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National Agricultural Marketing Council
Strategic positioning of South African Agriculture in dynamic global markets

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, invite perspectives from people working in related sectors, and report on trade-related research and stimulating debate.

THIS ISSUE OF TRADEPROBE COVERS THE FOLLOWING TOPICS:

1. Trade Analysis Symposium – Exploring the African market: What are the issues of specific interest to agriculture?
2. Regulating foreign investment in agriculture in Africa
3. Agricultural trade opportunities in the Kenyan market for South Africa
4. Agricultural trade relations between South Africa and Thailand
5. Multifunctionality – Agriculture is not just a source of food
6. What role can China play in diversifying African exports?
7. Amendments made to various agricultural rebates by the ITAC

1. TRADE ANALYSIS SYMPOSIUM – EXPLORING THE AFRICAN MARKET: WHAT ARE THE ISSUES OF SPECIFIC INTEREST TO AGRICULTURE?[1]

The National Agricultural Marketing Council (NAMC), in collaboration with the Trade Reference Group (TRG), hosted a mini-symposium during a conference co-hosted by the Agricultural Economics Association of South Africa (AEASA) and the Africa Association of Agricultural Economists (AAAE) in September of 2010 in Cape Town.

The theme of the symposium was informed by current topical issues in South Africa pertaining to Africa trade and was "Exploring the African markets: what are the issues of specific interest to agriculture?" Agriculture is an extremely important sector and is fundamental to the performance of other sectors in any economy, especially in Africa. In Africa, agriculture plays an important role in people's livelihoods. In addition to its socio-economic contribution, agriculture plays a number of vital roles in the ecosystem (agriculture's multifunctionality is explained in the article on multifunctionality).

Net exporters of African agricultural products export a large share of their produce to other continents; similarly, net importers within Africa import a large share of the agriculture imports from other continents. Africa is not extensively trading within the continent and a thorough examination has been conducted to identify factors that hinder its intercontinental trade. The following factors are significant:

- Infrastructure development
- Political and economic instability
- Trade facilitation issues

The NAMC invited five speakers to address the theme of the symposium, namely Ms Trudi Hartzenberg, Mr Taku Fundira, Mr Lambert Botha, Mr Andeas Rüsch and Ms Willemien Denner.

1.1 Do regional trade agreements actually influence trade and investment decisions? – Mr Lambert Botha

Mr Botha highlighted the challenges investors in Africa face. Among others, he mentioned the complexity of rules guiding trade arrangements, conflicts between industrial policies and trade policies, and trade rules that restrict small traders. These challenges also included the inability to produce traceable goods and, poor services (transport, communication etc.) in Africa and the strong influence of politics on trade arrangements. These factors make it difficult to enforce the importers' rights.

It was emphasised that there are some crucial issues that investors need to know about before investing in a country. These included the security of property rights, the state of infrastructure, ability to access information, and political and economic stability.

Relating to a number of Free Trade Agreements (FTAs) in Africa, it was argued that in order to improve the effectiveness of trade agreements in pro-

[1] This article was compiled by Mr Bonani Nyhodo, Mr Nico Scheltema and Mr Lindikhaya Myeki (NAMC).

moting investment, the rules of origin need to be simplified and the trade rules have to be legally enforced by government.

Mr. Botha concluded that South Africa needs to reconsider the rules in order to create effective marketing beyond local markets, trade agreements and policies.

On the issue of whether or not regional agreements influence trade and investment decisions, he argued that in a rules-based environment, these agreements do indeed influence decision-making. However, this may not be the case when these rules are not enforced.

1.2 Non-tariff trade measures In Africa – Ms Wil lemien Denner

Ms. Denner showed that some non-tariff barriers (NTBs) emanate from government regulation (involuntary standards), while others are private industry or retail standards (voluntary). NTBs have become more important in recent years. This is due to:

- Globally applied tariffs that have decreased
- Old non-tariff barriers such as import quotas and export/import bans have been replaced by smart NTMs such as the rules of origin and SPS
- NTMs reduce intra-regional trade and the associated potential benefits

Ms Denner noted the top twenty-three NTMs in the SADC, COMESA and EAC, some of which are:

- Roadblocks
- Quality inspection procedures
- Varying trade regulations
- Customs documentation and administration procedures
- Temporal bans on selected product

She stated that under Article 6 of the SADC Trade Protocol, Article 49 of the COMESA Treaty, Article 75(5) of the EAC Treaty and Article 13 of the EAC Customs Union there are legal instruments that can be used to eliminate the abovementioned NTMs using available mechanisms.

Ms Denner listed the following as challenges and possible solutions for the Tripartite FTA:

- A lack of transparency
- Financial and capacity constraints
- Differing standards and technical requirements

She proposed the following options to deal with the issues of NTMs:

- A one-stop border post to limit traffic congestion and waiting times
- Development of a web-based reporting and monitoring mechanism
- Capacity building around the issues of SPS

1.3 Non-tariff trade measures In Africa – Mr An dreas Rüsch

Mr Rüsch described barriers to trade as being a transaction cost. He emphasised the issues of concern around NTMs as the disparity between standards, inter-governmental acceptance of testing methods, standards and packaging as well as labelling and marking.

Mr Rüsch argued that barriers aligned with environmental and health issues should be considered non-negotiable. However, he noted that traders want transparent systems that are applicable since the cost of getting the necessary accreditation to move products between nations is high.

To elaborate further on the issue of NTMs to trade in Africa, Mr Rüsch used the example of the green bean trade. He also addressed the implication of higher standards, which are sometimes unattainable.

1.4 Cape to Cairo: Agricultural trade and agri business development – Mr Taku Fundira

Mr Fundira noted that an ongoing study entitled "The implications for South Africa of the proposed COMESA-EAC-SADC tripartite FTA" entails an examination of the implications of an extensive FTA (with the SADC, COMESA and EAC) on South Africa. The study entails, amongst others, the following:

- The political economies of the 26 individual countries
- An examination of the role of agriculture and agricultural policies in each country
- Agricultural production profiles
- Regional trade agreement membership
- Opportunities for South African agribusinesses

An additional component of the study is to focus on other issues that are also important for the negotiation of the Tripartite FTA. These include issues such as:

- Multilateral vs bilateral agreements: what's best for African countries?
- The legal background issues; political economy issues including the overlapping membership of FTAs; and
- Trade in services and investment.

It was further posited that the agribusiness sector should be developed over the next two decades, and that focus should be placed on moving from subsistence agriculture towards commercial farming.

1.5 Symposium summary lessons

The following were identified as crucial factors that could contribute to increasing trade among African countries, especially those that are members of FTAs:

- There is a need for a rules-based approach to FTAs;

- There is a need to consider harmonising standards and their evaluation methods; and
- There is a need for capacity building around border post clearances and rooting out corruption.

2. REGULATING FOREIGN INVESTMENT IN AGRICULTURE[2]

One of the most profound challenges that we face as a community of nations is to understand better the emerging socio-economic forces and forms of globalisation, to shape them to serve our needs and to respond effectively to their deleterious consequences.

– Kofi Annan (1998)[3]

Amidst a slew of global crises – climate change, energy shortages, food inflation and the recent world economic recession – these words are perhaps more poignant today than when they were when first spoken, nowhere more so than in sub-Saharan Africa (SSA).

Africa is among the world's regions most direly affected by hunger. More than 200 million people across the continent suffer from chronic malnutrition[4]. Despite the improvement in the total number of people affected by hunger since the global economic downturn began in 2007, one in three Africans still do not have enough to eat[5].

Prominent regional initiatives, such as the Common Africa Agriculture Development Programme (CAADP), and international frameworks, such as the Programme on Global Food Security, reflect renewed momentum behind the reform of the agricultural sector, yet Africa continues to face significant obstacles in reducing hunger and delivering lasting change to farmers unable to participate equitably in world markets[6].

While multilateral trade liberalisation at the World Trade Organisation (WTO) continues to stall, regional economic agreements continue to proliferate. African countries are certainly not immune to this trend. South Africa alone being party to 21 bilateral investment treaties (BITs)[7]; it has overlapping memberships in two regional trading blocs, while external free trade areas (FTAs) have been concluded with prominent blocs in Europe and negotiations are underway with the powerhouses of Asia and the Americas[8]. While the debate rages on about whether trade creates or diverts the effects of preferential agreements, there is tentative agreement among critics and proponents alike that, in the absence of a multilateral accord, regional integration that is aided by preferential trading arrangements represents the most efficient tools currently on offer to dismantle global trade barriers[9].

However, as evidenced by a number of states' inability to take full advantage of the preferential treatment afforded under initiatives such as the African Growth and Opportunity Act (AGOA), the elimination of barriers is of little use if production is too low to effectively trade.

With 33 of the world's 49 least developed countries (LDCs) forming part of the SSA region, foreign direct investment (FDI) is an important source of revenue for development. In 2008, the total FDI to the African continent had climbed to US$ 88 billion, compared to US$ 44 billion received for official development aid (ODA)[10]. **Figure 1** shows the regional distribution of FDI as per 2009 figures.

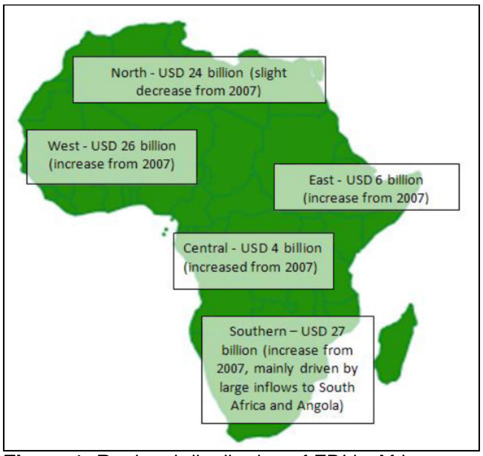

Figure 1: Regional distribution of FDI in Africa
Source: Adapted from UNCTAD WIR (2009)

The outlook for the agricultural sector, however, is somewhat idiosyncratic. By 2008, official development assistance (ODA) to African agriculture had plummeted from a high of 17 % of the total funds in 1979 – at the crest of the "Green Revolution" – to less than 3.5 %[11]. In absolute terms, the dollar amount fell from eight billion in 1984 to a mere 3.5 billion in 2005[12].

Increasing food price volatility and policy-related supply shocks, culminating in the 2008 food price crisis, galvanised a movement to reprioritise the flow of FDI toward investment in agriculture, which creates new

[2] This article was compiled by Ms Stephanie van der Walt (NAMC).
[3] Annan, Kee E. (1998). *Partnership for a Global Community: Annual Report on the Work of the Organisation.* UN Sales No. E.99.I.3. New York.
[4] FAO Regional Office. (October 2010). *World Food Day Report.* Available from http://www.fao.org/africa/raf-news/detail-news/en/item/46625/icode/?no_cache=1. (Accessed 8 November 2010).
[5] *Ibid.*
[6] *Ibid.*
[7] UNCTAD BITs database, country profile: South Africa . Available from http://www.unctadxi.org/templates/docsearch779.aspx. (Accessed 10 November 2010).
[8] WTO RTAs gateway, country profile: South Africa. Available from http://rtais.wto.org/UI/PublicSearchByMemberResult.aspx?enc=bUbyxPA3Wob5pG8+pdmN/7WusCkUvxShoaEaYTKA3OBDvu25IEoDXsIOVR1QOkM1PYK+ZdmullTBNHBu/7dtL3Z2BgcJXn8fyfArpkhD4s8. (Accessed 15 November 2010).
[9] Freund, C. and Ornelas, E. (May 2010). *Regional Trade Agreements.* Policy Research Working Paper 5314. World Bank Development Research Group: Trade & Integration Team: Washington DC, USA. At 4.
[10] United Nations: Office of the Special Advisor on Africa. (October 2010). *FDI in Africa.* Policy Brief No. 4 at 4.
[11] FAO Investment Centre. (2010). *Increased agricultural investment is critical to fighting hunger.* Available from http://www.fao.org/tc/tci/whyinvestinagricultureandru/en/. (Accessed 11 November 2010).
[12] *Ibid.*

opportunities for the African continent, but also new challenges.

One fact that is beyond dispute is that the agricultural sector in SSA (as in other developing regions) is in urgent need of a capital injection[13]. The FAO has calculated that if the first Millennium Development Goal of "halving the hungry by 2015" is to stand any chance of being achieved, additional funds of at least US$ 30 billion per annum need to be mobilised[14]. The capacity of African countries to fill this gap is limited and, as indicated by the Figure 2, ODA does not offer a viable solution either.

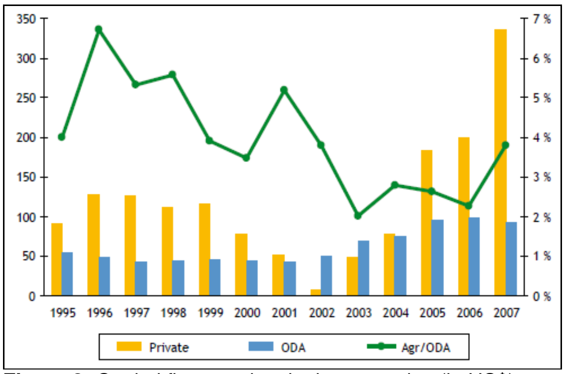

Figure 2: Capital flows to developing countries (in US$)
Source: OECD Creditor Reporting System (2009)

The total share of ODA to the agricultural sector has been sliding continuously, to below 5 % of global funds. The question therefore is not *whether* FDI should provide a supplement to other capital inflows, but *how* the impact can be optimised[15].

The first step is becoming acquainted with the "playing field", which begs the question:

2.1 What is known about international investment in agriculture?

In answering this question, it must be borne in mind that, while states are the signatories to investment treaties and trade agreements, actual trading and investing (generally) rides on contracts concluded between firms in the private sector[16]. Even in instances where governments are party to an investment agreement, the rules are essentially the same as for any other contracting party.

As far as access to data is concerned, border controls, tariff measures, trade remedies etc. have the effect of making trade data more readily available in the public domain. On the other hand, investment – essentially amounting to a private contract between parties – does not impose the same duty of disclosure, making figures significantly more arduous to track.

In the absence of independent surveillance of investment activities, reliable information is difficult to come by. Information that is available is generally anecdotal or garnered from media reports, which might be less than accurate[17]. Nevertheless, the following broad observations have been noted[18]:

- Investment in agriculture has increased;
- Deals are geared in favour of accessing resources, rather than markets;
- The main forms of investment are land purchase or long-term lease;
- The share of total land assets owned by foreigners remains small;
- The major investors in agriculture are: the Gulf states, the People's Republic of China (China) and the Republic of Korea;
- The main host region is Africa, with the focus now beginning to shift to Latin America;
- The investors are mainly private sector entities, but governments are also involved;
- The main investment partners in host countries are governments; and
- There is an emerging focus on production of basic foodstuffs and animal feeds.

While developed countries still account for the bulk of total FDI flows into Africa, research by UNCTAD has noted that FDI from developing countries increased from an average of 18 % between 1995 and to 21 % between 2000 and 2008[19]. The rapid economic expansion in Asia – particularly in China, which possesses only 7 % of the world's arable land, yet houses nearly 20 % of the global population – is the driving force behind the upsurge in South-South agricultural FDI[20].

The main factors fuelling FDI flows, with food security serving as a compass, are the availability of land and water resources to irrigate it. Ethiopia, Sudan and the United Republic of Tanzania are among the major recipients of Southern FDI in agriculture[21].

Taking cognisance of these facts, the next question to be answered is one that has already been posed above:

[13] *Ibid,* United Nations. (January 2010). *Foreign land purchases for agriculture: What impact on sustainable development?* Sustainable Development: innovation briefs, issue 8 . Available from http://www.un.org/esa/dsd/resources/res_pdfs/publications/ib/no8.pdf (Accessed 14 November 2010); Sandrey, R. and Vink, N. (2009). Regional Integration in SACU's agricultural sector. In *Monitoring Regional Integration in Southern Africa.* Edited by A. Bösl *et al.* Tralac. (2009). Stellenbosch, South Africa. p. 168.
[14] Interview with David Hallam, Deputy Director of FAO's Trade and Marketing Division. (June 2009). *FDI in agriculture.* FAO Policy Briefs. Available from http://www.fao.org/economic/es-policybriefs/multimedia0/videodavidhallamonfdiinag/en/. (Accessed 10 November 2010).
[15] FAO Economic and Social Perspectives. (June 2009). *From land-grab to win-win: seizing the opportunities of international investments in agriculture.* FAO Policy Brief 4. Available from http://www.fao.org/economic/es-policybriefs/detail/en/?uid=21523. (Accessed 12 November 2010).
[16] *Ibid.*

[17] *Ibid.*
[18] *Ibid.*
[19] UNCTAD. (2010). *South-South cooperation: Africa and the new forms of development partnership.* Economic Development in Africa Report 2010. Geneva, Switzerland. At 79.
[20] See note 17 at 84.
[21] *Ibid.* at 88.

2.1 What is needed to ensure a win-win situation for investors and host states alike?

Cultivation of certainty and transparency provide a quick response; however, achieving these goals poses no simple challenge. For investors, profit maximisation and competitiveness represent the main objectives to be pursued, which may not always align with non-market development directives of the host state[22].

Add the fact that a December 2000 survey of the world's 100 largest economic entities revealed that only 49 were countries, with corporations making up the bulk of the number[23], and it becomes clear that reliance on the doctrine of state sovereignty – the foundation of the traditional emphasis on investors' rights and host states' obligations – may not be as "cut and dry" as once was argued[24].

2.3 The state of play in the regulatory sphere[25]

On the international front, the much-publicised ICSID arbitration of *Foresti et al. v. the Republic of South Africa*[26] reached a rather anticlimactic conclusion in January 2010, when the claimants sought a discontinuance of proceedings with *res judicata* effect[27].

While no findings were made on the merits, the case's relevance lies in the arbitration panel's handling of submissions from non-disputing parties (NDP); it allowed them unprecedented access to case documents as well as participant feedback. This bolstered transparency in international arbitration proceedings, and the purpose of these steps was to assist the tribunal in incorporating South Africa's domestic and international socio-economic and human rights obligations in its interpretation of the country's duties under the relevant BITs[28].

This signifies a shift in the perspective from which investment disputes are approached, with the uneven distribution of benefits and costs of globalisation being acknowledged and increasingly addressed[29]. This is especially relevant for FDI in agriculture, where land acquisition by foreigners and the right to "fair and equitable" compensation must be balanced with (often already contentious) land redistribution directives.

Another international development that pertains directly to agricultural FDI is the January 2010 publication of a joint discussion note by the United Nations Food and Agriculture Organisation (FAO), the International Fund for Agricultural Development (IFAD), the United Nations Conference on Trade and Development (UNCTAD) and the World Bank, entitled "Principles for responsible agricultural investment that respects rights, livelihoods and resources"[30]. These principles provide a useful tool for developing countries attempting to address concerns in this regard; however, it remains imperative that host states take ultimate responsibility for identifying issues unique to their situation and then go on to attract those investments best suited to their people's needs.

On the regional plane, investment regulation in the Southern African Development Community (SADC) has (on paper at least) been bolstered by the adoption of the 2006 Finance and Investment Protocol (the Protocol), which aims to address the finance, investment and macro-economic policy issues in the context of overall regional economic integration.

The objective of the protocol is to augment measures intended to strengthen intra-regional trade flows[31]. However, pressing concerns have been raised regarding its implementation. These include vast gaps in exchange values, unequal distribution of skilled labour and immigration problems associated with integration, an uneven economic playing field in the region, unequal participation by members, lacking community involvement during the drafting stage of the Protocol, and the feasibility of set timeframes and the cost structures that the Protocol has established[32].

Members' failure to actively enforce the SADC Tribunal's decision in the case *of Mike Campbell (Pvt.) Ltd. and Others v. the Republic of Zimbabwe*[33] dealt a disheartening blow to investor confidence in the region and farmers in particular, thus casting a shadow over the legitimacy of the Protocol's ambitions[34] in the absence of political will to take a united stand against transgressing members[35].

There is hope that the conclusion of a Bilateral Investment Promotion and Protection Agreement (BIPPA) between South Africa and Zimbabwe[36] pursuant to the South African High Court's decisions in *Von Abo v. Government of the Republic of South Af-*

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22 *Piero Foresti et al. v. the Republic of South Africa.* ICSID Case No. ARB(AF)/07/1 at 14.

23 Aguirre, D. (2008). *The human right to development in a globalised world.* USA: Ashgate Publishing Burlington. At 2.

24 UNGA. (16 December 2005). *Globalisation and its impact on the full enjoyment of all human rights.* UN Doc.A/RES/60/152 at paragraph 5.

25 The following overview strives to take stock of events relevant to FDI in Southern Africa, but in no way does it represent a comprehensive analysis of the topic.

26 See note 20 *supra.*

27 *Ibid.* at 21.

28 *Ibid.* at 4.

29 Whitsitt, E. (3 November 2009). *Piero Foresti case.* Investment Treaty News. Legal Resource Centre. Available from http://www.lrc.org.za/lrc-in-the-news/1115-2009-11-03-piero-foresti-case-investment-treaty-news. (Accessed 12 November 2010).

30 IFAD et al. *Principles for responsible agricultural investment that respects rights, livelihoods and resources (extended* version). Available from http://siteresources.worldbank.org/INTARD/214574-1111138388661/22453321/Principles_Extended.pdf. (Accessed 9 November 2010).

31 Finance & Investment Protocol information brochure at 3. Available from http://www.sadc.int/cms/uploads/SADC%20Finance%20and%20Investment%20Protocol%20Brochure%20-%20English.pdf. (Accessed 15 November 2010).

32 Parliamentary Monitoring Group. (8 May 2007). SADC Finance and Investment Protocol: Briefing by Treasury & Reserve Bank. Available from http://www.pmg.org.za/minutes/20070507-sadc-finance-and-investment-protocol-briefing-treasury-reserve-bank. (Accessed 15 November 2010).

33 *Mike Campbell (Pvt.) Ltd. and Others v. the Republic of Zimbabwe.* SADC (T) Case No. 2/2007.

34 Particularly with regard to Annex 1 commitments pertaining to the promotion of 'cooperation on investment [with the aim of] facilitating cross-border investment flows within the region'. See note 29 at 14.

35 *Ibid.*

36 Ratified in May 2010.

rica[37] and *Fick and Others v. Government of the Republic of Zimbabwe*[38] will increase investor confidence in the region; however, this will depend on the consistency of enforcement measures taken by both governments.

Regardless of the impediments of organised integration, the previous decade saw an increase in the overall number of BITs concluded between African states and other developing nations[39].

While it has been argued that the *ad hoc* nature of these agreements frustrates regional unity, the fact remains that BITs present an important tool with which to strengthen the regulatory framework on FDI, and ensure a "favourable, predictable and stable regime across national borders"[40]. In addition, studies suggest that the conclusion of such treaties is among the swaying factors steering companies' decisions on where to invest[41]. Figures 3 and 4 provide an overview of recent trends in the conclusion of BITs between African and non-African developing countries:

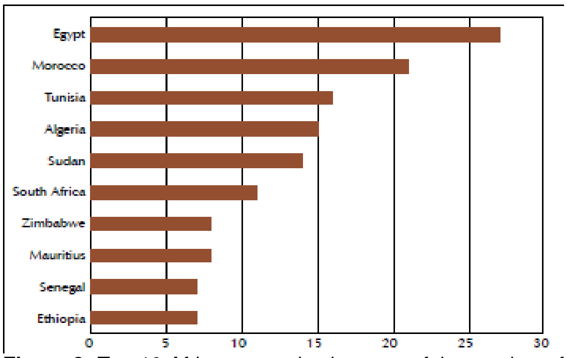

Figure 3: Top 10 African countries in terms of the number of BITs concluded with non-African developing countries (end of 2008)

Source: UNCTAD, www.unctad.org/iia

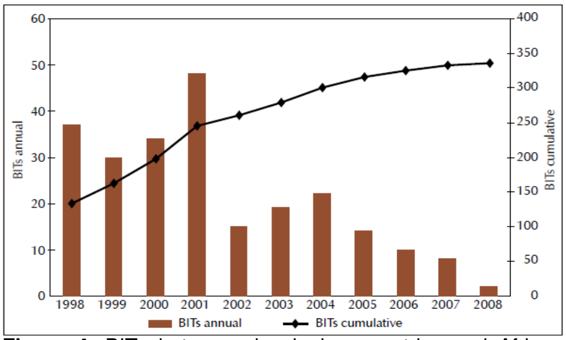

Figure 4: BITs between developing countries and African countries

Source: UNCTAD (www.unctad.org/iia)

[37] *Von Abo v. Government of the Republic of South Africa.* (2009). (2) SA 526 (T).

[38] *Fick and Others v. Government of the Republic of Zimbabwe.* (2010). (1) North Gauteng High Court Case No. 77881/2009. Available from http://www.cfuzim.org/index.php?option=com_content&view=article&id=375:louis-fick-v-government-of-zimbabwe-in-pretoria-high-court-77812009-&catid=44:legal-cases&Itemid=91. (Accessed 15 November 2010).

[39] See note 17 *supra* at 94.

[40] *Ibid.* at 90.

[41] *Ibid.*

While multi- and bilateral measures are useful for fostering certainty and providing guidance, as stated previously, "ground zero" for the regulation of FDI inflows resides within the jurisdictional borders of the host state. As evidenced by proceedings in the Foresti case *supra*, FDI does not take place in a vacuum. The best ways for host states to avert negative externalities is to create a solid institutional framework encompassing all areas that stand to be impacted by FDI.

In a recent publication on the topic of food security in South Africa, Prof. Marcos Fava Neves identified eight topics of importance that ought to be investigated and incorporated into individual countries' investment policies. These are[42]:

- Governance structure for investments (i.e. how FDI will take place and what assets will be owned);
- Regulation of human capital (i.e. sources of labour, remuneration, working conditions, benefits, corporate social responsibility, ethics and codes of conduct as well as community relations);
- Environmental impacts and protection measures;
- Taxation policies;
- Research and development policies (i.e. transfer of technology and capacity building);
- Differentiation between agribusiness and agricultural investments and awareness of the impacts on both;
- Access to finance and credit provision; and
- Market access considerations.

While such an undertaking may seem beyond the institutional capacity of a number of Southern African nations, it is not an exaggeration to say that vulnerable countries cannot afford *not* to take these measures. Internal corruption possibly presents the biggest threat to the sustainability of development gains through FDI in agriculture, and correlates strongly with a lack of records pertaining to smallholding land rights, which precludes the enforcement thereof[43].

It is also essential that investments do not worsen established gaps between commercial and small-scale farming by creating enclaves of advanced foreign-owned agricultural activity that result in little or no benefits being felt at grassroots level[44].

2.4 Conclusion

FDI in agriculture presents a prime opportunity to bolster development in the sector; however, both host states and investors need to take cognisance of potential externalities and devise decisive strategies to prevent these from occurring. Recent developments have shaped the regulatory environment wherein this type of investment takes place, but there is still much work to be done.

[42] Fava Neves, M. (2010). *The future of food: messages to South Africa.* The National Agricultural Marketing Council & Agricultural Business Chamber. Pretoria, South Africa. At 11-12.

[43] See notes 11 and 13 *supra*.

[44] *Ibid.*

Improving the conditions of land deals must be a priority and must bear in mind that direct use of land resources is but one method through which the food security concerns of resource-restricted countries may be addressed[45]. Alternative measures suggested by the FAO include contract farming and outgrower schemes, specific bilateral agreements, including counter-trade, and the improvement of the global food market information system[46].

Furthermore, investments could be made to address needs in the infrastructure and institutional frameworks that are directly linked to the underperformance of the agricultural sector in a number of SSA countries[47]. This, coupled with efforts to improve the efficiency and reliability of world markets as a source of food, could raise global food security through an expansion of production and trade possibilities[48].

3. AGRICULTURAL TRADE OPPORTUNITIES IN THE KENYAN MARKET FOR SOUTH AFRICA[49]

3.1 Background

Kenya is geographically located in East Africa, lying along the Indian Ocean to its southeast part. The country is also bordered by Somalia to the northeast, Ethiopia to the north, Sudan to the northwest, Uganda to the west and Tanzania to the south.

Kenya is strategically positioned to be a gateway market into the East African region. Kenya has a total population of 39 million people, with a growth rate of 2.5 % annually[50]. Only 22 % of Kenyans reside in the urban areas. However, the migration of people to urban areas is rapidly growing, facilitated by a developing service sector and deteriorating rural agriculture.

Agriculture is the second biggest sector after the services sector when measured according to its percentage contribution to the national GDP. Although agriculture only contributes 24 % to the national GDP, it is a primary employment sector, creating jobs for over 72 % of the country's labour force.

The downside for Kenyan agriculture is that the bulk of Kenya's land is not suitable for agriculture. Only 20 % of Kenya's total area (i.e. approximately 117,400 square kilometres) is classified as arable agricultural land; 2 % is covered by water, including the Lake Nalubale (also known as Lake Victoria) and the rest is arid or semi-arid land.

Due to poor land and declining rain, coupled with increasing temperatures, Kenya is rapidly becoming a net importer of food to feed its people. Kenya's total imports (not only agriculture) have been increasing at an annual rate of 17 % for the past five years. Although the main Kenyan imports include vehicles and electrical equipment, agricultural products such as grains, sugar, coffee, vegetables, preserved foods, fruits and beverages have increased significantly over the past four years.

Figure 5 shows the average annual growth rate of major agricultural imports into Kenya. The country imports mainly grain products such as maize and sorghum, followed by sugar. Over the past four years, grain imports increased by 47 %, sugar by 30 %, coffee by 13 %, fruits by 22 % and vegetables by 27 %. Kenya is a strong producer of cut flowers, subtropical fruits, coffee and tea, maize, rice, potatoes and cattle meat.

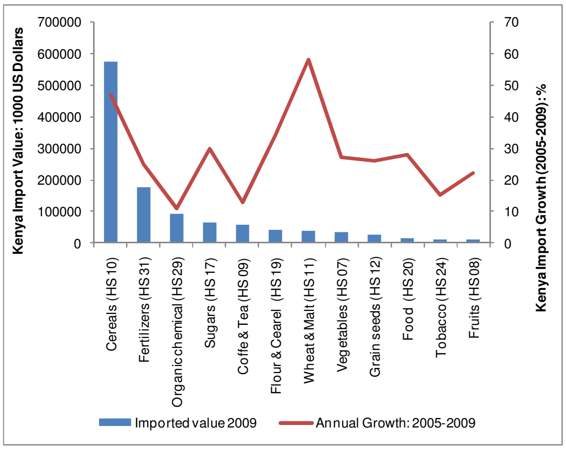

Figure 5: Main Kenyan agricultural imports from the world in 2009
Source: Trade Map (2010)

3.2 Factors promoting agricultural imports into Kenya

❖ *Economic growth and urbanisation*

Kenya's economy is one of the largest in East Africa and it continues to show a strong positive growth despite the political violence that occurred after the 2007 elections. In 2007, the economic growth increased by 7 %, then contracted to 1.6 % in 2008, before rising slightly to 2.6 % in 2009. In 2010, the GDP growth is expected to rise to between 4.6 and 5 % [51]. Kenya's economic outlook remains positive due to economic reforms.

In June 2008, the government launched the long-term development strategy Vision 2030, and the first medium-term plan for the 2008-2012 period. The focus was on reconstruction, deepening structural reforms and governance, improving infrastructure, reducing income inequality and creating jobs. The economy's performance after the reforms is promising, as demonstrated by the respective year-on-year employment growth of 3.1 % and 2.4 % in the private and public sectors in 2009[52].

[45] *Ibid.*
[46] *Ibid.*
[47] *Ibid.*
[48] *Ibid.*
[49] This article was compiled by Mr Sifiso Ntombela (NAMC).
[50] African Development Bank (ADB). (2010). *Agricultural Economy and Policy Report: Kenya.* Available from http://www.afdb.org. (Accessed October 2010).

[51] *Ibid. at 50.*
[52] Alila, P. (2009). Agricultural Policy in Kenya. *Future Agriculture.* Available from www.future-agricultures.org. (Accessed October 2010).

Kenya's economy is growing in tandem with increasing urbanisation. There are two main reasons for the rapid increase in urbanisation (i.e. 4 % annual rate) in Kenya:

- Rising birth rates and natural growth of the urban population; and
- Rural-urban migration due to factors such as drought, conflict and poverty.

More than 50 % of Kenya's total population is projected to reside in urban areas by 2015[53]. Urbanisation is increasingly putting pressure on the country to import large quantities of food to meet its domestic demand. Fortunately, the country's economy is also strengthening, indicating its ability to afford imported foods.

- *Poor natural resources and changing climate*

As mentioned earlier, Kenya has poor land fertility for growing agricultural crops. In addition, Kenya has water scarcity issues. It is estimated that less than 7 % of the country's cropped land is under irrigation; the rest constitutes rain-fed agricultural production. High dependency on rain-fed production results in a high vulnerability to climate variability.

From the mid-1970s, there has been a decline in the agricultural productivity due to drought, increasing temperatures and declining rain. The negative impact on production yield due to the changing climate is further exacerbated by a lack of modern farming technology, inability to afford inputs and lack of institutions[54]. The declining production yields call for larger quantities of imported food to meet the nation's food demand.

- *Improving the services sector*

The services sector has improved significantly over the past two decades. The launch of a long-term developmental strategy aims to further strengthen the services sector and improve infrastructure and communication services. The retail sector has also evolved drastically over the last two decades. Supermarkets in Kenya have grown tremendously, from less than five stores in the early 1990s to over 400 stores in 2007, with supermarkets now comprising over 30 % of Kenya's food chain sector[55].

Kenya's retail sector is regarded as the second best (South Africa is number one) on the African content in terms of development and countrywide establishment. Its retail sector has expanded beyond large cities (i.e. Nairobi and Mombasa) to small towns (i.e. Kisumu, Lamu and Meru) too. The rapid rise of supermarkets in Kenya is made possible by urbanisation; the rise of middle-class consumers; market and trade liberalisation; improving infrastructure and strong economic growth[56]. The developing services sector, together with rising household incomes, presents trade opportunities for South Africa to export its products to Kenya.

3.3 South African agricultural exports to Kenya

South African exports to Kenya increased from R1.5 billion in 2000 to R7.3 billion in 2009, which is a 387 % growth in value. Traditionally, non-agricultural exports such as iron and steel, machinery and vehicles as well as electrical equipment made the largest contribution to the value of exports to Kenya. However, in the last three years, agricultural exports have increased tremendously. During 2009, the largest agricultural export to Kenya was grain products, which accounted for 32 % of the value of South Africa's total exports to Kenya.

Over the last three years, the export of South African sugar (HS 17) to Kenya has been increasing at an annual average rate of 4 %; similarly, cereals (HS 10) have grown by 2384 %; grain seeds (HS 12) by 103 %; fruits (HS 08) by 37 % and beverages (HS 22) by 10 %. It should be noted that these exports are increasing from a low base (see **Figure 6**).

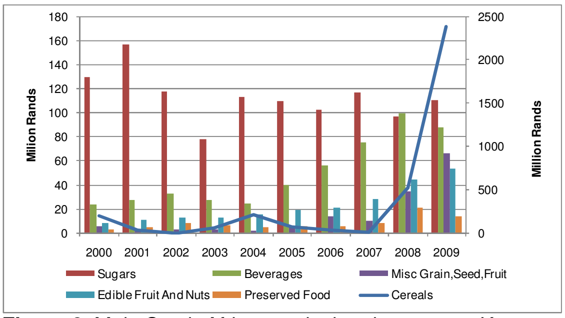

Figure 6: Main South African agricultural exports to Kenya
Source: World Trade Atlas (2010)

3.4 Opportunities for South African producers

In 2004, Kenya launched a 10-year Strategy for Revitalising Agriculture (SRA); it aims to increase food security and alleviate poverty. The strategy prioritises increasing access to finance, improving market access, reducing agricultural taxation, improving food quality and safety as well as delivering infrastructure services. Kenyan domestic agricultural production has been falling short of the nation's demand; for example, the annual average maize consumption is about 34 million bags, yet production varies between 16 and 30 million bags depending on weather conditions. This presents great opportunities for South Africa to supply Kenya with products such as grains, fruits and preserved food.

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[53] CIA World Factbook. (2010). *Kenya demographic statistics.* Available from http://www.indexmundi.com/kenya/urbanization.html. (Accessed October 2010).
[54] United States Department of Agriculture (USDA). (2009). *Kenya's grain basket experiences drought and lower rains.* Available from www. fas.usda.gov. (Accessed October 2010).
Ibid at 52
[55] Weatherspoon, D. and Reardon, T. (2007). *The Growth of Supermarkets in Kenya: Opportunities and Limitations.* Available from www.roundtableafrica.net. (Accessed October 2010).

[56] *Ibid. 55.*

4. AGRICULTURAL TRADE RELATIONS BETWEEN SOUTH AFRICA AND THAILAND[57][58]

4.1 Introduction

In this section South Africa's agricultural trade relations with Thailand is discussed and it highlights the possible export opportunities and benefits of strengthening South Africa's efforts in expanding its market in Thailand. Agriculture in Thailand continues to present a contrast between trade liberalisation and relatively high tariff protection in favour of selected food manufacturing enterprises.

The share of agriculture in Thailand's total GDP is just below 10 %, with the services and manufacturing sectors commanding the greatest share. The contribution of the agricultural sector to the GDP continues to decline, and it is being superseded by the IT, clothing and textile sectors.

Figure 7 illustrates the agricultural trade balance between South Arica and Thailand. Trade between the two countries is conducted based on the MFN trade regime. Thailand's average applied MFN tariff on agricultural products (including processed food products) is 27.5 % relative to South Africa's average of 9.3 %.

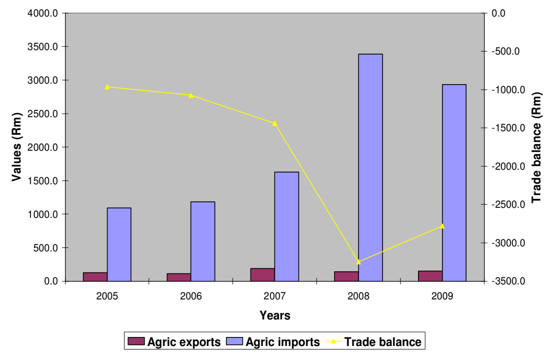

Figure 7: Agricultural trade balance between South Africa and Thailand
Source: ITC Trade Map

The agricultural trade balance between the two countries is in favour of Thailand and it increased from R963.1 million in 2005 to R2.7 billion in 2009. This has been fuelled by the high overall growth rate of agricultural imports from Thailand and the increased prices of commodities. The annual average growth rate of agricultural imports from Thailand is 24 % compared to the 0.09 % annual average growth rate of South Africa's exports to Thailand.

However, between 2008 and 2009, imports declined by 13.5 %, whilst exports increased by 6.5 % after a decline in 2007/2008. The continuous trade deficit is driven largely by rice imports, which constitute an average of 86.2 % of all South Africa's agricultural imports from Thailand. In 2009, rice constituted 89.6 % (i.e. R2.6b of R2.9b) of South Africa's total agricultural imports from Thailand. Thailand is the biggest rice supplier to South Africa.

4.2 South Africa's agricultural exports to Thailand (2005-2009)

For the period 2005 to 2009, agriculture contributed an average 6 % of South Africa's total exports to Thailand. South Africa's agricultural exports to Thailand grew by an average of 0.09 % relative to 13 % for all South African exports. However, agricultural exports have a better market share in Thailand, namely 0.35 % compared to the 0.23 % of South Africa's total exports.

Table 1 below shows that South Africa's top five agricultural exports have contributed above 57 % of South Africa's total agricultural exports to Thailand over the last five years. Relative to competitors, South Africa is not amongst the leading suppliers of these products to Thailand, except for canned peaches (HS 200870) and whole raw hides and skins (HS 410150), which are ranked 4th and 5th, respectively. This may be attributed to high tariffs and the tariff escalation of agricultural products in the Thai market.

Table 1: Value of South Africa's top five agricultural exports to Thailand (Rand million)

HS Code	Description	Average Value (2005 to2009)	MFN Tariff (%)	Competitors
Total	**Agric**	**143.7**		
410390	Raw hides and skins	34.6	5	Indonesia
520100	Cotton	13.8	0	USA
080610	Grapes	13.2	49	China
200870	Peaches	11.0	67	China
410150	Whole raw hides and skins	9.6	5	Australia

Source: ITC Trade Map, DAFF Calculations and MacMap (2009)

4.3 South Africa's agricultural imports from Thailand (2005-2009)

Table 2 shows South Africa's top five agricultural imports from Thailand. Rice constitutes more than two thirds (on average 86.2 %) of South Africa's agricultural imports from Thailand. A review of the last five years indicates that, on average, 72 % of all rice consumed in South Africa was from Thailand.

Table 2: Value of South Africa's top five agricultural imports from Thailand (Rand million)

HS Code	Description	Average Value 2005-2009	MFN Tariff
Total	**Agric**	**2044.1**	
100630	Rice, semi-milled	1761.4	0
350510	Dextrin and other starches	62.9	0
110814	Cassava starch	54.2	5
100610	Paddy rice	31.1	0
190490	Cereals, excl. maize	24.6	10

Source: ITC Trade Map and DAFF Calculations

[57] This article was jointly authored by Sphamandla Mazibuko and Zithulele Balindlela – Agricultural Economists: International Trade (DAFF).
[58] The main source of information is the Trade Policy Review of Thailand 2007: Economists Intelligence Unit, the ITC Trade Map and MacMap.

4.4 Conclusion

It should be noted that South Africa's low level of agricultural trade with Thailand is the direct effect of the high tariffs in that market. Though the rates declined under the WTO, most items remained in the 30 to 40 % duty range. Thailand's high tariff structure is compounded by non-tariff barriers, i.e. spontaneous SPS measures and slow administrative processes.

Thus, producers of meats, certain fresh and dried fruits, juices, and other packaged items may find it difficult to penetrate the Thai market. Although Thailand is not a significant agricultural export destination for South Africa at this stage, it could still be an important strategic partner for South Africa as it is a gateway to South-East Asian markets.

5. MULTIFUNCTIONALITY – AGRICULTURE IS NOT JUST A SOURCE OF FOOD[59]

The importance of agriculture has been debated in both academic and political spheres. The economic benefits of the sector have been fundamental in the discourse about the importance of the sector. Some of these benefits include agriculture's potentially significant contribution to the GDP, its export potential, foreign earning potential, employment creation and so forth.

From a people-centred perspective, agriculture's value has mainly been viewed in light of its contribution to food security and alleviating poverty. However, agriculture has the potential to achieve so much more than merely addressing these issues. As such, this section looks at the multifunctionality of agriculture.

<u>Multifunctionality</u> refers to the benefits other than food or fibre that can be derived from agriculture. These benefits often go unrewarded in the marketplace and financial compensation for agricultural produce varies according to farming practices. Farming contributes to the vitality of rural communities through:

- The maintenance of family farming;
- Creating rural employment;
- Preserving cultural heritage;
- Preserving biological diversity;
- Promoting recreation and tourism;
- Preserving soil and water health;
- Generating bio-energy;
- Preserving the landscape;
- Ensuring food quality and safety; and
- Ensuring good animal welfare.

The foundations for multifunctional agriculture originated in the context of international trade and first became popular in countries that were under tremendous pressure to reduce subsidies and trade protections for their domestic farmers. It was greeted with great scepticism by major food exporting countries, known collectively as the Cairns Group, and by the United States.

[59] This article was compiled by Mr Nico Scheltema and Mr Bonani Nyhodo (NAMC).

Developing countries expressed concern that multifunctionality was just a fancy term that enabled Europe and others to shut their markets to agricultural imports and to continue to dump excess production in emerging markets. It is important to note that the concept of multifunctionality does not imply that these goods accrue automatically as inevitable outcomes of any and all approaches to farming.

These outcomes vary widely and are based on farming practices, farm size, farm location (by country and local environment) and the interaction of these variables.

5.1 Aspects of multifunctionality

As noted, the benefits agriculture can provide cover a very broad spectrum, but generally include the following[60]:

- *Sustaining viable rural communities:*

Several European nations, Japan and other countries have gone to notable lengths to support agriculture based on small family farms, local economies, and local food traditions. Their policies support farms that are closely integrated into their local economies, both as producers of economic value within a given area, and as consumers of goods and services from local suppliers.

These nations deem this type of farming to be more important than larger, absentee-owned farms that primarily interact with urban (and not necessarily local) economies, because it preserves rural economies and the cultural heritage. Many countries support the development of local marketing or approaches that add value to agricultural products on the farm or in the local community.

- *Environmental benefits*

Different farming practices can have radically different impacts on the environment, and many nations' governmental policies recognise that supporting farming that is environmentally beneficial can represent a net gain to the public. Farmers are rewarded in various ways for making direct positive contributions to biological diversity (particularly preserving wildlife habitats), improvements (or avoided negative impacts) to water quality and increasing the soil health.

Many countries also support bio-energy programmes, at least partially, with the stated intent being to promote the production of cleaner-burning fuels than those derived from petroleum. The increasing worldwide interest in the carbon-sequestering effects of many types of agriculture indicates that, in the near future, there will be a greater number of programmes that support farming practices that improve the overall air quality.

[60] De Vries, B. (2000). *Multifunctional Agriculture in the International Context.* The Land Stewardship Project.

A complicating factor in the area of agriculture and the environment is that agriculture often produces negative externalities (off-farm effects) such as pollution. This pollution is often directly related to the level of inputs used and imposes costs on others, such as taxpayers. Domestic subsidies often lead to an increase in the use of those inputs or farm area, and thus are instrumental in increasing environmental pollution.

- *Food security*

Food security refers to the concept of a country being able to guarantee the availability of and access to sufficient food for its population. This also requires that the population must have sufficient income to pay for food. Adequate supply can be attained through domestic production or imports.

- *Landscape value*

Many countries recognise the importance of viable agriculture, particularly of small farms, in preserving the beauty of rural landscapes. This value is recognised in various ways, for instance in approaches to zoning and protecting farmland from development.

- *Food quality and safety*

A number of countries recognise the importance of specific production methods in maximising the ultimate quality and safety of food products. For example, Austria and several Scandinavian countries have taken steps to promote organic agriculture, through labelling programmes, direct promotion, and/or programmes that subsidise farms making the transition to organic production.

- *Animal welfare*

While most government actions that promote the welfare of farm animals are proscriptive, some countries support labelling or other measures that encourage farmers to go beyond the standards required in regulating the treatment of livestock.

5.2 Multifunctional agriculture and world trade

The concept of multifunctionality originated – at least partially – as an attempt to strengthen national efforts to preserve policies that protect farmers and rural communities against competition that originates from international trade agreements. This situation has progressed to the point that certain non-commodity benefits of agriculture are acknowledged in trade bodies, but there remains considerable friction over related policies.

Multifunctional agriculture is a prominent member in the family of Non-Trade Concerns such as rural viability, environmental sustainability, and food security, as defined by countries that wish to preserve these policies.

However, opponents argue that such policies do in fact impact trade, and are therefore open to scrutiny by the WTO. The most active proponents of domestic laws that recognise and promote multifunctional characteristics of agriculture are the EU (collectively and as individual countries), Norway, Denmark, Japan and South Korea. These countries have long argued about the importance of farming in ensuring the economic and social health of rural areas, as well as in preserving the cultural heritage of the respective nations.

Following World War II, Japan promoted total self-sufficiency in rice production, directly and indirectly blocking rice imports from other countries. The Japanese rice market has opened, albeit not significantly, in recent years. Traditional farming practices and traditional foods are highly valued in these countries, and are often backed by government support.

Developing nations have also been sceptical of multifunctionality, at least in their understanding of the term that has entered into the debate on trade. This is understandable given the results they have received due to lavish agricultural subsidies from the EU and US, namely depressed world market prices and commodity surpluses that often wind up dumped in their markets at even lower prices. Thus, it is not surprising that these countries do not readily trust the latest farm support ideologies from the developed world. These countries have a greater acceptance of food security arguments because it is of much more immediate importance in places where basic nutritional needs go widely and routinely unmet.

A substantial portion of the efforts made towards supporting multifunctional agriculture has come from Non-Governmental Organisations (NGO) worldwide and there have been efforts to reconcile the objective of supporting multifunctionality on a domestic level with efforts to enhance food security, economic opportunity, and environmental protection in developing countries. Outside of trade discussions, it should be noted that traditional agriculture in the developing world often shows a high degree of complexity, environmental sustainability, community interchange, and other "goods" that are supposed to result from support of multifunctional agriculture.

5.3 South Africa and multifunctionality

Because market forces alone are not necessarily sufficient to induce farmers to produce the other non-food benefits, many countries argue that they must be able to promote these beneficial outcomes without interference from international trade bodies. Given the nature of policies that supposedly promotes the multifunctionality of agriculture, it is perhaps not surprising that the concept has been met with opposition and contempt from major food-exporting countries.

Countries of the Cairns Group (Argentina, Australia, Bolivia, Brazil, Canada, Chile, Columbia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay) have strongly opposed inclusion of the word "multifunctional" in trade documents, and seldom pass up the opportunity to speak disparagingly about the idea. Opponents, such as the United States and the Cairns Group, argue that support to agriculture should be decoupled from production levels and that domestic objectives do not warrant trade interventions[61], i.e. they tend to see multifunctionality as a disguised protection measure.

5.4 Issues relating to policies

Removing protectionist agricultural policies is regarded as a way in which countries can maximise positive externalities, minimise negative externalities and ensure that the mixture of outputs derived from agriculture correspond with the needs of society (OECD, 2001). However, the removal of agricultural support is often a cause for concern among public officials, who may want to protect certain positive externalities of current policies.

Furthermore, officials may also fear the creation of new market protection that are intended to stimulate production of agricultural outputs in other countries[62]. Advocates of free trade therefore recommend that countries reduce agricultural protection measures and institute policies that specifically target the production of the positive non-commodity outputs.

To assist countries to formulate their agricultural policies, the OECD established a framework for analysing non-commodity outputs of agricultural activities[63]. When analysing the multifunctionality of agriculture and the appropriate policies to implement it, there are several concepts that need to be considered. The first of these is "jointness", or the extent to which the intended agricultural product and the incidental non-commodity outputs of agricultural activity are linked.

The production of some non-commodity outputs may be inseparable from agricultural commodity outputs, while others may be produced independently of agricultural activity. The goal is to separate agricultural commodities from non-commodity outputs as much as possible. The next issue to be addressed is whether the production, or non-production, of the non-commodity output in question constitutes a market failure. If there is no market failure, then there is no need for a policy to correct it.

Finally, policy-makers should examine the characteristics of the output in question, since it may have both a degree of market failure and jointness associated with it. After considering the matter from these three perspectives, policy-makers may find non-governmental ways of dealing with non-commodity outputs or make changes in their agricultural policies[64].

[61] Paarlberg, P.L., Bredahl, M. and Lee, J.G. (2002). Multifunctionality and Agricultural Trade Negotiations. *Review of Agricultural Economics,* 24(2): 322–335.
[62] OECD. (2003). *Multifunctionality: The Policy Implications.*
[63] OECD. (2007). *Multifunctionality: About.* OECD Department for Trade and Agriculture.
[64] Ibid. in 61.

6. WHAT ROLE CAN CHINA PLAY IN DIVERSIFYING AFRICAN EXPORTS?[65]

Over the past three decades, economic transformation has underpinned the dynamic growth of many Asian economies, particularly of China, where diversification has generally been driven by industrialisation and an export-led growth strategy. In contrast, Africa's lack of economic transformation and diversification is well known. Across different measures and accounts, the continent has been lagging in all diversification indicators when compared to its developing country peers. In 2007, the United Nations Economic Commission for Africa described the diversification process that has characterised the continent during the last few decades as being "slow and volatile".

The lack of diversification and Africa's resource dependency has continuously resulted in adverse effects for its countries' economies; this has mainly been attributed to the cyclical nature of resource booms and the countries' inability to hedge against exogenous shocks, as a great share of revenue is dependent on the natural resources sector. While diversification trends in Africa have differed across regions, with North Africa recently showing the most gains and the SADC and COMESA also showing greater diversification over the years, this process has largely been led by key economies' structural transformation, rather than transformation on a regional basis. For example, in the case of the SADC, South Africa has largely underpinned the progress made.

Africa's export profile strongly reflects its comparative advantage in terms of natural resources. More than 90 % of US and approximately 90 % of Chinese imports from Africa comprise mineral fuels and precious minerals, or other materials in raw form (Table 4). Manufacturing exports are notably absent from Africa's trading profile, with only textiles and clothing making a meaningful contribution to Africa's export profile to the US, in those countries where manufacturing makes any contribution, and under the enabling environment of the African Growth and Opportunities Act (AGOA).

Table 4: China's Imports from Africa & US Imports from Africa (2008) (US$ bn and % Share)

HS Sections	China from Africa	US from Africa
Total $ billion	**55 883**	**113 520**
Mineral fuels	83.9 %	86.1 %
Precious metal	3.2 %	4.2 %
Textiles and articles	0.8 %	2.0 %
Transport	0.0 %	1.7 %
Base metals	4.6 %	1.5 %
Chemicals	0.7 %	1.3 %
Prepared food	0.5 %	0.9 %
Machinery & elect.	0.7 %	0.6 %
Special	2.8 %	0.5 %
Vegetable fruit	0.3 %	0.4 %
Plastics and rubber	0.3 %	0.3 %
Wood	1.8 %	0.1 %
Animal prod.	0.1 %	0.1 %
Pulp and paper	0.1 %	0.0 %

Source: US Department of Commerce and World Trade Atlas data, authors' calculations

[65] This article was compiled by Ms Hannah Edinger and Dr Ron Sandrey (of Frontier Advisory and Tralac, respectively).

Africa's limited presence in export markets is increasingly becoming subject to competition from China and other Asian countries. Chinese competition is becoming more acute in third world markets, especially in the clothing sector. This is despite Africa having tariff preferences into the US market, and that China has faced quota and other constraints. While the argument exists that cheaper Chinese exports are creating gains for African consumers, this also puts considerable pressure on Africa's domestic manufacturing capabilities – pressure that the continent is often not able to handle. China's dominance in world markets and the continued pressure on imports is making it harder for Africa to diversify from its natural resources-based export profile.

However, underlying constraints across the continent to increase diversification levels, and ultimately create sustainable economic growth rates, have been reinforcing. The creation of competitive industrial capacity for furthering development and enabling demand-led growth have been hindered by a general lack of investment in the creation of capital stock in these economies, which has largely been underpinned by poor infrastructure stock. This has in turn resulted in higher production and transaction costs. Politically, the high sovereign risk, bad governance and weak institutions have shied away from investor activities; this had been in conjunction with ill-advised industrial policies and generally rigid macro-economic frameworks.

A particular problem Africa continually struggles with is the cyclical nature of commodity prices, and many countries remain unable to deal with the boom-bust scenarios. In fact, since the 1700s, commodity prices have displayed greater volatility than the prices of manufactured exports. The dependence of primary commodity-producing economies on these exports, and the complementary lack of economic diversification, has adversely affected resource exporters in the long term, with boom-bust cycles affecting countries' growth trajectories, as price volatility discourages and even hinders much-needed private investment.

China is a competitor to certain industries on the continent, specifically in third world markets, and perhaps undermines further diversification in those sectors. However, it also provides opportunities for manufacturing development. This probably results at least partially because of its bid to buy "goodwill" on the continent, in exchange for securing access to natural resources. The rollout of large-scale transport and power infrastructure, as well as the proposed investments in key manufacturing hubs (SEZs) on the continent demonstrate this. By definition, export-processing zones are key tools for countries to promote and facilitate economic diversification, and in the past 30 years of China's economic transformation, they have contributed to China's success story.

In the case of the SEZ in Zambia, for example, these factors co-exist. There have been major infrastructure rollouts and the establishment of the first Chinese SEZ on the continent, which links to China's strategic interests in copper supplies. Economic diversification prospects for Zambia exist through the SEZ investment. Direct investment in the Zambian resources sector by Chinese investors has and will further create employment opportunities and greater local beneficiation opportunities, but also opportunities in related industries.

Having made inroads into Zambia's economy through investment and the promises of skills and technology transfers will ensure that China can access vital resources such as copper with the consent of the producing country. Once the Mauritian SEZ is operational, it is expected to contribute further to the island's economic diversification and expansion process, which, in contrast to its African peers, is already relatively advanced. These engagements are still in their initial phase and empirically examining the impact of China's engagement with Africa on the continent's diversification prospects has not shown significant results yet.

Greater Chinese investment in Africa's infrastructure requirements poses opportunities for private sector development. Chinese funding has been directed at hydropower and transport projects, which has parallel consequences for the domestic industrial productivity, cross-border trade and connectivity to global markets. This plays a potentially pivotal role in the economic diversification efforts of African countries. First, the provision of infrastructure can promote and crowd-in further investment, as greater capacity and support will be evident when accessing markets and will create sustainable productivity.

Second, local production will be supported and promoted through having access to infrastructural needs. Both local productivity and international investment will be enhanced, as the cost of doing business and other transaction costs will decrease through the greater capacity resulting from increased infrastructure provision, specifically relating to transport but also to power, water and telecoms developments.

Another area where China could assist in the diversification of African manufacturing exports into China is in tariff preferences. Currently, with the exception of raw cotton (with a duty of about 40 %) and some manufacturing products exported from South Africa, Africa already has an almost duty-free tariff access into China, given that its export profile largely comprises resource exports. China has trade preferences in place for some 440 products from 30 African least-developed countries (LDCs) – essentially, these products have duty-free access into China. In addition, at the fourth Forum on China-Africa Cooperation (FOCAC) summit held in Sharm el-Sheikh, Egypt, in November 2009, it was announced that this duty-free access would be extended to 95 % of all products by 2012.

While the benefits of this duty-free access for 440 products have been limited for Africa in monetary terms, this announcement suggests that China is looking to extend the scheme to a much broader range of products, and will potentially even consider a duty-free and quote-free access policy, much like the

EU has extended to ACP countries. Such liberalisation to trade could be seen as a true win-win situation and could result in further cementing China's economic and trade ties with Africa, with the continent being able to enjoy an additional stimulus to access the Chinese market for manufactured products. However, supply-side constraints in Africa, and restrictive Chinese non-tariff barriers, such as the rules of origin, may well undermine the full potential of such an agreement for Africa.

Furthermore, the Chinese economic "miracle" and the role of small-scale industry provide an example from China that the continent may wish to examine before attempting to facilitate diversification of its manufacturing sector, in terms of both products as well as spatial considerations. While China has classically followed the Asian growth miracle pathway, it has differed in one major respect.

The rural sector, which supplies much surplus labour to the manufacturing sector, is served by the unique Chinese Township and Village Enterprises (TVEs), which provide employment opportunities by injecting light manufacturing and other developments into the rural sector to mitigate the migratory surge to the cities. The TVEs were originally established as collective economic units run by local governments in rural areas; their objective was to employ rural peasants in the agricultural sector in manufacturing and services occupations close to their homes.

They have gradually shifted towards being privately owned and they now comprise large factories, some of which are close to major urban areas. The TVEs set China apart from Africa. While progress has been made with economic transformation in Africa, surplus agricultural labour has migrated to urban areas and this translocation has resulted in fewer economic opportunities in rural areas and has largely contributed to urban poverty and crime. Moving manufacturing to the villages instead of moving the villagers to manufacturing areas is a concept that Africa would do well to examine.

In conclusion, to explore higher rates of growth and to strive towards achieving greater integration (both into regional markets and into the global economy), key infrastructure rollouts and dedicated geographic zones with more lax investment rules could serve African economies well. China's investments into infrastructure and its SEZ interests, investments by other foreign investors into these zones, as well as an enabling domestic policy environment, could play an important role in facilitating the potential benefits these investments pose. However, to what extent this will be realised and will contribute to furthering African growth and development is yet to be seen.

7. AMENDMENTS TO VARIOUS AGRICULTURAL REBATES[66]

7.1 Introduction

The objectives of the Tariff Investigations Unit of ITAC are to promote, in a complementary manner, domestic production, job creation, and international competitiveness.

Linked to customs duties as a trade policy instrument are duty rebate and drawback provisions for products for which detailed and separate tariff lines are impracticable for tariff administration purposes. The primary aim of these provisions is to provide a customs duty waiver and, therefore, an availability of world competitive prices for products that attract duties but are not produced, or are insufficiently produced, domestically as an industrial or agricultural input for certain critical applications, as a capital item, or as an agricultural product for consumption. In line with its objectives, the unit, using a variety of rebate provisions, administers the following rebate provisions for agricultural and fisheries products:

7.2 Rebate of the duty on certain types of red meat imported for manufacturing/processing purposes (Rebate Item 304.01)

The reasons for creating this rebate provision were to reduce the cost of inputs and to improve the SACU meat manufacturers' competitiveness. Under this provision, manufacturers of sheep or goat meat, frozen or boneless, qualify for a partial rebate (full duty less 56c/kg) and manufacturers of bovine animal meat, frozen or boneless, prepared or preserved in airtight metal containers, qualify for a full duty rebate.

7.3 Rebate of duty on imported salmon and dried fish for further processing by means of smoking (Rebate Item 460.01)

The reasons for creating this rebate facility were that the rebate of the customs duty on the imported salmon used as raw material by South African fish processors would avoid the negative impact that the increase in duty would have on employment in the South African fish processing industry. Only fish processors qualify under this rebate provision.

7.3 Rebate of the duty on imported oilcake for the manufacture of animal feed (Rebate Item 304.07)

This rebate was created as a result of a rebate provision created for soybeans for the manufacture of biofuels. The Commission had already approved a rebate provision for soybeans for SACU producers of bio-diesel, based on the shortages experienced in the SACU market. It was found that, if a similar rebate provision was not created for soybean oilcake, which is also subject to significant shortages, an unfair trading environment would be created which would favour the bio-diesel producers in a market removed from

[66] This article was compiled by Mr Thembinkosi Gamlashe (ITAC).

their core business area**.** Only manufacturers of animal feed qualify for a permit under this rebate provision. However, the provision has never been used as it is linked to the use of the rebate provision on soya beans, which has also never been used.

7.4 Rebate of duty on imported canned pineapples for consumption and for manufacturing purposes (Rebate Item 460.04)

The reason for the application of this provision was that, as a result of the adverse effects of the cadmium contamination due to the fertilisers used by the pineapple growers during the latter part of 2006, the South African pineapple growers were unable to supply the market with pineapples suitable for canning**.** Only the processors/manufacturers of products containing pineapples qualify for a full duty rebate and other consumers will only qualify for a full duty less 20 % partial rebate.

7.5 Rebate of the duty on imported dried, crushed or ground fruits of the genus Capsicum for the extractions of oleoresins of a kind used in the food industry (Rebate Item 460.02)

The reasons for creating this rebate were that sufficient quantities of the required quality of the dried, crushed or ground fruits of the genus Capsicum (specifically dried paprika) were not available in the SACU region. Only the SACU paprika oleoresin extractors qualify for a permit under this rebate provision.

7.6 Temporary rebate of duty on mango juice concentrate classifiable under tariff subheading 2009.80.10 (Rebate Item 460.04)

The reasons for creating this rebate provision were that there was a shortage of mangoes for the 2008/2009 season and that the mango juice concentrate processors were unable to meet the market demand. Only the SACU mango juice concentrate producers and mango juice producers, including downstream mango juice blenders and packers, qualify for a permit under this rebate provision. However, permits will only be issued after consultation with the industry stakeholders, and where there is a shortage of mangoes for production of mango juice concentrate due to unforeseen natural disasters, for example, drought.