



## INTERNATIONAL TradeProbe

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The *TradeProbe* is a joint initiative by the NAMC and the Department of Agriculture, Forestry and Fisheries Directorate International Trade. The aim of this initiative is to create knowledge of trade-related topics by discussing/reporting trade statistics, inviting perspectives from people working in related sectors, reporting on trade-related research and stimulating debate.

### THIS ISSUE OF TRADEPROBE COVERS THE FOLLOWING TOPICS:

- How is the globalisation index looking in 2010?
- South Africa and Chile – agricultural trade relationships

#### 1. HOW IS THE GLOBALISATION INDEX LOOKING IN 2010?<sup>1</sup>

This article was compiled from the work of the Swedish Institute of Technology (January press release). The KOF data clearly ranked countries as far as globalisation is concerned. In its overall list, South Africa ranks number 54 out of 208 countries. Another point to note is that South Africa is the highest ranked African country, followed by Tunisia at number 66.

The ranking order is an aggregation of three methodological dimensions, namely social globalisation, economic globalisation and political globalisation.

##### • Methodology of the globalisation index

The overall index measures the aggregation of the three dimensions, as already mentioned. The KOF Index measures globalisation on a scale from 1-100. The variables are then divided into percentiles to restrict the bias of extreme data points and reduce fluctuations over time.

- ~ It records changes in globalisation across a large number of countries over a long period of time. The KOF Globalization Index 2010 compares 181 countries during the period of 1970 to 2007 and is based on 24 variables.
- ~ The economic dimension quantifies the actual trade and investment flows, incorporating the extent to which countries protect

themselves by imposing restrictions on trade and capital movements to other countries;

- ~ The social dimension of the index shows/reflects the flow of ideas and information; and
- ~ The political dimension examines the degree of political cooperation between countries.

##### • 2010 KOF ranking in brief

Note that the current analysis refers to the year 2007. The developments triggered by the financial and economic crisis are not yet included.

- ~ Belgium is the highest ranked country followed by Austria and the Netherlands.
- ~ The country that moved up significantly is Luxembourg, which moved from 21 in 2009 to number 14 in 2010.
- ~ Lebanon and Algeria suffered the biggest setback. Among the industrialised countries, Norway, which slipped down 4 places to rank number 20, recorded the least favourable change.
- ~ Switzerland is still 4<sup>th</sup> on the globalisation index. While economic and political globalisation is advancing, social globalisation is stagnating.
- ~ Globalisation in the economic, social and political fields has been on the rise since the 1970s and received a particular boost after the end of the Cold War.
- ~ Political and economic globalisation advanced once again from the previous year. In contrast, social globalisation is stagnating – and has been since 2001.

##### • Economic dimension

Singapore still ranks top of the list in terms of economic globalisation, followed by Ireland, Luxembourg, the Netherlands and Malta – all with smaller, open economies that have just recently advanced to the top ranks. Switzerland comes in at 22<sup>nd</sup> place, down one place from the previous year. The lowest level of economic globalisation was recorded in Iran, Niger

<sup>1</sup> This article was compiled by Mr Bonani Nyhodo of the NAMC. For further information please see the following website: <http://globalization.kof.ethz.ch>

and Rwanda, as well as in other African states such as Burundi and Ethiopia.

South Africa ranks 54<sup>th</sup> on the economic dimension and the second highest ranked African country is Mauritius, ranked number 66.

- **Social dimension**

Social globalisation is still topped by Switzerland, Austria and Canada. At the bottom are Myanmar, the Democratic Republic of Congo and Niger.

South Africa ranks 107 and has an index of 47. This is one dimension where South Africa is not performing well. African countries also appear to be performing badly with this dimension.

- **Political dimension**

France is again top of the league, followed by Italy, Belgium, Austria and Sweden, with territories, micro-states and islands such as the Isle of Man, the Channel Islands and Mayotte bringing up the rear. Switzerland continues to rank 8th. Worldwide, the average degree of social globalisation has been stagnant for some years now, while economic and political integration is advancing steadily.

South Africa ranks number 36 in the political dimension and has an index of 87. It is interesting to note that there are four African countries ahead of South Africa, namely Egypt, Nigeria, Morocco and Tunisia.

- **Overall**

- ~ Eastern Europe and Central Asia recorded the biggest jump on the KOF Globalization Index.
- ~ Although the degree of globalisation is highest in the industrialised nations and Western Europe, it has been stagnant for some time.
- ~ In East Asia and the Pacific region, the globalisation process has slowed down from the previous year.

## 2. SOUTH AFRICA AND CHILE – AGRICULTURAL TRADE RELATIONSHIP<sup>2</sup>

*This contribution was compiled from the work of the Trade Reference Group undertaken toward the end of 2009.*

Chile has liberalised its trade policy significantly since the early 1990s. Since then poverty was reduced by 26 %, the GDP averaged 5.6 % (with agriculture only contributing about 4 %) and a net trade surplus was experienced in agro-food trade.

Fundamental to such achievements are a number of policy imperatives. These include government support to agriculture, which is 4 % of the total farm receipt

(PSE); about 75 % of the cost of new plantations is subsidised (forestry) and government expenditure on agriculture has increased tremendously.

South Africa also has liberalised its trade policy since the early 1990s within the ambit of its commitments in terms of the Uruguay Round Agreement on Agriculture. Deregulation of the agricultural sector followed in 1997.

In comparison to Chile, support to agriculture in South Africa is moderate at 5 % of total farm receipt (PSE), but government expenditure on research and development has decreased and government expenditure on agriculture as a share of total budget is still far less than 10 %.

This study further shows that Chile is a major competitor to South Africa for the European and USA agricultural markets. This is notwithstanding the preferential market access that South Africa enjoys under AGOA (African Growth and Opportunities Act – US) and the TDCA (Trade, Development and Cooperation Agreement – EU). Cognisance should be taken that Chile has been signing and negotiating FTAs (Free Trade Agreements) aggressively.

Moreover, the study emphasises that Chile is increasingly competing with South African agricultural products in South Africa's traditional markets. The support provided to the Chilean export industry is clearly enhancing its agricultural export industry's competitiveness. This will require a rethink of how South African exports can be increased and what support is required to enhance the competitiveness of South Africa's agricultural exports. Neglecting to do so, while it is evident that South Africa's market share in its traditional exports markets are being targeted will be to the detriment of South Africa.

The study also investigated potential trade opportunities between Chile and South Africa. There are a number of agricultural products that South Africa export to the rest of the world, and Chile import from the rest of the world, but not from South Africa. The products include, amongst others wine, maize, cane sugar, tobacco, beer, grape juice, etc.

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<sup>2</sup> This article was compiled by Mr Bonani Nyhodo (NAMC), Mr Elvis Nakana (tralac), Ms Heidi Phahlane (NAMC) and Ms Louise Kotze (NAMC).