Commentary: The sweetness of South Africa's fruits and Ramaphosa's policy reforms set to boost trade

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Introduction

The trade information shows that South Africa had a trade deficit of R7.55 billion in the first quarter of 2019, which can be attributed to low exports of R103.8 billion in the first quarter of 2019, although they are still 17.3 % higher than exports recorded in the corresponding period in 2018. Imports of R107.2 in 2019 show an increase of 23.8 % as compared to the same period last year. Low export growth can be attributed to weak production from the manufacturing sector, where production declined by 2 % in the first quarter of 2019. Export bans on animal products due to disease outbreaks also affected exports of agricultural goods like wool and meat. However, the ascent of President Cyril Ramaphosa to *Mahlamba Ndlopfu* in early 2018 boosted the confidence of South Africa's trading partners, thus helping the country to maintain its position as a supplier of quality agricultural, mining and other commodities to international markets. Agriculture is one of the economic sectors identified as a key exporter, with the strong potential to create jobs and alleviate poverty in rural areas.

Drivers of agricultural trade growth

In 2017, South Africa's agricultural sector obtained a monthly average of R4.27 billion in trade balance, which was 15.4 % higher than the monthly average achieved in 2016. In both years, fruit exports – particularly citrus fruits – were the main drivers of agricultural trade growth. Oranges were the biggest agricultural product exported, valued at R10.8 billion in 2018, followed by wine with a value of R10.4 billion and grapes with a value of R9.2 billion in the same year. Other prominent agricultural exports include pome and stone fruits, sugar, as well as wool. The growing agricultural exports comes under taxing conditions such as the severe drought conditions over the past two years and the constantly increasing fuel and electricity prices. The policy reforms such a support to farmers to cope with externalities like drought will assist farmers to maintain their competitiveness thus produce more export quality products.

Implications of agricultural trade opening on local industries

South Africa is a net importer of grain and meat products and the weaker exchange rate tends to affect the food affordability in the country, in particular, staple food products such as bread, rice and poultry meat. These commodities are considered pivotal sources of protein and starch, which are key for human consumption and development. In 2018, South Africa imported rice valued at R6.9 billion, followed by poultry meat worth R6.5 billion and wheat valued of R5.3 billion. Agricultural imports not only affect the affordability of food but also constrain local production. Market access data shows that South African farmers receive relatively little support from the government as compared to their counterparts in other developing nations, as well as developed nations. As a result, the imports coming from these better-supported nations pose unfair competition in the local market.

The relatively cheaper imports coming into the country have compelled some local farmers to rely on trade policy for protection – for example, the sugar and poultry industries have recently lodged applications to increase customs duty rates to a bound level to guard the local industries against growing imports. Industries have justified their tariff escalation requests using import data that showed a rise in products like sugar, poultry meat and wheat. While this reasoning is somewhat justifiable when looking at recent import data, it is important for policymakers assessing these applications to also consider other constraining factors that hinder innovation and competitiveness in the country. Some of these factors include low investment in research and development, as well as rising cases of anti-competitive conduct in the agricultural sector, which affect the agricultural sector's ability to accommodate new players.

Concluding Remarks

South Africa remains a competitive producer and exporter of agricultural products such as fruits and wine. However, the dry conditions in recent years and the growing incidence of water restrictions have affected the production of fruits and other products. The weather conditions are expected to improve across the country in the upcoming production seasons and that will lead to production recovery in many growing areas. Some crops like citrus fruits are expected to gain stronger growth in the near term due to expanding export markets and area planted in the country. In livestock sub-sector, little growth is expected in the near term due to biosecurity issues and lack of an animal traceability system, which affects the country's ability to comply with export standards in many international markets.

A balance in setting the right protection level and simultaneously tackling domestic barriers on the supply side will ensure the country retains its competitive position in the world. In conclusion, the rising confidence in President Ramaphosa to institute appropriate reforms is likely to boost agricultural investments and growth, thus promoting exports in the short to medium term.

Link: https://www.namc.co.za/wp-content/uploads/2019/06/FINAL-DAFF-NAMC-TRADE-PROBE-ISSUE-77-MAY-2019.pdf