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The complexity of South Africa's trade policy in agriculture

An export-led strategy underpins South Africa's trade policy, which entails a deliberate effort to get the country's agriculture and other industrial sectors to export products beyond existing international markets. There are at least two diametrically opposing views around how well South Africa has executed this strategy in agriculture.

The first view is that South Africa has not done enough to open up new markets, which has limited the country's scope to grow agricultural exports further. This view is widely shared by private sector role players who have struggled to penetrate and expand market share in key growing countries such as China, India and Saudi Arabia. Private sector role players argue that, over the past few years, the growth in South Africa's agricultural exports in these key markets has primarily been driven by productivity gains that have established a big enough competitive advantage that overcomes high tariff and non-tariff barriers.

Experiences from exporters reveal that government has a lack of institutional and human capacity to deliver critical services such as testing laboratories for perishable products such as meat which has led to delays in the issuance of export permits. Another example includes protracted government negotiations that took over a decade to conclude to allow citrus producers in certain parts of South Africa access to the US market. Not forgetting the costly regulations imposed on South African producers to align with unjustified citrus black spot (CBS) requirements, which continue to cost the industry. A lack of appetite to pursue a free trade agreement with the United States post-2025 after the expiry of AGOA is also worth noting.

Based on these issues, which are a microcosm of fundamental state capacity issues, the prevailing sentiment is that South African agricultural exports have increased despite the limitations in market access, with a general lack of sufficient support from the government.

The second view is that South Africa has excelled in opening up new markets, as evidenced by several free trade agreements (FTAs) with critical regional and international markets. This includes the:

a) Southern African Development Community (SADC) FTA,
b) SADC-European Union (EU) Economic Partnership Agreement (EPA),
c) SACU/Mozambique-United Kingdom (UK) EPA,
d) The African Continental Free Trade Area (AfCFTA),
e) SACU-MERCOSUR Preferential Trade Agreement (PTA).

All the agreements mentioned above have been achieved over the past 15 years, which is quite a considerable feat in itself, given the technical and institutional demands that have to be committed to negotiating and successfully implementing trade agreements. Ironically, all the above-mentioned FTAs are only in two of South Africa's biggest markets – Africa and Europe – which collectively account for 65% of the country's total agricultural exports in 2020. With the SACU-MERCOSUR preferential trade agreement (PTA) being a narrowly focused and low-ambition trade arrangement, this agreement has not had a large impact. It is entirely plausible to argue that the opening of markets through these agreements has

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indeed deepened, consolidated and improved South Africa's position in the EU and Africa – particularly the latter, where pervasive challenges of non-tariff barriers remain a critical problem.

However, it is equally plausible to argue that South Africa would be best served if its market access is diversified beyond Africa and Europe, an argument at the core of the country's export-led strategy. The Middle East, Far East (Asia), North and South America currently account for 35% of South Africa's agricultural exports. This is perhaps where most of the attention and pursuit of FTAs would be more critical. Some of South Africa's fiercest competition is from "Global South" producers such as Chile, Peru, Australia, Argentina, New Zealand and Uruguay. They have struck various forms of trade agreements with third markets in Asia, the Middle East and the Americas. Table 1 below compares South Africa and its competition in Asia – South Africa only has the SACU India preferential trade agreement (PTA), which is yet to be finalized after 15 years of negotiations.

Meanwhile, Peru and Chile have preferential market access in all of the listed markets. In contrast, Argentina, New Zealand, and Australia have a pact with the ASEAN regional block and a bilateral with China. It effectively means that South Africa is facing higher tariffs against the key competition – and local producers had to overcome these tariffs primarily through farm-level technical efficiency.

Table 1: Comparing market access between South Africa and its competitors in Asia

			RSA's Competitors					
		RSA	Australia	New Zealand	Peru	Chile	Argentina	Uruguay
Strategic Markets	China		Bilateral	Bilateral	Bilateral	Bilateral		
	Hong Kong					Bilateral		
	India	*SACU PTA			GSTP	Bilateral GSTP	GSTP Mercosur-India Bilateral	GSTP Mercosur-India Bilateral
	Indonesia		ASEAN-Australia-New Zealand	ASEAN-Australia-New Zealand	GSTP	GSTP	GSTP	
	Japan		Bilateral		Bilateral	Bilateral		
	South Korea		Bilateral		Bilateral GSTP PTN	Bilateral GSTP PTN	GSTP	PTN
	Malaysia		Bilateral ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	Bilateral GSTP	GSTP	
	Philippines		ASEAN-Australia-New Zealand	ASEAN-Australia-New Zealand	GSTP PTN	GSTP PTN	GSTP	PTN
	Thailand		Bilateral ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	GSTP	GSTP	
	Vietnam		ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	Bilateral	GSTP	

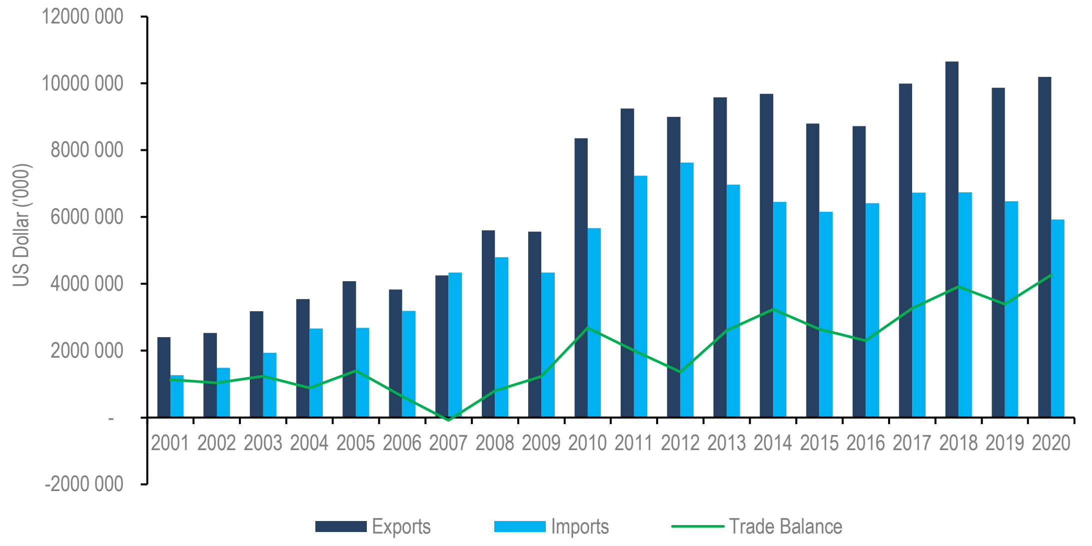
Source: SATI (2018), BFAP (2020)
* Yet to be finalized.
NB: SACU: Southern African Customs Union; GSTP: Global System of Trade Preferences among developing countries; PTN: Protocol on Trade Negotiation

From Table 1, it is clear that South Africa is lagging in fostering market access in regions such as Asia, which represents a frontier of expansion. The question is, can South Africa realistically follow the model of its competitors in aggressively pushing for more access in third markets? South Africa is an industrializing economy with a unique set of challenges. Many feel that trade liberalization has severely limited South Africa's capacity to address structural inequality, and there is a political hesitancy to open up markets beyond current levels.

What has been evident over the past decade is a desire to retain trade policy space, but this is likely to limit the ability of the country to pursue further FTAs, given the need to make concessions that further liberalize markets. This explains the reluctance of South Africa to pursue a SACU-US FTA, or a bilateral with China, and the stalemate of the SACU India PTA. Moreover, the focus on localization means South Africa's inward risks are becoming protectionist, further complicating our efforts to expand market access for agriculture and various products the country produces. This leaves South Africa with an extremely narrow set of options that balance political and economic imperatives.

Nevertheless, it is essential to acknowledge that both views discussed herein have merit, but they need to be prefaced and balanced with context.

Exhibit 1: South Africa's agricultural trade



Source: Trade Map and Agbiz Research