



INTERNATIONAL TradeProbe

No. 37, January 2012

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 and reporting on trade statistics, to invite perspectives from people working in related sectors, to report on trade-related research and to stimulate debate.

THIS ISSUE OF THE TRADEPROBE COVERS THE FOLLOWING TOPICS:

- Trade profile of potassium chloride (HS-310420)
- Export performance of tomatoes/tomato products
- South African agricultural exports: where are they going?
- Trade liberalisation and Africa's efforts to achieve the MDGs
- The role of exchange rates in agricultural trade: The case of US beef imports

1 TRADE PROFILE OF POTASSIUM CHLORIDE (HS-310420)¹

The chemical compound potassium chloride is used extensively in the production of fertilizer, since the growth of many plants is limited by their potassium intake. Potassium chloride is important for agriculture because it improves water retention, yield, nutrient value, taste, colour, texture and disease resistance of food crops. Its use has wide application to fruit and vegetables, rice, wheat, sugar, maize, soybeans, palm oil and cotton

Table 1 indicates that Canada was the largest exporter of potassium chloride in the world in 2010, with a share of 37.9 % of the value of world exports. Canada was followed by Russia and Belarus, exporting a 19.4 % and 16.8 % share of the value of world exports, respectively. The top three exporters accounted for a 74.1 % share of the value of world exports. South African potassium chloride exports represented 0.04 % of world exports.

Table 1: Leading world potassium chloride exporters in 2010

Exporters	Exported value, US\$ million	Share in world exports (%)
World	13 260	100
Canada	5 030	37.9
Russia	2 572	19.4
Belarus	2 225	16.8
Germany	1 348	10.2
USA	968	7.3
Chile	321	2.4
Belgium	225	1.7
Spain	215	1.6
Netherlands	103	0.8
Jordan	50	0.4
South Africa	5	0.04

Source: ITC Trade Map, 2012

Table 2 lists the leading importers of potassium chloride in 2010. The three leading importers were the United States of America (USA) (22.9 %), Brazil (15 %) and China (12.4 %). Jointly, these importers accounted for 50.3 % of the value of world imports. South African potassium chloride imports represented 0.6 % of the value of world imports.

Table 2: Leading world potassium chloride importers in 2010

Importers	Imported value, US\$ million	Share in world imports (%)
World	14 847	100.0
USA	3 402	22.9
Brazil	2 234	15.0
China	1 841	12.4
India	1 387	9.3
Indonesia	719	4.8
Malaysia	608	4.1
Belgium	505	3.4
France	402	2.7
Poland	279	1.9
Japan	247	1.7
South Africa	95	0.6

Source: ITC Trade Map, 2012

¹ This article was compiled by Mr. Nico Scheltema from the NAMC.

Table 3 shows the leading markets for South African potassium chloride exports during 2010. The top three markets for South African potassium chloride were Zimbabwe, Zambia and Madagascar, accounting for 36.6 %, 36.4 % and 11.5 % of the value of South Africa's exports respectively. The three leading importers accounted for 84.5 % of the value of South African potassium chloride exports.

Table 3: South Africa's leading export markets for potassium chloride in 2010

Importers	Exported value, US\$ million	Share in South Africa's exports
World	6.07	100.0
Zimbabwe	2.22	36.6
Zambia	2.21	36.4
Madagascar	0.7	11.5
Tanzania	0.4	6.6
Netherlands	0.3	4.9
Mozambique	0.04	0.7
Malawi	0.02	0.3
Uganda	0.01	0.2

Source: Global Trade Atlas, 2012

Table 4 lists the leading sources of South Africa's potassium chloride imports during 2010. The three leading sources of South Africa's imports of potassium chloride were Israel, Chile and Germany, accounting for 27.1 %, 26.7 % and 19.8 % of the value of imports, respectively. The three leading importers accounted for 82.4 % of the value of South Africa's potassium chloride imports.

Table 4: South Africa's leading sources of potassium chloride in 2010

Exporters	Imported value, US\$ million	Share in South Africa's exports
World	97.2	100.0
Israel	26.3	27.1
Chile	26	26.7
Germany	19.2	19.8
Russian Federation	8.6	8.8
Jordan	6.9	7.1
United Arab Emirates	3	3.1
Ukraine	2.9	3
Belarus	2.7	2.8

Source: Global Trade Atlas, 2012

Figure 1 indicates that South African potassium chloride imports showed a decreasing trend between 2000 and 2010, whereas exports remained stable over the same period. South African potassium chloride imports experienced a sudden surge when imports rose from 139 thousand tons during 2009 to 269 thousand tons during 2010.

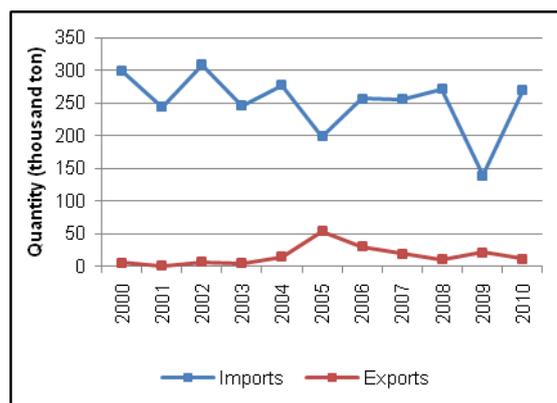


Figure 1: South African potassium chloride trade between 2000 and 2010

Source: Global Trade Atlas, 2012

2 EXPORT PERFORMANCE OF TOMATOES/TOMATO PRODUCTS²

In this section an overview is provided of South Africa's tomatoes/tomato products export performance between 2006 and 2010, in terms of growth in market share and the market itself, for selected product groups. **Table 5 (Appendix A)** indicates how to interpret the position of a product within **Figure 2 (Appendix B)**.

Figure 2 presents South Africa's export performance for tomatoes/tomato products between 2006 and 2010. **Figure 2** also shows the export value of each product (size of the bubbles), and compares South Africa's annual increase in world import market share between 2006 and 2010 (horizontal axis) with the annual growth of international demand between 2006 and 2010 (vertical axis).

Four of the selected tomato products can be classified as "winners in growing sectors" or products in which South Africa has gained world sector share while the world market has grown. South Africa managed to increase market share in tomatoes, fresh or chilled (HS-070200) by 27 %, tomatoes, whole/in pieces prepared/ preserved (HS-200210) by 25 %, tomato ketchup and other tomato sauces (HS-210320) by 26 %, and sauces and preparation nes (nes – not elsewhere specified) (HS-210390) by 16 %.

Tomato juice unfermented & not spirited (HS-200950), Vegetable saps and extracts nes (HS-130219) and Tomatoes nes, prepared or preserved other than by vinegar (HS-200290) was found to be products identified as "losers in a growing sector". South Africa annually lost 4 % and 12 % of the country's world market share respectively while the world market grew by 10 %, 7 % and 13 % respectively. None of the selected tomato products falls within the losers in declining sectors or winners in declining sectors.

² This article was compiled by Ms. Heidi Phahlane (of the NAMC)

Table 6: South Africa's export performance of tomatoes/tomato products, 2006-2010.

Product	Annual increase in world market share, %	Annual increase in world imports, %	Value of Exports, US Dollar Thousand	Is South Africa a net importer or net exporter?
070200- Tomatoes, fresh or chilled	27	8	4,306	Exporter
200950- Tomato juice	-4	10	51	Exporter
200210- Tomatoes, whole/in pieces	25	11	1,006	Importer
200290- Tomatoes nes	0	13	686	Importer
130219- Vegetable saps and extracts	-12	7	2,759	Importer
210390- Sauces and preparation nes	16	10	49,365	Exporter
210320- Tomato ketchup and sauces	26	9	3,987	Exporter

Source: International Trade Centre, 2012

3 SOUTH AFRICAN AGRICULTURAL EXPORTS: WHERE ARE THEY GOING?³

In the last decade, South Africa has negotiated and signed numerous trade agreements with various trading partners across the globe. These agreements symbolised South Africa's eagerness to become an important player in international trade. **Table 7** shows some of the trade and economic agreements that have been signed by South Africa and its trading partners.

The Trade Development and Cooperation Agreement (TDCA) with the EU is arguably the most important and beneficial trade agreement for the South African economy. As driven by this agreement's benefit, South Africa is now the EU's largest trading partner in Africa. Other important agreement includes SADC and BRICS.

It is clear from **Table 7** that South Africa's trade relationship with the world has improved significantly in the last decade. This section seeks to understand whether these trade agreements have had an influence in increasing and diversifying South Africa's agricultural exports in the world.

Table 7: South African trade and economic agreements

Agreement	Trading partner	Date	Purpose of the agreement
Trade Development & Co-operation Agreement (TDCA)	EU	1999	Establish a free trade area between South Africa and the EU
SADC Free Trade Agreement	SADC	2008	Promote economic integration and industrialisation for the sub-region. Eliminate tariffs barriers among member countries
African Growth & Opportunity Act - AGOA	USA & Sub-Saharan Africa	2000	Improve economic relations between USA &

³ This article was compiled by Mr. Sifiso Ntombela (of the NAMC)

			Sub-Saharan Africa. Provide trade preference for quota and duty-free entry into the USA
The Generalised System of Preferences	WTO member countries		Lower tariff rates on imports
Asia-Africa Cooperation		2005	Promote peace, reduce poverty and increase trade
BRICS	BRICS countries	2011	Economic development

Source: SARC and the DTI, 2011

Figure 3 shows South African agricultural exports to the world between 1996 and 2010. This figure further distinguishes between processed and unprocessed agricultural exports. South African agricultural exports increased from R10.9 billion in 1996 to R46.8 billion in 2010.

This impressive growth can be attributed to certain policies adopted by the South African government during this period. Such policies include (i) liberalisation of agricultural trade, (ii) new trade agreements signed, which opened up new export markets with better trading conditions, and (iii) improved access to better inputs and finance resulted in improved agricultural productivity.

During this period, the government has also encouraged exports of processed agricultural products, rather than exporting raw agricultural products. Between 1996 and 2010, processed agricultural exports grew by an average rate of 13 % per year. The unprocessed products grew by an average rate of 11 % per year during the same period.

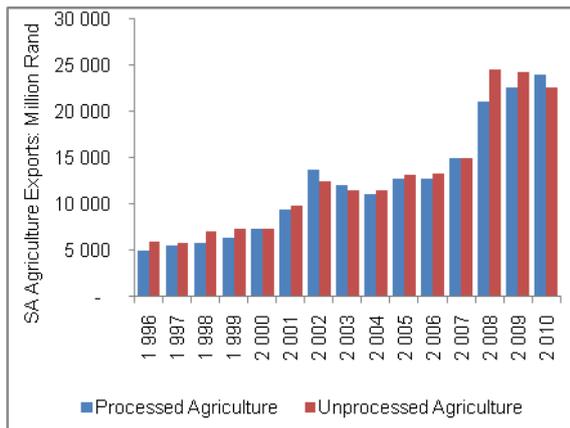


Figure 3: South Africa's agricultural trade: 1996–2010
Source: World Trade Atlas, 2011
Note: Data exclude forestry and fisheries products

Figure 4 gives an interesting picture of the distribution of South African agricultural exports to different markets globally. The EU remains the largest export market for the South African agricultural sector. The EU's share in agricultural exports increased from 34 % in 1996 to 48 % in 2004, and thereafter gradually declined to 35 % in 2010.

The decline of exports to this traditional market is attributed to growing competition from other Southern Hemisphere countries, as well as tightening non-tariff measures (e.g. ethical, technical and environmental standards). South African agricultural exports to the rest of Africa show an increasing trend. Africa's share in agricultural exports increased from 23 % in 1996 to 28 % in 2003 and to 29 % in 2010.

Growing South African trade with the rest of the continent is stimulated by the SACU and SADC agreements. These agreements not only aim to promote intra-African trade but they also encourage economic integration and social development.

South African agricultural exports to Asian and Middle East markets have also shown positive growth. Particularly in the last six years, exports to Asia increased from R4 billion in 2004 to R11.2 billion in 2010, recording an average growth rate of 20 % per year.

Exports to Middle Eastern markets grew from R1.4 billion in 2004 to R3.9 billion in 2010, registering an average growth rate of 21 % per year. Exports to the USA grew from R397 million in 1996 to R1.6 billion in 2010, and the share of the USA in South African exports declined from 6 % in 2002 to less than 3 % in 2010.

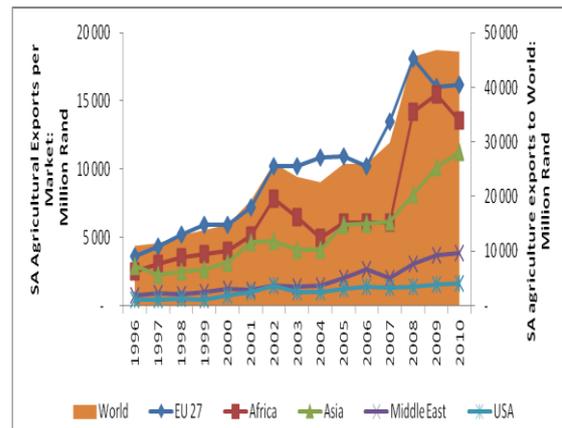


Figure 4: South African agricultural exports per market: 1996–2010
Source: World Trade Atlas, 2011

It is clear that South African agricultural exports are growing and slowly shifting away from the traditional markets (i.e. the EU and USA) towards emerging markets (i.e. Africa and Asia). The main factors contributing to this change can be categorised as “push” and “pull” factors.

The push factors include growing competition, stagnating consumption and tightening non-tariff measures in the traditional markets that are pushing the South African exporters to find alternative export markets outside these traditional markets. The pull factors include growing numbers of middle-class consumers, rising household incomes, improving logistics, an expanding formal retail sector and declining tariff rates in the emerging markets. Together, these factors are making emerging markets more lucrative and profitable.

4 TRADE LIBERALISATION AND AFRICA'S EFFORTS TO ACHIEVE THE MDGs⁴

The United Nations Economic Commission for Africa (UNECA) recently examined the potential implications of the Doha Development Agenda (DDA) and negotiations carried out under Economic Partnership Agreements (EPA) on Africa's potential in achieving the Millennium Development Goals (MDGs) with a strong focus on poverty and livelihood together with gender and the environment.

To put the aforementioned in perspective, the investigation (that took a workshop format) was justified by UNECA's aims to engage on the feasibility:

- To integrate trade policies in and across the continent regarding national and regional development strategies to achieve faster reduction of poverty reduction and sustainable development;
- To enhance Africa's trade negotiations for effective integration into the global economy; and

⁴ This article was compiled by Mr. Bonani Nyhodo (of the NAMC)

- To implement trade policies and international trade agreements that will positively impact on the lives of Africans.

To achieve the said objectives, the workshop was organised as follows:

- MDGs 2011 Report for Africa (from UNECA/EDND, AUC, AfDB and UNDP);
- Theoretical linkages between trade liberalisation and MDGs;
- State of play of the Doha Round;
- The implications of DDA from MDG's perspective;
- State of play of the EPAs followed by updates from COMESA and SADC;
- The way forward.

Assessing the progress in Africa toward achieving the MDGs

Recent findings of a UNECA/AUC/AfDB/UNDP study were presented regarding Africa's progress toward achieving the MDG goals. This included areas of progress and areas of concern. It was noted that social protection as a policy intervention capable of bolstering Africa's progress toward attainment of the MDGs⁵ is necessary. For example, cash transfer has been proved to have positive impacts on a number of MDGs (MDG 1, 2, 4 and 6 especially). School feeding would also help the MDGs to be achieved, as would farm subsidies.

It was also noted that good progress has been made with goals 2, 3, 6 and 8. Meanwhile, it was outlined that for goals 1, 2, 4 and 5 there are significant areas of concern. In particular, economic growth that has not translated into the reduction in poverty, hunger alleviation and employment generation (especially for women and youth).

It was argued that more focus should be placed on public interventions in the area of MDGs and making sure that gains are consolidated in areas of good performance. There is a need to design policies that create employment opportunities.

Data gaps should be addressed in order to be able to better assess the MDGs' achievement. Policies should take account of the concentration of Africa's poor in rural areas and agricultural professions. Ensuring greater linkages between MDGs, addressing youth issues and high inequality in a post-MDG framework were also suggested. African economies should also work harder on implementing policies agreed upon rather than a proliferation of policies on paper.

Mali's experience of centring all economic activities on the MDGs was held up as a good model based on achieving sustainable growth and adopting

⁵ MDG's: 1. End Poverty and Hunger; 2. Universal Education; 3. Gender Equality; 4. Child Health; 5. Maternal Health; 6. Combat HIV/AIDS; 7. Environmental Sustainability; 8. Global Partnership

governance and structural reforms with a view to increasing access to social services. Brazil's successful adoption of micro-financing in poverty reduction was also referred to as exemplary to African countries.

With respect to MDG 8, participants' reiterated fears as to the knock-on effect of the economic crisis in traditional partner countries (particularly in Europe) and questioned whether it will lead to a contraction in ODA and more protectionist measures in trading partners. In addition, despite the progress toward post-HIPC completion point, trends are suggestive of African economies being encumbered by new debt. African countries should resist any new protectionist measures from traditional trading partners and continue to diversify through the expansion of South-South trade and Intra-African trade.

According to the World Bank Doing Business report, Africa is lagging behind in terms of accommodating enterprise and ensuring that trade can play a larger role in achieving the MDGs.

Linking Trade Liberalisation and the MDGs

The linkages between Trade Liberalisation and the MDGs were also discussed. It needs to be noted that the discussion excluded MDG8, but rather focused on how trade can be developmental rather than a source of partnership. The discussion entailed trade's link to economic growth and how trade liberalisation can lead to poverty alleviation with respect to MDGs 1-7.

It was acknowledged that the relationship between trade openness and growth is well established in the long run, but openness is not a policy variable and the relative merits of liberalising are less straightforward.

- The discussions outlined issues of tariff revenue losses (in respect of Africa's tariff reduction commitments);
- The need for industry to become sufficiently developed before opening up; and
- The need for complementary policies and issues surrounding the current concentration of commodities in exports leading to enclave economies in which inputs are tailored around commodities with little transferability to other industries.

Africa has a relatively low growth elasticity of poverty meaning that any trade-induced growth is less poverty reducing than that experienced in other regions. Five channels through which trade liberalisation can affect marginal households vulnerable to poverty:

- Prices of consumption goods;
- Factor prices,
- Income and employment (determined by comparative advantage and labour market responses);

- Government revenue and social expenditure;
- Incentives for investment and innovation, which affect long-run economic growth; and
- Short-run risks and adjustment costs.

The effect of trade liberalisation on MDG 2 is a *priori* ambiguous, but crucially depends on how liberalisation affects the incentives regarding attending school against those to engage in other activities e.g. farming. Outcomes in MDG3 on gender equality crucially depend on the sector involved and initial conditions. In the agricultural sector, men often appropriate cash crops and women subsistence crops. Women typically comprise a lower proportion of the permanent labour supply and tend to be employed on smaller farms (which are less likely to benefit from liberalisation).

Trade induced growth and technology transfer are expected to benefit health MDGs, with the effects of service liberalisation and social expenditure trends being more ambiguous. Dumping of harmful goods will undermine health, and the expansion of trade through the associated increased movement of people may increase the spread of infectious disease (especially as truckers and migrants have high infection rates).

Lastly, environmental sustainability (MDG 7) may be undermined by the attraction of dirty industries in a pollution haven effect, although the evidence for this is mixed. Africa could face a significant opportunity cost from continued marginalisation in world trade, but should endeavour to limit the extent and speed of any liberalisation. The MDGs could create the conditions necessary for Africa to benefit from trade liberalisation in a development-centred approach to trade.

It should be noted that trade is not an end in itself and efforts to make it more developmental (including the Doha Round) are progressive given the high poverty rates in Africa. Consensus on the sequence of reforms is lacking among economists, but no country has developed by turning its back on trade. Particular risks in the African context are:

- Food security (should African countries be self-sufficient in food or attempt to source food from the cheapest source, not necessarily domestic?);
- Loss of tariff revenues; and
- Adjustments required maximising benefits but the process is likely to have winners and losers.

The centrality of development and agriculture in negotiations has led to high hopes from developing countries, but entrenched positions and lobbying power have impeded their realisation especially with respect to developed world agricultural subsidies, which undermine African competitiveness. As African economies develop, however, their ability to

subsidise production may increase and as such African economies should consider this option.

Africa's voice in the WTO negotiations over the past decade has improved. Focus has shifted to "fresh and credible approaches" to concluding the Doha Round, possibly making use of an "Early Harvest" for Least-Developed Countries (LDCs). Caution needs to be taken against "throwing the baby out with the bathwater". This was a way of encouraging African negotiators to continue working in a transparent manner toward securing a developmental package.

The engagements emphasised the crucial role of special and differential treatment in securing developmental outcomes. Flexibilities for Small Vulnerable Economies (SVEs) and Net Food Importing Countries (NFICs) are also paramount, as are provisions on special and sensitive products and the special safeguard mechanism (SSM).

Opening up of trade in services through GATS may yield developmental gains, given its relevance to supply of essential public services, although an associated fear is the loss of personnel in health and education through an increased 'brain drain' arising from liberalisation.

The implications of the DDA from a MDGs perspective

Implications of the DDA on MDGs based on CGE model results were presented. Both strengths and weaknesses of such models were presented. A central question asked was, can the DDA deliver for LDCs?

IFPRI (2008) conducted a study using the MIRAGE CGE model, focused primarily on May 2008 modalities and their impact on LDCs. The results entailed a comparison between scenarios and a reference (or baseline; i.e. without trade reforms) for the year 2025. The main findings are as follows:

- Higher tariff cuts are required by the DDA trade reform for countries with higher levels of development;
- African countries (MICs and LDCs) gain, on average, less access to foreign markets than non-African countries with the implementation of trade reform, essentially due to preference erosion and product specialisation in primary products;
- Total exports of all African LDCs also diminish with trade reform due to substantial erosion of African LDCs' preferences, in particular to High Income Countries. Further, LDCs' exports increase to MICs is lower than the increase in HICs' exports to MICs.

African LDCs' exports in agriculture decrease due to erosion of preferences in agricultural sectors such as rice, sugar, meat and meat products and in industry, particularly in textile and wearing apparel.

Nearly all African LDCs see their real income reduced with trade reform as their terms of trade deteriorate on account of erosion of preferences and rising world agricultural prices for net-food importing countries.

Liberalisation in services helps to slightly improve the situation for Sub-Saharan Africa but the overall impact from the DDA reform remains negative. Trade facilitation significantly reverses the negative real income impact for the region. A more satisfactory way to assess the impacts of trade reforms on poverty or gender is to couple CGE models with household modelling. CGE models are used to generate changes in national prices and household modelling (or micro-simulation), taking national prices as inputs and generating changes at the household level within an economy.

To date, little has been done using CGE models coupled with micro-simulation to assess DDA reform, especially for African countries. An example is the paper by C.A. Emini, J. Cockburn and B. Decaluwé, "The Poverty Impacts of the Doha Round and the Role of Tax Policy: A Case Study for Cameroon", World Bank Policy Research Working Paper 3746, October 2005. This study employs GTAP, coupled with micro-simulation (detailed data for 10,992 households compiled from "ECAM II" household survey undertaken in Cameroon in 2001; gender differentiation), to see the impact of the DDA on Cameroon.

The main results show that the real income decreased by 0.2 % and that the wage rate of unskilled agricultural labour increased by 0.50 %, with men gaining more (0.51 %) than women (0.44 %). In addition, the GINI index slightly decreased: 0.4575 % (baseline) vs. 0.4570 % (after trade reform) and the poverty headcount after trade reform decreased, with the net change in poor people decreasing by 22,000.

Also mentioned is the difficulty that Africa faces in presenting proposals on NTBs, especially on TBT agreements. Africa has not actively engaged in these negotiations and lacks capacity in light of the numerous technical experts presented by the US and EU. The UNECA should thus treat NTBs as a priority in their work programme, as much remains to be done in this domain.

The Economic Partnership Agreements (EPA): State of Play

The Cotonou Partnership Agreement (CPA) between the ACP countries and the European Union gives the legal basis to negotiate EPAs. The core objectives of the CPA are:

- Fostering a smooth and gradual integration of the ACP states into the world economy;
- Enhancing the production and trading capacity of the ACP countries as well as their capacity to attract investment;

- Providing the basis for a true, strengthened and strategic partnership;
- Building on regional integration initiatives of ACP states, bearing in mind that regional integration is a key instrument for the integration of ACP countries in the world economy; while
- Taking account of the different needs and levels of development of the ACP countries and regions.

This means, in principle, that parties re-affirm their commitment to ensure special and differential treatment for all ACP countries and to maintain special treatment for ACP LDCs and to taking due account of the vulnerability of small, landlocked and island countries.

The engagement pointed out that, to a certain degree, the developmental objectives of the EPAs are not crafted to work smoothly with existing regional groupings. The impact of the EPA negotiations on regional groupings within Africa are not desirable.

- For instance, the EU knows that Zimbabwe belongs to COMESA and not to the SADC;
- Tanzania and the DRC joined ECCAS and COMESA respectively for the purpose of EPAs, thus negatively impacting regional integration aims.

Behind this lies the reality that Africa remains a marginal player in world trade (6 % in 1980 and 3 % in 2008), since the continent's trade structure still lacks diversity in terms of production, exports and markets. As such, negotiations to further liberalise (after Structural Adjustment Programmes) their economies will be a futile exercise until certain pre-requisites are met and instituted within their economies.

The emphasis on trade liberalisation alone as a means to stimulating growth and development seems misplaced. Evidence has shown that over time, the African productive structure has become less diversified even with the liberalisation that took place under Structural Adjustment Programmes in the 1980s and 1990s.

Therefore, this question was raised: will EPAs change this structure or will it make the situation worse? The EU and Africa have not reached consensus, in particular on the so called outstanding contentious issues that will erode the policy space of ESA countries to use tools for development.

The countries that only initialled the agreements have not moved one step towards signing the interim agreements. At the same time, countries that signed the initialled agreements have not moved towards ratification, although some have indicated their desire to opt for ratification. Moreover, the presentation noted that the EU's

decision to revoke all preferences currently enjoyed by Africa if the EPAs remain uncompleted by 2014 was a positive development as African Civil Society Organisations have long opposed EPAs due to their lack of MDG-compatibility; hence, this would give a boost to explore other options as to the way forward.

Trade liberalisation in the absence of the following pre-requisites will not be sufficient to address Africa's growth and development agenda:

- Investments in infrastructure for production and export purposes: roads, railways and port facilities, ICT and power generation are critical. Building a competitive manufacturing sector will require the aforementioned;
- Increased public investment in research and development, rural infrastructure, including roads as well as health and education infrastructure;
- Overhauling the basic productive infrastructure to make production more reliable, i.e. power generation, water supply and telecommunications are three key areas that need special attention.

There is a need to develop domestic policy regulatory frameworks to regulate the movement of goods and services in and outside ESA countries: this includes adopting policies that ensure Special and Differential Treatment, including the Special Safeguard Mechanism in agriculture, the infant industry clause and the use of tariffs, among other things.

Concluding remarks

It was noted that it would be imprudent for the Africa Group to let the Doha Round die as it was unlikely that such an initiative would be repeated on the same scale again. It was concluded that, the relationship between some of the MDGs and the WTO negotiations is hard to justify. This has led to concerns about how the modalities affect the realisation of MDGs. Further points are:

- There is a need for more employment generating policies to tackle poverty;
- Implementation of social protection programmes;
- Addressing the problem of inequality, which the current MDGs fail to capture.

It is important to build Africa's capacity to use WTO-permissible windows to address areas impinging on the region's ability to produce and trade such as trade remedies, in food health and technical barriers to trade. The composition of increasing intra-African trade ought to be understood further with a view to create value within the context of global or regional value chains.

Benefits to Africa will be limited unless Africa consolidates work on Trade Facilitation, Standards,

and Rules of Origin within the context of regional arrangements. Trade preferences should be harmonised for African countries into a unified system to create regional value chains.

Africa should urgently build its infrastructure. This is crucial in enabling intra-Africa trade and intra-REC trade. Increasing trade to the EU and US partners alone will not be sufficient.

5 The role of exchange rates in agricultural trade: The case of US beef imports⁶

Changes in the exchange rate alter a country's export prices in foreign markets, as well as import prices in domestic markets, and therefore play a significant role in agricultural trade. For a country importing a product, an appreciation (depreciation) in the exchange rate reduces (increases) the costs of imports, leading to an increase (decrease) in the quantity imported. To illustrate the role of a country's exchange rate relative to the exchange rates of competitors, beef imports into the United States between 1989 and 2010 will be examined in **Figure 5**.

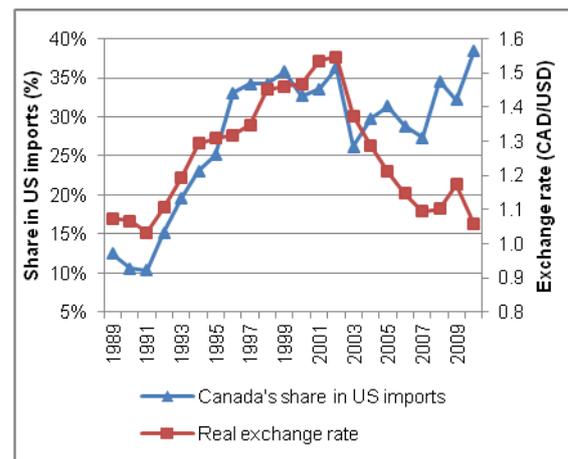


Figure 5: Canada's share in US beef imports and the real exchange rate (2005=base), 1989–2010
Source: USDA FAS, 2011

Figure 5 illustrates how the Canadian dollar (CAD) depreciated significantly against the US dollar (USD) between 1992 and 2002, and, over the same period, the share of US beef imports from Canada increased from 15 % in 1992 to 36 % in 2002.

The depreciation of the CAD caused a decline in Australia's market share in the United States from 44 % in 1992 to 27 % in 1997, the same period that the Australian dollar (AUD) remained stable whilst the CAD showed significant depreciation (**Figure 6**). This depreciation made Canadian beef relatively less expensive than Australian beef.

Figure 6 shows that between 1998 and 2002 the AUD depreciated against the USD, which

⁶ This article was compiled by Mr. Nico Scheltema from the NAMC.

subsequently allowed Australia to increase market share from 27 % in 1997 to 35 % in 2002. However, market share was not gained from Canada, but mainly from New Zealand, Argentina and Uruguay.

Although exchange rate fluctuations do impact on trade, a country's exchange rate is not the only determinant of trade. Firstly, both the New Zealand dollar (NZD) and the AUD showed a similar depreciating trend against the USD between 1998 and 2002, but only Australia managed to gain market share in the US over that period (**Figures 6 and 7**). This indicates that other factors enabled Australian exporters to be more competitive than New Zealand exporters.

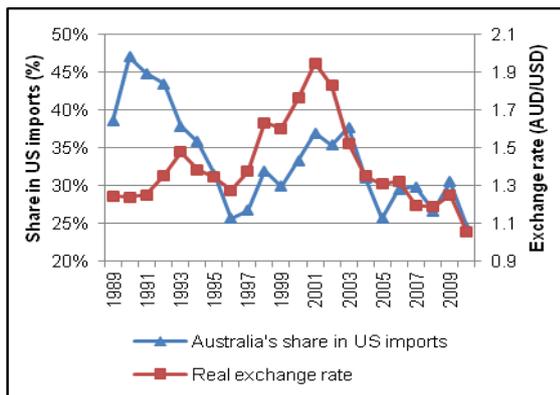


Figure 6: Australia's share in US beef imports and the real exchange rate (2005=base), 1989–2010
Source: USDA FAS, 2011

Secondly, Canada's share in US beef imports showed an increasing trend since 2003, over a period that the CAD appreciated against the USD (**Figure 5**). In order to explain this divergence in the relationship between the CAD/USD exchange rate and US beef imports originating from Canada, the following needs to be considered:

- **Figure 8** shows that between 2001 and 2003 the Uruguayan peso (UYU) strongly depreciated against the USD to such levels that it enabled Uruguay to increase market share in the US from 3 % in 2003 to 12 % in 2007 (in a period of appreciation in the UYU/USD exchange rate). From 2002, the CAD, AUD and NZD experienced appreciation against the USD. This led to a period in which Uruguayan beef became relatively less expensive than beef from the traditional importers. Between 2003 and 2007, the market share of Australia and New Zealand declined by 8 % and 5 % respectively, whilst the Canadian market share increased by 1 %.
- After 2008, the continuing trend of appreciation of the UYU against the USD and better prices achieved in other export destinations such as Europe (especially with Brazilian volumes to Europe limited since 2008 due to traceability issues) led to a sharp fall in Uruguay's market share in the US (GIRA 2010). Uruguay's market share in the US fell from 12 % in 2007 to 2 % in 2010.

- After Uruguay reduced its involvement in the US beef market between 2007 and 2010, the three traditional importers (Canada, Australia and New Zealand) were in a position to retake market share, because the USD depreciated against CAD, AUD and NZD. However, Canada managed to gain 12 % market share, with Australia losing 5 % and New Zealand only gaining 3 % between 2007 and 2010.

From the above discussion it is clear that exchange rates have a significant impact on trade flows between countries. However, cognisance should be taken that other factors also play a significant role and it is the combination of these economic forces that will determine trade flows.

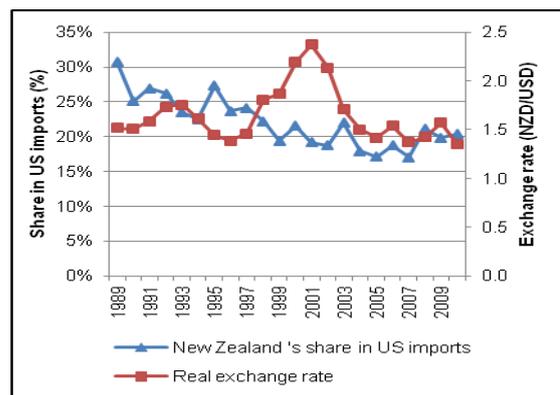


Figure 7: New Zealand's share in US beef imports and the real exchange rate (2005=base), 1989–2010
Source: USDA FAS, 2011

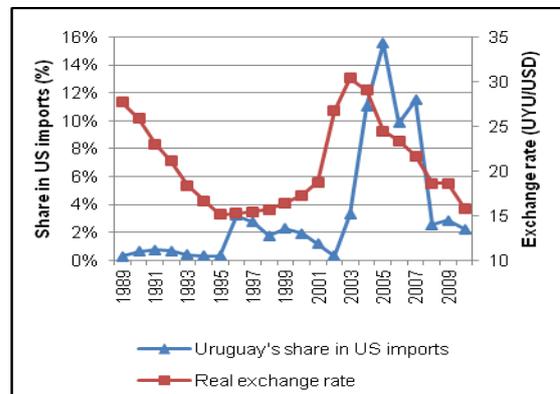


Figure 8: Uruguay's share in US beef imports and the real exchange rate (2005=base), 1989–2010
Source: USDA FAS, 2011

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APPENDIX A:

Table 5: Interpreting export performance graphs

<p>Losers in growing sectors:</p> <ul style="list-style-type: none"> Product in which South Africa has lost world sector share while the world market has grown. Entrepreneurs and trade promoters: determine how resources might be invested to profit from growing international demand. Policy makers: Opportunities for trade promotion and other efforts. Reasons for underperformance may include supply capacity constraints, product quality issues and market access barriers 	<p>Winners in growing sectors:</p> <ul style="list-style-type: none"> Product in which South Africa has gained market share while the world market has grown. Products have proven their international competitiveness over the period. Promotional efforts in these products might consider broadening supply capacity.
<p>Losers in declining sectors:</p> <ul style="list-style-type: none"> Product in which South Africa has lost world market share while the world market has declined. Trade promotion efforts for product groups in this category face difficulty. Identify and resolve bottlenecks in supply and demand. 	<p>Winners in declining sectors:</p> <ul style="list-style-type: none"> Product in which South Africa has gained world market share while the world market has declined. Niche-marketing strategies might help in pinpointing the positive trade performance of specific products from the overall decline in these markets.

Source: Adapted from International Trade Centre methodology, 2012

It should be noted that the criterion for distinguishing growing and declining products in **Table 1** is the annual average nominal growth rate of total world imports from 2006 to 2010, which was 3 % (horizontal reference line). Products whose world imports have grown below this rate (i.e. 3 % annually) are classified as declining products, as their shares in world trade are declining, while products located in the upper quadrants are growing products, as they are growing faster than the world market.

Moreover, the vertical line indicates the percentage growth of South Africa's world market share (vertical reference line). The criterion for distinguishing growing and declining products in **Table 1** is the annual average nominal growth rate of total world imports from 2006 to 2010, which was 3 % (red horizontal reference line).

Products, whose world imports have grown below this rate (i.e. 3 % annually), are classified as declining products, as their shares in world trade are declining, while products located in the upper quadrants are growing products, as they are growing faster than the world market.

APPENDIX B:

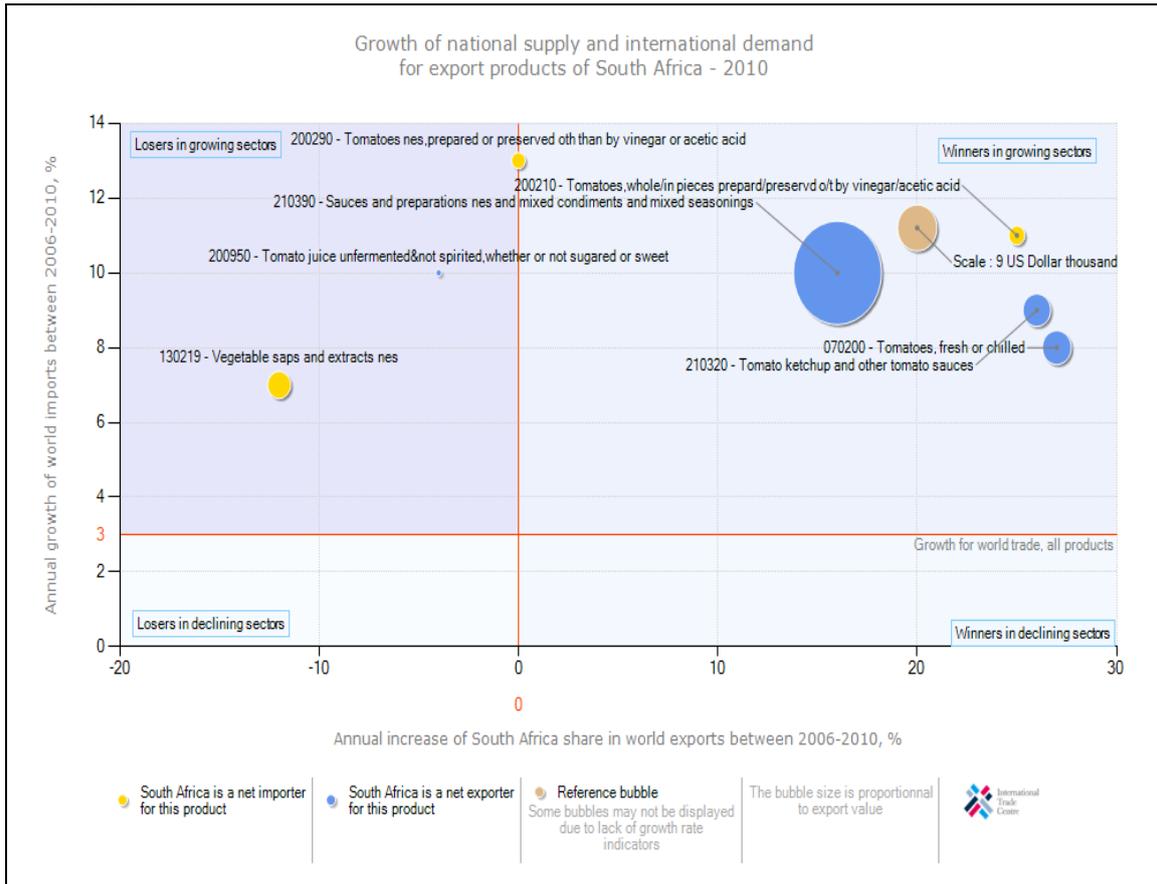


Figure 2: Tomatoes/tomato products export performance, 2006–2010.

Source: International Trade Centre, 2012