

Risks to South Africa's agricultural sector amid rising geopolitical tension

Geopolitical risks are back in the South African agricultural agenda. Over the past year, South Africa has indirectly felt the effects of Russia's invasion of Ukraine through the disruption of various commodity supply chains and the subsequent price surge, specifically of grains, vegetable oils, fertilizer, Brent crude oil and natural gases. This time around, the United States' accusation that South Africa has supplied military equipment to Russia has raised diplomatic tensions between the two countries, leaving a great deal of uncertainty about political and trade relations between the two countries.

The matter will likely be ventilated through diplomatic channels over the coming days and weeks, and it remains unclear where this will settle. While this unfolds, it is worth briefly looking at South Africa's economic ties with the rest of the world. South Africa benefits immensely more from trade with the United States than Russia. Therefore, from a purely economic standpoint, the reasonable step to take in a world of uncertainty is nurturing relationships with countries with which a country has strong economic ties. The United States was South Africa's second-largest export market in 2022, accounting for 9% of South Africa's total exports, according to data from Trade Map. China was the leading export market, accounting for 10% of South Africa's total exports. South Africa's other important export markets include Germany, Japan, the United Kingdom, the Netherlands, Mozambique, India, Botswana, Belgium, Namibia, Zimbabwe and Zambia. Russia is one of the least important export markets for South Africa's total merchandise, accounting for a mere 0,2% of South Africa's exports in 2022. Over the past five years, South Africa's total exports to Russia averaged 0,4% of the total per annum.

In the current uncertainty in the global geopolitical environment, South Africa should ideally deepen relationships with countries that serve the country's economic interests and, by extension, support employment domestically. Tensions with the United States could present a significant economic downside for South Africa. The first channel is the negative sentiment against a country allegedly arming an invader and the loss of credibility on the view that South Africa is non-aligned in the Russia-Ukraine war. There are already anecdotal stories about specific companies delaying investments in fear of rising geopolitical tension and South Africa's position in the war. The country's political leadership should build on the work of the President's annual investment conferences on attracting foreign direct investment to drive manufacturing and other sectors and job creation in South Africa.

From an agricultural perspective, trade is as important. South Africa's agriculture exports roughly half of its products in value terms, totalling a record US\$12,8 billion in 2022. Maize, wine, grapes, citrus, berries, nuts, apples and pears, sugar, avocados, and wool were some of the top exportable products in 2022. Russia is a small market for these, accounting for just 2% of South Africa's agricultural exports over the past five years.

The African continent remained a leading market, accounting for 37% of South Africa's agricultural exports in 2022. Asia was the second largest agricultural market, accounting for 27% of exports, followed by the E.U., the third largest market, accounting for 19%. The Americas region was the fourth largest, accounting for 7%, and the remaining 10% went to

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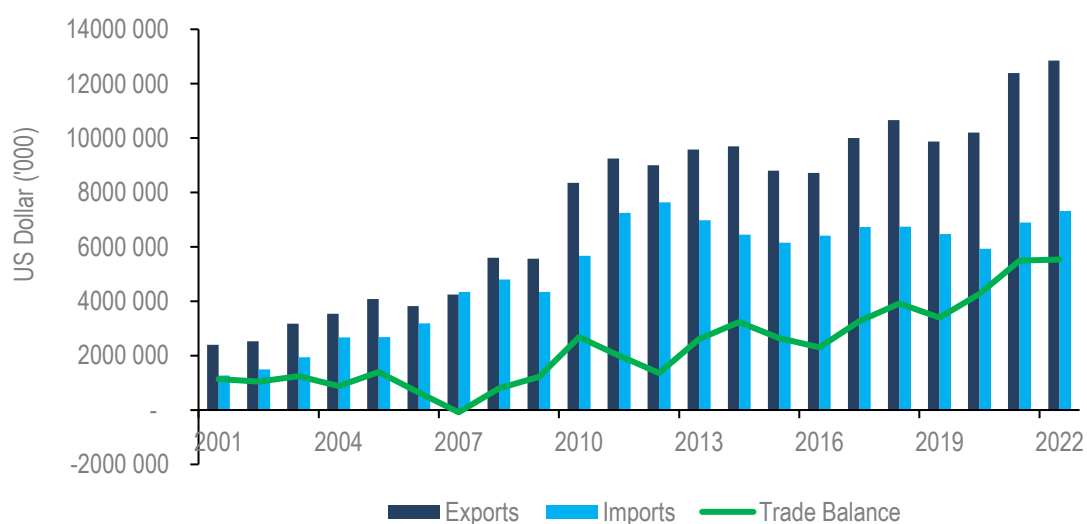
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the rest of the world. The U.K. was one of the leading markets within the 'rest of the world' category. The products of exports to these markets were primarily the same, with the African continent and Asia importing a reasonably large volume or value of maize. Meanwhile, exports to other regions were mainly fruits and wine.

The U.S. is also an important agricultural trading partner, accounting for an average of 4% of South Africa's agricultural exports over the past five years. Fruits, nuts, processed vegetables, wine, dairy products, industrial alcohol, and fruit and vegetable juices are some of the agricultural products that South Africa exports to the United States. These products benefit from duty-free access to the United States under the African Growth and Opportunity Act (AGOA). This is due for renewal in 2024. Other industries, such as automobiles, benefit more than the agricultural sector through AGOA market access.

Overall, South Africa is a small open economy highly integrated with the global economy through many complex channels. This means that the political leadership should position the country in an attractive way for investments and gaining market access to the world's growing economies.

Exhibit 1: South Africa's agricultural exports



Source: Trade Map and Agbiz Research