

South Africa must focus on China and the Middle East for agricultural trade and investments

- Now that South Africa's President Cyril Ramaphosa has concluded a state visit to China, a country with much promise for deepening agricultural trade, the next stop should be the Middle East.
- Before transitioning to the Middle East, let's briefly examine China's agricultural trade. The agricultural trade data gives South Africa some signposts of what to do next: aggressively drive export to the Chinese market. This is a market of over US\$200 billion of agricultural imports a year, and South Africa remains a small player of 0,4% in that market. From now on, the focus should remain on nudging China to lower the import tariffs for various agricultural products and addressing the phytosanitary barriers for some products. This effort will build on the success of the existing export market possibilities for South African beef, avocados, and wool, amongst other products.
- Importantly, as the efforts shift to the technical experts of the various departments to facilitate the agreements from the recent State visit, the political leadership of the Department of Agriculture, Department of Trade, Industry and Competition, and the Department of International Relations and Cooperation should also refresh their focus on the Middle East. At the start of the year, we argued about a need for South Africa's agricultural trade and investment strategy for the Middle East region. We believe there remains merit in the idea, and it should be a priority under the Government of the National Unity.
- There is a strong investment case to be made for the eastern regions of South Africa and the former homelands that can benefit from Middle-East and Chinese capital. These areas are typically on the periphery of agricultural progress because of poor land governance and weak infrastructure, which makes them isolated from the formal value chains of the food, fibre, and beverage sectors. In some areas, the transaction costs of moving agricultural produce to the consumption points become too high because of the lack of roads, rail and storage facilities. In the regions historically part of the commercial farming sector, the deteriorating network infrastructure is also increasingly a significant cost driver for businesses. These include roads, rail, water, dams, storage facilities, and the on-farm infrastructure.
- Beyond China, it would be worthwhile to assess if the Middle-East countries are better placed to form commercially viable business ventures that respond to the above challenges. Some investments would form part of joining ties with South African agribusinesses and farming enterprises that aim to expand their operations and require capital for such activities. The significant funds in these Middle Eastern countries also have some form of government involvement. The South African government, particularly the Department of Trade, Industry and Competition, jointly with the Department of Agriculture, should formulate a "South Africa-Middle-East Agricultural Trade and Investment Strategy". This would require active political leadership to support South African businesses willing to partner with them.

- Crucially, South Africa will need to act urgently to simplify its investment regime and create a more predictable environment for foreign investment, which it sorely needs. The University of Columbia's [Professor Karl Sauvant](#) has recently made a compelling case for South Africa to work on strategies to improve its investment climate.¹
- The Middle East region is increasingly important in the South African agricultural trade, in addition to China. For example, in 2023, Asia and the Middle East accounted for 28% of South Africa's agricultural exports (total exports were valued at US\$13,2 billion in 2023), the second largest region.²
- But, if one focuses on the key economies in the Middle East, South Africa plays a peripheral role in agricultural markets. For example, according to Trade Map data, Saudi Arabia imported US\$29,5 billion of agricultural products in 2022. South Africa was one of the most minor exporters, accounting for a mere 1% of the Saudi Arabian imports, and ranked 31st in the agricultural imports list. Moreover, the UAE is a large agricultural market that imported US\$23,3 billion of agricultural products in 2022. South Africa had a 2% share and was the 16th largest supplier. Qatar imported US\$3,9 billion of agricultural products in 2022. But here, South Africa also plays a small role, ranked 10th in the list of suppliers to Qatar and with a 2% market share in Qatar's agricultural imports.
- The countries that occupied a larger market share in these Middle Eastern countries were India, Brazil, Australia, the United States, Canada, New Zealand, United Kingdom, Denmark, Netherlands, Italy, Spain, Argentina, Russia, France, and Turkey.
- Regarding the products, the Middle East primarily imports various meat products, grains, oilseeds, and fruits, amongst other products. Given that South Africa has some of these products in surplus, the country could benefit in increasing its market share if there is targeted promotion and marketing of products, along with government support to nudge the Middle Eastern countries to address any remaining phytosanitary barriers for the South African products in these countries.

Key actions on the path forward:

- The Department of Trade, Industry and Competition, jointly with the Department of Agriculture, should formulate a South Africa-Middle-East Agricultural Trade and Investment Strategy. This Strategy would help rank the priority list of products for investments and map up any barriers that should be addressed within the government's official channel with timelines. The document would also outline possible investment paths aligned with industries highlighted in the Agriculture and Agro-processing Master Plan. A similar document is vital for China.
- The Department of Agriculture should appoint capable attachés in the Middle-East region to communicate and lobby for South African agricultural products. These officials would also help maintain constant communication with South African farming businesses interested in the Middle East.

¹Read more here: <https://www.dailymaverick.co.za/opinionista/2024-08-27-sa-should-urgently-support-the-wtos-job-creating-investment-facilitation-for-development-agreement/>

² The African continent remained a leading market, accounting for 38% of South Africa's agricultural exports in 2023 in value terms. The EU was the third largest market, accounting for 19%. The Americas region was the fourth largest, accounting for 6%, and the remaining 9% went to the rest of the world.

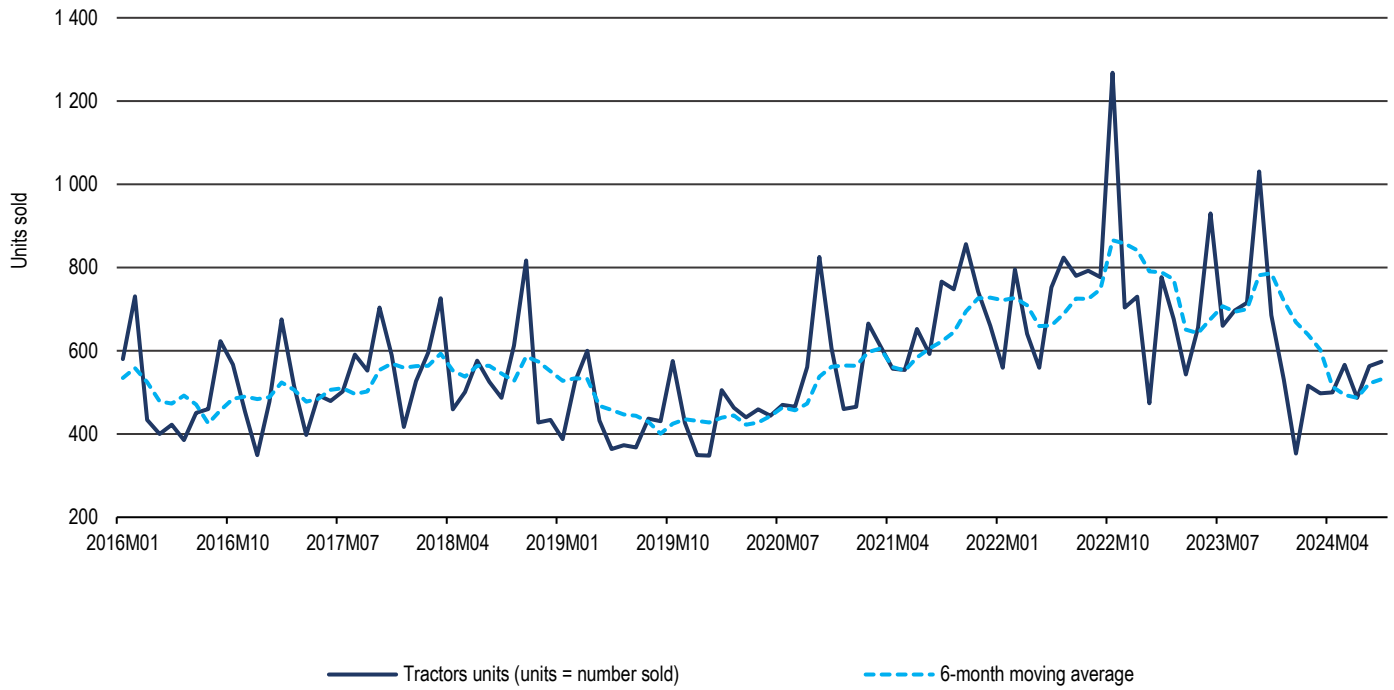
- The Department of Trade, Industry and Competition and the Department of International Relations and Cooperation should actively promote South Africa's agriculture and agro-processing as an investment destination. There should be constant communication with the private sector and organized agriculture groupings to source insights and facilitate relationships for the good of "South Africa Inc".
- Importantly, these efforts should happen while South African government officials and businesses maintain a warm relationship with existing trading partners in Europe, the Americas, Africa, Asia, and other regions of the world. China and the Middle East should be an additional focus, not replacing the existing commercial interests.

WEEKLY HIGHLIGHT

SA's agricultural machinery sales remained weak in August 2024

- South Africa's tractor sales were down by 18% year-on-year in August 2024, with 574 units sold. The combine harvester sales are down by 79% year-on-year, with five units sold. These weak sales are unsurprising and in line with what we have been observing since the start of the year.
- We have long anticipated that there would be some correction after a long period of strong tractors and combine harvesters sales in South Africa. The replacement rate of new machinery was bound to slow. The sales of the past few years were a function of both years of ample grains and oilseed harvest, coinciding with high commodity prices and boosting farmers' incomes. For example, we have previously stated that South Africa's tractor sales for 2022 amounted to 9,181 units, up 17% year-on-year. This was the highest annual sales figure in the past 40 years. The combine harvesters also had an excellent performance of 373 units in 2022, up 38% year-on-year. This was the highest yearly sales figure since 1985. In 2023, the tractor sales were down marginally from the previous year, while the combine harvester sales held the prior year's momentum.
- This year, the correction in the market and weakened farmers' financial positions because of the poor crop impacted their machinery procurement decisions. South Africa's 2023/24 summer grains and oilseed harvest was hit by a harsh mid-summer drought, resulting in a 22% year-on-year decline to an expected harvest of 15,69 million tonnes. Furthermore, the higher interest rates have added pressure to farmers' finances.

Exhibit I: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

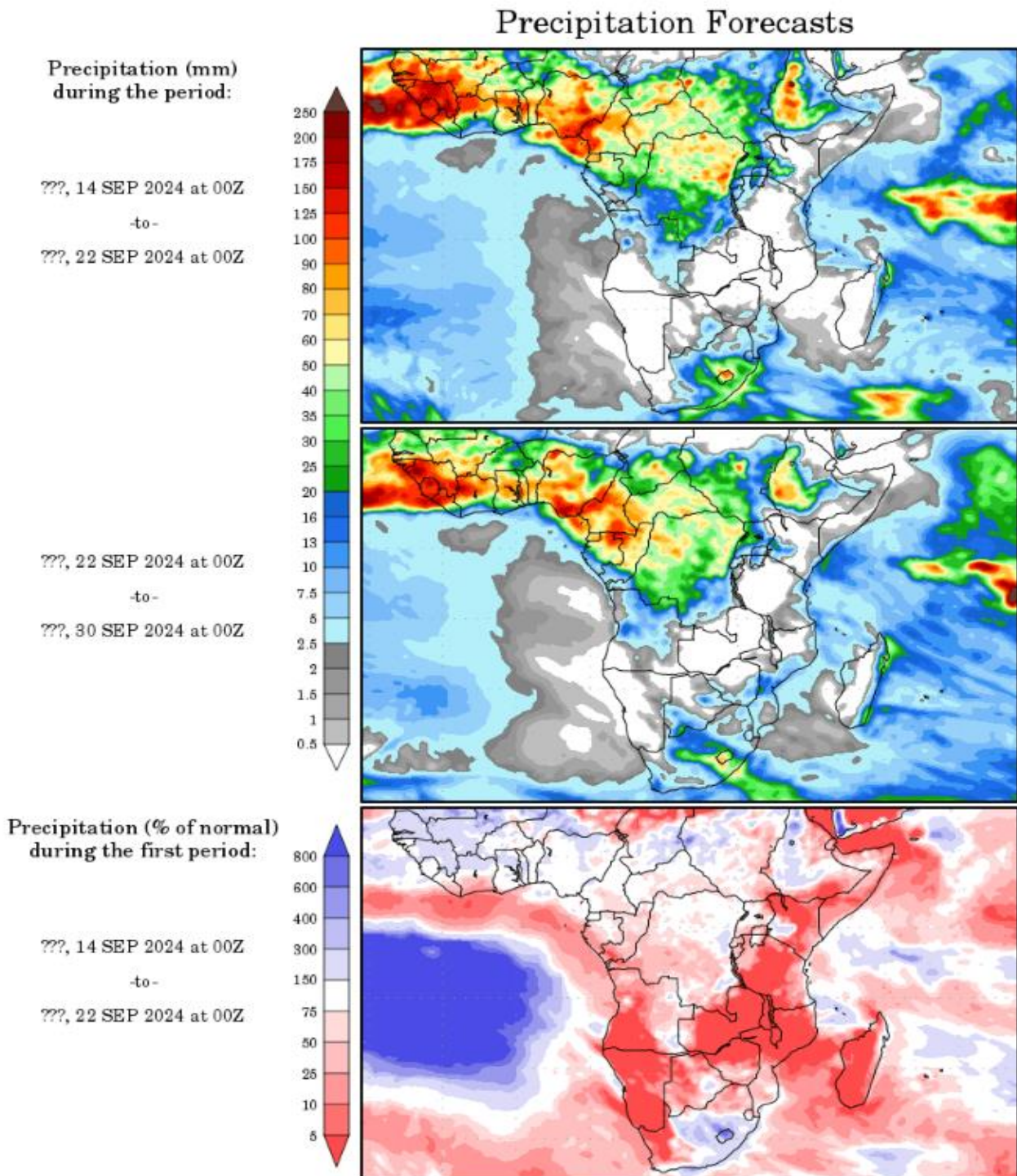
What we are watching this week

- We start the week with a global focus, and today, the United States Department of Agriculture (USDA) releases its weekly **US Crop Progress** report. The focus is on the 2024-25 crop's growing conditions, and most of the crop has matured in some regions. In the week of September 8, about 64% of the US maize crop was rated good/excellent (compared with 52% rating at the same time last year). On the same day, the US soybean crop was also rated at 65%, which was rated good/excellent (compared with the 52% rating at the same time last year). Moreover, the USDA will release its **weekly US Grains and Oilseed Export Sales** data on Thursday.
- Within the domestic front, today, the Agricultural Business Chamber of South Africa (Agbiz) releases the **third quarter results of the Agbiz/IDC Agribusiness Confidence Index**.
- On Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, this week, we will see a release of the data for the 20th week of the new marketing year, 2024-25. In the previous release on September 6, South Africa's weekly maize producer deliveries were about 60k tonnes. This placed the 2024-25 maize producer deliveries at 9,82 million tonnes out of the expected harvest of 13,06 million tonnes. The 2024-25 soybean deliveries in the first 28 weeks of this new marketing year amounted to 1,71 million tonnes out of the expected harvest of 1,78 million tonnes. At the same time, the sunflower seed deliveries amounted to 619k tonnes out of the expected harvest of 649k tonnes.
- Also, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI) data** for August 2024. South Africa's consumer food price inflation slowed to 3,9% in July 2024, from 4,1% in the previous month. This is the lowest level since January 2020 and was underpinned by the continued moderation in price inflation across most products in the food baskets, except for "bread and cereal" and "meat".
- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the 20th week of the 2024-25 marketing year. In the previous release on September 6, the 19th week of the 2024-25 marketing year, South Africa exported 36k tonnes of maize. Of this volume, 63% was exported to Zimbabwe, and the balance to the neighbouring African countries. This places South Africa's total maize exports in the 2024-25 marketing year at 776k tonnes out of the expected 1,85 million tonnes (down from 3,44 million tonnes in the 2023-24 marketing year because of the mid-summer drought). Moreover, while South Africa will likely remain the net exporter of maize in the 2024-25 marketing year, the coastal regions will import small volumes of yellow maize for animal feed because of price advantage. We have recently seen the imports of yellow maize from Argentina through Cape Town. South Africa's 2024-25 maize imports currently stand at 145k tonnes.
- South Africa is a net wheat importer, and September 6 was the 49th week of the 2023-24 marketing year, with wheat imports totalling 1,71 million tonnes out of the seasonal forecast of 1,80 million tonnes.

South Africa's Precipitation forecast

- This week could bring much-needed rain across most regions of South Africa. The rain will help improve soil moisture before the 2024-25 summer crop production season starts next month. Moreover, the rains in the winter crop regions of the country will also benefit the crop-growing conditions.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)