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SOUTH AFRICA AND CHILE - AGRICULTURAL TRADE RELATIONSHIP

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SUMMARY AND KEY POINTS

Since the early 1990s, Chile has implemented changes to liberalise its trade policy and has experienced greater achievements as a result. During this period, poverty has declined by 26 %, Gross Domestic Product (GDP) has averaged 5.6 %, with agriculture contributing about 4 %, and there has been a net trade surplus in agro-food trade. Fundamental to these achievements are a number of policy imperatives and government's significant increase on agricultural expenditure; agriculture received 4 % of total farm receipt Producer Support Estimate (PSE) in government support, and around 75 % of the cost of new plantations is subsidised (forestry).

South Africa has also liberalised its trade policy during this period, following the collapse of the apartheid system and the introduction of democracy. This led to a number of policy imperatives, such as the deregulation in the marketing of agricultural products, the abolishment of tax concessions favouring the agricultural sector and the reduction of tariffs (as informed by the Uruguay Round Agreement on Agriculture). When seen in light of the developments in Chile, it is the latter country that has achieved more than South Africa in the space of two decades. Government support to agriculture has moderated at 5 % of total farm receipt (PSE), government expenditure on research and development has decreased and government expenditure on agriculture as a share to total budget is still far less than 10 %.

This study will attempt to demonstrate Chile's significance as a major competitor of South Africa for the European and United States agricultural markets. It needs to be put into perspective that, under AGOA and the TACA², South African products enjoy preferential market access and Chile has been signing and negotiating Free Trade Agreements (FTAs) aggressively. This study does not suggest that South Africa should consider shifting its agricultural exports from its traditional markets to Chile. Rather, it

² There is no paper known to the authors that has quantified the effect to South Africa of erosion of the preferential agreements.

aims to point out clearly that Chile is South Africa's competitor with increasing prominence in these markets.

This study suggests that, should bilateral agreements not always be negotiated on the basis of economic benefits, then, if for political reasons South Africa considers negotiating an FTA with Chile, specific agricultural product lines (as discussed in Section 3.3's Trade chilling concept) should be considered for an offensive stance. Considering the fact that Chile has achieved so much in a space of about 20 years, what can South Africa learn in terms of policy from the Chileans?

- *Clearly targeted support and*
- *Clear vision for the sector and a good structural system (mission).*

The objective of this paper is to uncover areas where South Africa could potentially increase its trade with Chile and what policy lessons can be taken from the Chilean experience.

To achieve this objective, this paper is organised as follows:

- *Section 1 presents a framework of Chile and South Africa's agricultural trade policies,*
- *Section 2 illustrates Chile's total and agricultural trade with the rest of the world and with respect to South Africa,*
- *Section 3 shows the trade reconciliation, trade chilling and the relative importance of the respective Chilean markets.*

SECTION 1 – AGRICULTURAL TRADE BACKGROUNDS

1.1 Chilean agricultural policy over time

Ibanez (2009) categorises the evolution of Chilean agricultural policy since the mid-1960s into five eras. The most recent policy change came in effect in 1996 and is known as the internationalisation of agriculture and free trade agreements, international promotions and sanitary and phytosanitary negotiations (for more information, see Ibanez, 2009).

To some extent, this correlates with the change in the political landscape of South Africa. However, Chile has made tremendous achievements since the 1990s, with a decline in poverty from 39 % to 13 % and an average Gross Domestic Product (GDP) growth rate of 5.6 %. During this period, agricultural contribution to the GDP remained relatively constant at 4 %, in spite of its contribution to employment decreasing from 19 % to 12 %. The livestock sector grew more rapidly than the crop sector, stimulated by the development of pork and poultry sub-sectors (OECD, 2008). Agro-food exports grew at a faster rate than agro-food imports, achieving a net surplus of about US\$ 7.8 billion in 2007. Tariffs were reduced from about 11 % to a 6 % uniform tariff in 2008 for all agricultural products. Chile diversified its total exports from 2,300 products, destined for about 122 markets, to 5,264 products in 2007, destined for 194 markets (Ibanez, 2009).

The success of the agricultural policy evolution has resulted in the Chilean government's commitment to opening up the domestic market. The OECD (2008) describes Chile's agricultural policy as liberal and characterised by low levels of government support to agriculture. However, the Chilean government has actively adopted policies aimed at boosting agricultural competitiveness, and thereby assisting poorer and less competitive countries. It is therefore important to note the following:

- Government subsidises 75 % of the total cost of forestry plantations in Chile (Ibanez, 2009) on capable lands.
- The OECD (2008) shows that agricultural producers' support from government subsidies declined, measured by the producer support estimates, from 8 % (1995-97) to 4 % in 2007.
- Subsidies directed at certain commodity output through market price support are still provided. It needs to be noted that the share of market support in the producer support estimates decreased from 86 % to 30 % over the period 1995-97 to 2005-07. During the same period, support based on variable inputs increased from 4 % of the PSE to 14 %. In short, there has been support shifting.

Government expenditure on agriculture has increased by more than four-fold over the past 10 years. It is argued that around half the amount is spent on public goods (such as plant health, irrigation infrastructure, inspection services and others), while the other half is directed towards making Chile's poor commercial farmers internationally competitive. Only three areas account for almost 60 % of the total budget allocation to agriculture, namely, irrigation programmes (on-farm investments), productivity and skills development programmes (such as preferential credit), and rural development for the sole benefit of the poor (such as land purchases for indigenous people).

The remaining 40 % of the budget allocation is shared among programmes such as the soil recovery programme, research and development, extension and training, animals and plant health, standards programmes that include both on- and off-farm, and, lastly, marketing and trade promotion.

It is also important to note that Chile is a prominent global player for a number of agricultural products. Chile ranks among the top ten world exporters and among the top two southern hemisphere exporters for nine agricultural products, namely fresh grapes, avocados, plums, apples, kiwi, berries, pears, cherry and peaches.

1.2 South Africa's agricultural policy shortened

With a per capita GDP of US\$ 3,530 per annum, South Africa is Africa's largest economy (OECD, 2006). South Africa's per capita GDP is more than four times Africa's average. South Africa underwent immense social and economic changes and reforms over the past two decades, following the collapse of the apartheid regime and the introduction of fundamental reforms aimed at creating a more open and market-oriented economy. South Africa's new democracy is characterised by an underlying principle of virtually all government policies that attempts to bring previously disadvantaged individuals into the mainstream economy.

According to the OECD (2006), the overall results of the reforms to date have been positive, resulting in a stronger and more stable macro economy, improved integration into the global trading system, and some progress in redressing past injustices. The country, however, still faces a number of challenges. These include widespread unemployment and poverty, a large unskilled labour force that is excluded from the formal economy, significant levels of crime and a high prevalence of HIV/AIDS. These challenges, combined with many others, appear to have had a devastating effect on the performance of the economy in many sectors, including agriculture. The recent spates of xenophobic attacks on foreign nationals and the increase in service delivery protests over the last three to five years can be regarded as consequences of some of these aforementioned challenges.

The NAMC (2009) argues that agriculture plays an important role in South Africa on economic, social and environmental levels, and may be used as a strategy for poverty alleviation through food security and nutrition. The agricultural sector's contribution to GDP in South Africa has been around 3 % over the past five years. According to the NAMC (2009), this relatively small contribution tends to conceal the sector's true

contribution in areas such as food supply, economic linkages and multipliers, employment creation within the agricultural sector and its foreign exchange earning capacity.

South African agriculture is well diversified, with field crops, livestock and horticulture being the three main sectors. Approximately 58 % of the value of agricultural products is delivered to processing plants, and these agribusinesses add significant value to the manufacturing, total fixed capital investment and employment in the economy (NAMC, 2009). South Africa's agricultural exports form around 9 % of the country's total exports and the agricultural sector accounts for around 10 % of reported employment. From 1990 to 2008, field crop production increased by 13 %, horticultural production by 62 %, and livestock production by 29 % (NAMC, 2009).

Agricultural policy reform in South Africa is continuing to redress past imbalances with a number of measures. These include, among others, land redistribution, agricultural support programmes for disadvantaged farming groups and broad-based black economic empowerment in the agricultural sectors (AgriBEE). However, it is still unclear how the recent economic downturn will affect the progress and pace of some of these government initiatives, given the enormous pressure faced by the national budget.

According to the OECD (2006), changes in the South African agricultural policy were shaped by macroeconomic and social reforms implemented from the mid-1990s. Reforms in the agricultural sector included:

- Deregulation of the marketing of agricultural products,
- Abolishing certain tax concessions favouring the sector,
- Reductions in budgetary expenditure on the sector,
- Land reform, and
- Trade policy reform.

There were two main developments in trade policies:

- The replacement of direct controls over imports by tariffs, and
- The elimination of state controls over exports.

The average import tariff level was lowered by one third between 1994 and 1999 (OECD, 2006). Following the establishment of a number of preferential trade arrangements with different countries, South Africa has improved its market access to foreign markets for farmers. This improvement, however, has also come with the introduction of increased exposure to external competition. Since the deregulation of agricultural markets, domestic market interventions are limited to the sugar market, where a price pooling system is still maintained by the South African Sugar Association, which is the country's sole sugar exporter.

South Africa is spending a significant share of its budget on land reform, which consists of three main components, namely restitution, redistribution and tenure reform.

The OECD (2006) argues that, although the deregulation of markets created some uncertainty, it also created opportunities for entrepreneurial farmers and led to a more efficient allocation of resources in agriculture. Today, South Africa is among the world's leading exporters of agro-food products such as wine, fresh fruit and sugar. Europe is its largest destination, importing almost half of South Africa's total agricultural exports. Agricultural imports are also increasing, although at a lesser rate when compared with agricultural exports.

According to the OECD (2006), the withdrawal of most forms of support for commercial farmers created adjustment pressures for the sector, while the deregulation of the input and services markets provided benefits. Effects on the sector included:

- Shift of production from grain to livestock in marginal production areas and an increase in intensive farming in high potential areas, particularly in horticultural production,
- Increased farmer involvement in risk management by means of storage, forward contracts and diversification,
- Strengthening the role of organised markets and producer responsiveness to price signals, and
- Accelerating the establishment of new enterprises in agriculture and downstream food processing sectors and foreign trade.

Overall, the South African agricultural industry has become less dependent on state support and internationally more competitive following the dismantling of the apartheid government, although many sectors within the industry have experienced a difficult period of adjustment.

Policy transfers to South African agricultural producers, as measured by the OECD Producer Support Estimate (PSE), have equalled 5 % of gross farm receipts on average from 2000 to 2003 (OECD, 2006). This low level indicates a relatively moderate degree of policy interventions at the agricultural producer level. There are marked differences in the levels of support across individual products – with the percentage PSE ranging from 23 % for sugar to nearly 0 % for a range of other products. Moreover, the poultry and eggs subsectors have negative PSEs, suggesting that these subsectors are actually taxed instead of being supported.

The OECD (2006) argues that, although the recent performance of South Africa's economy has been positive, both investment and output growth are still below the levels necessary to reduce unemployment and to achieve a more equitable income distribution. Furthermore, in a country such as South Africa, higher economic growth is inconceivable without effectively addressing profound humanitarian problems such as social divisions, illiteracy and low education levels, and HIV/AIDS. These problems are largely rooted in rural South Africa, and agricultural development has an important role to play in their resolution.

SECTION 2 – CHILE’S TRADE PROFILE (OVERALL)

2.1 South Africa and Chile – the overall trading relationship

The discussion of the policy changes introduced by Chile and South Africa in the 1990s and the trading between these countries and the rest of the world is worth elaborating on. **Figure 1** shows South Africa’s historical agricultural trade with Chile for the period 1997 to 2009. While Chilean agricultural imports from South Africa remained relatively stable over the reference period at under US\$ 5 million per annum throughout, there was a significant decline in Chilean agricultural exports to South Africa.

- *Interesting questions can be asked as to why such an abrupt decline was experienced?*
- *Did South Africa start producing some of the products it used to import from Chile, or did it find other alternative import sources?*

A closer look at data from the World Trade Atlas (2009) indicates that the leading product South Africa imported from Chile in 1997 was flour meal and pellet of fish (230,120). This product accounted for about 90 % of total agricultural imports from Chile in 1997, with a value of US\$ 28.76 million. In 2008, the same product accounted for only 0.79 % of total agricultural imports of South Africa from Chile with a value of only US\$ 0.038 million. It follows that South Africa switched its importation of this product from Chile to countries such as Brazil, Spain, Argentina and France. This may have been due to advantages relating to economies of scale.

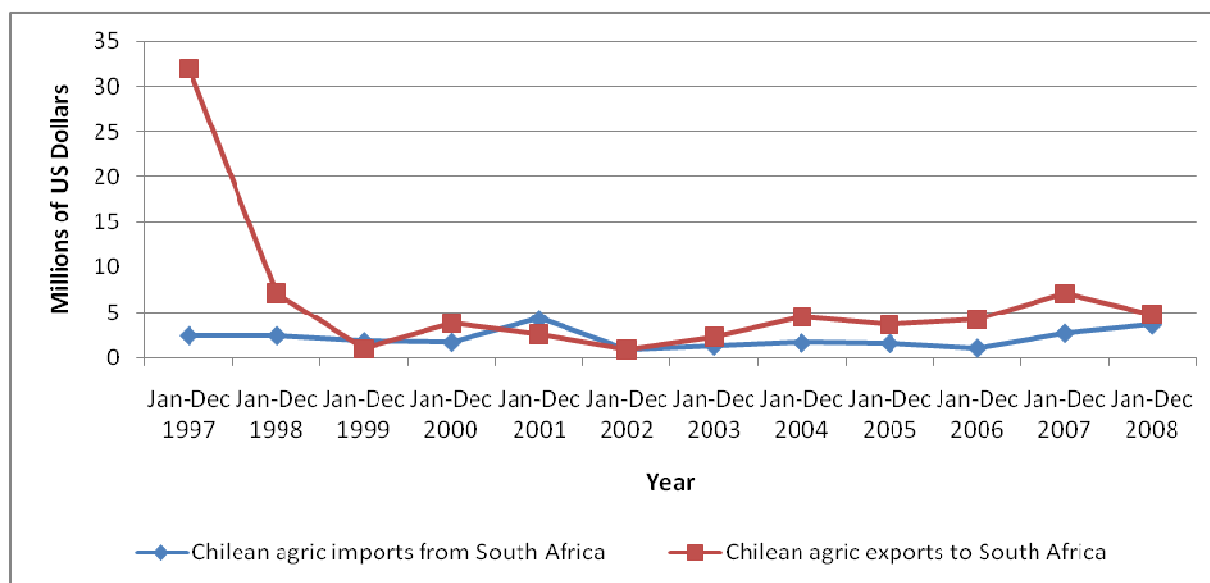


Figure 1: South Africa's historical trade in agricultural products with Chile

Source: World Trade Atlas (2009)

2.2 Chile's Global Trade

2.2.1 Imports

Table 1 shows Chile's total imports from the rest of the world for 1997 and 2008, and each country's percentage share of Chile's overall imports. During 2008, Chile's total imports from the rest of the world amounted to US\$ 56.47 billion. The last column of **Table 1** shows that the leading source for Chilean imports in 2008 was the United States, accounting for 19.37 % of overall imports. This was followed by the European Union (EU) and China, accounting for 12.68 % and 12.03% respectively of overall imports.

It is interesting to note that, given Chile's geographical location, only four of its top ten import sources are South American countries. This may be due to the nature and structure of Chilean imports. According to the CIA (2009), Chile's main import products include petroleum and petroleum products, chemicals, electrical and

telecommunications equipment, industrial machinery, vehicles, and natural gas. The largest percentage change (an increase) in import values from one of the top ten sources between 1997 and 2008 can be seen in the case of Peru, at 1,560.91 %. South Africa contributed only 0.16 % of overall imports into Chile in 2008, ranking it 31st in Chilean imports by value terms.

Table 1: Chilean imports from the rest of the world by country, millions of US\$

Rank	Country	Jan-Dec 1997	Jan-Dec 2008	% Change (1997 - 2008)	% Share of overall imports in 2008
	Total Chilean imports	16772.01	56474.66	236.72	100.00
1	United States	4023.87	10939.17	171.86	19.37
2	EU 27	3758.63	7159.46	90.48	12.68
3	China	609.78	6795.04	1014.34	12.03
4	Brazil	1162.28	5273.88	353.75	9.34
5	Argentina	1701.97	5011.71	194.47	8.87
6	Korea, South	537.92	3160.70	487.58	5.60
7	Japan	979.91	2660.18	171.47	4.71
8	Colombia	187.37	2126.32	1034.85	3.77
9	Peru	110.78	1839.91	1560.92	3.26
10	Mexico	991.19	1753.27	76.88	3.10
31	South Africa	75.43	87.79	16.38	0.16

Source: World Trade Atlas (2009)

2.2.2 Exports

Table 2 presents Chile's total exports to the rest of the world for 1997 and 2008, the percentage change between 1997 and 2008, and the percentage share of overall exports to each of the top ten Chilean export destinations. Overall, Chile's merchandise exports amounted to US\$ 69.58 billion in 2008, a 317.07 % increase from 1997. The top four destinations for Chilean exports in 2008 were the EU (24.44 %), China (14.16 %), the United States (11.20 %) and Japan (10.39 %).

According to the CIA (2009), Chile's main export products include copper, fruit, fish products, paper and pulp, chemicals, and wine. Between 1997 and 2008, exports from Chile to China increased from a low base of US\$ 435.18 million in 1997 to US\$ 9.85

billion in 2008. South Africa contributed only 0.22 % of overall exports from Chile in 2008, ranking it the 31st most important export destination for Chile.

Table 2: Chilean exports to the rest of the world by country, millions of US\$

Rank	Country	Jan-Dec 1997	Jan-Dec 2008	% Change (1997 - 2008)	% Share of overall exports in 2008
	Total exports from Chile	16682.89	69579.53	317.07	100.00
1	EU 27	4123.67	17006.89	312.42	24.44
2	China	435.18	9851.20	2163.71	14.16
3	United States	2439.13	7793.54	219.52	11.20
4	Japan	2681.93	7230.91	169.62	10.39
5	Brazil	979.14	4164.54	325.33	5.99
6	Korea, South	991.05	3881.41	291.65	5.58
7	Mexico	371.17	2217.85	497.53	3.19
8	Taiwan	773.25	1957.99	153.21	2.81
9	India	73.87	1743.62	2260.23	2.51
10	Peru	343.41	1488.13	333.34	2.14
31	South Africa	60.96	152.19	149.65	0.22

Source: World Trade Atlas (2009)

2.3 Chile's Global Agricultural Trade

2.3.1 Imports

Figure 2 shows Chile's agricultural and fish imports³ from the rest of the world for the period 1997 to 2008. Chile's agricultural imports remained constant from 1997 to 2002 and then showed substantial increases for the period 2003 to 2008 in value terms. Total agricultural imports increased from US\$ 14 billion in 2002 to US\$ 56 billion in 2008. The agricultural imports as a percentage of the total Chilean imports have remained relatively constant for the period under review, fluctuating between 7 % and 9 % of the total imports.

³ This definition of imports includes traditional food and beverage products (including fish and fish products) and a range of other products, such as raw textiles like wool and cotton, hides and skins, live animals, and some manufacturing products, such as caseins (derived from animals or plants).

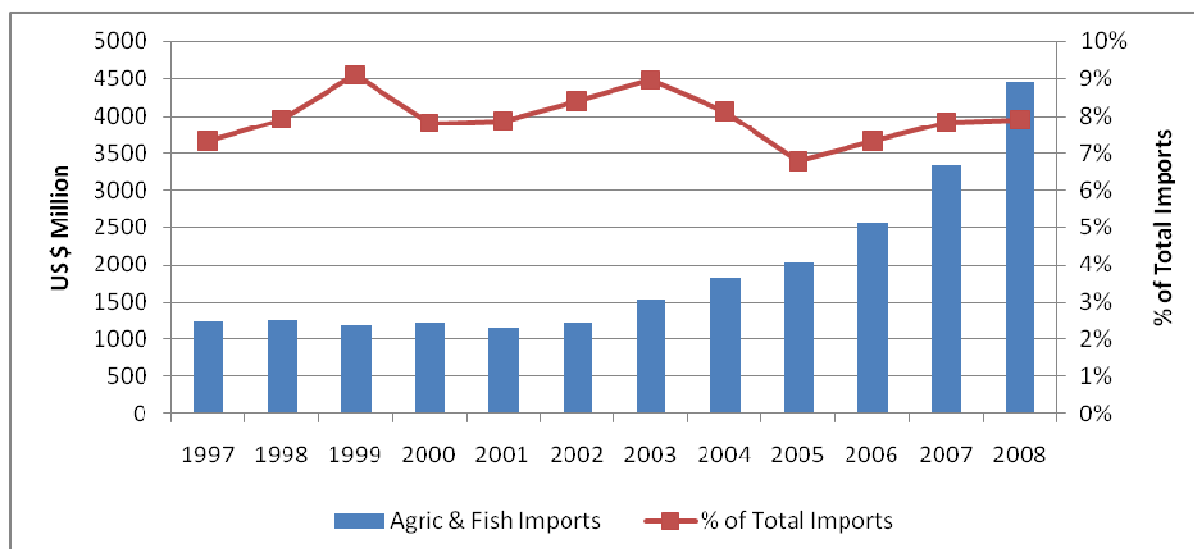


Figure 2: Chilean agricultural and fish imports from the world

Source: World Trade Atlas (2009)

Table 3 shows the total agricultural imports by Chile from the rest of the world for the period under review. The countries listed are ranked according to the value imported by Chile for 2008. Chilean imports of agricultural products are concentrated in North and South America. Most of these countries are located in the southern hemisphere, which suggests that Chile is an important player or proponent of **South-South trade**.

The possibility of the impact of free trade agreements (FTAs) on these trading patterns cannot be ruled out, even though Chile has free trade arrangements with many countries and regions. The largest trading partner in agricultural imports is Argentina, accounting for a 41.79 % share of Chile’s overall imports in 2008. This is followed by the United States, with a 12.20 % market share. Peru has been very successful in penetrating the Chilean market, moving from US\$ 12.16 million to over US\$ 160.85 million between 1997 and 2008. In 2008, South Africa had a share of only 0.08 % in Chile’s imports of agricultural products. This ranked South Africa 32nd in terms of sources of agricultural imports into Chile.

Table 3: Chilean imports of agricultural products from the rest of the world, millions of US\$

Rank	Country	Jan-Dec 1997	Jan-Dec 2008	% Change (1997 - 2008)	% Share of overall imports in 2008
	World	1214.79	4422.73	264.07	100.00
1	Argentina	489.68	1848.44	277.48	41.79
2	United States	124.02	539.53	335.03	12.20
3	Paraguay	43.96	355.87	709.51	8.05
4	Brazil	50.24	264.86	427.16	5.99
5	EU 27	104.26	254.69	144.29	5.76
6	Peru	12.16	160.85	1223.05	3.64
7	Ecuador	63.13	145.83	130.98	3.30
8	Canada	63.50	107.33	69.03	2.43
9	Uruguay	27.08	102.62	278.88	2.32
10	Guatemala	29.71	97.90	229.57	2.21
32	South Africa	2.50	3.65	45.90	0.08

Source: World Trade Atlas (2009)

Table 4 shows Chile's top ten agricultural product imports from the rest of the world, as well as their percentage share in 2008 and the main supplying countries. The leading product imported by Chile was meat of bovine animals and accounted for 9.39 % of total agricultural product imports into Chile in 2008. This is closely followed by corn (maize) with an 8.95 % share, and edible fats and oil mixtures with an 8.57 % share. Imports of wheat, animal feed and fish fats and oils increased considerably from 1997 to 2008. The top ten agricultural product imports accounted for 54.74 % of total agricultural imports for 2008.

Table 4: Chilean top ten agricultural products imports from the rest of the world

HS	Description	Jan-Dec 1997	Jan-Dec 2008	% Share of total agric imports (2008)	Main Supplying Countries in 2008
	World	1228.86	4454.27	100.00	
020130	Meat Of Bovine Animals	125.88	418.45	9.39	Paraguay, 52 %. Argentina, 25 %
100590	Corn (Maize)	95.99	398.99	8.95	Argentina, 77 % US, 17 %
151790	Edible Fats & Oil Mixtures	14.49	382.10	8.57	US, 50 % Argentina, 26 %
100190	Wheat	40.79	301.48	6.76	Argentina, 46 % Paraguay, 44 %
230400	Soybean Oilcake	77.83	289.62	6.50	Argentina, 96 %, ROW 4 %
170199	Cane/Beet Sugar	88.11	222.18	4.98	Guatemala, 43 % Colombia, 23 %
230990	Animal Feed	12.38	162.95	3.65	Argentina, 60 % Brazil, 11 %
150420	Fish Fats & Oils	4.20	109.46	2.45	Peru, 81 % Mexico, 13 %
100700	Grain Sorghum	6.06	79.33	1.78	Argentina, 96 % Bolivia, 4%
230310	Residues Of Starch	0.01	73.89	1.65	US, 94 % Argentina, 6 %
	Total of top ten product lines			54.74	

Source: World Trade Atlas (2009)

2.3.2 Exports

Figure 3 shows Chile's agricultural exports. Exports of agricultural products from Chile increased at a very low rate from 1997 to 2001. During the period 2002 to 2008, the exports showed significant increases in value terms, as was also shown in the case of imports. Agricultural exports as a percentage of total exports remained steady from 1997 to 2002, declined from 2003 to 2007, and showed a small increase in 2008. In

1998 and 1999, agricultural and fish exports accounted for 29 % of the total exports, and declined to 15 % in 2007.

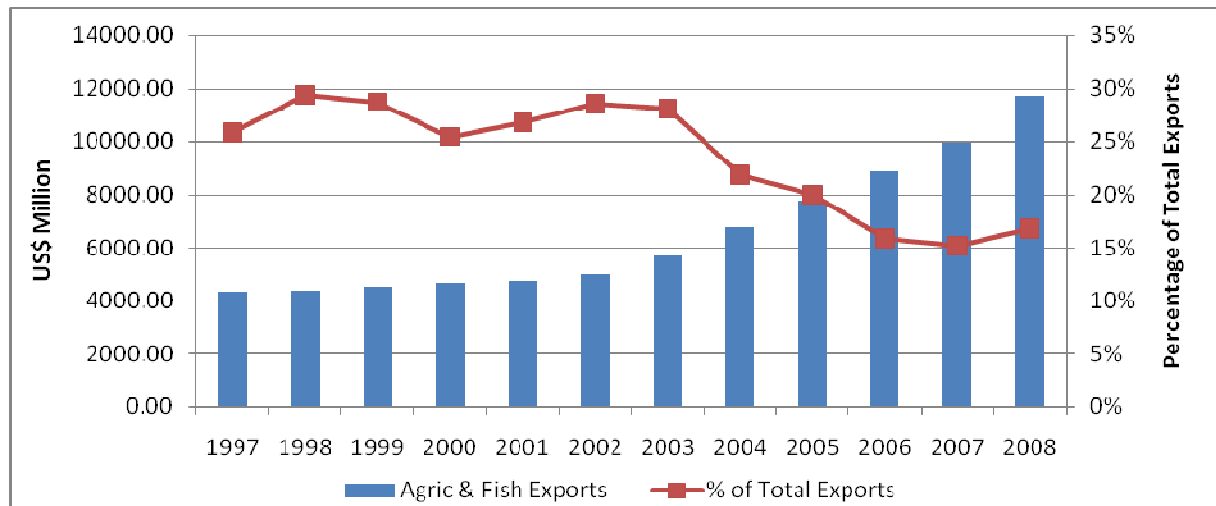


Figure 3: Chilean agricultural exports

Source: World Trade Atlas (2009)

The Chilean top ten export destinations are more diversified than the top ten import sources (see **Table 5**). The three leading export destinations of Chile's agricultural exports in 2008 were the EU (25.07 %), United States (22.37 %), and Japan (10.86 %). It is important to note that Venezuela's share of Chilean exports grew by nearly 1,000 % during the period 1997 to 2008, from US\$ 56.88 million to US\$ 620.01 million. It is interesting to note that Chilean agricultural exports to South Africa declined from 1997 to 2008, from US\$ 31.95 million to US\$ 4.84 million. This decline will be looked at in detail in the next section, with the help of **Figure 1**. Chilean agricultural exports to South Africa accounted for only 0.04 % of overall exports in 2008.

Table 5: Chilean exports of agricultural products to the rest of the world, millions of US\$

Rank	Country	Jan-Dec 1997	Jan-Dec 2008	% Change (1997 - 2008)	% Share of overall exports in 2008
	World	4313.94	11706.52	171.36	100.00
1	EU 27	844.38	2934.98	247.59	25.07
2	United States	995.33	2619.27	163.16	22.37
3	Japan	794.70	1271.68	60.02	10.86
4	Venezuela	56.88	620.01	989.96	5.30
5	Mexico	76.60	556.54	626.55	4.75
6	China	51.09	448.59	778.12	3.83
7	Brazil	206.74	362.93	75.55	3.10
8	Russia	36.68	330.09	800.03	2.82
9	Peru	97.94	261.00	166.50	2.23
10	Canada	81.79	257.98	215.42	2.20
54	South Africa	31.95	4.84	-84.84	0.04

Source: World Trade Atlas (2009)

Table 6 shows the top ten agricultural product exports from Chile to the rest of the world and their contribution to the total agricultural exports. The leading agricultural export from Chile in 2008 was wine, which accounted for 10.04 % of total agricultural products.

This places Chile as a direct competitor of South Africa in wine exports, given the fact that both countries are net exporters of wine, with the European Union and the United States as their main markets. Both countries are members of the new-world wine producing countries and have to compete directly with traditional wine producing countries such as France, Italy, and Portugal, in international markets.

Fresh grapes are the second leading agricultural product exported by Chile. Exports of frozen fish fillets, fish fillets, fish meat and pacific salmon rose from zero in 1997 to US\$ 579.94 million, US\$ 556.57 million, US\$ 352.33 million and US\$ 293.35 million in 2008 respectively. The top ten agricultural exports accounted for 48.12 % of total agricultural exports for 2008.

Table 6: Chilean top ten agricultural product exports to the rest of the world

HS	Description	Jan-Dec 1997	Jan-Dec 2008	% Share of total agric exports (2008)
	World	4321.25	11693.46	100.00
220421	Wine	325.55	1174.22	10.04
080610	Grapes	413.95	987.83	8.44
030429	Fish Fillets, Frozen	0.00	579.94	4.95
080810	Apples, Fresh	189.58	564.38	4.82
030419	Fish Fillets	0.00	556.57	4.75
230120	Flour Meal & Pellet	552.35	501.38	4.28
030499	Fish Meat,	0.00	352.33	3.01
030321	Trout	117.07	312.80	2.67
020329	Meat Of Swine	15.13	304.31	2.60
030319	Pacific Salmon	0.00	293.35	2.50
	Total of top ten product lines			48.12

Source: World Trade Atlas (2009)

Having looked at Chile's export and import profile, it is important to take a closer look at its trade data with South Africa. This is explored in the following section, which looks at data reconciliation.

SECTION 3 – RECONCILIATION, TRADE CHILLING AND THE RELATIVE IMPORTANCE OF THE RESPECTIVE CHILEAN MARKETS

3.1 Trade data reconciliation for South Africa and Chile

This section, data reconciliation, is based on the work of Sandrey and Fundira (2008) and Fundira, Nyhodo and Sandrey (2009). These studies clearly indicate the importance of data reconciliation. In short, data reconciliation is conducted to double-check trade flows in an effort to reconcile data between trading partners, in this instance, between Chile and South Africa.

Fundira et al. (2009) argue that the double-checking is based on the comparisons of the reported exports from the exporter (South Africa) and recorded imports from the importer (Chile). Even though reporting and recording is for the same products, in value terms the data rarely reconcile due to a number of reasons, such as:

- Exchange rate variations (currency fluctuations)
- Time differences – for example, data reported in 2004 in the exporting country while recorded in 2005 in the importing country (December to January)
- Different valuation method (Free on Board (FOB) vs. Cost, Insurance and Freight (CIF))

Sandrey and Fundira (2008) indicate that although it is fairly simple to uncover the differences in data, it can be more difficult to explain these differences. However, they argue that, regardless of the differences, import data are generally more reliable than export data. This is based on the fact that import data are scrutinized more than export data. Moreover, the inclusion of transport and insurance costs in differing valuation methods result in differing data.

When considering South African exports and Chilean imports or vice versa, it is expected that one of the following outcomes will be obtained:

- Recorded imports greater than reported exports
- Imports are equalling exports (rarely the case)
- Recorded imports are less than reported exports (in this case, an explanation is required)

Presented in the two figures to follow is data reconciliation for South Africa as an importer and exporter, with Chile as a trading partner.

Figure 4 presents the yearly series of South Africa's exports of agricultural products to Chile and Chile's reported agricultural imports from South Africa over a period of 11 years from 1997 to 2008). It is interesting to note that over this period reported exports

from South Africa to Chile have continuously been greater than Chilean recorded import from South Africa.

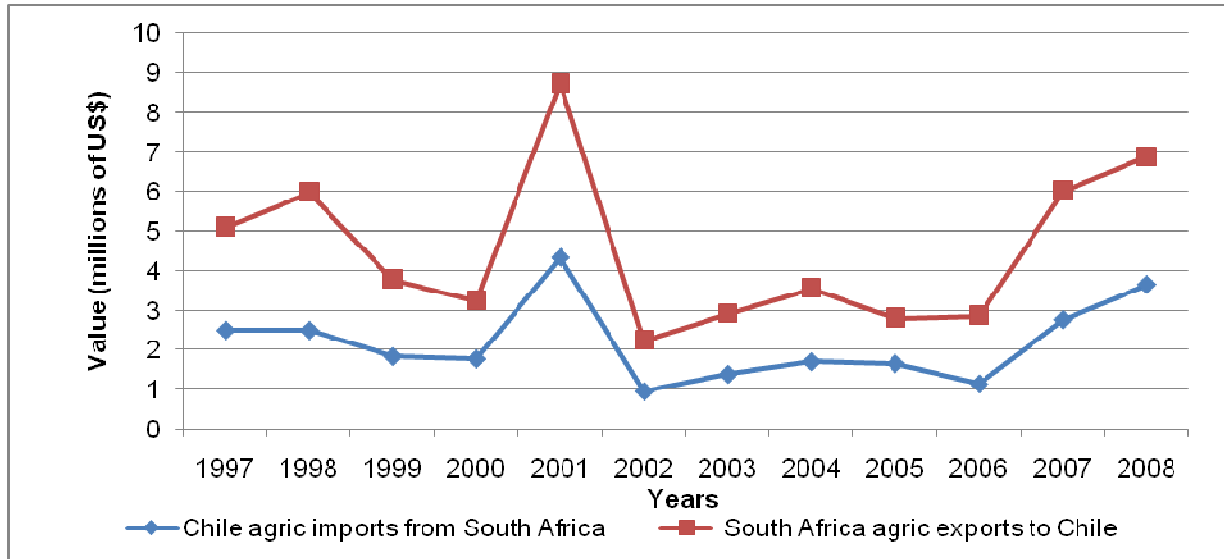


Figure 4: Chile imports and South Africa exports of agricultural products

Source: World Trade Atlas (2009)

Figure 5 shows the yearly series of Chilean exports of agricultural products to South Africa and South African recorded agricultural imports from Chile over a period of 11 years from 1997 to 2008. This figure is consistent with expectations, in that over this period the import data has been greater than the export data of the same products.

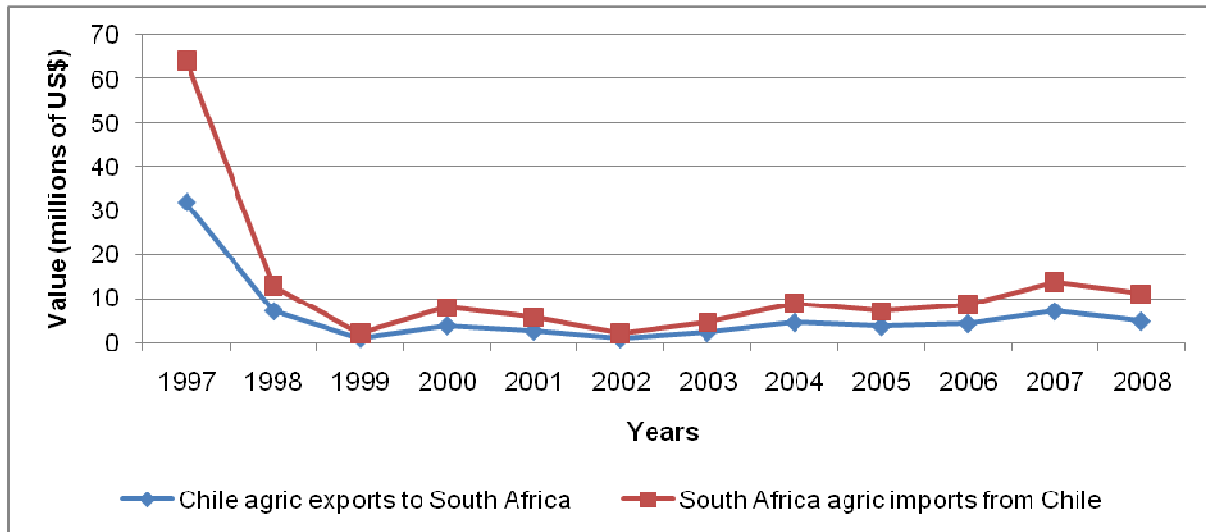


Figure 5: Chile exports and South Africa imports of agricultural products

Source: World Trade Atlas (2009)

3.2 The reconciliation update

Table 7 presents Chile's top nine agricultural imports vs. South African exports of the same agricultural products in 2008. Total Chilean imports are US\$ 430,000 higher than South Africa's exports, as expected.

Six products' data shows that the reported exports from South Africa are less than the recorded imports of the same products in Chile, as expected:

- Green Tea
- Pineapple Juice
- Peaches
- Yeasts, Active
- Food Preparations
- Mucilages/Thickeners

Two products show that recorded imports in Chile are less than reported exports in South Africa:

- Liqueurs and Cordials
- Sugar Confection

A rare situation where data (recorded export and reported imports) reconciles is found in the product line, vegetable saps and extracts.

Table 7: Chilean top nine agricultural imports vs. South African exports

HS	Description	Chile imports	RSA exports	Difference
All	All agricultural products	3.65	3.22	-0.42
090220	Green Tea	1.34	0.07	-1.28
200949	Pineapple Juice	0.97	0.68	-0.29
200870	Peaches	0.27	0.17	-0.10
220870	Liqueurs and Cordials	0.24	0.92	0.68
210210	Yeasts, Active	0.22	0.00	-0.22
210690	Food Preparations, Nesoi	0.20	0.00	-0.20
170490	Sugar Confection	0.13	0.21	0.09
130232	Mucilages/Thickeners	0.06	0.03	-0.03
130219	Vegetable Saps and Extracts	0.03	0.03	0.00
Total of top 9 product lines		3.50	2.11	-1.39

Source: World Trade Atlas (2009)

3.3 Trade chilling⁴ concept

According to Fundira et al. (2009), the benefits of an FTA include both ‘trade deepening’, whereby trade in the same products is expanded, and ‘trade widening’, whereby new trade lines, or products, are introduced into the trade flows. The authors argue that it is not always easy to see where opportunities for trade widening may lie. Quantitative and qualitative analyses and projections of the welfare effects of tariff liberalisation traditionally focus on current flows of trade. Sandrey and Fundira (2008:10) and Fundira et al. (2009:27) argue that such approaches are unable to determine where new opportunities might lie.

⁴ This discussion draws heavily from the work of Sandrey and Fundira (2008) and Fundira, Nyhodo and Sandrey (2009). Full references to these works are provided in the references section.

The authors referred to above argue that it is not possible to derive from the standard quantitative models or qualitative analyses a sense of where new areas of trade might be opened up as a consequence of tariff liberalisation in markets. It is quite possible, for instance, for South Africa to have relatively concentrated flows of trade in specific product categories, one reason being that the tariff structure outside these specific product lines is relatively high. As a consequence of these tariffs, trade in other product categories may have been 'chilled', and it is this area of enquiry that should be of interest to trade policy makers (Fundira et al., 2009:28).

The issue of whether South Africa is fully exploiting potential trade export opportunities to Chile or whether, due to an FTA, there is some trade chilling (where Chile imports a product in large values/quantities, but not from South Africa, and South Africa globally exports the same product in large values/quantities, but not to Chile) needs to be determined. The two countries are trading in this product but not with each other. According to Fundira et al. (2009:28), one way to determine whether this is the case or not is to conduct a trade-chilling analysis.

The methodology has the following points of departure:

- Market opportunity (importer) is viewed through the value or volume (high) of imports
- Supply potential (exporter) is viewed through the value or volume (high) of exports
- The importer (bullet number 1) imports from other exporters but not the exporter (bullet number 2)
- The exporter (bullet number 2) exports to other importers but not the importer (bullet number 1).

It is important to mention that, while this method of analysis provides useful insights, it does have some limitations. These limitations, as described by Fundira et al. (2009) and Sandrey (2008:10), include possible non-tariff barriers, tastes and preferences and trade classifications in a certain product that may not be strictly comparable at a detailed level.

Considering agricultural products, 753 product lines (HS 6) were used to scrutinize the trade chilling effect. The first threshold was set at US\$ 500,000 (a) Chile imports from the world are at least US\$ 500,000 average over the last five years to denote the demand side and (b) South African exports to the world were at least US\$ 500,000 on average over the last five years to denote the supply side potential from South Africa. In total, this left us with 190 HS 6 lines from the total of 753 HS 6.

The second threshold was set at US\$ 1,000 to look at the lines individually where (a) imports into Chile from South Africa and (b) exports from South Africa to Chile were above US\$ 1,000 over the last five years to indicate there is trade. In total, this left us with 145 HS 6 lines.

The third threshold narrowed the selection down again and examined the lines where (a) global exports from South Africa over the last five years in total were at least US\$ 2 million and (b) global imports into Chile over the last five years were also at least US\$ 2 million to give us lines where the trade opportunities are significant. This left us with 59 HS 6 lines in agricultural products which could be subject to trade chilling.

Table 8 is a summary of products in which the two countries are not currently trading but which have the potential for trade. With the exception of HS 020714 (Chicken Cuts and Edible Offal) at 19 %, Most Favoured Nation (MFN) tariffs on all other products are 6 %, which implies that the tariff does not seem to be the main factor prohibiting trade. There are, of course, other possible reasons why trade may not be taking place. For example, fresh fruit products barely appear on the list, but this may be due to Chile and South Africa both being southern hemisphere countries and therefore experiencing similar harvest periods and production seasons.

Table 8: Summary of the top twenty agricultural products where trade

All values in US\$ million			5-year average	5-year average	5-year average	5-year average
HS	Agricultural products	Chile MFN tariff	Chile-World imports	Chile-SA imports	SA-World exports	SA-Chile exports
220421	Wine	6%	2.82	0.00	478.67	0.00
100590	Maize	6%	253.65	0.00	184.33	0.00
170199	Cane/Beet Sugar	6%	116.48	0.00	73.53	0.00
240120	Tobacco	6%	5.53	0.00	32.64	0.00
100190	Wheat	6%	154.26	0.00	32.11	0.00
100510	Maize Seed	6%	16.30	0.00	29.35	0.00
030379	Fish, Nesoi	6%	2.04	0.00	28.46	0.00
230120	Flour Meal and Pellets	6%	35.59	0.00	17.86	0.00
220300	Beer	6%	11.65	0.00	17.64	0.00
200969	Grape Juice	6%	4.43	0.00	14.15	0.00
151219	Sunflower Seed/Oil	6%	3.87	0.00	12.50	0.00
060310	Cut Flowers	6%	2.14	0.00	12.37	0.00
520100	Cotton	6%	17.76	0.00	11.03	0.00
170191	Cane/Beet Sugar	6%	3.89	0.00	10.86	0.00
120220	Peanuts	6%	5.04	0.00	9.70	0.00
110812	Starch	6%	4.17	0.00	8.36	0.00
220830	Whiskies	6%	16.00	0.00	8.16	0.00
090240	Black Tea	6%	23.21	0.00	7.90	0.00
190531	Cookies	6%	7.68	0.00	7.87	0.00
151710	Margarine	6%	4.30	0.00	6.98	0.00

Source: World Trade Atlas (2009) and authors' own calculations

There are a number of agricultural products that South Africa exports to the rest of the world (excluding Chile) in big values and that Chile imports from the rest of the world (excluding South Africa). Chile in general has an open trade policy, and there is relatively limited use of trade distorting policies because of the use of a uniform MFN tariff of 6 % (although preferential access as a consequence of FTAs results in an average effective tariff of less than 2 %). The agricultural products that Chile imports from the rest of the world (excluding South Africa) in large quantities include maize, cane/beet sugar and wheat. It is possible that Chile imports these products from its neighbours, Argentina and Brazil, as they are leading exporters of these products.

Policy implications

- In cases where South Africa may negotiate an FTA with Chile, the products highlighted in **Table 8** should be prioritised. This is to mean an offensive stance for the removal of the 6 % tariff and elimination of any non-tariff barriers.

3.4 The relative importance of the respective markets

This section scrutinises the relative importance of South African agricultural export products to Chile. **Table 9** shows the top ten imports from South Africa into Chile as ranked by their Chilean import shares. For example, the leading agricultural product is green tea imports, valued at US\$ 1.34 million. This product took a 36.77 % share of Chile's imports of agricultural products from South Africa.

Table 9: South Africa's top ten leading agricultural exports to Chile

HS	Description	RSA Share (%)	2008 (US\$m)
090220	Green Tea	36.77	1.34
200949	Pineapple Juice	26.48	0.97
200870	Peaches	7.53	0.27
220870	Liqueurs and Cordials	6.56	0.24
210210	Yeasts	6.17	0.22
210690	Food Preparations	5.54	0.20
170490	Sugar Confection	3.43	0.13
130232	Mucilages/Thickeners	1.60	0.06
200791	Citrus Fruit	1.03	0.04
130219	Vegetable Saps and Extracts	0.89	0.03
	Total of top 10 lines		3.50
	Total imports from RSA - 2008 (millions of US \$)		3.65
	Percentage of Total Imports		14.60%

Source: World Trade Atlas (2009)

The market share of South Africa's top ten agriculture products in 2008 as depicted by Table 9 is valued at US\$ 3.5 million which is accounted by 14.60 % of Chile imports from South Africa. There is a small percentage of the trade in agricultural products where South Africa is an important source for Chilean imports. On the other hand,

looking at the imports of green tea (not fermented) nesoi by Chile from the rest of the world, South Africa is ranked as the first source of imports. Therefore, this presents an opportunity for South Africa to expand on production capacity of green tea with the intention of becoming a market leader in the green tea market.

CONCLUSIONS

In terms of agricultural policy evolution, South Africa and Chile followed similar paths and both countries underwent significant liberalisation in their agricultural sectors. The major difference, however, lies in the manner in which the two countries support their agricultural sectors, with South Africa almost taxing its producers in some subsectors.

Chilean agricultural imports from South Africa remained relatively stable between 1997 and 2009, while South Africa's agricultural import from Chile declined. Chile and South Africa are direct competitors, as they both compete in the same markets for the same agricultural products, and they are both located in the southern hemisphere. In the top five exports of these countries at least there are the same.

During this period, reported **imports** of agricultural products to Chile from South Africa and recorded **exports** of agricultural products from South Africa to Chile have followed the conventional wisdom of imports being less than exports. Reported **imports** of agricultural products to South Africa from Chile and recorded **exports** of agricultural products from Chile to South Africa have followed the conventional wisdom of imports being less than exports.

The study also shows that South Africa can increase the number of export products to Chile (see annexe). There is a small percentage of trade in agricultural products where South Africa is an important source of Chile's imports, except in the case of green tea, where Chile presents an opportunity of increasing exports for South Africa.

Policy lessons

- South Africa can emulate the Chilean model of supporting agriculture in the allocation of the agricultural budget.
- If South Africa is to negotiate a free trade area with Chile or MERCOSUR, then products listed in the annexe should be considered for the offensive list.

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World Trade Atlas (2009)

ANNEXE

List of all products in which Chile and South Africa are trading with the rest of the world but not with each other.

All values in US\$ million		Chile MFN tariff	5-year average	5-year average	5-year averag e	5-year averag e
HS	Agricultural products		Chile- World imports	Chile- SA imports	SA- World export s	SA- Chile export s
220421	Wine	6%	2.82	0.00	478.67	0.00
100590	Maize	6%	253.65	0.00	184.33	0.00
170199	Cane/Beet Sugar	6%	116.48	0.00	73.53	0.00
240120	Tobacco	6%	5.53	0.00	32.64	0.00
100190	Wheat	6%	154.26	0.00	32.11	0.00
100510	Maize Seed	6%	16.30	0.00	29.35	0.00
030379	Fish	6%	2.04	0.00	28.46	0.00
230120	Flour Meal and Pellets	6%	35.59	0.00	17.86	0.00
220300	Beer	6%	11.65	0.00	17.64	0.00
200969	Grape Juice	6%	4.43	0.00	14.15	0.00
151219	Sunflower Seed/Oil,	6%	3.87	0.00	12.50	0.00
060310	Cut Flowers	6%	2.14	0.00	12.37	0.00
520100	Cotton	6%	17.76	0.00	11.03	0.00
170191	Cane/Beet Sugar, Refined	6%	3.89	0.00	10.86	0.00
120220	Peanuts	6%	5.04	0.00	9.70	0.00
110812	Starch	6%	4.17	0.00	8.36	0.00
220830	Whiskies	6%	16.00	0.00	8.16	0.00
090240	Black Tea	6%	23.21	0.00	7.90	0.00
190531	Cookies	6%	7.68	0.00	7.87	0.00
151710	Margarine	6%	4.30	0.00	6.98	0.00
160420	Fish, Prepared/Preserved	6%	11.80	0.00	6.10	0.00
230910	Dog and Cat Food	6%	46.79	0.00	5.84	0.00
200911	Orange Juice	6%	5.88	0.00	5.72	0.00
020130	Meat of Bovine	6%	324.96	0.00	5.70	0.00
190110	Food Preparations	6%	9.72	0.00	5.67	0.00
081190	Fruit	6%	2.34	0.00	5.66	0.00

050590	Skins and Other Parts of Birds	6%	17.41	0.00	5.55	0.00
151620	Vegetable Fats/Oils	6%	28.03	0.00	5.52	0.00
180632	Chocolate	6%	6.55	0.00	5.27	0.00
040310	Yogurt	6%	2.19	0.00	5.25	0.00
100630	Rice	6%	34.80	0.00	5.19	0.00
170230	Glucose	6%	3.94	0.00	4.99	0.00
190410	Prep Food	6%	8.90	0.00	4.64	0.00
040210	Milk	6%	13.43	0.00	4.64	0.00
210610	Protein Concentrates	6%	14.05	0.00	4.52	0.00
240110	Tobacco, Not Stemmed	6%	3.51	0.00	4.47	0.00
040221	Milk/Cream	6%	8.49	0.00	4.43	0.00
190590	Bread, Pastry, Cakes	6%	11.29	0.00	4.39	0.00
160250	Prepared/Preserved Bovine Meat	6%	3.21	0.00	3.86	0.00
190190	Malt Extract	6%	6.27	0.00	3.75	0.00
080430	Pineapples	6%	3.79	0.00	3.49	0.00
050400	Animal (Not Fish) Guts	6%	4.94	0.00	3.37	0.00
020230	Meat of Bovine, Frozen	6%	15.24	0.00	3.20	0.00
180631	Chocolate and Other Cocoa Preps, Not Bulk, Filled	6%	3.97	0.00	3.10	0.00
100640	Rice, Broken	6%	7.32	0.00	3.03	0.00
040690	Cheese	6%	10.86	0.00	2.99	0.00
090111	Coffee	6%	22.44	0.00	2.98	0.00
200811	Peanuts, Prepared/Preserved,	6%	4.22	0.00	2.88	0.00
110423	Grains Worked	6%	2.06	0.00	2.83	0.00
151590	Fixed Veg Oil,	6%	2.19	0.00	2.78	0.00
020714	Chicken Cuts, Frozen	19%	9.33	0.00	2.61	0.00
220860	Vodka	6%	3.21	0.00	2.42	0.00
200520	Potatoes	6%	2.98	0.00	2.37	0.00
030613	Shrimps and Prawns	6%	5.83	0.00	2.27	0.00
220290	Nonalcoholic Beverages	6%	6.36	0.00	2.21	0.00
230400	Soybean Oilcake	6%	191.00	0.00	2.20	0.00
100110	Durum Wheat	6%	16.62	0.00	2.13	0.00
040510	Butter	6%	2.89	0.00	2.07	0.00
051191	Products and Dead Fish	6%	13.50	0.00	2.06	0.00