agbiz
agricultural business chamber
the way to prosperity

Wandile Sihlobo | Chief Economist | Tel: +27 12 807 6686 | Email: wandile@agbiz.co.za

March 18 2024

Why a South Africa-Middle East Agricultural Trade and Investment Strategy is Critical

- The Middle East is deepening its economic ties with Africa. This past weekend, *The Economist* magazine ran an article titled "The Gulf's scramble for Africa is reshaping the continent", which focused on growing geopolitical ties and significant investments in infrastructure projects such as ports in various African countries.[1] The leading countries are the United Arab Emirates (UAE), Saudi Arabia and Qatar. For countries like South Africa, with diverse interests worldwide, the Middle East's growing interest in Africa requires proactive engagement, particularly for drawing in investments and opening up the market for exporting sectors of the economy.

Investment need

- Agriculture is one sector that needs investment and a broadening of export markets. Consider the eastern regions of South Africa and the former homelands; these areas typically are on the periphery of agricultural progress because of poor land governance and weak infrastructure, which renders them effectively 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.

- It is in these areas of South Africa's agriculture, food, fibre and beverages value chain that one should ask whether it would be worthwhile to assess if the Middle-East countries that are in search of investment would not, with the help of local stakeholders, 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 (DTIC) and the Department of Agriculture, Land Reform and Rural Development (DALRRD), should lead the way in the formulation of a "South Africa-Middle-East Agricultural Trade and Investment Strategy". Such a strategy would be helpful in formally starting a conversation with the Middle-East stakeholders and introducing South African firms and farming businesses.

[1] The full article is accessible here: https://www.economist.com/leaders/2024/03/14/the-gulfs-scramble-for-africa-is-reshaping-the-continent

- South Africa is heading towards general elections in May, and the political leadership may have its eyes on the election, with perhaps limited time for such tedious but important activities. Still, the officials of the departments will remain regardless of potential changes in the political leadership. This means the Director Generals of the DTIC and DALRRD should consider starting such work, and they would socialize the political leaders of the departments at a later stage. Also, the current political leadership could start prioritizing such work even in uncertain elections, as this is a vital programme for the country regardless of the leadership.

Export drive

- Beyond the investment need and the challenges South Africa's agriculture faces, the country is export-oriented, with exports reaching a record US$13,2 billion in 2023, according to data from Trade Map. The Middle East region is increasingly important in the South African agricultural trade. For example, in 2023, Asia and the Middle East accounted for 28% of South Africa's agricultural exports, the second largest region. 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 UK was one of the leading markets within the 'rest of the world' category, accounting for 7% of total exports. The products exported to these markets were the same, with the African continent and Asia importing a reasonably large volume of maize, soybeans, wool, and beef. Meanwhile, exports to other regions were primarily fruits and wine.

- Still, if one focuses on the key economies in the Middle East, South Africa plays a peripheral role in agricultural markets. For example, Saudi Arabia imported US$29,5 billion of agricultural products in 2022, according to data from Trade Map. 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. This means South Africa benefits 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.

Policy consideration

- While South Africa faces challenges of drought in the near term, the goal of growing the agricultural sector should remain a priority for all stakeholders. The following should be the next steps in engaging the region:

- The DTIC and DALRRD should formulate a Middle-East-South Africa Agricultural Investment and Trade 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, as well as the opportunities in the PLAS land and the former homelands, amongst other opportunities.

- The DALRRD should appoint attachés in the Middle-East region to communicate and lobby for South African agricultural products in the area.

- The DITC should engage with International Relations officials to actively promote South Africa's agriculture and agro-processing as an investment destination.

- The private sector and organized agriculture should be involved in all the above stages.

WEEKLY HIGHLIGHT

The global grain and oilseeds supplies remain plentiful

- While the summer grain and oilseeds production prospects for the 2023/24 season seem bleak because of the excessive dryness and heatwave, the global production conditions remain reasonably optimistic. On March 14, the International Grains Council (IGC) released its monthly update of the 2023/24 global grain and oilseeds production, with some upside adjustments for significant crops.

- For example, the 2023/24 global maize harvest forecast at 1,2 billion tonnes, up 6% year-on-year. This improvement is due to better crop expectations in the US, Argentina, Ukraine, China, the EU, and Russia. Consequently, the stocks will also lift by 5% year-on-year to 294 million tonnes.

- The IGC forecasts that the 2023/24 global wheat harvest will reach 789 million tonnes, well above the long-term average levels (albeit down 2% year-on-year). A poor harvest in parts of Russia, Canada, Ukraine, Australia, the United Kingdom and Kazakhstan underpins the decline in the overall harvest. Still, the global wheat consumption will likely remain strong, particularly in Asia. As such, the IGC forecasts a 5% decline in stocks to 267 million tonnes. But from a long-term perspective, these will still be healthy stocks.

- There is a lot of rice globally, with the 2023/24 global harvest forecast at 511 million tonnes, well above the long-term average (but down 0,6 year-on-year). The minor decline in the harvest is primarily in India, Thailand, China and Indonesia. The global rice consumption will likely remain stable this marketing year, and thus, the IGC also left the ending stocks roughly unchanged from the 2022/23 marketing year at 43 million tonnes. These stock levels are broadly favourable for rice price moderation in the months ahead, which had started softening since the beginning of the year. This followed an uncomfortable price surge at the end of 2023 when India decided to limit the exports of the product.

- It is also worth noting that the 2023/24 global soybean harvest is estimated at 391 million tonnes, up 5% year-on-year. The robust harvest in Argentina, China, Canada, Russia, Ukraine, and Paraguay significantly drove this expected uptick in the global soybean harvest. With global soybean consumption reasonably stable, the increase in production resulted in an improvement in the global soybean stocks, now forecast at 66 million tonnes, up 12% year-on-year.

- While the global focus in the coming months will shift to the 2024/25 production season when countries in the northern hemisphere start planting in May 2024, it is worth highlighting that there are abundant grain and oilseeds supplies in the world market, which supports the continuous moderation in the global agricultural prices and subsequently global food prices.

- The global agricultural prices already reflect this environment of improved supplies. For example, the Food and Agriculture Organization of the United Nations (FAO) recently released its Food Price Index for February 2024. This index measures the monthly change in international prices of agricultural commodities, not final food products. The FAO Food Price Index averaged 117.3 points in February 2024, down 1% from its revised January level and 11% from last year's corresponding period. The broad decline in grains and oilseed prices underpinned this moderation, again underscoring the importance of improved supplies in the 2023/24 season.

- With this said, the food price inflation dynamics in South Africa may not necessarily follow the global trend this year. South Africa faces challenges within white maize production areas (and other grains and oilseeds). The challenge with white maize is that it is not as widely traded as yellow maize, which forms a bulk of the globally traded maize. Therefore, there could be a disconnect between the domestic white maize prices and the general global maize prices, which are likely to continue softening due to improved supplies.

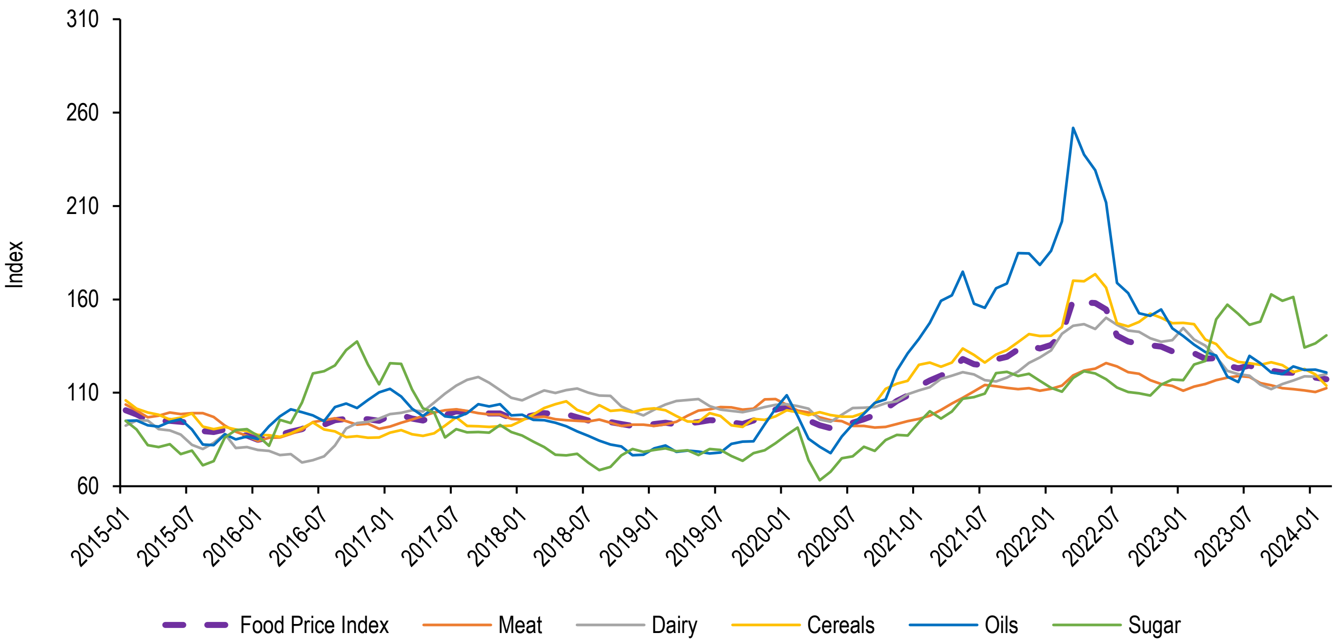
- For example, a large spread exists between South Africa's futures prices of yellow and white maize following reports of bad crop conditions. On March 15, South Africa's white maize spot price closed at R5 189 per tonne, while yellow maize was R4 222 per tonne. This signifies the challenge with white maize supplies.

- The products that play favourably for South Africa are wheat and rice, which South Africa remains a significant importer of. Moreover, the exchange rate will also matter much, as South Africa imports roughly half of its annual wheat and rice consumption. Still, the challenge presented by persistent dryness domestically, at least over the near-to-medium term, is white maize supplies and the potential price reaction to reduced supplies.

- Considering the above developments, the major risks to consumer food inflation in South Africa in 2024 will primarily be white maize products, while other products within the food basket may moderate or show sideways movement in prices.

- Notably, the global grain and oilseeds production prospects are relatively favourable and point to continuous moderation in global agricultural prices.

Exhibit 1: FAO's Food Price Index



Source: FAO and Agbiz Research

WEEK AHEAD

What we are watching this week

- As always, we start with a global perspective, with only one data release this week. On Thursday, the United States Department of Agriculture (USDA) releases **weekly US grain and oilseed export sales** data.

- Within the domestic front, on Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** data for February 2024. Our focus in this data will be on the food category. As a recap, it is worth noting that South Africa's consumer food inflation slowed to 7,0% in January 2024 from 8,5% in the previous month. This was underpinned by the deceleration across most food products, except for the sugar, sweets and desserts.

- Also on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data for March 15. In the previous release on March 8, South Africa's 2023/24 maize producer deliveries were about 50 004 tonnes. This placed the 2023/24 marketing year's maize producer deliveries at 15,1 million tonnes out of the overall harvest of 16,4 million.

- The focus on oilseeds is now shifting to the new marketing year. Still, so far, there have been no significant volumes delivered to commercial silos, and the crop is taking a strain from the excessive heat and dryness nationwide. For example, the 2024/25 soybean deliveries in the first two weeks of this new marketing year amounted to 15 758 tonnes, while the sunflower seed deliveries amounted to 10 332 tonnes.

- In the case of wheat, last week, 6 022 tonnes of wheat were delivered to commercial silos. This placed the 2023/24 wheat producer deliveries at 1,9 million tonnes out of the expected harvest of 2,1 million tonnes.

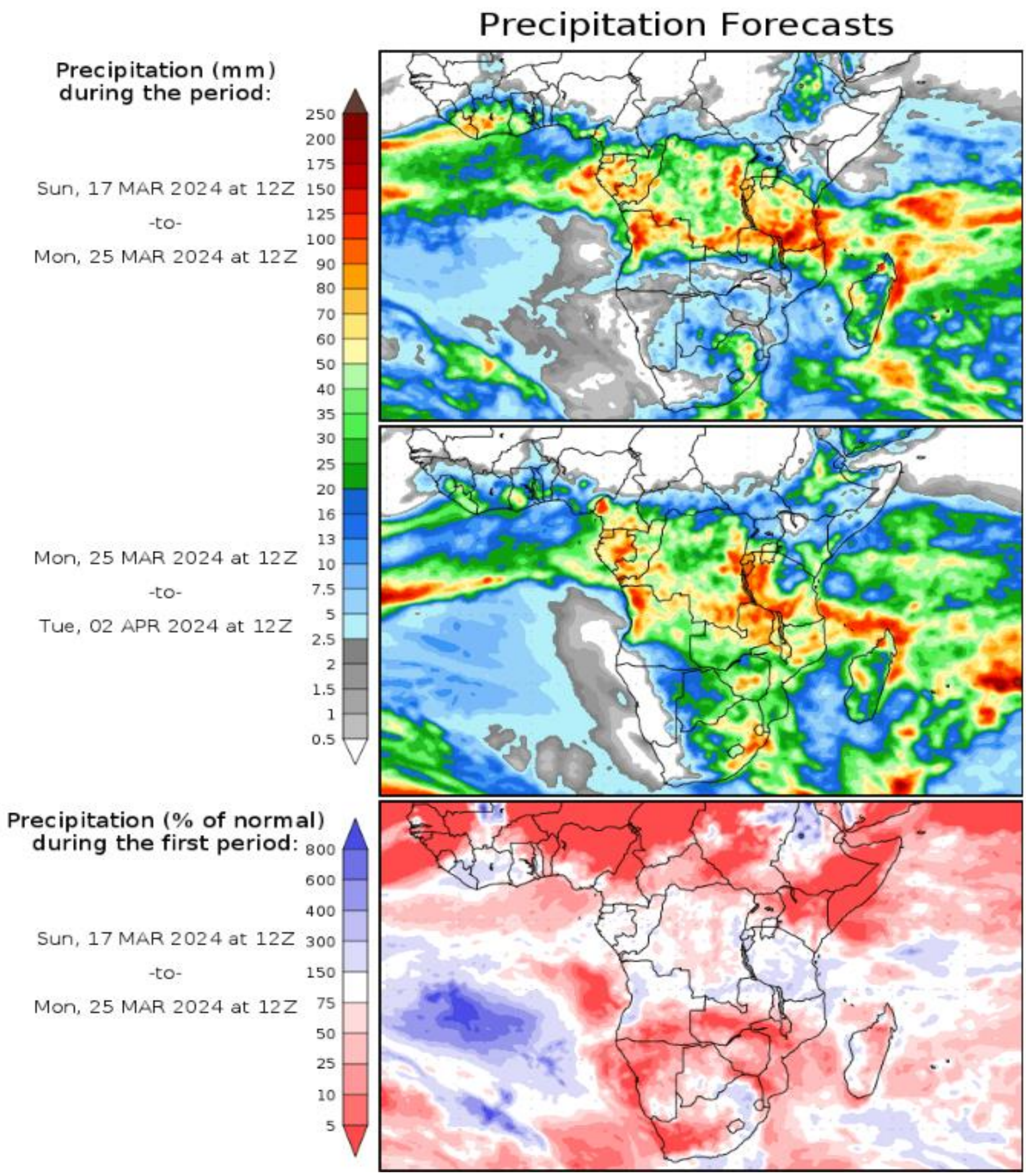
- On Thursday, SAGIS will publish its weekly South Africa's Grains and Oilseeds Trade data for March 15. In the previous release on March 8, the 45th week of the 2023/24 marketing year, South Africa exported 47 229 tonnes of maize. Of this volume, 73% was exported to Zimbabwe, and the balance to the rest of the neighbouring African countries. This placed South Africa's 2023/24 maize exports at 3,1 million tonnes out of the seasonal export forecast of 3,3 million.

- South Africa is a net wheat importer, and March 8 was the 23rd week of the new 2023/24 marketing year, with 46 008 tonnes of imports from Argentina, Lithuania, and Poland. This placed South Africa's 2023/24 wheat imports at 808 755 tonnes out of the seasonal forecast of 1,6 million tonnes.

South Africa's Precipitation forecast

- South Africa will likely experience another challenging week of scant rainfall, if any, across the summer crop-growing areas. The crops are drying up in various regions of the country, and some may not recover even if it finally rains. Still, the forecasts for the week of March 25 are promising, with prospects of widespread heavy showers nationwide. This would be a welcome relief if it materializes and is favourable for agriculture.

Exhibit 2: South Africa's precipitation forecast



Source: George Mason University (wxmaps)