over $45 000 equivalent per annum - about 15 million (1%) today living in or near China's most wealthy cities. These are the buyers of the most expensive processed-food products. They are the top people in government and private industry.

- The consumers - with incomes of $9 000 to $45 000 equivalent per annum, now 72 million (6%) strong. A rapidly increasing group - also concentrated near the major cities. These consumers have good jobs in government and private industry, or are wealthy farmers. These are the big buyers of hamburgers and ice cream.

  (The elite and the consumers (87 million of them) are the major forces influencing the growth in processed foods and imports.)

- The preconsumers - al large group, 303 million (25%), 52% urban, earning $1 000 to $9 000 annually. Many are state employees or work for a cooperative organisation. They can afford a few processed products today, but their real importance is that they are the consumers of tomorrow. Nearly half are in the rural areas.

- The poor - receiving under $1 000 equivalent annually. These people are the largest single sector in the population (68%). They represent 39% of urban dwellers and 80% of the rural population. They are only buying basic unprocessed food today; however, as their lifestyle improve, they will begin to afford other products. It therefore comes as no surprise that the government has increasingly started emphasizing the agricultural sector.

Promar International (1997) projected that the number of elite and consumers - the primary targets of processed food consumption - will have expanded from 87- to 195 million by the year 2005 - a 225% increase. This group of the total population, the elite and consumers, will have expanded from 7% to 14% overall, in the urban areas from 16%

to 24% and in the rural areas from 4 to 11%. The urban elites and consumers will have almost doubled - from 57 million to 114 million. The growth of the elites and consumers will have been faster - in the rural sector where they have more than tripled - from 30 million to 101 million.

According to Cheng (1999), great changes have taken place in the food consumption and consumption pattern of urban citizens since the early 1990s to 1997. The per capita consumption in urban areas of grain, meat, vegetables and sugar drops gradually, the consumption of oil has remained steady and that of egg consumption has increased. Since the 1990s, the Engel coefficient of the consumption of urban citizens has been dropping continuously. However, the change as far as urban citizens are concerned takes place under the level of being fairly well-off, while the change as far as rural residents are concerned takes place under the level of having adequate food and clothing. Since 1995, food spending of urban citizens has been accounting for 49,9% of the consumption expenditure. It dropped to 46,4% in 1997 and continued to drop in 1998 (Cheng, 1999). That means urban citizens are becoming better off. According to Cheng (1999) the picture for rural areas looks different. For rural residents at present, the obvious downward trend is only for vegetable consumption. The per capita consumption of other main products such as meat, egg and aquatic products, fruit and edible oil shows a rising trend.

Austrade (1998b) noted that it is government policy to keep cereals and vegetables as the staples, but to appropriately increase meat, poultry, eggs, milk and beans. A national Plan of Action for Nutrition has been developed with rural groups and especially low-income groups, being targeted. In urban areas the emphasis is on maintaining the traditional diet while controlling the excess intake of fat.

5.7.5 Opportunities for food exports

5.7.5.1 Grain, oilseeds and processed grain and oilseed products

Several studies suggested that future increases in the imports of grain were inevitable if China's rapid economic growth continued and trade barriers were not tightened (Yang & Tyers, 1989; Anderson, 1990; Garnaut & Ma, 1992, Rae, 1995 and Promar International, 1997). Growing meat consumption, particularly of pork, is the main force behind increased grain production and higher grain imports (OECD, 1999). The Chinese now have more pigs than the rest of the world combined and the total per capita meat consumption is still increasing at more than 2 kg per year (Promar International, 1997). Other products such as dairy products, as well as an increase in the consumption of distilled spirits, are also placing huge demands on China's grain supply (Austrade, 1998b). South Africa principally exported processed grain products such as bread, pastry, cakes and biscuits to China) from a very low base (Annex. 6, Table 5). South Africa exported some starches (inulin) to Hong Kong and Taiwan (Annex. 6, Tables 6 and 8).

China is the second-largest consumer of oilseeds (approximately 13% of the world's total). Austrade (1998b) observed that over the last 10 years, China has become a net importer of soy-bean and canola. China will continue to be a significant importer of oilseed meal and feed grains to cater for its expanding animal herd, which is a result of the increased domestic consumption of meat. The OECD (1999) has observed that the growing self-sufficiency in grains (as a result of government policy eg the "governor's grain responsibility system"), has come - at least partly - at the expense of lower oilseed production. Coupled with a robust demand for vegetable oils and oil meals, the drop in oilseed production resulted in new record levels for oilseed, oil and meal imports. It is interesting to note that the political priority given to grain production is largely ignoring the preference of the market for oilseeds and oilseed demand. Higher incomes have spurred demand for vegetable oils and meat (demand for oil meals reflects derived demand for meat and livestock products) and stimulated imports of oilseeds and oil meals to new

record highs (OECD, 1999). South Africa stated to export certain nuts and essential oils in 1998 from a zero or low base (Annex. 6, Table 5).

China's arable-land space is expected to shrink as urbanisation increases. Increased livestock production will place further demands on domestic grain production. The demand for imported grain is expected to grow strongly (Austrade, 1998b). Shipments of cereals fluctuate because China's harvests are prone to considerable seasonal variation, but the general outlook is for sustained growth.

5.7.5.2 Meat

The per capita demand for red meat is forecast to increase sharply. Rae (1995) projected that a higher trend in per person consumption of animal products was evident in Asian countries, especially Korea and China. China's consumers will more than double their meat consumption by 2020, from 17- to 43 kg per capita (OECD, 1996b). The Chinese government is trying to encourage an increase in consumption of red meat products to 25 kg per capita per annum, up from 20.1 kg in 1990 (Austrade, 1998b; Promar International, 1997). Although domestic production is growing, it cannot keep pace with the growth in demand. New opportunities are expected as the demand for meat products in China increases and as the retail market is opening up.

Austrade (1998b) reported a growing import trend for meat products; between 1992 and 1996, total meat imports grew 2,5 fold to reach over US$166 million in 1996. They further estimated that in order to meet growing demand, the Chinese government estimates China will require an additional 1.96 million tonnes of beef and mutton by 2000. Most of the beef and mutton-offal products are imported via Hong Kong and are brought in across the border through special channels. For example, Austrade (1998b) reported that less than 1% of Australian meat exports go directly to China and access to the market remains heavily restricted. There is a 50% tariff on beef and exporters must contend with import licensing

requirements, import charges, adequate cold-storage facilities and problematic customs- and quarantine procedures. Currently meat is primarily imported by hotels to cater for the tourist trade and the expatriate population as it is still too expensive for the majority of consumers. However, the situation is changing rapidly.

China is the world's largest producer of pork, mutton, eggs and fish (USDA, 1998). Pork is the staple meat in the Chinese diet and only relatively small quantities of beef and lamb are consumed. The most significant growth in the consumption of meat has been in beef and mutton (Austrade, 1998b). Rae (1995) observed that mutton consumption per person is by far the lowest in all Asian countries, although it shows a high growth rate relative to other types. Beef has an excellent reputation among Chinese consumers, many of whom view it as a luxury item (Promar International, 1997). Consumption for meat products including poultry, is estimated as follows:

Table 5.3 Meat and poultry consumption in China (kg/ca)

	kg/ca			Share of consumption (%)	
	1985	1995	2005 (predicted)	1995	2005 (predicted)
Pork	15.9	30.2	35.1	70	55
Beef	0.4	3.4	7.9	8	12
Mutton	0.6	1.6	2.9	4	5
Poultry	1.5	7.7	18.1	18	28
Total meat and poultry	18.4	42.9	64.0	100	100

Source: Promar International, 1997

Morgan (1997) confirms the trend in China towards the imports of chicken meat instead of imports of only chicken feed. The rapid growth of the fast-food sector and the development of a food-processing sector will accelerate the increase in poultry consumption, which has been increasing by 14% annually over the past decades. The majority of poultry imports to China go through Hong Kong, a phenomenon likely to

continue with unification. China not only imports but also exports poultry and poultry meat.

5.7.5.3 Dairy

Higher incomes and -living standards in eastern China have increased the demand for dairy products. There is bigger awareness of the health benefits of dairy products. The government is encouraging increased consumption. Strong growth is projected in the consumption of dairy products in the medium term; as incomes rise there is greater and exposure to western-style foods. Rae (1995) projected that the total consumption of dairy products is to increase by over 45% in China between 1992 and 2002. Austrade (1998b) calculated that dairy consumption is growing at 15% per annum (ice cream and frozen desserts are growing at a rate of 20%) and they projected that per capita consumption will reach 25 kg per annum by the year 2003.

The most popular imported dairy product is milk powder, because of the lack of local processing facilities for this product. Austrade (1998b) proposed that the best prospects are in food ingredients such as full-milk powder, whey powder, cheese powder, yoghurt powder and other sorts of milk powders. This is the result of the shortage of these ingredients in China. Demand for milk powder is increasing as a result of the expanding local ice-cream and chocolate industry, where there has been substantial investment from multinational companies such as Nestlé. The government plans to establish Shanghai as a base for the dairy industry over the next few years to cater for growing demand. Foreign investment is being encouraged to increase the range of products available to consumers.

There are no import restrictions on dairy products but the price of fresh milk is controlled by Government. Import duties on dairy products vary from 7 to 65%. Whey powder attracts an 7 % import duty, cheese 65% and ultra-heat-treated (UHT) milk 30%. A value added tax (VAT) of 17% is imposed on all dairy imports. Currently the Shanghai

Agricultural Industry and Commerce Corporation has a monopoly on the local dairy market (Austrade, 1998b).

5.7.5.4 Horticulture

Rae (1995) observed from trends for the period 1963 to 1992, that amongst East Asian countries vegetable consumption has most noticeably only increased in China. Vegetable consumption was static or declining in both relatively poor and rich countries, with the exception of China. Fruit consumption has been increasing in the relative high-income East Asian countries, but has been declining in the lower-income countries, with the exception of China where fruit consumption has steadily increased.

Chinese consumers still prefer purchasing their fresh fruit at street markets selling fresh and dried foods. Wong & Rutledge (1997) argued that although large retailers now only occupy 5% of the fresh fruit market, the recent proliferation of supermarkets and hypermarkets, which put fresh fruit on their shelves, may make inroads into street market sales. Further, that although imported fruit costs about twice as much as fruit obtained domestically, imports are still within the budget of many urban consumers.

Much of China's imported fruit products enter southern Guangdong Province through the Hong Kong gateway, spreading from there throughout China. 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, underinvoicing and miscalculations. Some sources estimate that China's unofficial imports total over 95% of the total fresh-fruit imports into the country (Wong & Rutledge, 1997). Since 1998 South Africa has principally exported small quantities of plants used in perfumery or for pharmacy purposes directly to China. Fresh-fruit exports to China are still prohibited because of the lack of phytosanitary agreements. Fruit exports to larger China were mainly via the Hong Kong port. Agricultural exports from South Africa

to Hong Kong comprised of citrus fruit (18%), apples and pears (8%), grapes (6%) and nuts (3%) (Annex. 6, Table 6).

Further increase in demand for horticultural products is expected via Hong Kong. Greater expansion of trade in fresh fruit will depend on the development of relevant protocol agreements between the two countries. Direct trade in fresh horticultural produce between South Africa and China is limited by the absence of bilateral quarantine protocol, as is the case with Australia and the European Union. Currently China has only negotiated protocols with New Zealand and the United States. It is believed the Chinese government will negotiate an appropriate protocol with South Africa at some point in time in pursuit of its accession to the World Trade Organisation and as part of its 'open-door' policies. High tariffs on fruit and vegetables are major impediments. Tariffs on fresh fruit range from 30% for mangoes and avocados to 55% for fresh grapes. Tariffs on vegetables are about 45%.

5.7.5.5 Beverages

The consumption of imported beverages is projected to show continued strong growth as a result of increasing disposable incomes and as refrigeration facilities become more widespread. Beverage exports from South Africa to China comprised about one third of exports, fruit juices (22%) and wine (7%). More recently small quantities of beer were exported (Annex. 6, Table 5). Concerning South African agricultural exports to broader China, beer was the principal export product to Macau (57%), fruit juices and beer to Hong Kong (5 and 3% respectively)and fruit juices, wine and alcohol to Taiwan (21%, 5% and 7% respectively) (Annex. 6, Tables 6 to 8).

Wine consumption in China is growing rapidly. Corporate- and government entertainment remain the major markets, but there is increasing consumption in clubs and hotels and wine is now being sold in supermarkets and department stores. Red wines tend to be more

popular than white wines. In 1992, China imported less than US$1 million of wine worldwide. In 1996 the figure had increased to US$6,7 million (Austrade, 1998b).

Although beer consumption in China is low by world standards (13 litres per person per annum), China is projected to become the world's largest beer market by 2000 as consumption grows rapidly from a low base, with an estimated output of 20 million ton by 2000 and 32 million ton by 2010 (Austrade, 1998b). Domestic and foreign competition in the Chinese market is strong. China has increased its beer imports dramatically from 1992 to 1996, suggesting export opportunities. In 1992 China imported just over US$1 million of malt beer worldwide and in 1996 the value of beer imports rose to nearly US$18 million (Austrade, 1998b).

Improved living standards and increasing concern for health have also led to an increased demand for non-alcoholic drinks such as mineral water, natural fruit juices and fruit-juice mixtures. Consumption of mineral water in China is projected to double between 1995 and 2000 (Austrade, 1998b). Hong Kong is a major port for fruit exports to China. More than 60% (US$ 31 million worth in 1994) of the juice imports into Hong Kong is re-exported to China and 17% to Macau (ITC, 1995). The most important re-export juices from Hong Kong are other single-fruit or vegetable juice, followed by grape juice, then orange juice, mixtures of fruit or vegetable juices, apple juice, tomato juice, pineapple juice, other single citrus fruit juice and grapefruit juice. China accounted for 80% of Hong Kong's re-exports for tomato juice (ITC, 1995). According to Austrade (1998b) the most popular flavours include mango, orange, apple, peach and vegetables.

5.7.5.6 Confectionery

Austrade (1998b) observed that although the imported confectionery market is currently relatively small (representing approximately US$43 million in 1996), there are strong

growth signs for both sugar and chocolate confectionery which, in this market, are regarded as snack foods.

5.7.5.7 Other foods and agricultural products

Chinese consumers generally prefer fresh-food products. However, they will purchase canned products when fresh products are not available. Austrade (1998b) identified popular canned products, including ham, corned beef, tuna, soups, broths, sweetcorn and fruit. Imported canned products are mostly purchased by large hotels and upmarket restaurants. The demand for frozen foods is also expected to increase rapidly in tandem with the spread of refrigeration facilities in retail outlets and households. Other significant processed food imports according to Austrade (1998b) are sugar and chocolate confectionery, bakery products and preserved fruit. They have observed further that there is a strong demand for western-style snack foods. Snack foods are popular import items, because they have a long shelf-life and do not require refrigeration. Imported snack foods are also price competitive in China.

Wool and animal hair is a major export product from South Africa to larger China (mainland China, Taiwan, Macau and Hong Kong). South Africa is also a major world exporter of wool and animal hair. However, this is a declining world market and future opportunities exist in niche markets and in blended products.

5.7.6 Barriers to agricultural trade

5.7.6.1 Tariff barriers, levies and charges

China's recent trade reforms have resulted in major tariff reductions. On 1 April 1995, China cut its average import tariffs on some 4 600 items from 36% to 23% and scrapped a third of its import quotas (EC, 1999b). The recent tariff cuts are a clear sign of China's commitment to join the World Trade Organisation (WTO) as quickly as possible. In

addition, the former deputy premier, Zhu Rongji, declared in March China's intention to lower its tariffs further to about 15% by 1997 (EC, 1999b). This commitment has been realised by 1 October 1997. Since then the average tariff of agricultural products in China has been reduced to 21%, 16,5% for raw materials, 24,2% for semi-finished products, 27% for finished products. To be more specific, 20,6% will be the tariff for live animals and animal products, 6,9% for plant products, 22,7% for oils and fats, 28,7% for food, beverages, tobacco and spirits, 10,4% for timber and wood products and 26,6% for textile materials and products (Cheng, 1999). In spite of these tariff reductions, the tariffs of grain, cotton and other essential agricultural products remained the same.

Tariff escalation is a major feature in the policy of China. This will affect processed goods exports. Although the average tariff rate has been reduced, most processed food and beverages attract import tariffs of between 35 and 65% (EC, 1999b). Generally, higher tariffs accord with the value added during manufacturing. Raw products attract duties of between 20% and 55%, with higher-value items taxed at the higher end of the scale, for example, live lobster has a duty of 30% while wine has a duty of 65% (Austrade, 1998b).

The average applied tariffs of China on selected agricultural commodities of general importance for South African exports are 39%. High levels of protection exist on barley (91% tariff), maize (114% tariff), wheat or meslin flour (91%), cereal groats and meal (maize) (91%), sunflower seeds (91%f) as well as wine (65%). Tariff peaks on the main commodities exported from South Africa to China exist on:

- fruit juices (22% of exports), 35% tariff;
- wine (7% of exports), 65% tariff;
- beer made from malt (<1% of exports), 50% tariff (Annex. 6, Table 5).

China's accession to the World Trade Organisation (WTO) will bring about further liberalisation of the Chinese market. Agra Europe (1997) reported on the New Zealand - China bilateral market access negotiations concerning Chinese accession to the WTO. In

these negotiations China has agreed to cut tariffs on a range of imported farm products when it joins the World Trade Organisation according to the New Zealand Minister of Agriculture. Tariff cuts are on a most-favoured-nation basis and will therefore apply to imports from all WTO member countries. They could be reduced even further if China agrees during separate bilateral negotiations with the European Union and more than 30 other countries. Tariffs on butter and cheese will be reduced on accession from 65% to 45%, followed by five annual cuts of 5% to 25%. Milk-powder tariffs will be reduced from 35 to 25% within six years of accession and tariffs on liquid milk will decrease from 38% to 28% over the same period. The import tariff on beef will be reduced from 50% to 35% within six years, while that on mutton will decrease from 45% to 20%. Apple imports, currently facing a 40% tariff, will have a tariff of 30% within six years, while kiwifruit tariffs decrease from 55% to 30%. The 22% import tariff on frozen vegetables will be reduced to 20%.

China and the United States have negotiated in April 1999 that tariff levels on United States agricultural goods would be lowered upon entry, with the current levels, compared with those seen in 2004, as shown in the Table 5.4 (AgraFood Asia, 1999a). According to the most-favoured-nation principal China, with its accession to the WTO, will also have to give the same preferential treatment to other WTO members, including South Africa.

Table 5.4 China WTO tariffs (%) on United States goods

Commodity	2004	Pre-entry
Beef	12	45
Pork	12	20
Poultry	10	20
Citrus	12	40
Grapes	13	40
Apples	10	30
Almonds	10	30
Cheese	12	50
Ice cream	19	45

Source: Reuters in AgraFood Asia (1999)

According to Brick-Turin & Doud (1999), China will have to reduce its average tariff for agricultural products to 17% in terms of the United States - China agreement. The overall average for agricultural products is near 40%. On accession in every area, China would also begin to open its markets from day one and that all tariff cuts will occur within a maximum four-year time frame. Every tariff cut is bound.

5.7.6.2 Non-tariff barriers to trade

A basic problem consists in the non-transparent character of Chinese regulations in nearly all areas of economic administration. Often a clear lack of written rules exist and where they do exist, these are subject to individual interpretation and frequent change. A lack of transparency in customs valuation is an obstacle to imports into China. The same product may not only be subject to different rates of duty depending on the port of entry, but also to arbitrary determination of the customs value (EC, 1999b).This lack of transparency, predictability and reliability means that business with China remains a high-risk activity which for the moment can only be taken on by major corporations and not yet by small and medium-sized enterprises (EC, 1999b).

An analysis done on UNCTAD (1999) database revealed that non-tariff arrangements to market access to China on selected studied commodities of importance to South African exports are dairy products, bulbs, tubers, barley, maize, sunflower, sugar and ethyl alcohol (Annex. 8). The major non-tariff measurement on agricultural trade in 1998 includes import-export licences, import quota, legal commodity inspection, quarantine of animals and plants, food-hygiene inspection, et cetera. Import quotas are currently used for more than 400 products and are clearly used to close the market (EC, 1999b). In general commodities needed for import quotas are grain, edible vegetable oils, wool, natural rubber, sugar, fertiliser, tobacco and its products, as well as cotton (Cheng, 1999).

Trading companies that claim to supply hotels and restaurants are allowed to import restricted fruit, provided they have a phytosanitary certificate from a China Animal and Plant Quarantine (CAPQ) Bureau. (However, note that hotels, restaurants and other institutional customers buy limited quantities of imported fruit, preferring domestic varieties.) Trading companies tend to apply to the more lenient local CAPQ Bureaus for these certificates. But there is a price to pay for this unhindered passage through customs. AgExporter (1997) calculated that effective tariffs rates can range from 41,3 to 81,4%.

5.8 SUMMARY AND CONCLUSION

Because of the dramatic changes occurring in Asian food markets it is timely to review developments in these economies and their implications for South African food exporters. Changing consumption patterns is the major trend that determines shifting market powers in Asia. Simultaneously, trade policies change continually, eventually affecting market access and trade opportunities. These developments, in combination with population growth, changing diets, increasing urbanisation, structural reforms and improved market access, indicated a positive long-term trend for food exports to Asia.

Unprecedented growth rates of certain industrialising countries in Asia is evidence 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 about 65% of growth in the world and about 70% of the increase in the global consumption of commodities. The Asian crisis, which occurred in 1997, decreased Asian imports by 30%. On the medium- to longer term the Asian developing countries with economic problems (Indonesia, Malaysia, Korea) are expected to gradually regain international confidence throughout 1999 and to show, on average, a growth of about 4%. China had maintained high growth during this crisis period. All indications are that Asia is recovering from the crisis and will probably be on pre-crisis growth trends in the early years of the new millennium.

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 globalisation of the Pacific Basin. A continuation of globalisation, which has been underway for 50 years, will reinforce the gradual shift in global economic weight towards the Asia-Pacific region. 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 increased, which has been generated by rapid disposable household income growth. As a result of fast growth and globalisation, more 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 of foods. 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 a 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 remote markets, but rather economic growth prospects and cultural ties. Results obtained from the analysis done on the share and growth performance (for the period 1992 to 1996) of South African export destinations, identified Far-East Asia to be the most promising export destination for South African agricultural commodities. In conjunction with other factors e.g. the fast rate of globalisation and the integration of Asian economies and demographic characteristics, e.g. large population and high urbanisation rates, East-Asia is one of the priority markets to be studied from the perspective of future potential export opportunities. East-Asian

countries 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 the export share of SACU exports for the period 1992 to 1996.

5.8.1 Japan

Japan is the world's second-largest economy. It accounts for approximately 10% of world exports and imports. The agriculture sector in Japan is declining, the Japanese Government is committed to further trade liberalisation and the Japanese diet is increasingly becoming westernised and health orientated. 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% drop in exports to Asia are regarded as being responsible for the recession. Recovery is expected over the medium term. Economic growth is forecast to be an average 1,6% a year between 1997 and the 2002 fiscal year, with a modest acceleration of growth after that date.

The consumption in Japan and Taiwan appears to have shifted from non-traditional staples to high-value and high-protein foods. Despite their increasing demand for value, consumers are not reducing food expenditure, 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 changes in food-consumption patterns. These trends are likely to intensify. The already-strong demand for products that reduce cooking time and effort, such as frozen and prepared foods, 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 currently contains more processed foods, such as pasta, ham, bacon, ketchup and fruit beverages. Finally, presently Japanese are consuming a greater variety of foods and are more adventurous about trying new flavours and cuisines than in the past. However, the Japanese markets are some of the

most demanding in terms of quality. Consumers are greatly concerned about getting value for money and competition is high.

Another major trend that creates new markets, is a trend towards healthy products. In conjunction with the upsurge in health-related products in Japan, there is currently a wine (especially redwine) consumption upsurge because of its health properties. The average juice content in fruit beverages has increased and is expected to increase even further as a result of health-conscious consumers. Although 100% fruit juice is too expensive in general for the Japanese consumer, there is a high demand for health drinks such as pure juice (100% carrot juice or 100% green juice) and mixed juices because of the increase in the number 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 accounted for about half the demand for imported food in Asia. Japan's imports of high-value products (HVPs) from all sources have been increasing 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 potential 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 cumbersome (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 be harmless. This also applies to cutflowers, a potentially lucrative export market.

5.8.2 Korea

Over the last three decades South Korea experienced the longest and biggest economic growth in world history, 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 dependant on food imports as domestic production declines. Korea is already 75% dependant on imported foods. Significant increases in food imports in future appear inevitable. The rapid industrialisation of Korea and rising incomes to pre-crisis levels 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 dropped (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 up new markets.

During the Asian crisis in 1998 imports in Korea dropped by 35%. The economic crisis has clouded 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 low 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 resurface - the shift away from traditional foods such as rice, barley and fish to wheat and cereal products, meat, fruits and vegetables. Because self-sufficiency ratio's for the products are low, food imports will actively resume growth. Medium-term prospects remain good because of the demand for

western-style foods, modernisation of the retailing and food-services sectors and the opening up of the economy. The best prospects for higher consumption are for ice cream, cheese, yoghurt, milk powder, frozen vegetables, fruit, vegetable soup, sausages, ham, other prepared meat products, natural fruit and vegetable juices, soft drinks and low-alcohol beverages such as wine and beer. There is a movement towards healthier food.

The Korean market still remains one of the most difficult in the world concerning trade and investment in spite of recent liberalisation. While the agrifood market is in transition from being highly protected to moderately liberalised, many aspects of food import are still subject to government intervention. These include import management regimes involving 83 agricultural commodities, the reinforcement of quarantine regulations, regulations for plant and animal imports, the reinforcement of country-of-origin labelling, 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 strongly protected. "Luxury" foods such as dairy products, wines and value-added food products have been affected by an import tax, which restricts the demand in the short term.

5.8.3 Malaysia

Over the last three decades, the Malaysian economy has been 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 agriculture products is on the increase. Because Malaysia is becoming an industrialised country, agriculture's share of the GDP is expected to be only 8.2% in 2005 (compared to 13,5% in 1997). The domestic agricultural sector in Malaysia is unable to fully meet the growing industrial requirements and consumer demand. Malaysia's food processing industry is limited by a lack of technology, research and development and scarce raw materials. The shortfall must be made up by imports.

In the medium- to long term, growth prospects in the nation of nearly 22 million consumers (and a very urbanised society), remain strong and Malaysia is expected to become an increasingly important export destination. Malaysia is close to entering the next phase in consumption evolution - from non-traditional staples to high-value and high-protein foods. Prior to the crisis, the retailing and food-service sectors had been flourishing. A third of households regularly shop at supermarkets, compared to only one tenth in 1995. Positive developments in Malaysia are the gradual liberalisation 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, western-style and health food. As part of an ASEAN agreement the Malaysian Government is committed to reducing tariffs on food on all items to less than 5% by the year 2003.

The weak currency and poor economic growth prospects will weaken consumer demand in Malaysia and will generally constrain growth in the imported food market in the short term. However, Malaysia is in a better position than the Republic of Korea and much better off than Indonesia, where the economy has very seriously declined. Recovery is expected to start relatively quickly by the year 2000.

Significant growth in imports is projected for pasta, bread, pastry cakes, biscuits, mixes and dough, primarily as a result of the shortage of skilled labour and technology which is limiting domestic production. The demand for breakfast cereals is being spurred by an increasing concern about health. The market for meat has not reached maturity yet and prospects exist for increased consumption. Malaysia will substantially remain reliant on imports of dairy products. Currently there is no commercial production of butter, butterfat, ghee, cheese or spray-dried milk powder. With westernisation the consumption of ice cream, yoghurt and UHT milk will increase. The health-food craze will stimulate the consumption of horticultural products (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 no quarantine restrictions exist on imported fresh fruit. The 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.

5.8.4 Indonesia

Over the resent years the economic development of Indonesia has been astounding. Real economic growth averaged 7% a year over a thirty-year period, increasing the average income per person from less than US$100 in 1972 to over US$1000 in 1996.

As a result of the Asian financial crisis, the economy is in serious difficulty and this impacts greatly on all sections of the community. 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 scope for food imports is unfavourable. Since many people are jobless or have much lower incomes and are struggling to feed themselves, the demand for higher-priced import food products has dropped by 30% to 60%. The crisis has led to the opening up of new opportunities. The deregulation of long-protected sectors, including foodstuffs and retail wholesale distribution, has resulted in a more open market. The Government is revising policy on competition in respect of monopolies. According to the free-trade agreement signed with ASEAN in 1995, Indonesia must fully open its retail industry to competition by 2003. Companies becoming involved at an early stage of the recovery, will be the main beneficiaries in the longer term.

A demand for food and agricultural products is spurred by Indonesia's population of 200 million growing at 1,6% per annum and the growing input requirements of its processed exports. 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 greater choice than before. Other socio-economic factors promoting sales were amongst others urbanisation, the increasing number of food-service outlets, the increasing demand for convenience, a growing numbers of tourists, more working woman, refrigeration becoming more widespread and increasing exposure to western foods. Consumption levels of traditional staples such as rice, cassava, maize and sweet potatoes were decreasing and consumption of western-style foods such as beef, dairy, bread, noodles, snack foods, soft drinks and processed foods increasingly. 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 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 drop further under various international agreements. Under AFTA these tariffs ended up in the range of 0% to 5% by 2010, but this liberalisation process will be accelerated.

5.8.5 China

China is emerging to be the world's largest economy in the next two decades. It is the largest populated country in the world, accounting for a fifth of the world's population. The opening of the Chinese economy in the late 1970s has brought an economic upsurge of unprecedented 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 continue 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 compared to that of industry is 1: 2.23. The development of industry (especially textile) and the growth of cities, are two factors pulling resources away from agriculture and this will lead to increased imports of agricultural goods.

China became the recipient of the largest flow of direct investment ever recorded to a developing economy. Bigger investment is expected to generate a significant expansion in employment opportunites and consumer demand. In the face of the Asian financial crisis, Chinese authorities have indicated that they intend to speed up economic and financial reforms. The country needs continued market reforms to sustain its current levels of rapid economic growth and low inflation. China's accession to the World Trade Organisation is expected to take place soon and the implications will be an entire range of most favoured nation tariffs that will apply to South Africa. China will also have to accept the WTO's rules on phytosanitary standards. The Chinese market is expected to grow strongly once the current economic difficulties have faded. Continued strong economic growth is forecast for China, along with rapid population growth, higher 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, groundnuts 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 increasing, it cannot keep pace with the growth in demand. The best prospects in the dairy industry are in food ingredients such as full-milk powder, whey powder, cheese powder, yoghurt powder and other kinds. This is the result of a shortage of these ingredients in China. Greater worldwide competition can be expected from the country in labour-intensive processed agricultural products and lower land-intensive products, especially fresh fruit and vegetables, moderate value-added processed foods (canned and dried fruit and vegetables), fresh- and frozen meats as well as poultry and fish. Opportunities exist for high-technology exports such as genetics, embryo's, biological pesticides and animal-health products. 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 percentage of the population who can afford to buy imported processed and high-value products is increasing rapidly. The number of consumers who can easily afford processed foods will expand to 225% by the year 2005 (a total of 195 million consumers). Amongst these consumers there is a trend towards buying western-style snack foods, non-alcoholic health drinks, canned foods, convenience foods such frozen food, and processed food such as chocolates and sugar. A sound nationwide network of wholesale markets will have taken shape within the next five years. These markets will become 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 into China. Further growth in demand of horticulture products is expected via Hong Kong. Expansion of trade in fruit will depend on the development of relevant protocol agreements with China.

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Table 5.5 Summary of the current South African exports to Asian countries and indications of their export potential and market access constraints

Country	Average SACU agriculture exports (Million Rand) (92-96)	Average share in total SACU agricultur e exports (92-96)	Average growth in share of SACU agriculture exports (92-96)	Share in SACU agriculture exports to Far East Asia	Major agriculture commodities exported from SACU to Far East-Asia	Potential for exports (Good, average and poor)	Major market access constraints
Japan	631	8,2%	27%	48%	Maize, prepared fruits, nuts and vegetables, citrus fruit, groundnuts, wine, fresh or dried grapes, hides and skins, milk and cream, cut-flowers, ethyl alcohol	Short term: Good Med. Term: Good Long term: Average	High tariffs on processed fruit, peaches, grape- and apple juice, wine, wheat starches, sugar, fruits and nuts, fruit juices, meat. Non Tariff Measures on alcohol, barley, maize, grapes, bulbs and tubers. Phytosanitary restrictions (e.g. fumigation requirements) on most products, heavy cost of protocols.
Korea	142	1,8%	76%	11%	Bread, pastry, cakes, biscuits, sugar confectionery, prepared fruits and nuts, wool, fresh or dried grapes, animal hair, fruit juices	Short term: Average Medium term: Good Long term: Good	Asian financial crisis. High off-season agricultural tariffs, high tariffs on onions and garlic, cigarettes, milk and cream, beer, wine & alcohol, tea, fruits and nuts, fruit juices meat. Quotas for some products, Non Tariff Measures on milk and cream, mandarines and meat. Sort self-limits for mineral water.
Malaysia	92	1,2%	>100%	7%	Prepared fruits and nuts, chocolates & cocoa products, sugar confectionery	Short term: Average Medium term: Good Long term: Good	High tariffs on processed pineapples, tobacco, beer, barley, mineral water, ostrich products. Non-Tariff Measures (e.g. import licensing) on groundnuts, cereal flour, grains, oilseeds, sugar, fruit, cereal grouts and meal, cutflowers, State Trading Enterprises sole importer of wheat and meslin.
Indonesia	42	0,5%	>100%	3%	Tobacco, essential oils, pasta	Short term: Poor Medium term: Average Long term: Good	Asian financial crises. High tariffs on processed fruit and pasta, beer, ostrich products, fruit. State Trading Enterprises control imports (e.g garlic, cereal flour, beer) and complicated licencing systems on milk and cream. Special fruit fly requirements for fruit imports.
China	21	0,3%	>100%	2%	Animal hair, fruit juices, wine, plant for perfumery & medicine, dried leguminous, fruit & nuts, beer, bread, pastry, cakes, biscuits..,	Short term: Good Medium term: Good Long term: Good	High tariffs on processed fruit and juices, onions and garlic, wheat and meslin flour, beer, wine, barley, maize, sunflower, mineral water, ostrich products, fruit and nuts, meat. Import quotas on wool and sugar, Non –Tariff Measures on milk and cream, grains, sunflower, bulbs and tubers.
Greater China (China, Macau, Hong-Kong, Taiwan)	317	4,1%	5%	24%	Fresh and dried fruit and nuts, preparations of fruit and vegetables, fats and oils, cereals, sugars, Beverages, meat preparations	Short term: Average Medium term: Good Long term: Good	High tariffs on some processed fruit, cigarettes, wheat and meslin flour, beer, wine & alcohol, fruits and nuts, fruit juices, flowers, meat. Non-Tariff Measures on cut-flowers.

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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 Oceana 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 markets. The significance of 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-crises 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

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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

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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

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in respect of it 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 spend. 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 deferential 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

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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 reset 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.

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ANNEX 1

Product coverage

1. This Agreement on Agriculture of the World Trade Organization covers the following products:

(i) HS Chapters 1 – 24 less fish products, plus*

(ii)	HS code	2905.43	(mannitol)
	HS code	2905.44	(sorbitol)
	HS heading	33.01	(essential oils)
	HS headings	35.01 to 35.05	(albuminoidal substances, modified starches, glues)
	HS code	3809.10	(finishing agents)
	HS code	3823.60	(sorbitol n.e.p.)
	HS headings	41.01 to 41.03	(hides and skins)
	HS heading	43.01	(raw fur skins)
	HS headings	50.01 to 50.03	(raw silk and silk waste)
	HS headings	51.01 to 51.03	(wool and animal hair)
	HS headings	52.01 to 52.03	(raw cotton, waste and cotton carded or combed)
	HS heading	53.01	(raw flax)
	HS heading	53.02	(raw hemp)

2. The foregoing does not limit the product coverage of the Agreement on the Application of Sanitary and Phytosanitary Measures.

* *The product descriptions in round brackets are not necessarily exhaustive*

ANNEX 2

Country	Country (EU aggregated)	Continental aggregation	Regional aggregation
Morocco	Morocco	Africa	North Africa
Algeria	Algeria	Africa	North Africa
Tunisia	Tunisia	Africa	North Africa
Libyan A Ja	Libyan A Ja	Africa	North Africa
Egypt	Egypt	Africa	North Africa
Sudan	Sudan	Africa	South of Sahara (excl. SADC)
West. Sahara	West. Sahara	Africa	South of Sahara (excl. SADC)
Maurantania	Maurantania	Africa	South of Sahara (excl. SADC)
Senegal	Senegal	Africa	South of Sahara (excl. SADC)
Mali	Mali	Africa	South of Sahara (excl. SADC)
Coté D'Ivoire	Coté D'Ivoire	Africa	South of Sahara (excl. SADC)
Burkina Faso	Burkina Faso	Africa	South of Sahara (excl. SADC)
Benin	Benin	Africa	South of Sahara (excl. SADC)
Niger	Niger	Africa	South of Sahara (excl. SADC)
Cape Verda	Cape Verda	Africa	South of Sahara (excl. SADC)
Gambia	Gambia	Africa	South of Sahara (excl. SADC)
G.-Bissau	G.-Bissau	Africa	South of Sahara (excl. SADC)
Guinea	Guinea	Africa	South of Sahara (excl. SADC)
Sierra Laone	Sierra Laone	Africa	South of Sahara (excl. SADC)
Liberia	Liberia	Africa	South of Sahara (excl. SADC)
Ghana	Ghana	Africa	South of Sahara (excl. SADC)
Togo	Togo	Africa	South of Sahara (excl. SADC)
Nigeria	Nigeria	Africa	South of Sahara (excl. SADC)
Cameroon	Cameroon	Africa	South of Sahara (excl. SADC)
Chad	Chad	Africa	South of Sahara (excl. SADC)
Gabon	Gabon	Africa	South of Sahara (excl. SADC)
Congo	Congo	Africa	SADC (excl. blns)
Equa. Guinea	Equa. Guinea	Africa	South of Sahara (excl. SADC)
Sao Tome & P.	Sao Tome & P.	Africa	South of Sahara (excl. SADC)
Zaire	Zaire	Africa	South of Sahara (excl. SADC)
Rwanda	Rwanda	Africa	South of Sahara (excl. SADC)
Burundi	Burundi	Africa	South of Sahara (excl. SADC)
Bouvet Is.	Bouvet Is.	Africa	South of Sahara (excl. SADC)
St Helena	St Helena	Africa	South of Sahara (excl. SADC)
Angola	Angola	Africa	SADC (excl. blns)
Zimbabwe	Zimbabwe	Africa	SADC (excl. blns)
Zambia	Zambia	Africa	SADC (excl. blns)
Malawi	Malawi	Africa	SADC (excl. blns)
Mozambique	Mozambique	Africa	SADC (excl. blns)
Madagascar	Madagascar	Africa	South of Sahara (excl. SADC)
Comoros Is. Fed. Rep.	Comoros Is. Fed. Rep.	Africa	South of Sahara (excl. SADC)

Country	Country (EU aggregated)	Continental aggregation	Regional aggregation
Reunion	Reunion	Africa	South of Sahara (excl. SADC)
Mauritius	Mauritius	Africa	SADC (excl. blns)
Br. IO Ter.	Br. IO Ter.	Africa	South of Sahara (excl. SADC)
Tanzania	Tanzania	Africa	SADC (excl. blns)
Uganda	Uganda	Africa	South of Sahara (excl. SADC)
Kenya	Kenya	Africa	South of Sahara (excl. SADC)
Somalia	Somalia	Africa	South of Sahara (excl. SADC)
Djibouti	Djibouti	Africa	South of Sahara (excl. SADC)
Ethiopia	Ethiopia	Africa	South of Sahara (excl. SADC)
Norway	Norway	Europe	West. Europe (excl. EU15)
Sweden	EU15	Europe	EU15
Denmark	EU15	Europe	EU15
SV & JM	SV & JM	Europe	West. Europe (excl. EU15)
Greenland	Greenland	Europe	West. Europe (excl. EU15)
Iceland	Iceland	Europe	West. Europe (excl. EU15)
Faerce Is.	Faerce Is.	Europe	West. Europe (excl. EU15)
Ireland	EU15	Europe	EU15
UK	EU15	Europe	EU15
Luxembourg	EU15	Europe	EU15
Belgium	EU15	Europe	EU15
Netherlands	EU15	Europe	EU15
Lichtenstein	Lichtenstein	Europe	West. Europe (excl. EU15)
Germany	EU15	Europe	EU15
France	EU15	Europe	EU15
Switzerland	Switzerland	Europe	West. Europe (excl. EU15)
Austria	EU15	Europe	EU15
Andorra	Andorra	Europe	West. Europe (excl. EU15)
Monaco	Monaco	Europe	West. Europe (excl. EU15)
France Met.	France Met.	Europe	West. Europe (excl. EU15)
Portugal	EU15	Europe	EU15
Spain	EU15	Europe	EU15
Gibrattar	Gibrattar	Europe	West. Europe (excl. EU15)
Malta	Malta	Europe	West. Europe (excl. EU15)
Italy	EU15	Europe	EU15
San Marino	San Marino	Europe	West. Europe (excl. EU15)
Vatican	Vatican	Europe	West. Europe (excl. EU15)
Finland	EU15	Europe	EU15
Poland	Poland	Europe	Central and Eastern Europe
Armania	Armania	Asia	Middle East
Azerbaijan	Azerbaijan	Asia	Middle East
Georgia	Georgia	Asia	Middle East
Kasakhstan	Kasakhstan	Asia	Middle East
Kyrgystan	Kyrgystan	Asia	Middle East
Moldova	Moldova	ROW	ROW
Russian Fed.	Russian Fed.	Europe	Russian Fed.

Country	Country (EU aggregated)	Continental aggregation	Regional aggregation
Tajikistan	Tajikistan	Asia	Middle East
Lithuania	Lithuania	Europe	Central and Eastern Europe
Latvia	Latvia	Europe	Central and Eastern Europe
Estonia	Estonia	Europe	Central and Eastern Europe
Belarus	Belarus	Europe	Central and Eastern Europe
Ukrane	Ukrane	Europe	Central and Eastern Europe
Turkmenistan	Turkmenistan	Asia	Middle East
Uzbekistan	Uzbekistan	Asia	Middle East
Hungary	Hungary	Europe	Central and Eastern Europe
Romania	Romania	Europe	Central and Eastern Europe
Yugoslavia	Yugoslavia	Europe	Central and Eastern Europe
Bulgaria	Bulgaria	Europe	Central and Eastern Europe
Croatia	Croatia	Europe	Central and Eastern Europe
Albania	Albania	Europe	Central and Eastern Europe
Bosnia & Herzegovina	Bosnia & Herzegovina	Europe	Central and Eastern Europe
Czech Rep.	Czech Rep.	Europe	Central and Eastern Europe
Greeze	EU15	Europe	EU15
Slovak Rep.	Slovak Rep.	Europe	Central and Eastern Europe
Canada	Canada	Americas	North & Central America
St Pierre & Miq.	St Pierre & Miq.	Americas	North & Central America
USA	USA	Americas	North & Central America
Mexico	Mexico	Americas	North & Central America
Antigua	Antigua	Americas	North & Central America
Bahamas	Bahamas	Americas	North & Central America
Barbados	Barbados	Americas	North & Central America
Bermuda	Bermuda	Americas	North & Central America
Cayman Is.	Cayman Is.	Americas	North & Central America
Dominica	Dominica	Americas	North & Central America
Granada	Granada	Americas	North & Central America
Nev. Jamaica	Jamaica	Americas	North & Central America
Martinique	Martinique	Americas	North & Central America
Montserrat	Montserrat	Americas	North & Central America
St Kit. & Nev.	St Kit. & Nev.	Americas	North & Central America
St Lucia	St Lucia	Americas	North & Central America
St Vincent	St Vincent	Americas	North & Central America
Trin. & Tob.	Trin. & Tob.	Americas	North & Central America
Turks & Caicos	Turks & Caicos	Americas	North & Central America
Cuba	Cuba	Americas	North & Central America
Haiti	Haiti	Americas	North & Central America
Dominic. Rep.	Dominic. Rep.	Americas	North & Central America
Puerto Rico	Puerto Rico	Americas	North & Central America
Anguilla	Anguilla	Americas	North & Central America
Br. Virgin Is.	Br. Virgin Is.	Americas	North & Central America
US Virgin Is.	US Virgin Is.	Americas	North & Central America
Guadeloupe	Guadeloupe	Americas	North & Central America
Neth. Antilles	Neth. Antilles	Americas	North & Central America

Country	Country (EU aggregated)	Continental aggregation	Regional aggregation
Aruba	Aruba	Americas	North & Central America
Guatemala	Guatemala	Americas	North & Central America
Belize	Belize	Americas	North & Central America
Honduras	Honduras	Americas	North & Central America
Nicaragua	Nicaragua	Americas	North & Central America
Costa Rica	Costa Rica	Americas	North & Central America
Panama	Panama	Americas	North & Central America
El Salvador	El Salvador	Americas	North & Central America
Columbia	Columbia	Americas	South America
Venezuela	Venezuela	Americas	South America
Guyana	Guyana	Americas	South America
Suriname	Suriname	Americas	South America
Fr. Guiana	Fr. Guiana	Americas	South America
Brazil	Brazil	Americas	South America
Paraguay	Paraguay	Americas	South America
Uruguay	Uruguay	Americas	South America
Argentina	Argentina	Americas	South America
Falkland Is.	Falkland Is.	Americas	South America
Chile	Chile	Americas	South America
Bolivia	Bolivia	Americas	South America
Peru	Peru	Americas	South America
Ecuador	Ecuador	Americas	South America
Turkey	Turkey	Asia	Middle East
Ciprus	Ciprus	Asia	Middle East
Syrian A. Rep.	Syrian A. Rep.	Asia	Middle East
Lebanon	Lebanon	Asia	Middle East
Israel	Israel	Asia	Middle East
Jordan	Jordan	Asia	Middle East
Saudi Arabia	Saudi Arabia	Asia	Middle East
Yernen	Yernen	Asia	Middle East
Oman	Oman	Asia	Middle East
U.A. Emirates	U.A. Emirates	Asia	Middle East
Qatar	Qatar	Asia	Middle East
Bahrein	Bahrein	Asia	Middle East
Kuwait	Kuwait	Asia	Middle East
Iraq	Iraq	Asia	Middle East
Iran	Iran	Asia	Middle East
Afghanistan	Afghanistan	Asia	Middle East
Bhutan	Bhutan	Asia	South Asia
Nepal	Nepal	Asia	South Asia
Pakistan	Pakistan	Asia	South Asia
India	India	Asia	South Asia
Bangladesh	Bangladesh	Asia	South Asia
Maldives	Maldives	Asia	South Asia
Sri Lanka	Sri Lanka	Asia	South Asia

Country	Country (EU aggregated)	Continental aggregation	Regional aggregation
Myanmar (Burna)	Myanmar (Burna)	Asia	South Asia
Singapore	Singapore	Asia	South-East Asia(ASEAN)
Malaysia	Malaysia	Asia	South-East Asia(ASEAN)
Thailand	Thailand	Asia	South-East Asia(ASEAN)
Cambodia	Cambodia	Asia	South-East Asia
Lao, P. Dem. Rep.	Lao, P. Dem. Rep.	ROW	ROW
Vietnam	Vietnam	Asia	South-East Asia(ASEAN)
Indonisia	Indonisia	Asia	South-East Asia(ASEAN)
Brunei	Brunei	Asia	South-East Asia(ASEAN)
East Timor	East Timor	ROW	ROW
P.N. Guinea	P.N. Guinea	ROW	Oceana
Philippines	Philippines	Asia	South-East Asia(ASEAN)
Hong Kong	Hong Kong	Asia	North-East Asia
Taiwan	Taiwan	Asia	North-East Asia
China	China	Asia	China
Macau	Macau	Asia	North-East Asia
Japan	Japan	Asia	North-East Asia
Korea, Rep.	Korea, Rep.	Asia	North-East Asia
Korea, Dem. P. Rep.	Korea, Dem. P. Rep.	Asia	North-East Asia
Mongolia	Mongolia	ROW	ROW
Australia	Australia	ROW	Oceania
Christmas Is.	Christmas Is.	ROW	Oceania
Cocos Is.	Cocos Is.	ROW	Oceania
H. & Med. Is.	H. & Med. Is.	ROW	Oceania
Nauru	Nauru	ROW	Oceania
Norfolk Is.	Norfolk Is.	ROW	Oceania
Solomon Is.	Solomon Is.	ROW	Oceania
Cook Is.	Cook Is.	ROW	Oceania
Fiji	Fiji	ROW	Oceania
Pitcairn Is.	Pitcairn Is.	ROW	Oceania
Tonga	Tonga	ROW	Oceania
Samoa	Samoa	ROW	Oceania
Fr. Polynesia	Fr. Polynesia	ROW	Oceania
N. Caledonia	N. Caledonia	ROW	Oceania
Vanuatu	Vanuatu	ROW	Oceania
W. & F. Is.	W. & F. Is.	ROW	Oceania
Karibati	Karibati	ROW	Oceania
Tuvalu	Tuvalu	ROW	Oceania
New Zealand	New Zealand	ROW	Oceania
Niue	Niue	ROW	Oceania
Tokelau Is.	Tokelau Is.	ROW	Oceania
A. Samua	A. Samua	ROW	Oceania
Guam	Guam	ROW	Oceania
US Min. Out. Is.	US Min. Out. Is.	ROW	ROW
Marshall Is.	Marshall Is.	ROW	Oceania

Country	Country (EU aggregated)	Continental aggregation	Regional aggregation
Micronesia	Micronesia	ROW	Oceania
N. Mariana Is.	N. Mariana Is.	ROW	Oceania
Palau	Palau	ROW	Oceania
Antarctica	Antarctica	ROW	ROW
Fr. S. Ter.	Fr. S. Ter.	ROW	ROW
S & A Stores	S & A Stores	ROW	ROW
Unallocated	Unallocated	ROW	ROW
Bophuthatswana	Bophuthatswana	ROW	ROW
Transkei	Transkei	ROW	ROW
Ciskei	Ciskei	ROW	ROW
Venda	Venda	ROW	ROW
East Germany	East Germany	Europe	Central and Eastern Europe
Russian Federation	Russian Federation	Europe	Russian Federation
Czechslovakia	Czechslovakia	Europe	Central and Eastern Europe
Slovenia	Slovenia	Europe	Central and Eastern Europe
Yamen Dem.	Yamen Dem.	Asia	Middle East
Neutral Zone	Neutral Zone	ROW	ROW
Cant. & E. Is.	Cant. & E. Is.	ROW	Oceania
Johnston Is.	Johnston Is.	ROW	ROW
Midway Is.	Midway Is.	ROW	ROW
Pacific Is.	Pacific Is.	ROW	ROW
Wake Is.	Wake Is.	ROW	ROW
Dr Maud Is.	Dr Maud Is.	ROW	ROW
French S & A	French S & A	ROW	ROW
Dem. Rep. of Kongo	Dem. Rep. of Kongo	Africa	SADC (excl. blns)
Ships+Aircraft (unknown destination)	Ships+Aircraft (unknown destination)	ROW	ROW

ANNEX 3

Product aggregations

Section	Description
I	Live animals, animal products
II	Vegetable products
III	Animal or vegetable fats and oils and their cleavage products, prepared edible fats; animal or vegetable waxes
IV	Prepared foodstuffs, beverages, spirits, and vinegar; tobacco and manufactured tobacco products
VIII	Raw hides and skins, leather, fur-skins and articles thereof, saddlery and harness, travel articles, handbags and similar containers, articles of animal gut (other than silkworm-gut)
XI	Textiles and textile articles
VI	Products of chemicals or allied industries

ANNEX 4

Product aggregations (Section and 2 HS code)

Section	2 HS code	Description
I	01	Live animals
I	02	Meat and edible meat offals
I	04	Dairy produce, birds' eggs, natural honey, edible products of animal origin, NES or included
I	05	Products of animal origin, NES or included
II	06	Live trees and other plants, bulbs, roots and the like, cut flowers and ornamental foilage
II	07	Edible vegetables and certain roots and tubers
II	08	Edible fruit and nuts, peel of citrus fruit or melons
II	09	Coffee, tea, mate and spices
II	10	Cereals
II	11	Products of the milling industry, malt, starches, inulin, wheat gluten
II	12	Oil seeds and oleaginous fruits, iscellaneous grains, seeds and fruits, industrial or medicinal plants, straw and fodder
II	13	Lac, gums, resins and other vegetable saps and extracts
II	14	Vegetable plaiting materials, egetable products NESOI
III	15	Animal or vegetable fats and oils and their cleavage products, prepared edible fats, animal or vegetable waxes
IV	16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates
IV	17	Sugars and sugar confectionary
IV	18	Cacao and cacao preparations
IV	19	Preparations of cereals, flour, starch or milk, bakers' wares
IV	20	Preparations of vegetables, fruit, nuts or other parts of plants
IV	21	Miscellaneous edible preparations
IV	22	Beverages, spirits and vinegar
IV	23	Prepared animal feed, residues and waste from the food industries
IV	24	Tobacco and manufactured tobacco substitutes
VI	29	Organic chemical

Section	2 HS code	Description
VI	33	Essential oils
VI	35	Albuminoidal substances, odified starches, glues,
VI	38	Miscellaneous chemical products
VIII	41	Raw hides and skins (other than fur skins) and leather
VIII	43	Fur skins and artificial fur, manufactures thereof
XI	50	Silk
XI	51	Wool, fine or coarse animal hair, horsehair yarn and woven fabric
XI	52	Cotton
XI	53	Other vegetable textile fibres, paper yarn and woven fabric of paper yarn

ANNEX 5

SACU agricultural exports to regions

Notes on the interpretation of the bubble charts (Annex 5, Figures 1 to 15):

1. Each figure (1-15) shows the SACU exports to a different regional grouping,
2. On the horizontal axis are products on a 2 HS code aggregations (Chapters 1 to 24),
3. The bubble directly above the 2 HS code product reveals details of the SACU exports of that specific product in terms of share of exports and growth,
4. The size of the bubble represents the persentage of the total SACU agricultural exports to that region (the figure next to the bubble represents the average persentage of the total SACU agriculture exports from 1992 to 1996 to that region),
5. The vertical axis represents the growth in share of SACU agricultural exports for the period 1992 to 1996 (scale is from +35 to -30%),
6. A bubbles' position on the vertically scale give an indication of the growth of SACU agricultural exports of that specific product to the region,
7. Above 30% on the scale represents a figure larger than 30% but not necessarily 35% (it could for example be 100%).

ANNEX 5

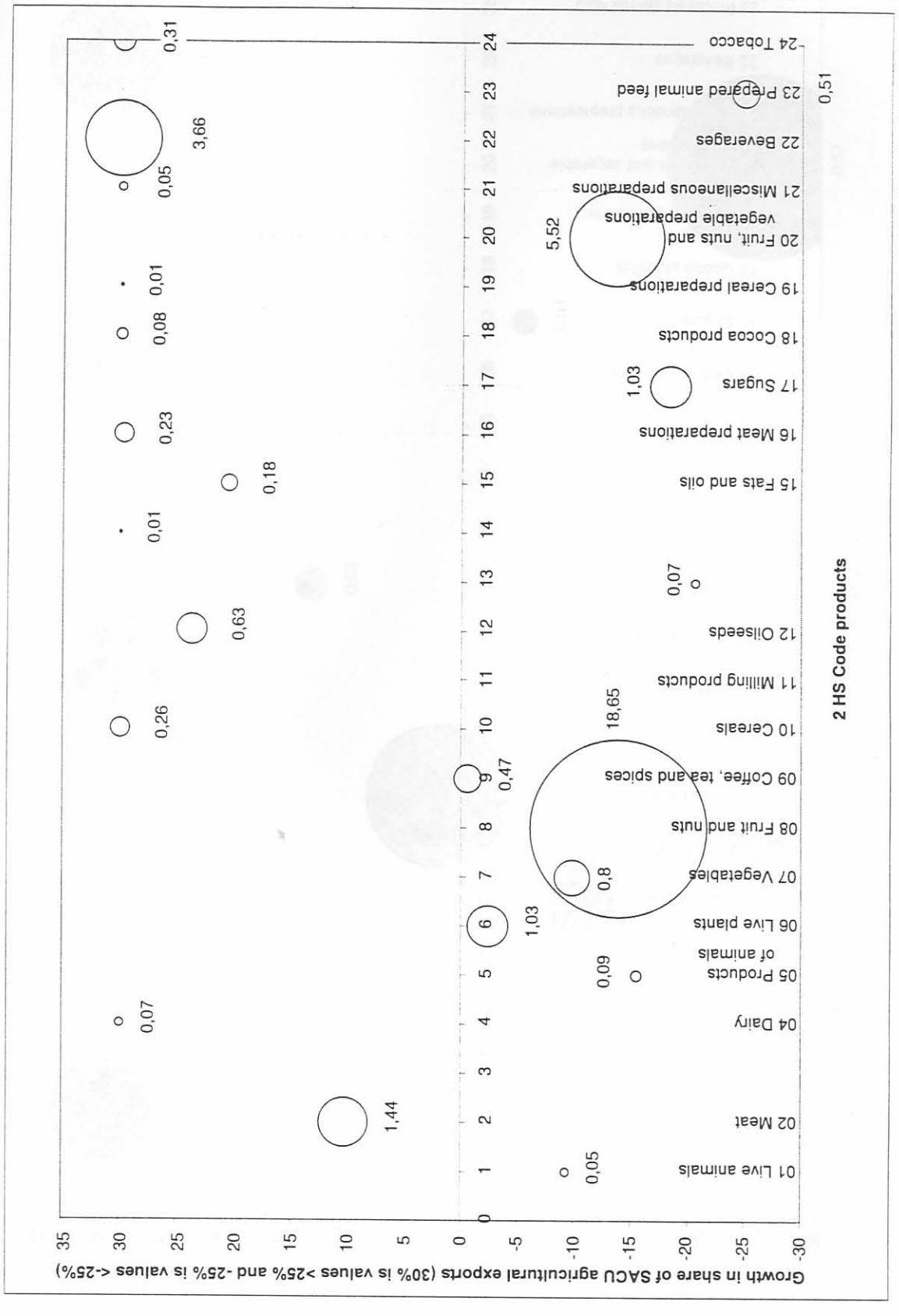


FIG. 1 SACU agricultural exports to the EU 15 (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

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UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

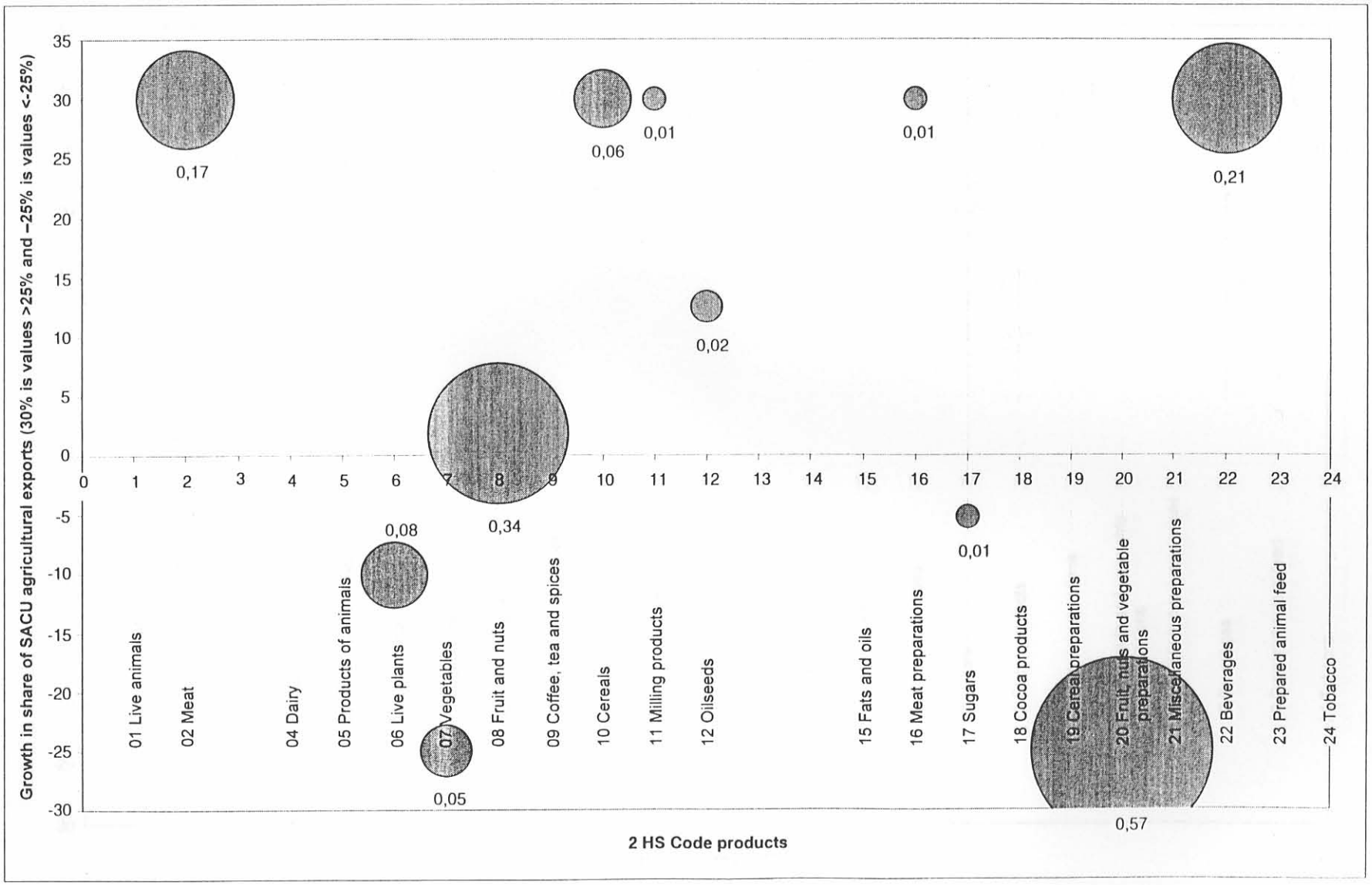


FIG. 2 SACU agricultural exports to West Europe (excluded EU 15) (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

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UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

FIG. 3 SACU agricultural exports to Central and Eastern Europe (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

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UNIVERSITY OF PRETORIA
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FIG. 4 SACU agricultural exports to the Russian Federation (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

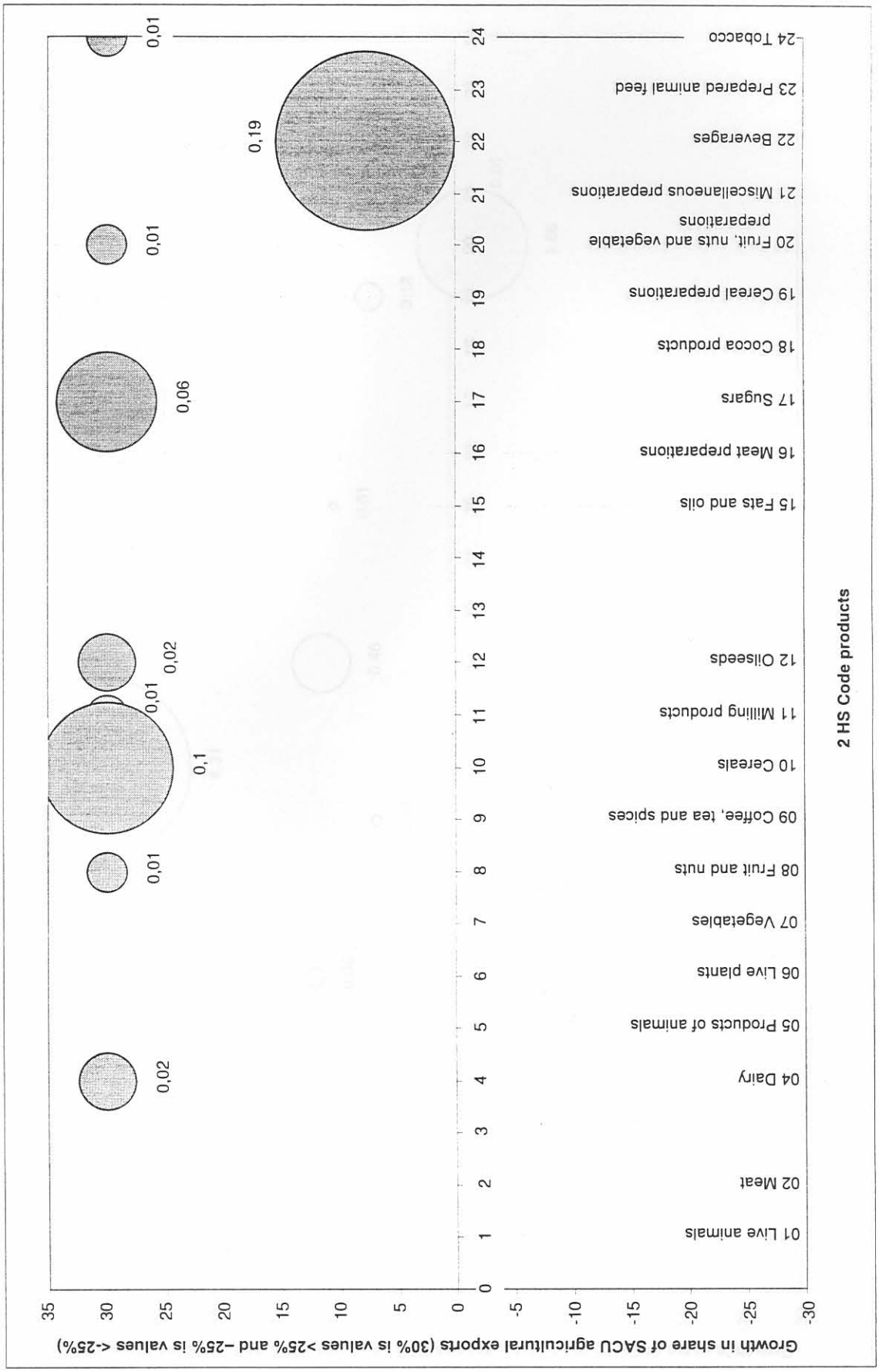


FIG. 5 SACU agricultural exports to the Middle East (1992 to 1996. [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

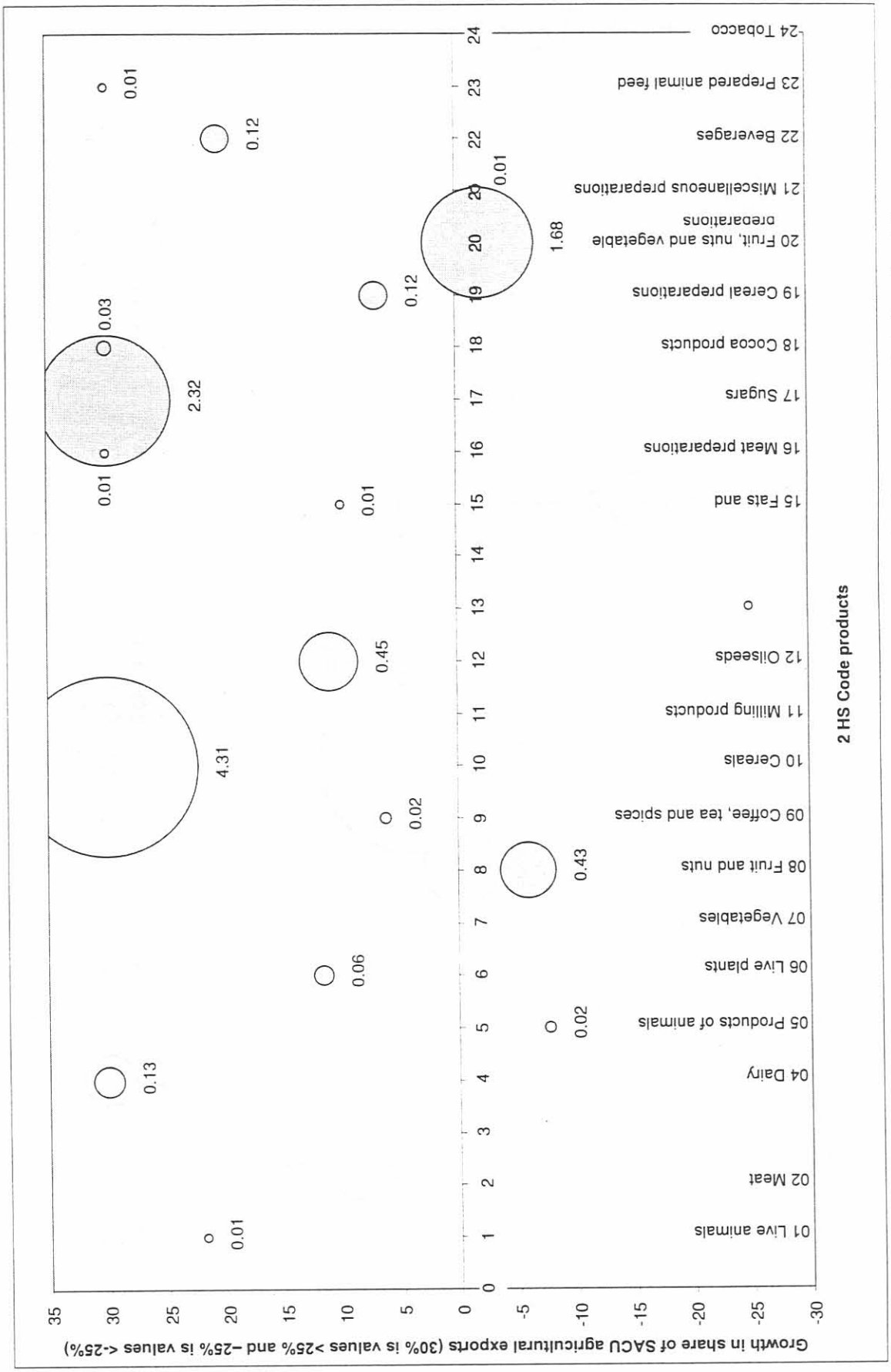


FIG. 6 SACU agricultural exports to Japan and Korea (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

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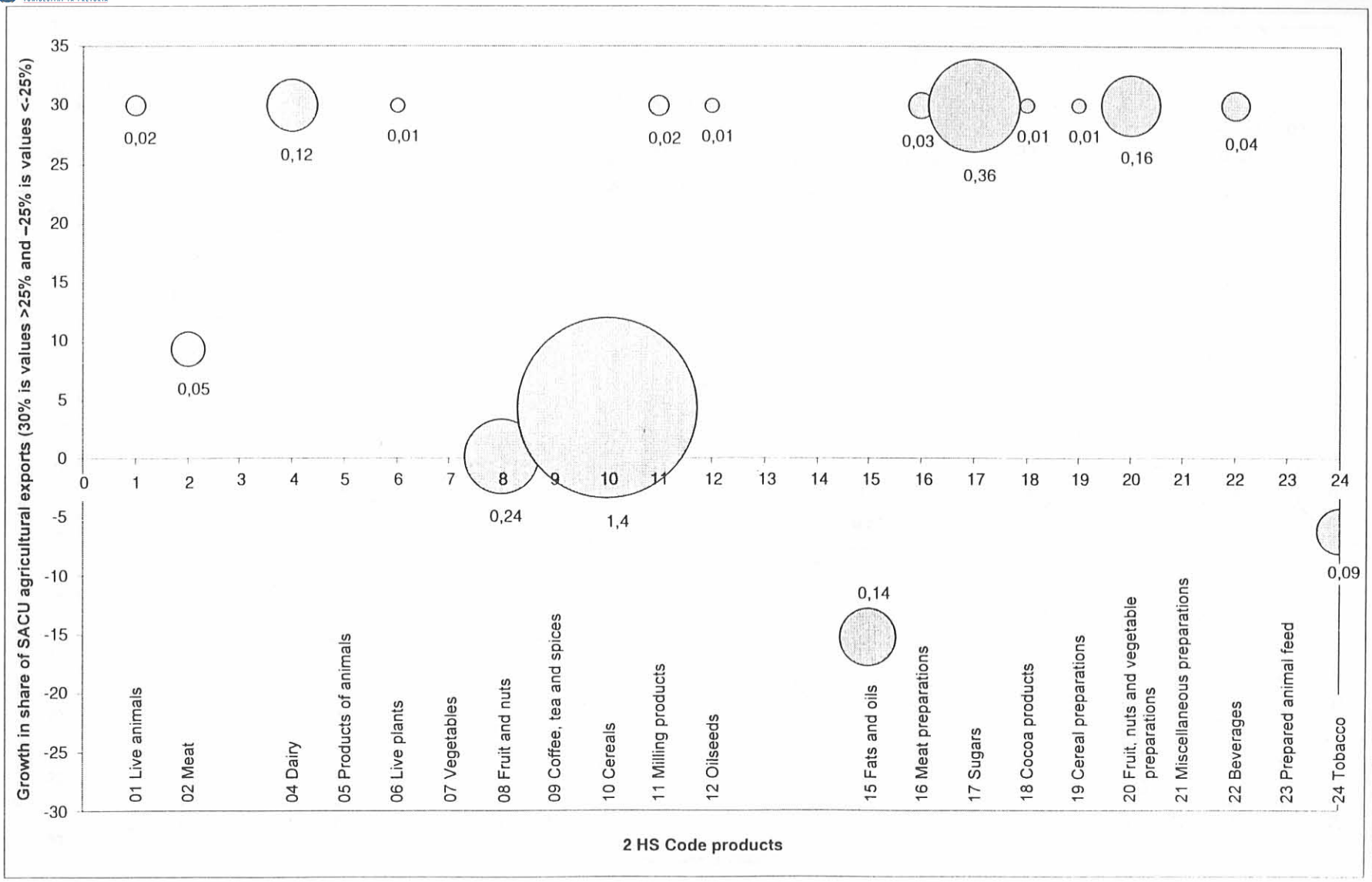


FIG. 7 SACU agricultural exports to Asean (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

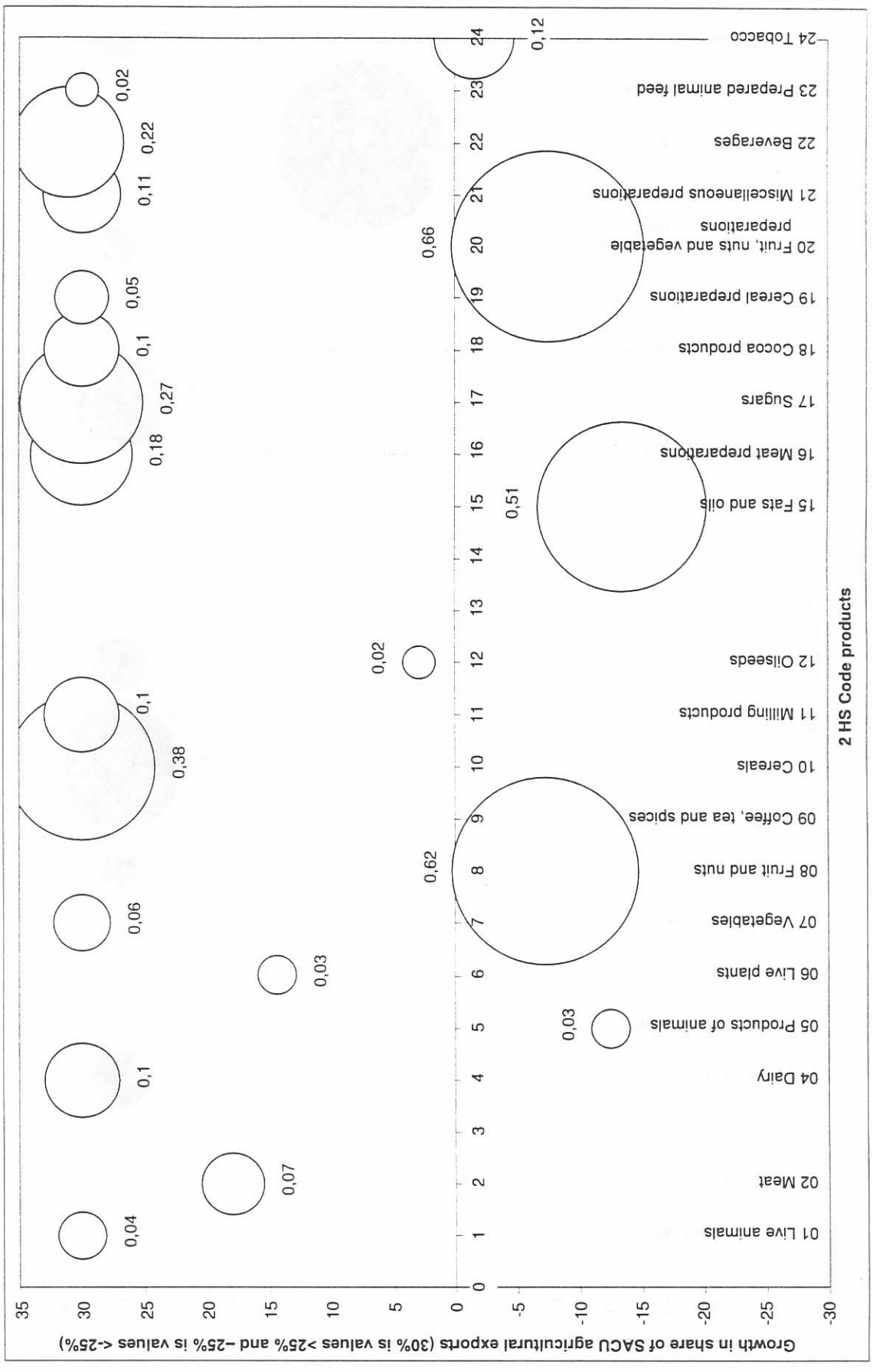


FIG. 8 SACU agricultural exports to China and China 3 (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

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FIG. 9 SACU agricultural exports to South Asia (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

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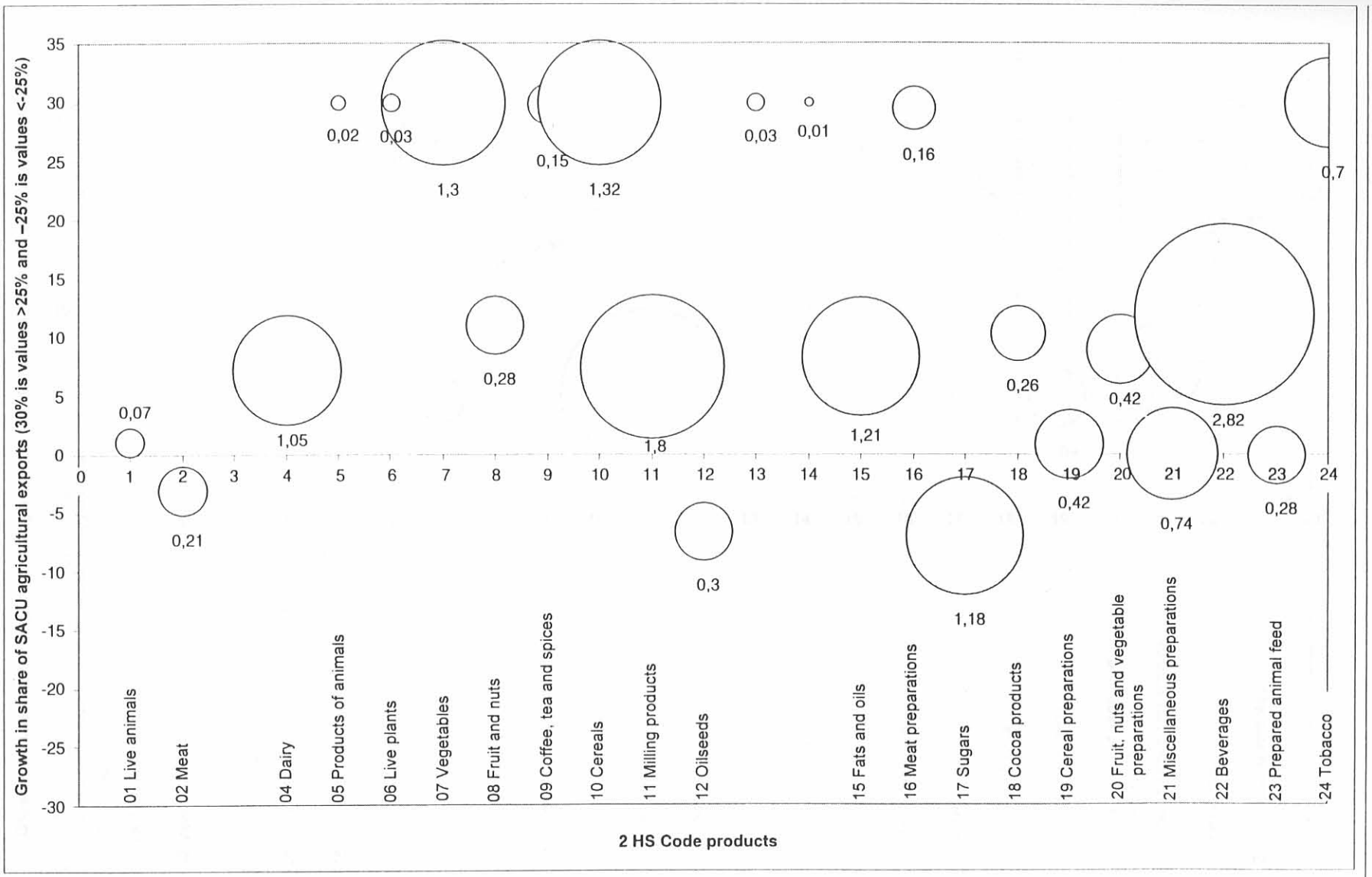


FIG. 10 SACU agricultural exports to SADC (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

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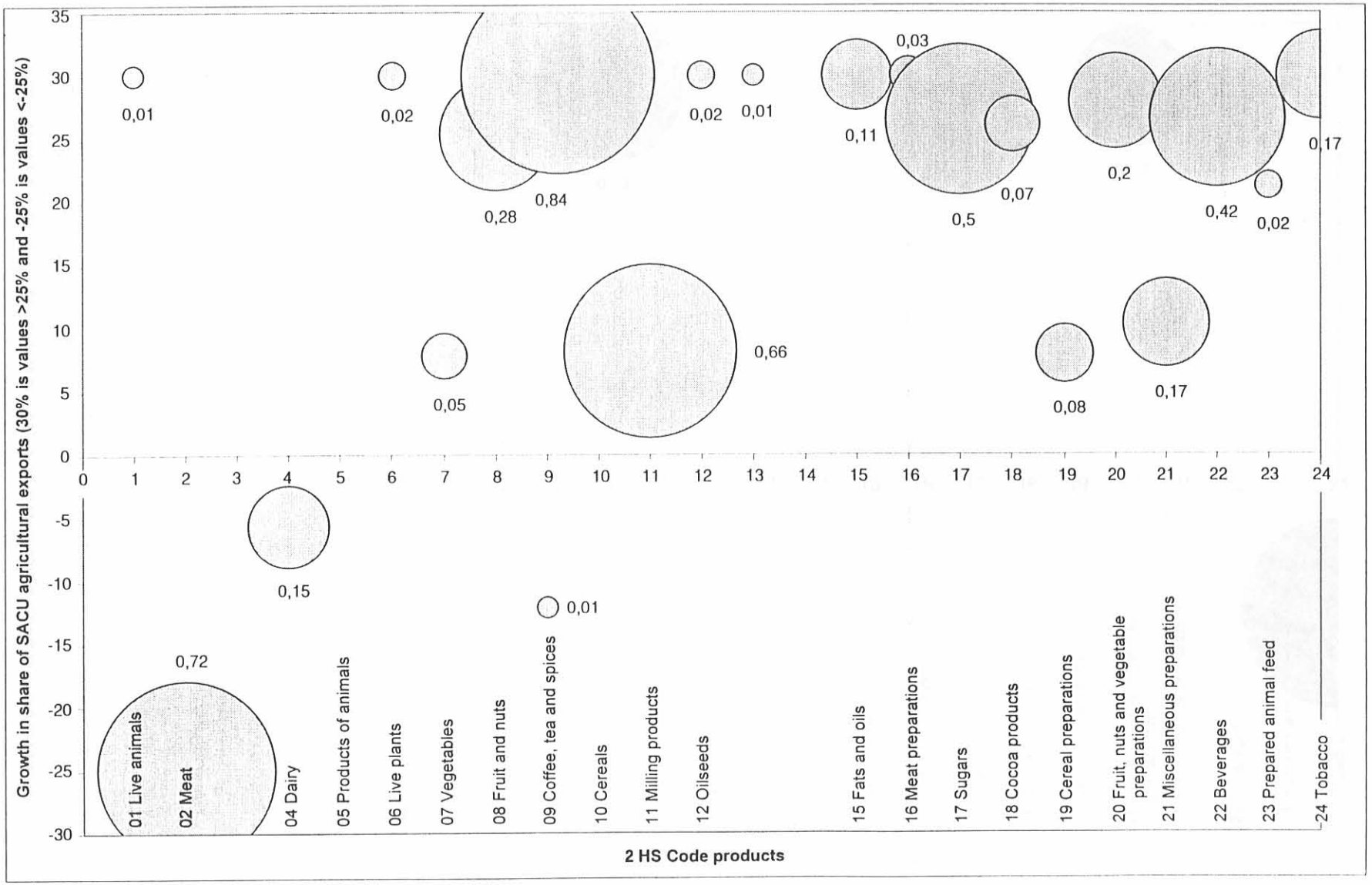


FIG. 11 SACU agricultural exports to South of Sahara (excluding SADC) (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

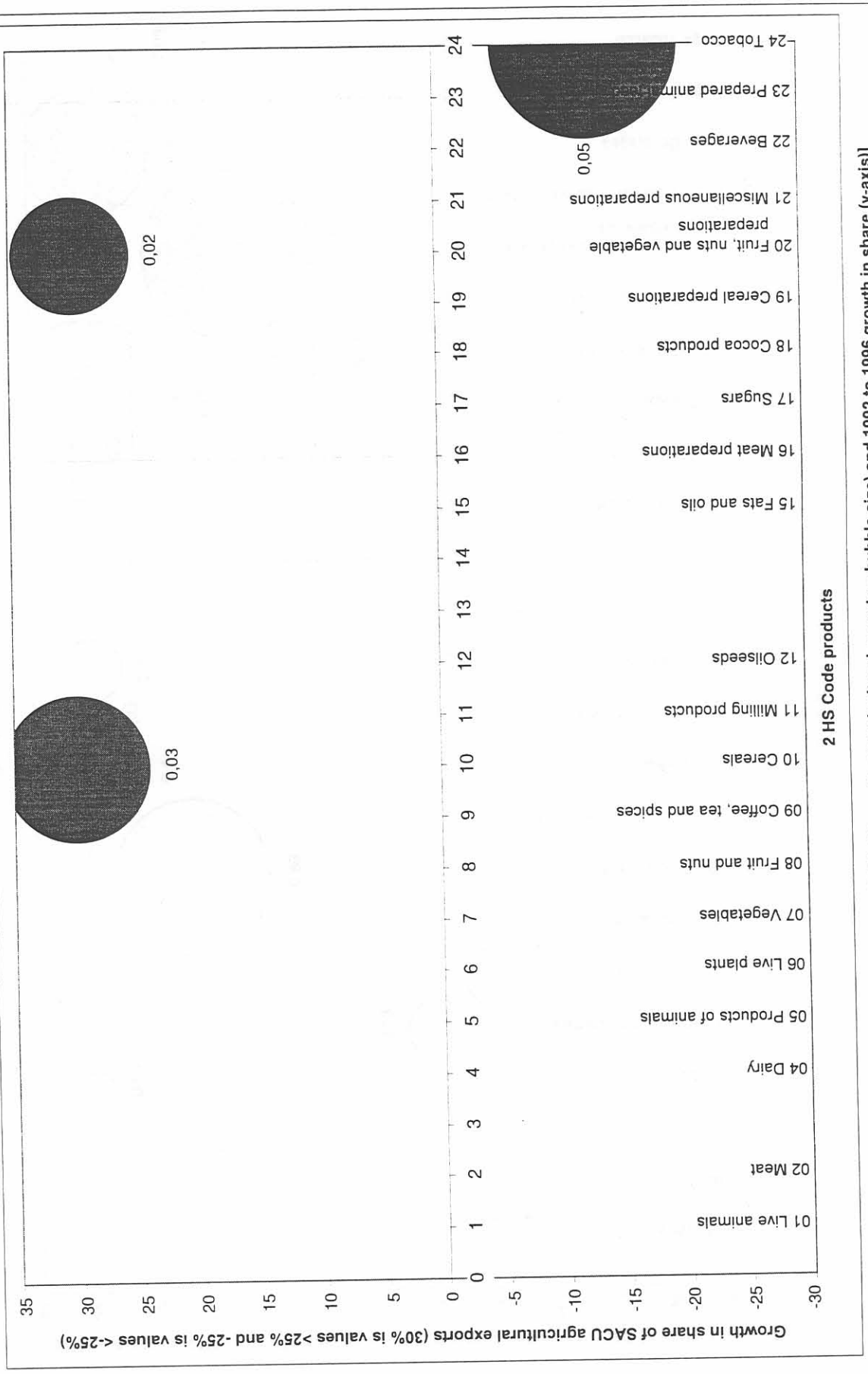


FIG. 12 SACU agricultural exports to North Africa (1992 to 1996). [Share (% of agricultural exports = bubble size) and 1992 to 1996 growth in share (y-axis)]

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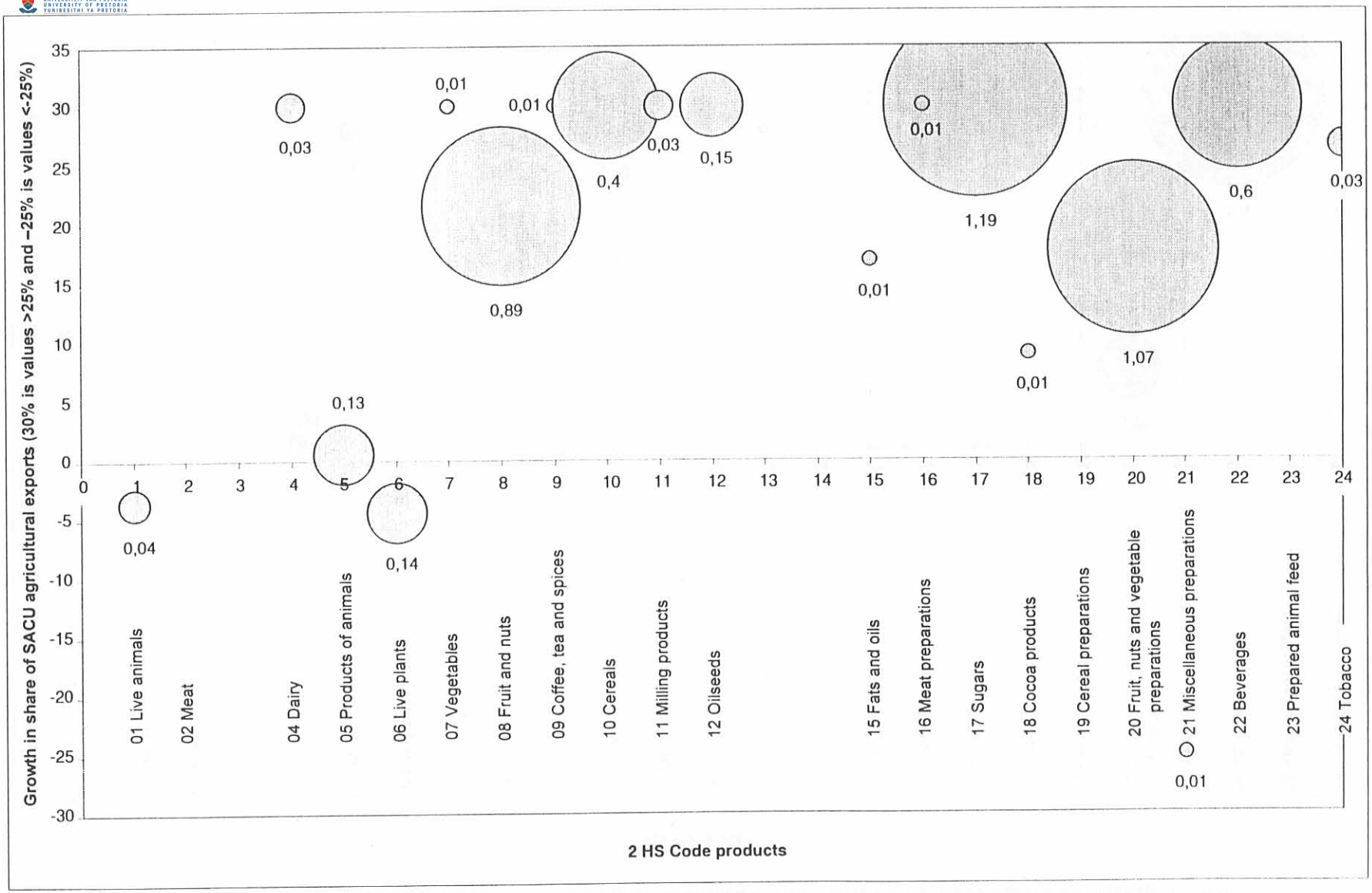


FIG. 13 SACU agricultural exports to North & Central America (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

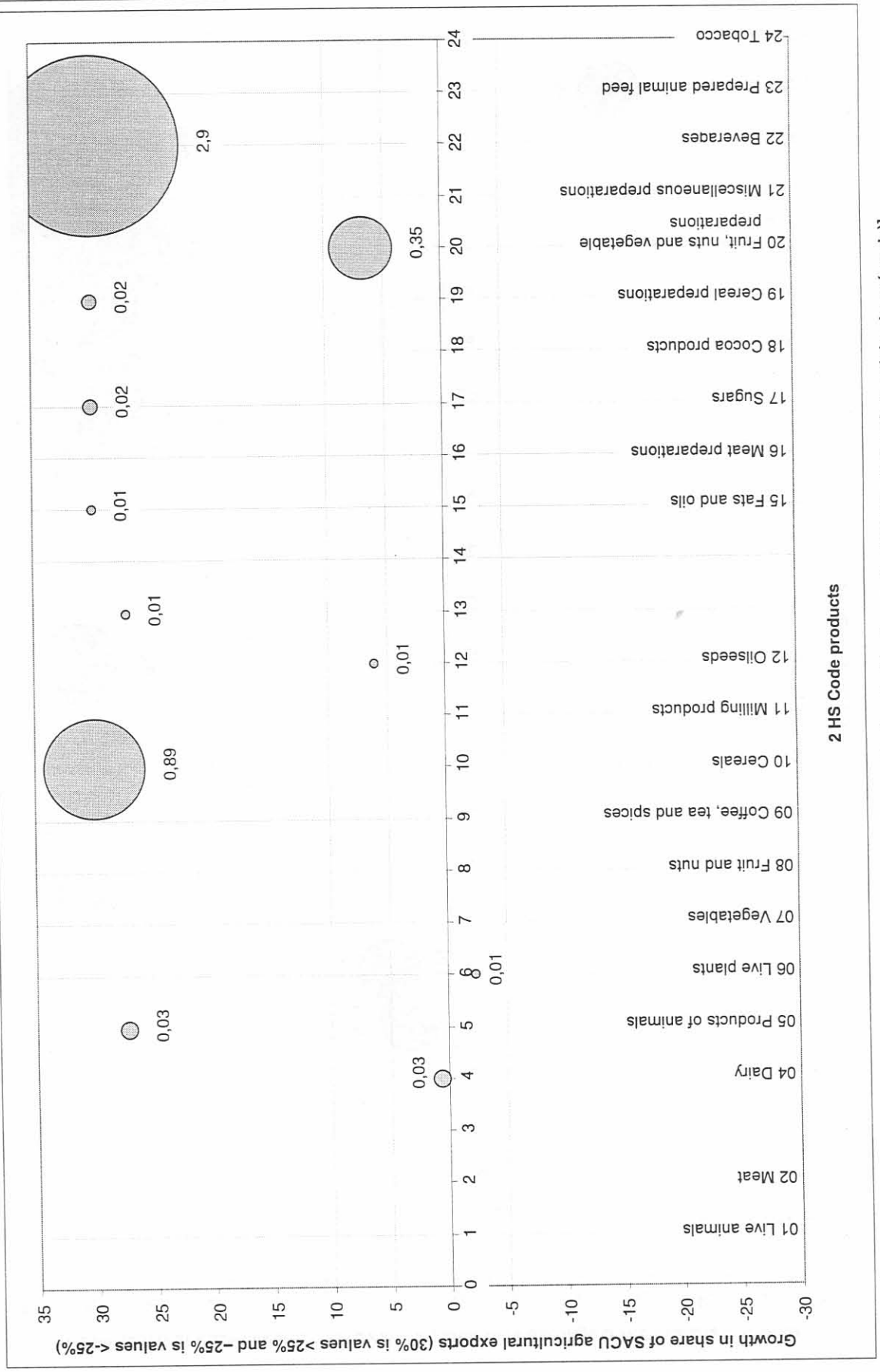


FIG. 14 SACU agricultural exports to South America (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

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FIG. 15 SACU agricultural exports to Oceania (1992 to 1996). [Share (% of agricultural exports = bubble size) and growth in share (y-axis)]

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ANNEX 6

Annex 6, Table 1 The main SACU agricultural exports to Japan, in Rand value (1992 to 1998)

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg. value	Growth %	Share %	Avg. MFN tariff %
1005	Maize (corn).	97989324	80062115	725398325	36498938	515054571	171374732	98842738	246460106	316	40	1
2008	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included.	65115994	77410369	80608173	103754101	85914453	93379464	110403456	88083716	10	22	17
2009	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.	25003430	17164687	24620804	27640131	61139242	30538920	49351945	33637023	26	8	24
0805	Citrus fruit, fresh or dried.	10920743	16671262	20735702	22165353	20062121	71601253	57380729	31362452	52	7	14
1202	Ground-nuts, not roasted or otherwise cooked, whether or not shelled or broken.	14503620	25263611	25925298	27998619	33869151	38677753	40477001	29530722	21	7	5
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading no. 20.09.	2259581	1980386	4229375	4798618	15472378	23004992	40709625	13207851	77	3	21
0806	Grapes, fresh or dried.	5964119	5602422	7093141	8248232	7652203	9935246	7934376	7489963	7	2	6
4102	Raw skins of sheep or lambs (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared), whether or not with wool on or split (excluding those excluded by note 1 (c) to this chapter):	11736123	6201571	3821818	3393153	3359303	4182276	2092451	4969528	-21	1	0
0402	Milk and cream, concentrated or containing added sugar or other sweetening matter.	6354145	14674217	1070999		2682	4694	684050	3255827	2897	1	26
5101	Wool, not carded or combed.	6376463	2498971	3789225	4045924	2563848	5296947	4188645	4108575	8	1	0
5103	Waste of wool or of fine or coarse animal hair, including yarn waste but excluding garnetted stock.	3147086	2736635	2491178	3424538	2531064	5845705	6907004	3869030	23	1	
0603	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared.	2033396	2293694	4382693	4163449	5287647	4859793	5499931	4074372	22	1	0
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 % vol; spirits, liqueurs and other spirituous beverages	7398460	3813053	2592113	3220533	2679804	1241718	6262	2993135	-38	1	12

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HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg. value	Growth %	Share %	Avg. MFN tariff %
1211	Plants and parts of plants(including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered.	401946	1917086	816791	10308824	2540286	2273895	2819911	3011248	237	1	2
4103	Other raw hides and skins (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared), whether or not dehaired or split (excluding those excluded by note 1 (b) or 1 (c) to this chapter):	228461	910374	1534632	2607014	11013311	5956050	329475	3225617	103	1	
1209	Seeds, fruit and spores, of a kind used for sowing.	2784069	2233291	2135254	2684527	1537226	1654620	2873046	2271719	7	1	
0811	Fruit and nuts, uncooked or cooked by steaming or boiling in water, frozen, whether or not containing added sugar or other sweetening matter.	1056601	1281820	3325329	4229990	5083058	1193954	86175	2322418	10	1	

Annex 6, Table 2 The main SACU agricultural exports to Korea, in Rand value (1992 to 1998)

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg. Value	Growth %	Share %	Avg. MFN tariff %
1905	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products.	5676629	13588659	9944735	8186870	7692507	110092	0	6457070	-18	25	8
1704	Sugar confectionery (including white chocolate), not containing cocoa.	3195298	2219832	6572235	1234100	3309498	4211181	3257000	3428449	43	16	8
2008	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included.	974335	1216553	2337581	2403051	4980458	7235537	3296841	3206337	36	16	50
5101	Wool, not carded or combed.	4976026	2514006	3218786	1341038	3691841	1195739	1077518	2573565	3	11	2
0806	Grapes, fresh or dried.	2873968	2625769	2746877	2977427	2652073	2392407	896594	2452159	-13	11	40

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg. Value	Growth %	Share %	Avg. MFN tariff %
5102	Fine or coarse animal hair, not carded or combed.	1541744	861380	3829342	3674215	4832170	2340560	527488	2515271	33	10	2
2009	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.	1502958	2857582	871785	643796	2307266	426911	80816	1241588	15	5	49
2308	Vegetable materials and vegetable waste, vegetable residues and by-products, whether or not in the form of pellets, of a kind used in animal feeding, not elsewhere specified or included:	59939	15669	10000	336086	1370041	1810843	1528196	732968	579	4	5
1211	Plants and parts of plants(including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered.	74230	407531	236345	854478	350613	146547	39293	301291	80	1	8
0902	Tea, whether or not flavoured	74264	4800	426471	73	404690	149741	103830	166267	93795	1	40
0604	Foliage, branches and other parts of plants, without flowers or flower buds, and grasses, mosses and lichens, being goods of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared.	24789	24236	52225	73076	42816	76561	250	41993	15	0	8
2106	Food preparations not elsewhere specified or included.			2556	100	28265	10066		5856	47234	0	90
2103	Sauces and preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard.				26	3322	2587	50	855	2509	0	
1902	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared.					2823	343		453	47002	0	8

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Annex 6, Table 3 The main SACU agriculture exports to Malaysia, in Rand value (1992 to 1998)

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Average	Growth %	Share %	Avg. MFN tariff %
2008	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included.		107155	563176	1091063	1775446	3051231	447952	1005146	1785995	56	15
1806	Chocolate and other food preparations containing cocoa.		11038	32679	108217	8478	1894309	1570082	517829	187710	19	15
1704	Sugar confectionery (including white chocolate), not containing cocoa.		45107	26257	287606	49437	39943	225562	96273	751986	11	15
2106	Food preparations not elsewhere specified or included.		9152		21060		1228	116724	21167	525484	4	
0802	Other nuts, fresh or dried, whether or not shelled or peeled.							55000	7858	916650	2	11
1805	Cocoa powder, not containing added sugar or other sweetening matter.							45726	6533	762083	2	

Annex 6, Table 4 The main SACU agricultural exports in, Rand value to Indonesia (1992 to 1998)

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Average	Growth %	Share %	Avg. MFN tariff %
2401	Unmanufactured tobacco; tobacco refuse.	2206042	5456580	11986023	2618052	1458212	945432		3524335	2	82	137
3301	Essential oils (terpeneless or not), including concretes and absolutes; resinoids; concentrates of essential oils in fats, in fixed oils, in waxes or the like, obtained by enfleurage or maceration terpenic by-products of the deterpenation of essential oil				301023			9075	44300	5168250	16	13
1902	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared.				459900				65701	7664967	2	23
0910	Ginger, saffron, turmeric (curcuma), thyme, bay leaves, curry and other spices.				19187				2742	319750	0	

Annex 6, Table 5 The main SACU agricultural exports to China, in Rand value (1992 to 1998)

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg.value	Growth %	Share %	Avg. MFN tariffs %
5102	Fine or coarse animal hair, not carded or combed.	98293	1853166	3208470	4012827	4315454	2029258	3135595	2664723	315	68	9
2009	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.	95300	158097	1651487	601523	765746	1464023	278837	716430	164	22	35
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading no. 20.09.	3411	132444	156840	37094	158062	1049450	447549	283550	760	7	65
1211	Plants and parts of plants(including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered.						65545	495021	80082	1092509	2	8
0713	Dried leguminous vegetables, shelled, whether or not skinned or split.				173660				24809	2894300	1	
0802	Other nuts, fresh or dried, whether or not shelled or peeled.							151996	21715	2533250	0	
2203	Beer made from malt.				96826	23022	31787	3933	22224	1613729	0	50
2309	Preparations used in animal feeding.					104000			14858	1733300	0	
0712	Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared			82500					11787	1374967	0	
2008	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included.							66143	9450	1102367	0	30
1905	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products.					286	450	22462	3315	5575	0	11
2106	Food preparations not elsewhere specified or included.			4936				8010	1850	215717	0	41

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HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg.value	Growth %	Share %	Avg. MFN tariffs %
1902	Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared.					1921			275	31983	0	25
0813	Fruit, dried,(excluding that of headings nos.08.01 to 08.06);mixtures of nuts or dried fruits of this chapter.							1570	225	26150	0	
0902	Tea, whether or not flavoured					806	10	300	160	13884	0	30
0703	Onions, shallots, garlic, leeks and other alliaceous vegetables, fresh or chilled.						563		81	9350	0	31
2103	Sauces and preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard.					113			17	1850	0	
0909	Seeds of anise, badian, fennel, coriander, cumin, caraway or juniper berries.										0	

Annex 6, Table 6 The main SACU agricultural exports to Hong Kong, in Rand value (1992 to 1998)

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Average	Growth %	Share %	Avg. MFN tariff
1508	Ground-nut oil and its fractions, whether or not refined, but not chemically modified.	21525888	16489527	35003805	31765345	17435659	19583834	28740133	24363456	16	20	0
0805	Citrus fruit, fresh or dried.	23518131	16165918	9241516	11150378	27749302	25012157	65451110	25469787	41	18	0
2008	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included.	11359834	7401048	8560310	14068235	19468742	22723334	16297572	14268439	12	11	0
0808	Apples, pears and quinces, fresh.	9053206	10683648	7002665	8599779	4298294	11831218	16165563	9662053	28	8	0
0806	Grapes, fresh or dried.	4251989	7776503	8413581	6129556	5334945	15533981	9499874	8134347	34	6	0

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Average	Growth %	Share %	Avg. MFN tariff
2009	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.	3993605	5158489	5258517	6335305	8198616	6057285	3894488	5556615	3	5	0
5101	Wool, not carded or combed.	7747359	3472279	2930914	3674570	9676970	4184847	3067872	4964973	18	4	0
1108	Starches; inulin.	1313665	1561409	1808410	135273	5227311	7947863	13784704	4539805	639	3	0
0802	Other nuts, fresh or dried, whether or not shelled or peeled.	74166	1016026	2685068	3618470	7419648	8341676	5763495	4131221	259	3	0
2203	Beer made from malt.	30641	184223	2878071	6728812	6299656	4819459	8100444	4148758	356	3	0
4101	Raw hides and skins of bovine or equine animals (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared), whether or not dehaired or split.	1501291	439218	1195607	1644165	3441043	4556572	9585410	3194758	65	2	
0203	Meat of swine, fresh, chilled or frozen.	2124154	2230664	2323408	2571292	2768221	2096129	2323868	2348248	2	2	
1704	Sugar confectionery (including white chocolate), not containing cocoa.	1571928	1715688	2010319	2132945	2484839	2282640	364117	1794639	-7	2	0
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading no. 20.09.	1089144	720918	1539013	2083453	2384238	4269536	1799277	1983654	25	1	
0208	Other meat and edible meat offal, fresh, chilled or frozen.	8975	86751	640425	1959291	4589204	2978638	4504280	2109652	310	1	
0505	Skins and other parts of birds, with their feathers or down, feathers and parts of feathers (whether or not with trimmed edges) and down, not further worked than cleaned, disinfected or treated for preservation; powder and waste of feathers or parts of feathers.	1663854	1399656	797590	2385957	1614874	1268487	2519404	1664260	31	1	
2005	Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen (excluding products of heading no. 20.06)	1533286	1290312	1985364	1721299	2186553	1926794	91964	1533653	-9	1	

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HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Average	Growth %	Share %	Avg. MFN tariff
1515	Other fixed vegetable fats and oils (including jojoba oil) and their fractions, whether or not refined,but not chemically modified.	1	1131359	1	2873277	2335237	821824	700021	1123103	80092644	1	
2007	Jams, fruit jellies, marmalades, fruit or nut pure and fruit or nut pastes, being cooked preparations, whether or not containing added sugar or other sweetening matter.	785718	927290	1073511	1210215	913302	950922	762693	946236	6	1	
5102	Fine or coarse animal hair, not carded or combed.	1271184	836888	220725	856413	2245245	656975	301938	912767	36	1	
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 % vol; spirits, liqueurs and other spirituous beverages	285889	70393	1157342	1614468	774621	1271080	1269253	920435	253	1	
2106	Food preparations not elsewhere specified or included.		99530	21000	86365	6381281	12458	19670	945758	1992014	1	
0603	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared.	433054	322444	586418	1068463	1192899	1237546	1009249	835725	23	1	
1212	Locust beans, seaweeds and other algae, sugar beet and sugar cane, fresh or dried, whether or not ground; fruit stones and kernels and other vegetable products (including unroasted chicory roots of the variety cichorium intybus sativum).	909436	800442	663742	678390	870780	144000	303000	624256	5	1	
0809	Apricots, cherries, peaches (including nectarines), plums and sloes, fresh.	978255	201912	266909	527289	310542	1224581	1973525	783288	61	1	

Annex 6, Table 7 The main SACU agricultural exports to Macau, in Rand value (1992 to 1998)

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg. value	Share %
2203	Beer made from malt.			211532		48770	1084240	6418684	1109033	57
1103	Cereal groats, meal and pellets.					4351342			621621	32
5101	Wool, not carded or combed.	514359						268510	111839	6

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HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg. value	Share %
2401	Unmanufactured tobacco; tobacco refuse.							414720	59247	3
5103	Waste of wool or of fine or coarse animal hair, including yarn waste but excluding garnetted stock.				230189				32885	2
1704	Sugar confectionery (including white chocolate), not containing cocoa.						30000		4287	0
1806	Chocolate and other food preparations containing cocoa.						30000		4287	0
2106	Food preparations not elsewhere specified or included.							12142	1735	0
0801	Coconuts, brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled.							4160	595	0
0511	Animal products not elsewhere specified or included; dead animals of chapter 1 or 3, unfit for human consumption.					100	1950		294	0
2009	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.							143	21	0
0106	Other live animals.						100		15	0
0603	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared.							53	8	0

Annex 6, Table 8 The main SACU agricultural exports to Taiwan, in Rand value (1992 to 1998)

HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg.value	Growth %	Share %	Avg. MFN tariffs %
2009	Fruit juices (including grape must) and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter.	10767054	10474408	10341591	13833207	11416843	12291952	11578143	11529028	2	21	33

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HS4	HS4 description	1992	1993	1994	1995	1996	1997	1998	Avg.value	Growth %	Share %	Avg. MFN tariffs %
5101	Wool, not carded or combed.	13286492	7933841	11184378	9349215	15119139	9594479	12798196	11323677	7	20	0
1108	Starches; inulin.	2513454	3146324	3920780	1802884	12320050	11577785	22618771	8271435	111	13	19
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading no. 20.09.	1616285	1192517	1643213	1369926	2971537	10647797	2535536	3139544	49	5	50
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 % vol; spirits, liqueurs and other spirituous beverages	2104626	4400454	8449434	550748	1291955	935963	56126	2541329	20	5	50
5102	Fine or coarse animal hair, not carded or combed.	2331620	1384714	5400086	875723	3085866	598995	210624	1983947	63	4	0
0805	Citrus fruit, fresh or dried.	94612	1299707	3130414	2923408	1361668	1391026	3176618	1911065	248	3	40
2207	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 % vol or higher; ethyl alcohol and other spirits, denatured, of any strength.	292990	328104	136267	2073911	2040633	1815882	2676764	1337793	235	2	33
0603	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared.	255227	519506	671864	1552424	1516367	1182362	765930	923383	34	2	23
1905	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products.	849160	742692	1075814	519901	794861	886046	719329	798258	4	1	28
2007	Jams, fruit jellies, marmalades, fruit or nut pure and fruit or nut pastes, being cooked preparations, whether or not containing added sugar or other sweetening matter.	1905842	360480	61197		5963	7255	53601	342048	99433	1	
1104	Cereal grains otherwise worked (for example hulled, rolled, flaked, pearled, sliced or kibbled), (excluding rice of heading no.10.06); germ of cereals, whole, rolled,flaked or ground.			2608240				252115	408623	47672533	1	

ANNEX 7

Most Favoured Nation average applied tariffs for East-Asian countries on products that are generally South Africa's most important agricultural export products (cover 70% of agric. exports)

Countries		Average	Japan	Korea	Malaysia	Indonesia	China	Taiwan	Hong-Kong	Singapore
020130	Boneless meat,frozen	22	42	44	0	25	45	n.a	0	0
020610	Meat of bovine	17	29	20	0	20	20	50	0	0
020890	Other meat	13	0	27	0	12	23	45	0	0
040221	Milk and cream, in powder	36	18	211	0	20	25	17	0	0
040229	Milk and cream, in powder	38	33	211	0	20	25	17	0	0
060110	Bulbs,tubers	4	0	8	0	15	6	0	0	0
070310	Onions,garlic,shallots	21	4	88	0	5	31	36	0	0
080520	Mandarins	36	18	157	10	24	40	40	0	0
080540	Grapefruit	20	10	46	10	10	40	40	0	0
080610	Fresh grapes	22	10	49	10	20	40	43	0	0
080620	Dried grapes	15	2	30	10	20	40	n.a	0	0
080810	Apples	23	18	49	10	25	30	50	0	0
080820	Pears and quinces	18	6	50	10	10	27	43	0	0
100300	Barley	89	0	391	220	7	91	2	0	0
100510	Maize seed	50	0	358	0	0	40	0	0	0
100590	Maize other	73	1	467	0	0	114	1	0	0
100700	Grain sorghum	54	1	426	0	0	2	1	0	0
110100	Wheat or meslin flour	18	19	5	0	0	91	28	0	0
110313	Cereal groats and meal (maize)	41	23	177	0	5	91	28	0	0
120210	Groundnuts in shell	41	5	251	5	25	8	30	0	0
120600	Sunflower seeds	7	0	25	0	5	8	21	0	0
151211	Sunflower seeds	18	n.a	17	0	0	91	18	0	0
170111	Raw sugar	9	n.a	5	0	0	30	25	0	0
170199	Sugar other	11	n.a	8	0	3	30	35	0	0
170310	Cane molasses	4	1	3	0	5	8	18	0	0
180620	Chocolate other	11	23	8	15	15	12	15	0	3
180690	Chocolate other	14	24	16	15	15	12	23	0	3
200819	Nuts, groundnuts	21	14	50	23	20	30	27	0	0
200820	Pineapples	23	21	49	28	25	30	30	0	0
200840	Pears	22	17	50	10	25	30	40	0	0
200850	Apricots	20	16	50	10	25	30	25	0	0
200870	Peaches	19	17	50	10	25	30	20	0	0
200892	Fruit, nut mixures	21	19	50	11	25	25	34	0	0
200970	Apple juice	23	28	49	10	25	35	40	0	0
200990	Mixtures of juices	20	19	48	10	23	35	26	0	0
220210	Mineral waters	18	14	8	30	20	65	10	0	0
220300	Beer from malt	46	8	30	192	40	n.a	50	0	0
220421	Wine other (<2l)	51	21	30	61	130	65	50	0	n.a
220429	Wine other	151	21	30	750	143	65	50	0	n.a
220710	Undenatured ethhyl alchol	125	10	118	645	30	40	30	0	n.a
220720	Ethyl alcohol	22	30	8	30	30	40	35	0	0
220890	Ethyl alcohol other	89	12	30	298	170	65	50	0	n.a
240220	Cigarettes	59	0	40	242	20	-	50	0	n.a
	Average	**34**	**14**	**89**	**62**	**25**	**39**	**29**	**0**	**0**

Compiled from the UNCTAD TRAINS database (updated 1999) for selected important South African agricultural export products.

ANNEX 8

NTM Incidence (nontariff barriers to trade) (%) for East-Asian countries on products that are generally South Africa's most important agricultural export products (cover 70% of agric. exports).

Countries		Japan	Korea	Malaysia	Indonesia	China	Taiwan	Hong Kong	Singapore
020130	Boneless meat,frozen		100	100				100	100
020610	Meat of bovine			100				100	100
020890	Other meat							100	100
040221	Milk and cream, in powder...		100		33	100		100	
040229	Milk and cream, in powder		100	100	100			100	
060110	Bulbs, tubers	50		100		100		100	100
070310	Onions, garlic, shallots		50	100					100
080520	Mandarins		100						100
080540	Grapefruit	100		100					100
080610	Fresh grapes	100		100					100
080620	Dried grapes			100					100
080810	Apples			100					100
080820	Pears and quinces			100					100
100300	Barley	100	100	100		100			100
100510	Maize seed			100		100			
100590	Maize other	100	100	100		100			
100700	Grain sorghum		50	100					
110100	Wheat or meslin flour			100					
110313	Cereal groats and meal (maize)		100	100					
120210	Groundnuts in shell		100	100					
120600	Sunflower seeds			100					
151211	Sunflower seeds					100			100
170111	Raw sugar			100		100			
170199	Sugar other					66			
170310	Cane molasses			100					
180620	Chocolate other		11						
180690	Chocolate other		11						
200819	Nuts, groundnuts								
200820	Pineapples								
200840	Pears								
200850	Apricots								
200870	Peaches								
200892	Fruit, nut mixtures								
200970	Apple juice								
200990	Mixtures of juices								
220210	Mineral waters			50					
220300	Beer from malt				100				
220421	Wine other (<2l)				100				
220429	Wine other				100				
220710	Undenatured ethhyl alcohol	100	33	50		100			
220720	Ethyl alcohol	100		50					
220890	Ethyl alcohol other	100		50	100	100			
240220	Cigarettes								

Compiled from the UNCTAD TRAINS database (updated 1999) for selected important South African agricultural export products