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Wandile Sihlobo | Chief Economist | Email: wandile@agbiz.co.za

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China's willingness to lower import tariffs is encouraging, but we still lack clarity on the details

- South Africa's agricultural export focus means the country must always keep an open eye for any potential new market expansion. One country that has consistently been on our radar is China. The country's dominance in global agricultural imports, stable economy, large population, and current low penetration by South Africa's agriculture make it an ideal area for expansion. However, the non-existence of a preferential trade agreement in agricultural products has disadvantaged South Africa relative to its competitors, such as Australia, Peru, and Chile, among others, which access the Chinese market at a tariff-free rate or with low tariffs. It is against this backdrop that we found the official announcement by the Chinese authorities that they would consider lowering import tariffs for various goods from African countries encouraging.

- While no official details have been released yet, we view the message as consistent with what the official representatives of the People's Republic of China have been communicating, particularly regarding agriculture. For example, in April, Mr Wu Peng, current Chinese Ambassador to South Africa, stated that "…China and South Africa need to strengthen our bilateral trade and economic cooperation. Chinese government welcomes more South African agricultural and industrial products to enter the huge Chinese market."

- China's signalling the willingness to absorb more South African agricultural products is only the first step in what will likely be a long journey, as trade matters generally take time. Ideally, the following steps should be a clear and pragmatic plan for reducing import tariffs and removing phytosanitary barriers that certain agricultural products continue to encounter in the Chinese market. Indeed, the work must be led by South Africa's Department of Trade, Industry, and Competition, as well as the Department of Agriculture, and at specific points, also the Department of International Relations and Cooperation. This will help ensure that China proceeds beyond statements to actual business collaboration.

- South Africa remains a small share in the Chinese list of agricultural suppliers, at about 0,4%. However, this current access in China is vital for the wool and red meat industry. China accounts for roughly 70% of South Africa's wool exports. There is a progressive increase in red meat exports, even though animal diseases currently cause glitches. The focus should be on expanding this access by lowering duties and other non-tariff barriers to encourage more fruit, grain, and other product exports to China.

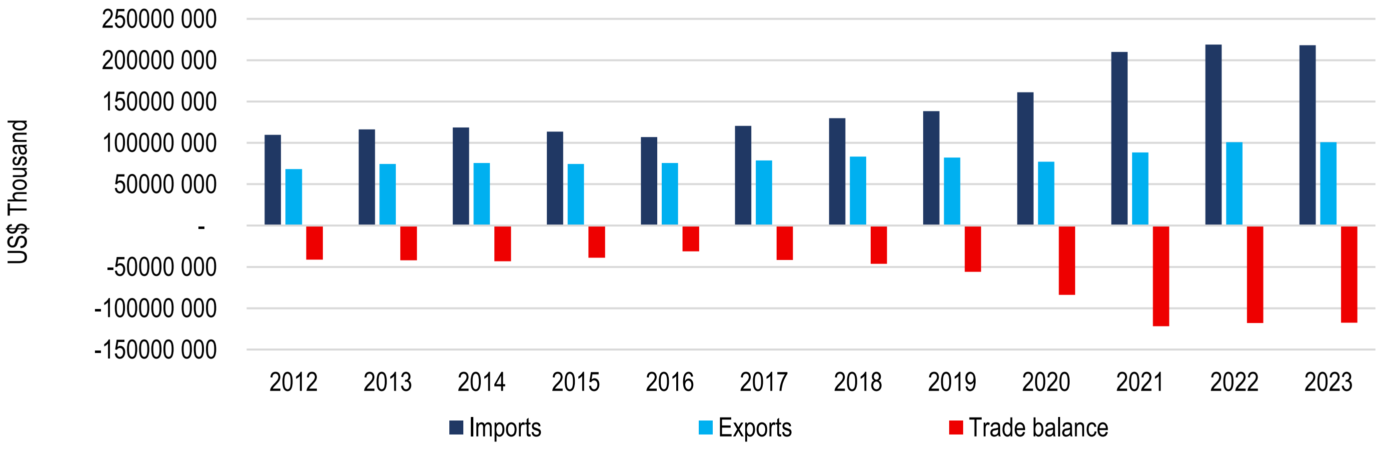
- Still, it is essential to emphasize that the focus on China is not at the expense of existing agricultural export markets and relationships. Instead, China offers an opportunity to continue with export diversification. As we stated recently, the Trade Map data show that China is among the world's leading agricultural importers, accounting for 9% of global agricultural imports in 2024 (before 2024, China had been a leading importer for many years). The US was the world's leading agricultural importer in the same year, accounting for 10% of global imports. Germany accounted for 7%, followed by the UK (4%), the Netherlands (4%), France (4%), Italy (3%), Japan (3%), Belgium (3%) and Canada (2%). It is this diversity of agricultural demand in global markets that convinces us that South Africa's agricultural trade interests cannot be limited to one country but should be spread across all major agricultural importers.

- Importantly, the approach of promoting diversity and maintaining access to various regions has been a key component of South Africa's agricultural trade policy since the dawn of democracy. For example, in 2024, South Africa exported a record US$ 13.7 billion of agricultural products, up 3% from the previous year. These exports were spread across the diverse regions. The African continent accounted for the lion's share of South Africa's agricultural exports, with a 44% share of the total value. As a collective, Asia and the Middle East were the second-largest agricultural markets, accounting for 21% of the share of overall farm exports. The EU was South Africa's third-largest agricultural market, accounting for a 19% share of the market. The Americas region accounted for 6% of South Africa's agricultural exports in 2024. The rest of the world, including the United Kingdom, accounted for 10% of the exports.

- In a nutshell, China's signalling the willingness to lower import tariffs is a welcome development. However, it will only become more substantial once more information becomes available. From a South African side, the relevant government departments should consider, through the local Embassy, sending an enquiry about unlocking this process. Ultimately, China is one of the focus areas in South Africa's long-term agricultural export diversification strategy, and any opportunity to further this plan should be pursued vigorously.

- Importantly, while China's offer looks generous, a country like South Africa needs to draw appropriate lessons from experience. Unilateral duty-free, quota-free market access is a double-edged sword: in the short to medium term, they can help a country increase the share of its exports in a significant market, but since these are not anchored in reciprocity, the largesse can disappear if there are frictions between the two parties, for example, over geopolitics. In short, non-reciprocal arrangements can lead to dependence and can easily be exploited by the benefactor as a means of political leverage to achieve strategic ends. While South Africa—and indeed African countries—should take advantage of this opportunity, we must aim to conclude a bilateral trade agreement with China that guarantees predictability and certainty and is durable.

Exhibit 1: China's agricultural trade



Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

Early 2025-26 production prospects signal an ample global grain and oilseed harvest

- This past week, the United States Department of Agriculture (USDA) released an update to its monthly World Agricultural Supply and Demand Estimates report, presenting an optimistic outlook for grains and oilseeds production. For example, the USDA forecasts 2025-26 global wheat production at a record 808 million tonnes, up 1% from the previous season. This is based on the expectation of an ample harvest in the European Union, Russia, Canada, Argentina, the UK, and India, among other key producing countries.

- With that said, consumption is also expected to remain strong, mainly due to the rising demand for food, feed, and industrial use in various countries. Thus, the stocks may remain slightly tight, estimated at 262 million tonnes, down 0,5% from the previous season. Still, wheat prices have come under pressure in recent months and could remain at relatively lower levels for some time.

- Moreover, the USDA forecasts a 2025-26 global maize harvest of 1.3 billion tonnes, up 3% from the previous season. There are expected to be ample harvests across most major producing countries, mainly the U.S., Brazil, Argentina, Ukraine, China, the EU, India, and Russia. However, industrial use, feed, and food consumption are also set to increase, thus pushing stock levels down by 3% to an estimated 275 million tonnes. This means that while global maize production has increased, the price levels of maize may remain stable or possibly rise slightly due to robust demand.

- The USDA forecasts global rice production for 2025-26 at 542 million tonnes, a 0.1% increase from the previous season. There are expected large harvests in various major Asian-producing countries that support this decent harvest, primarily in India, Vietnam, Pakistan, China, Bangladesh, and the Philippines. Importantly, with consumption expected to remain stable, maize stocks increased by 0.3% from the previous season to 188 million tonnes.

- Also worth noting is that global soybean production for the 2025-26 season is forecast at 426 million tonnes, a 1% increase from the previous season. There are expected to be decent supplies in South America, China, India, Ukraine and the U.S., among others. While global soybean consumption is expected to remain strong, stocks are still expected to be decent. The 2025-26 global soybean stocks are forecast at 124 million tonnes, a 1% increase from the previous season.

- Importantly, these optimistic production prospects depend on the Southern Hemisphere season, which begins in October. In the Northern Hemisphere, the planting season is underway and looking favourable in most regions.

- However, for the Southern Hemisphere, it will be a few months before we have some level of comfort regarding the agricultural conditions, and the weather outlook in key producing areas of South America will be a primary focus, among other things. Still, these preliminary estimates indicate a substantial grain and oilseed harvest for the 2025-26 season.

WEEK AHEAD

What are we watching this week?

- We begin with a global focus, and this is a quiet week with only one major data release. The United States Department of Agriculture (USDA) will release its weekly **U.S. Grains and Oilseed Export Sales** data on Thursday.

- On the domestic front, on Wednesday, Statistics South Africa will release its **Consumer Price Index (CPI)** data for May 2025. Our focus in this data will be on the food category. Looking back, South Africa's consumer food price inflation accelerated to 3,3% in April, from 2,2% in the previous month. This increase was underpinned by the rise in price inflation of most products in the food basket, but most notably cereal products, meat, oils and fats, and vegetables.

- On Thursday, the South African Grain Information Services (SAGIS) will release the **weekly data on South Africa's Grains and Oilseeds Producer Deliveries**. In the previous release on June 6, South African farmers delivered 868,498 tonnes of the new season maize to commercial silos. This was the sixth delivery for the new season, bringing the overall maize deliveries so far to 2,4 million tonnes. If you compare this with the overall volume delivered during the same period in the previous season, the volumes are down 53% due to the season's slow start. We are roughly a month behind schedule. South Africa's 2024-25 maize harvest is estimated at 14,64 million tonnes, a 14% increase year-on-year, primarily due to expected annual yield improvements.

- The 2025-26 marketing year for oilseeds started at the beginning of March 2025. In the first 14 weeks, the soybean producer deliveries totalled 2,3 million tonnes, which is aligned with the expected harvest for the season. In the case of sunflower seed, the first 14 weeks of the new 2025-26 marketing year's producer deliveries were 499 498 tonnes out of the expected 727 800 tonnes. Moreover, the wheat producer deliveries for the first 36 weeks of the 2024-25 marketing year stand at 1,86 million tonnes. The final harvest is 1,93 million tonnes, down from the 2,05 million tonnes in the 2023-25 season.

- On Friday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data. In the first six weeks of the 2025-26 marketing year, which started in May, the total maize exports amounted to 105 848 tonnes, out of the seasonal export forecast of 2,0 million tonnes. Approximately 41% of the exports went to Zimbabwe, 21% to Eswatini, 17% to Botswana, and the remainder distributed among the neighbouring countries. We will likely see more robust export activity later in the year once farmers have completed the harvest and there is grain in the silos for export. Given the recovery in domestic maize production, we don't anticipate imports in the new marketing year; if any are made, they will be small, mainly for the coastal regions that will take advantage of the affordable prices of some supplies.

- South Africa is a net wheat importer, and June 6 was the 36th week in the 2024-25 marketing year. The imports so far amounted to 1,16 million tonnes. The seasonal import forecast is 1.80 million tonnes, down from 1.93 million tonnes in the past season. So far, Russia, Lithuania, Poland, Latvia, Australia, Canada and Romania are the wheat suppliers to South Africa.