

Measuring and analysing competitiveness in the South African agribusiness sector: Factors constraining growth and solutions

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1. Introduction

There are many standard measures used in both domestic and international literature to measure the economic and sectorial competitiveness. The most prominent qualitative measure is the competitiveness index developed by the World Economic Forum (WEF). It measures the emotional side of the economy and is useful in producing information relating to the critical factors that constrain competitiveness. The dominant quantitative measure is the Relative Trade Advantage (RTA), which accounts for imports as well as exports developed by Balassa, (1989) and refined by Vollrath, (1991) then made popular in South Africa by Esterhuizen, (2006). Although, the RTA tends to favour export-oriented sectors, it is useful in capturing the structural features of the sector. It must be emphasized that the purpose of this report is not to examine the theoretical soundness of methods, however, to use the existing methods to examine the competitiveness of the agribusiness sector in South Africa. Readers interested in various methods are encouraged to visit Esterhuizen, (2006).

In the globalised world, investors tend to follow countries and sectors that show high levels of competitiveness. Therefore, understanding the competitiveness level in the agribusiness sector is important because it helps business leaders to make an informed investment decision. Moreover, it assists policy makers to design better policies and strategies in order to restore confidence in the sector.

The rest of the report is structured in the following manner. Section two provides a macro analysis of the competitiveness deriving the bulk of the information from WEF 2017 report. Section three presents the analysis of current agribusiness competitiveness status applying the qualitative and quantitative measures to ensure both the emotional and technical sector performances are analysed. The report concludes by providing key interventions necessary to boost the competitiveness of the agribusiness sector in South Africa.

2. Competitiveness of the South African economy: Macro analysis

The WEF released its global competitiveness report in September 2017, which broadly showed that policy makers and business leaders across the world are still concerned about the prospects for the future economic growth. Globally, there is relatively high levels of uncertainty caused largely by e-commerce technology that is gaining momentum under the fourth industrial revolution. In addition, the intensifying geopolitical forces in North Korea, United State of America and the United Kingdom's Brexit are adding to the uncertainties. Coming into developing countries, the uneven distribution of economic wealth which exacerbates the inequality problem remains a sticking challenge for economic policy makers in countries such as South Africa. In 2017, the WEF measured the competitiveness of 137 countries, where South Africa was ranked number 61, that is a 14-point drop from 2016 ranking of 47 from 138 countries. Figure 1 shows the country's performance in 12 pillars measured by the WEF over the past two years.

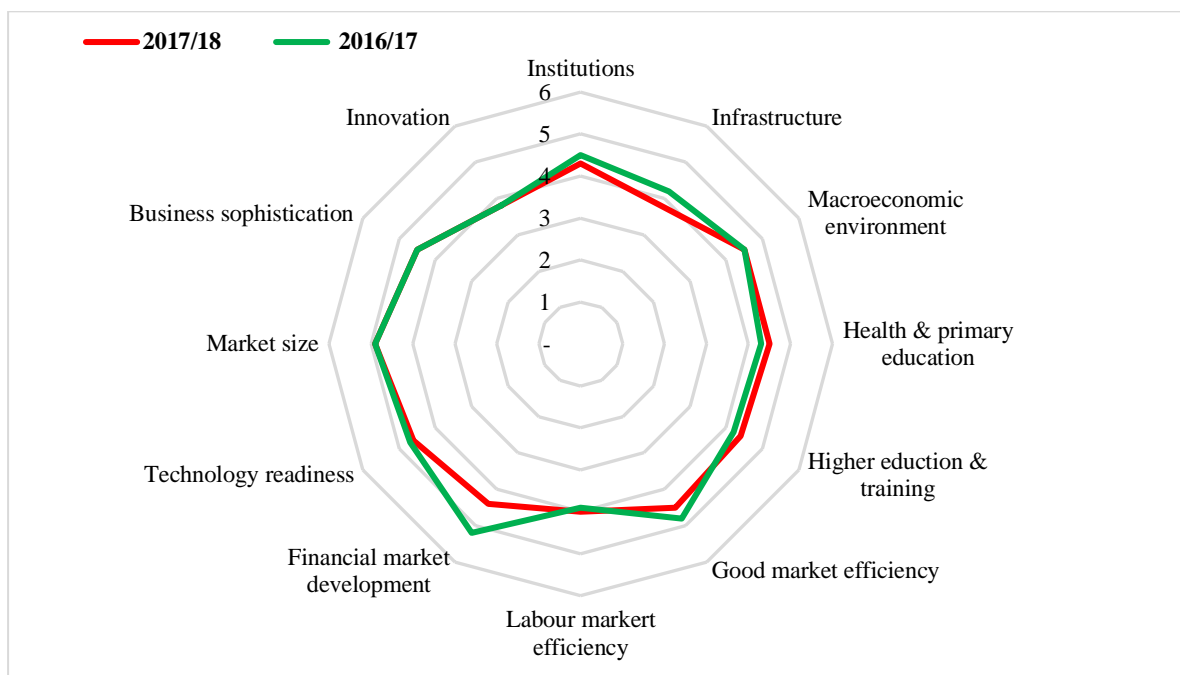


Figure 1: South Africa's economic performance in global competitiveness index: 2017

Source: adapted from WEF, 2017¹

The main factor behind the 14 points drop in South Africa's competitiveness index is the stagnating economic growth, which struggled to pass 0.3 percent in 2016 and is forecast at 0.7

¹ The scale ranges from 1 to 7, where 1 is worse and 7 is best

percent growth rate for 2017. The unemployment is now above 27 percent and still rising. Key to the country's economic problems is the political uncertainty, eroding institutions and financial markets. These factors together with problems emanating from the education and labour sectors are weakening the macroeconomic environment, hence the overall competitiveness in the country is declining as shown the Figure 1.

3. Competitiveness of the agricultural sector: sectorial analysis

Before looking into the dynamics within the agribusiness sector, it is helpful to compare the sector performance with that of the country. Using the same qualitative competitiveness index applied by the WEF, it emerged that the agribusiness sector has a perceived higher level of uncertainties than the rest of the economy. The sector's performance in terms of institutions, infrastructure and labour markets is much lower than the rest of the economy (see Figure 2). This can largely be attributed to low confidence in the agribusiness sector. The results also illustrate the close proximity of the agribusiness to socio-economic realities on the ground that affects ordinary South Africans. For example, the agribusiness sector is directly affected by the decaying infrastructure in rural areas where most agribusinesses are located and this increases the costs of doing business. From Figure 2, it is evident that technology readiness is far lagging the rest of the economy, which also impacts the competitiveness in this sector.

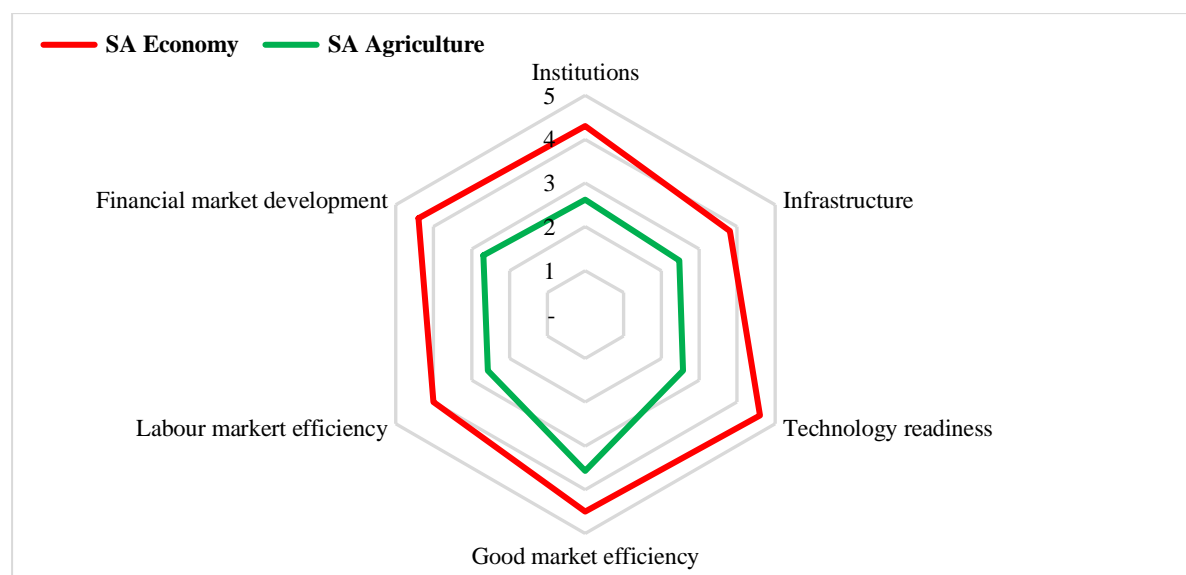


Figure 2: South African economy versus agricultural sector performance

Source: Agbiz and WEF, 2017

Figure 3 shows the competitiveness changes in the agribusiness sector between 2017 and 2014. It is clear that the land issue is one of the key factors driving downwards the confidence and competitiveness in the sector, followed by the cost and availability of quality labour and intermediate inputs. Interestingly, the 2017 survey results indicate that establishing and maintaining credible industry relations are important in boosting the sector's competitiveness. This is imperative because credible industry relations enforce close working relations between government, labour, business and civil society subsequently leading to the formulation of sound policies.

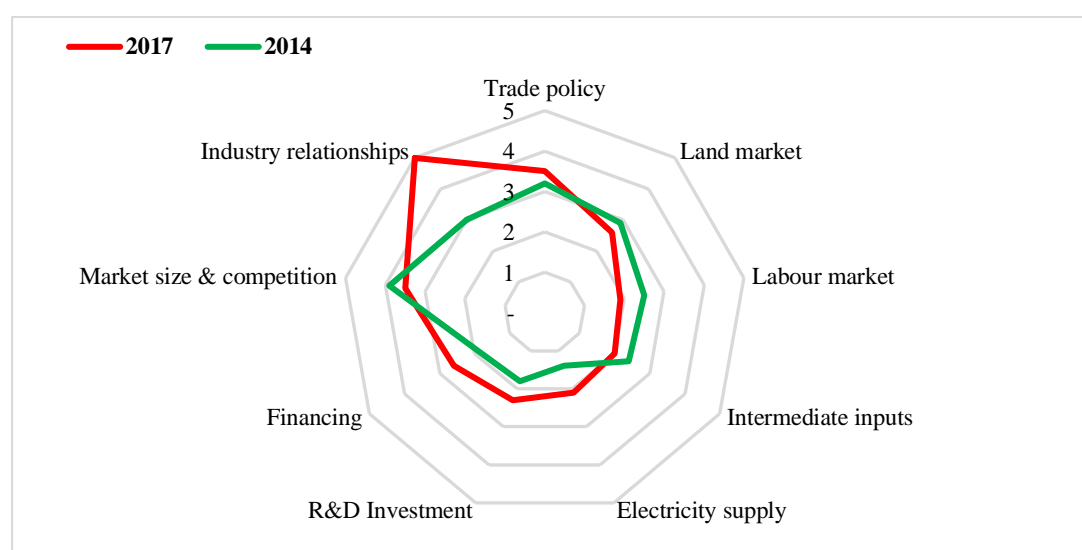


Figure 3: Agribusiness competitiveness performance in 2017

Source: Agbiz, 2017

Figure 4 indicates the top five factors that are constraining growth in the agribusiness sector. Again, varying land reform, crime and theft as well as tax systems are increasingly viewed as the critical barriers to growth. The proposed carbon tax and sugar tax are the greatest concerns for the industry, since they have the potential to increase costs and thereby affecting the competitiveness of the agribusiness sector. Concerns over these factors have grown significantly as compared to results obtained in 2014. Government bureaucracy and labour policies are also identified as constraining factors for growth in the agribusiness sector.

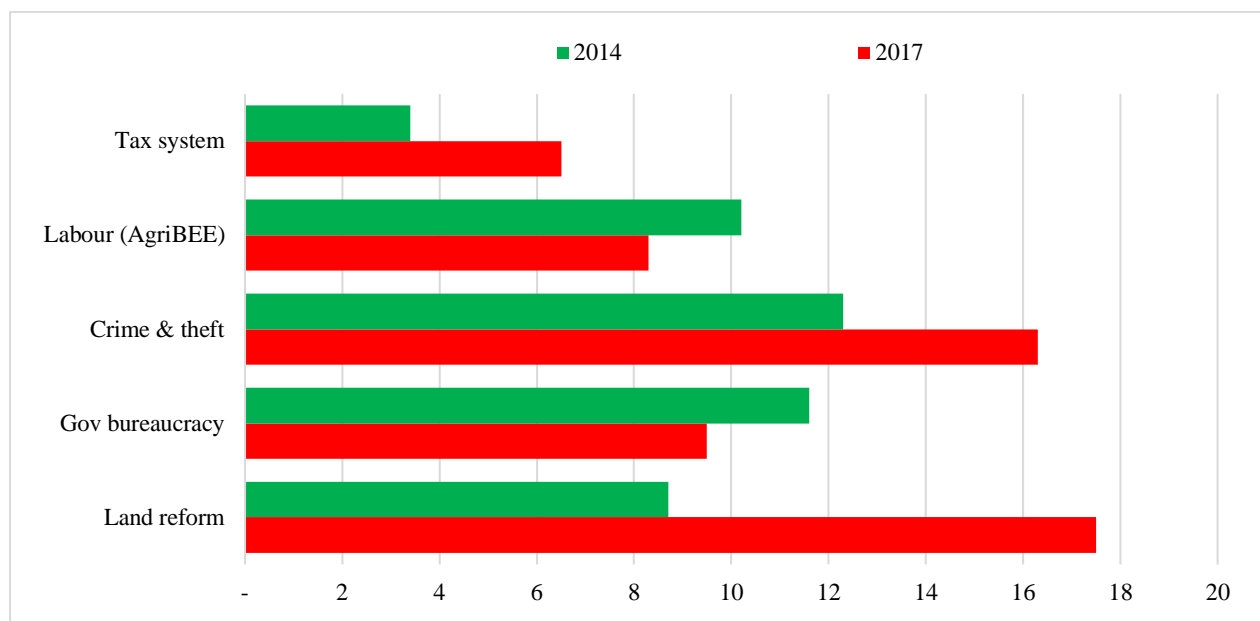


Figure 4: Most problematic factors affecting agribusiness sector

Source: Agbiz, 2017

The report so far has analysed the agribusiness competitiveness using the qualitative measure which captures the emotional side of the sector. It is important to also assess the technical performance using the quantitative measure to ensure a balance analysis. Figure 5 presents the competitiveness measured in RTA using trade data from Food and Agricultural Organization of the United Nations (FAO). The 2008 global recession caused a spike in global food prices but simultaneously reduced consumer spending as they became victims of financial meltdown. The reduced demand impacted the South African agricultural exports and this manifested through a sharp decline in competitiveness between 2008 and 2010 (see Figure 5). During the same time, investments in agribusiness declined from 27 percent to 18 percent share of value added.

Between 2012 and 2014, the agribusiness showed a strong sign of recovery as investments increased to 26 percent in 2012, then in 2013 they further increased to 34 percent share of value added. During this time, commodity prices also started recovering subsequently raising the demand for South African products in the international market. The country's exchange rate (Rand/US\$) depreciated by 10.5 percent causing the agricultural exports to grow by 16 percent when measured in value terms consequently improving the competitiveness of the agribusiness

between 2012 and 2014. In 2014 both the competitiveness and investments in the agribusiness sector were at the highest points ever recorded in the new democratic dispensation.

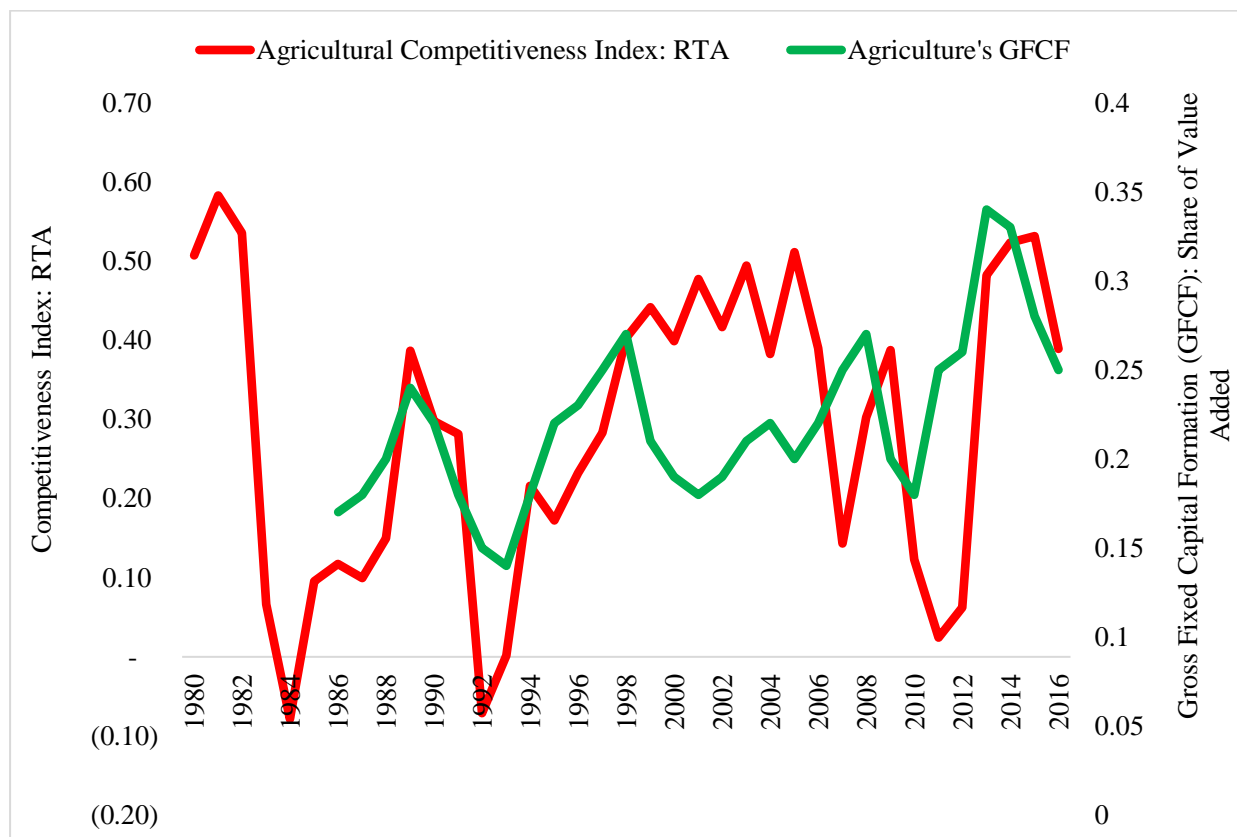


Figure 5: Agribusiness competitiveness measured in RTA and gross fixed capital formation

Source: Agbiz, 2017

The occurrence of drought in 2015 dented the competitiveness index as it dropped from 0.53 to 0.39 point in 2016. Pulling the competitiveness is investments in the agribusiness sector, which also fell to 25 percent share of value added in 2016. The results presented in Figure 5 concurs with the emotional competitiveness results discussed earlier in the report. More interestingly, is the strong correlation between agribusiness competitiveness as measured by RTA index and the investment in the sector as measured by capital investments as a share in value added. This validates the notion that investors' appetite improves when the sector is performing better, thereby confirming the need to boost competitiveness in order to attract investment.

4. Summary and recommendations

The agribusiness competitiveness has been declining in the past two years largely caused by the occurrence of drought and rising policy uncertainties in the sector. The latter is negatively impacting the confidence in the sector consequently reducing investments. It is a well-known fact that declining investment tend to lower growth thus limiting employment opportunities. To boost the competitiveness in the sector, it is recommended that considerable efforts are put in creating a transparent and clear policy direction on land reform as well as tax reform in the country. When it comes to land reform, a first step is to conduct a land audit driven equally by all stakeholders affected. Pertaining the new taxes proposed by government, such as the carbon tax and sugar tax, clear guidelines on revenue recycling options are necessary in order to alleviate concerns on investors operating in the sensitive and trade exposed industries, such as agriculture.

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