
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 fourth 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 three 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.

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

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.