AN EVALUATION OF THE
COMPETITIVENESS OF THE
SOUTH AFRICAN AGRIBUSINESS
SECTOR

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An evaluation of the competitiveness of the South African agribusiness sector

by

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Dirk Esterhuizen

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July 2006
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ABSTRACT

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

Five important aspects regarding competitiveness emerged, namely: competitiveness is a dynamic process, and not an absolute state of affairs; competitiveness can only be
assessed within a relative sense; competitiveness is a tool to enable a continuously exploitation of the market reality for gain and profits relative to other competitors; competitiveness is a holistic viewpoint on the ability to sustain the gains achieved through trade and it is dependant on certain key success factors and constraints that must be identified and managed; and in order to sustain competitiveness it is important to continuously attract scarce resources from other economic endeavours.

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

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

The AES is used to determine the views and opinions of executives in the agribusiness environment on factors constraining and enhancing competitiveness. The high cost of crime, inflexible labour policy and the competence of the personnel in the public sector are some of the factors constraining the competitiveness of the sector. The production of affordable, high quality products, intense competition in the local market and continuous
innovation are some of the important key success factor enhancing the competitiveness of the sector. The sector also demonstrates a positive trend in the determinants of competitiveness.

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

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

For further research it is recommended that the framework be used to do comprehensive industry analysis on the competitiveness of the most important food chains in Southern Africa. This information can be used to investigate opportunities for supply chain integration in Southern Africa that can provide the agricultural drive required by NEPAD to be successful.
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<td>Agribusiness Confidence Index</td>
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<td>ACS</td>
<td>Agribusiness Competitiveness Status</td>
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<td>AVCASA</td>
<td>Crop Protection and Animal Health Association</td>
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<td>BEE</td>
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<td>Domestic Resource Costs</td>
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<td>EU</td>
<td>European Union</td>
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<td>FAO</td>
<td>Food and Agricultural Organisation of the United Nations</td>
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<td>Foreign Direct Investment</td>
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<td>FSSA</td>
<td>Fertiliser Society of South Africa</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GMO</td>
<td>Genetically Modified Organism</td>
</tr>
<tr>
<td>HO</td>
<td>Hechsher-Ohlin</td>
</tr>
<tr>
<td>IMD</td>
<td>International Institute for Management Development</td>
</tr>
<tr>
<td>ISMEA</td>
<td>Institute of Mathematical and Economic Sciences Applied</td>
</tr>
<tr>
<td>NAMC</td>
<td>National Agricultural Marketing Council</td>
</tr>
<tr>
<td>NCM</td>
<td>National Chamber of Milling</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PAM</td>
<td>Policy Analysis Matrix</td>
</tr>
<tr>
<td>PPI</td>
<td>Production Price Index</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>RC</td>
<td>Revealed Competitiveness</td>
</tr>
<tr>
<td>RCA</td>
<td>Revealed Comparative Advantage</td>
</tr>
<tr>
<td>RER</td>
<td>Real Exchange Rate</td>
</tr>
<tr>
<td>RMA</td>
<td>Relative Import Advantage</td>
</tr>
<tr>
<td>ROR</td>
<td>Rate of Return</td>
</tr>
</tbody>
</table>
RSA    Republic of South Africa
RTA    Relative Trade Advantage
RXA    Relative Export Advantage
SAAMA  South Africa Agricultural Machinery Association
SACOB  South African Chamber of Business
SADC   Southern African Development Community
SAGIS  South African Grain Information Services
SANSOR South African National Seed Organisation
UK     United Kingdom
USA    United States of America
WEF    World Economic Forum
WTO    World Trade Organisation