The complexity of South Africa's trade policy in agriculture

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An export-led strategy underpins South Africa's trade policy, which entails a deliberate effort to get the country's agriculture and other industrial sectors to export products beyond existing international markets. There are at least two diametrically opposing views around how well South Africa has executed this strategy in agriculture.

The first view is that South Africa has not done enough to open up new markets, which has limited the country's scope to grow agricultural exports further. This view is widely shared by private sector role players who have struggled to penetrate and expand market share in key growing countries such as China, India and Saudi Arabia. Private sector role players argue that, over the past few years, the growth in South Africa's agricultural exports in these key markets has primarily been driven by productivity gains that have established a big enough competitive advantage that overcomes high tariff and non-tariff barriers.

Experiences from exporters reveal that government has a lack of institutional and human capacity to deliver critical services such as testing laboratories for perishable products such as meat which has led to delays in the issuance of export permits. Another example includes protracted government negotiations that took over a decade to conclude to allow citrus producers in certain parts of South Africa access to the US market. Not forgetting the costly regulations imposed on South African producers to align with unjustified citrus black spot (CBS) requirements, which continue to cost the industry. A lack of appetite to pursue a free trade agreement with the United States post-2025 after the expiry of AGOA is also worth noting.

Based on these issues, which are a microcosm of fundamental state capacity issues, the prevailing sentiment is that South African agricultural exports have increased despite the limitations in market access, with a general lack of sufficient support from the government.

The second view is that South Africa has excelled in opening up new markets, as evidenced by several free trade agreements (FTAs) with critical regional and international markets. This includes the:

a) Southern African Development Community (SADC) FTA,
b) SADC-European Union (EU) Economic Partnership Agreement (EPA),
c) SACU/Mozambique-United Kingdom (UK) EPA,
d) The African Continental Free Trade Area (AfCFTA),
e) SACU-MERCOSUR Preferential Trade Agreement (PTA).

All the agreements mentioned above have been achieved over the past 15 years, which is quite a considerable feat in itself, given the technical and institutional demands that have to be committed to negotiating and successfully implementing trade agreements. Ironically, all the above-mentioned FTAs are only in two of South Africa's biggest markets – Africa and Europe – which collectively account for 65% of the country's total agricultural exports in 2020. With the SACU-MERCOSUR preferential trade agreement (PTA) being a narrowly focused and low-ambition trade arrangement, this agreement has not had a large impact. It is entirely plausible to argue that the opening of markets through these agreements has indeed deepened, consolidated and improved South Africa's position in the EU and Africa –

particularly the latter, where pervasive challenges of non-tariff barriers remain a critical problem.

However, it is equally plausible to argue that South Africa would be best served if its market access is diversified beyond Africa and Europe, an argument at the core of the country's export-led strategy. The Middle East, Far East (Asia), North and South America currently account for 35% of South Africa's agricultural exports. This is perhaps where most of the attention and pursuit of FTAs would be more critical. Some of South Africa's fiercest competition is from "Global South" producers such as Chile, Peru, Australia, Argentina, New Zealand and Uruguay. They have struck various forms of trade agreements with third markets in Asia, the Middle East and the Americas. Table 1 below compares South Africa and its competition in Asia – South Africa only has the SACU India preferential trade agreement (PTA), which is yet to be finalized after 15 years of negotiations.

Meanwhile, Peru and Chile have preferential market access in all of the listed markets. In contrast, Argentina, New Zealand, and Australia have a pact with the ASEAN regional block and a bilateral with China. It effectively means that South Africa is facing higher tariffs against the key competition – and local producers had to overcome these tariffs primarily through farm-level technical efficiency.

Table 1: Comparing market access between South Africa and its competitors in Asia

			RSA's Competitors					
		RSA	Australia	New Zealand	Peru	Chile	Argentina	Uruguay
Strategic Markets	China		Bilateral	Bilateral	Bilateral	Bilateral		
	Hong Kong					Bilateral		
	India	*SACU PTA			GSTP	Bilateral GSTP	GSTP Mercosur-India Bilateral	GSTP Mercosur-India Bilateral
	Indonesia		ASEAN-Australia-New Zealand	ASEAN-Australia-New Zealand	GSTP	GSTP	GSTP	
	Japan		Bilateral		Bilateral	Bilateral		
	South Korea		Bilateral		Bilateral GSTP PTN	Bilateral GSTP PTN	GSTP	PTN
	Malaysia		Bilateral ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	Bilateral GSTP	GSTP	
	Philippines		ASEAN-Australia-New Zealand	ASEAN-Australia-New Zealand	GSTP PTN	GSTP PTN	GSTP	PTN
	Thailand		Bilateral ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	GSTP	GSTP	
	Vietnam		ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	Bilateral	GSTP	

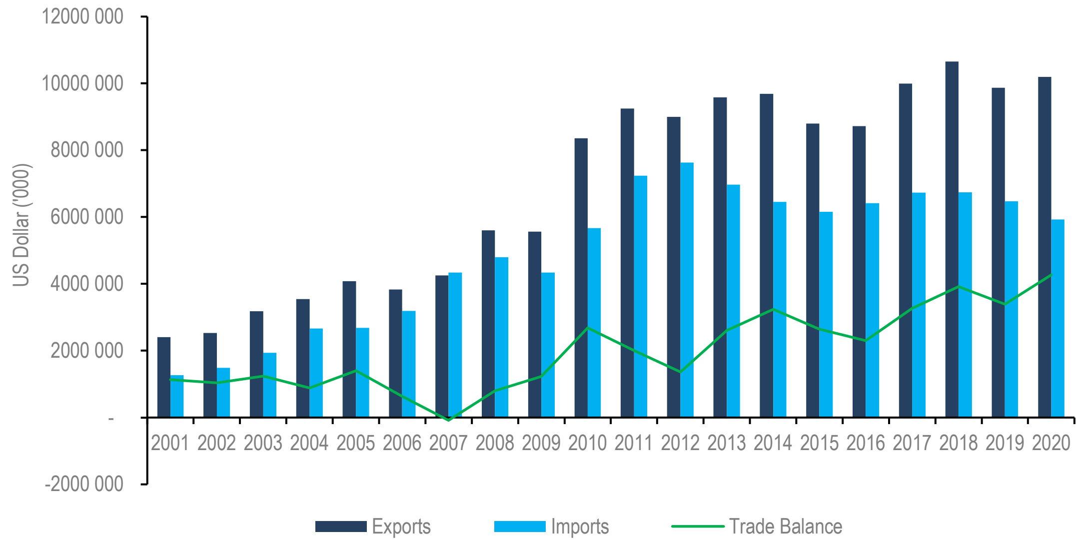
Source: SATI (2018), BFAP (2020)
* Yet to be finalized.
NB: SACU: Southern African Customs Union; GSTP: Global System of Trade Preferences among developing countries; PTN: Protocol on Trade Negotiation

From Table 1, it is clear that South Africa is lagging in fostering market access in regions such as Asia, which represents a frontier of expansion. The question is, can South Africa realistically follow the model of its competitors in aggressively pushing for more access in third markets? South Africa is an industrializing economy with a unique set of challenges. Many feel that trade liberalization has severely limited South Africa's capacity to address structural inequality, and there is a political hesitancy to open up markets beyond current levels.

What has been evident over the past decade is a desire to retain trade policy space, but this is likely to limit the ability of the country to pursue further FTAs, given the need to make concessions that further liberalize markets. This explains the reluctance of South Africa to pursue a SACU-US FTA, or a bilateral with China, and the stalemate of the SACU India PTA. Moreover, the focus on localization means South Africa's inward risks are becoming protectionist, further complicating our efforts to expand market access for agriculture and various products the country produces. This leaves South Africa with an extremely narrow set of options that balance political and economic imperatives.

Nevertheless, it is essential to acknowledge that both views discussed herein have merit, but they need to be prefaced and balanced with context.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map and Agbiz Research

Weekly highlights

Agbiz/IDC Agribusiness Confidence Index retreats in Q3, 2021

Following a surge to an all-time high of 75 in the second quarter of this year, the Agbiz/IDC Agribusiness Confidence Index (ACI) retracted back to 67 points in the third quarter.[1] Still, this current level reflects favourable conditions in South Africa's agriculture sector and for agribusiness. A level above the neutral 50-point mark implies that agribusinesses are optimistic about operating conditions in the country.

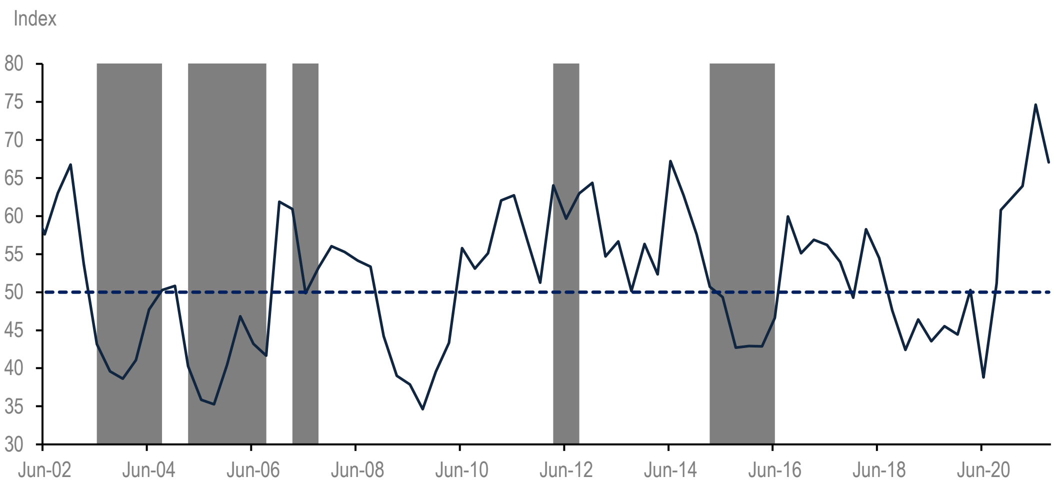
The optimism reflects both the large output and higher commodity prices that have benefited farming businesses in the 2020/21 agricultural production season and the favourable outlook about the upcoming 2021/22 season. The higher commodity prices and the positive weather outlook, which shows prospects of above-normal rain across most

[1] The Agbiz/IDC Agribusiness Confidence Index reflects the perceptions of at least 25 agribusiness decision-makers on the 10 most important aspects influencing a business in the agricultural sector (i.e. turnover, net operating income, market share, employment, capital investment, export volumes, economic growth, general agricultural conditions, debtor provision for bad debt and financing cost). It is used by agribusiness executives, policymakers and economists to understand the perceptions of the agribusiness sector, and also serves as a leading indicator of the value of the agricultural output while providing a basis for agribusinesses to support their business decisions.

regions of South Africa, are supportive factors for agribusinesses. This third-quarter survey was conducted between the last week of August and the first week of September and covered agribusinesses operating in all agricultural subsectors across South Africa.

The ACI comprises ten subindices; some moderation across most of these explains the decline of the composite index in the third quarter of 2021. With that said, the sector is still in good shape and looking to another favourable season in 2021/22. For the near term, we expect the robust growth performance of between 6-7% y/y in agriculture's gross value added in 2021 from an already high base after the strong growth of 13,4% in 2020. Our colleagues at the Bureau for Food and Agricultural Policy (BFAP) have a more optimistic view, forecasting the expansion in agriculture's gross value added at 7,6% y/y, underpinned by bumper harvest for major summer crops, relatively higher commodity prices as well as robust export activity. Our only major concern is the ongoing glitches in the country's logistics services, both in the in-country and shipping ports centres. This is an area that needs increased attention for policymakers in an export-oriented agricultural sector, along with the broader trade policy matter we discussed in the opening section of this note.

Exhibit 2: Agbiz/IDC Agribusiness Confidence Index



Source: Agbiz Research, South African Weather Service
(Shaded areas indicate periods when rainfall across South Africa was below the average level of 500 millimetres)

Data releases this week

As always, we start the week with a global focus. Today, the United States Department of Agriculture (USDA) will release the **US Crop Progress** report for 19 September 2021. In the previous report of 12 September, the US maize crop was rated 58% good/excellent, which is slightly below the last year's rating in the same week of 60%. In the same week of 12 September 2021, the US soybean crop was rated 57% good or excellent, which is also slightly below the rating of the same week last year of 63%. This slightly poor crop rating reflects the dryness that parts of the US experienced in the past few weeks. On Thursday, the USDA will release the **US Weekly Export Sales** data.

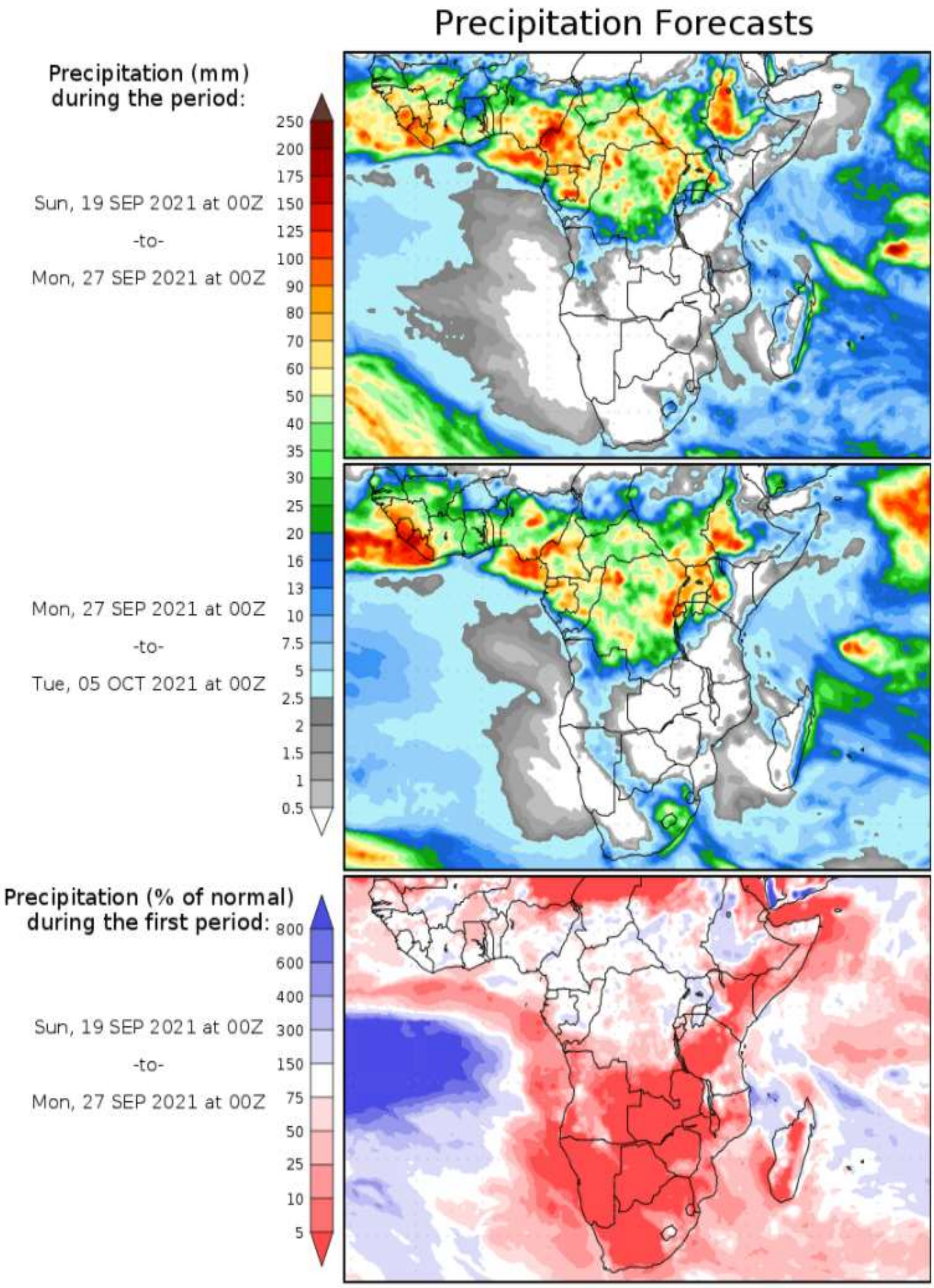
On the domestic front, on Tuesday, Stats SA will release the **Consumer Price Index** data for August 2021. To recap, our view is that while South Africa's July 2021 consumer food price inflation of 7% y/y was unchanged from the previous month, there are clear signs in the underlying details that pressures are beginning to moderate. As such, we expect the August consumer food price inflation data to show deceleration from July levels.

On Wednesday, SAGIS will release the **Weekly Grain Producer Deliveries** data for 17 September 2021. This data cover summer and winter crops, although we only focus on summer crops for now, where harvesting has recently been completed, and farmers will soon be preparing for the next season. To recap, on 10 September, about 1 323 tonnes of soybeans were delivered to commercial silos. This placed the soybean producer deliveries for 28 weeks of the 2021/22 marketing year at 1,82 million tonnes, which equals 96% of the expected harvest of 1,89 million tonnes. Moreover, 667 343 tonnes of sunflower seed for the 2021/22 season had already been delivered to commercial silos in the same week, out of the expected crop of 677 240 tonnes. In maize, the marketing year is different from oilseeds; we are still in the nineteenth week of the 2021/22 marketing year, which began in May. The producer deliveries currently amount to 13,8 million tonnes, equating to 85% of the expected crop of 16,3 million tonnes.

On Thursday, SAGIS will release the **Weekly Grain Trade** data for the week of 17 September 2021. In the week of 10 September, which was the nineteenth week of South Africa's 2021/22 maize marketing year, total maize exports amounted to 1,5 million tonnes, which equates to 56% of the seasonal forecast of 2,7 million tonnes (down by 7% y/y). The annual decline in South Africa's maize export forecast is because of an anticipated soft demand in Southern Africa on the back of an improvement in the region's supplies.[2] In terms of wheat, South Africa is a net importer. On 03 September, imports amounted to 1,4 million tonnes, equating to 88% of the seasonal import forecast of 1,6 million tonnes.

[2] For more information on Southern Africa's maize production, see here.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)

The weather forecast shows clear skies over most regions of South Africa this week.

The following week of 27 September, however, shows prospects of light showers over most regions of the country. This bodes well for the upcoming 2021/22 summer crop season as planting activity is set to begin in October.