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SOUTH AFRICAN AGRICULTURE IN THE WORLD ECONOMY

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INTRODUCTION

South African agriculture has in recent years not only witnessed a rapidly changing international trading environment, but it has also experienced a dramatic change in the way the marketing of its products is managed. Although the title of this paper could cover a wide range of topics, I will limit my remarks to the main issues that I believe are shaping the nature and trajectory of South Africa's agricultural trading relationship with the rest of the world. Some of these issues have a local character, whilst others are of an international dimension and which have in the past - from a South African perspective - been more or less completely exogenous variables. With a new acceptance in the world community, South Africa has in the last two years been in an excellent position to grasp new market opportunities. This acceptance has also allowed South Africa to participate in the international policy environment in which it operates to a greater extent than in the preceding years.

THE GLOBAL ECONOMY

The 1996 Trade and Development Report (UNCTAD, 1996) concludes that growth in world output continued in 1995, but at a reduced rate of 2.4% which is expected to slow even further in 1996. The growth rates in newly industrialised countries in Asia considerably outstripped that of the developed world, with China continuing to be one of the fastest growing economies, expanding at a rate exceeding 10%. In Africa growth at 3% was generally higher than in Latin America where growth, with the exception of Chile, has slowed to 1%. The share in world trade of developing Asian countries now surpasses that of the USA, the European Union (EU) or Japan. Economic recovery in certain Central European countries is well under way with growth at 5%, while output continues to decline in other Central and Eastern European countries.

A general trend is that the economic recovery since 1993 in the developed world has not been as rapid as during the previous two cycles of expansion and is expected by UNCTAD to slow to below 2% in 1996. Within this group the USA continues to outperform the European Union and Japan.

From a development perspective UNCTAD singles out the common and central role that trade and the expansion of exports continues to play in the growing economies of East Asia. Furthermore, UNCTAD identifies three features that typify the transition and growth in these countries. Firstly, they demonstrate the importance of establishing a dynamic interaction between exports and investment in industrialisation. Secondly, they illustrate the possibility of fully mobilising natural resources and abundant unskilled labour in their quest for growth and, finally, they highlight the need for upgrading industry and technology in order to raise productivity.

THE DOMESTIC REVOLUTION

The last approximately fifteen years have seen South African agricultural marketing policy move onto a course which almost inevitably would bring it to the doorstep of the elusive and unattainable free market. South Africa has in the nineties followed an accelerating process of liberalisation of its agricultural markets, which has been more dramatic than is generally realised.

This process of deregulation has its roots in the calls in the early eighties by a previous Minister of Agriculture, Mr Greyling Wentzel, for more market-related production in agriculture. These initial steps were followed in the nineties by a growing debate on statutory marketing in agriculture, which was enthused by the reports of the Kassier Committee and of the Agricultural Marketing Policy Evaluation Committee which were appointed by Minister Kraai Van Niekerk. While these documents and the draft White Paper on Agriculture and the draft Marketing of Agricultural Products Bill have been widely and critically debated, they represent milestones in the tone and direction of the liberalisation process.

The deregulation cause within South Africa's agriculture has been supported, *inter alia*, by a changed domestic economic and political environment, new technologies and infrastructure, a shift in public sentiment, international developments, practical realities, and the lively free market debate itself.

The growing realisation in the sector that statutory marketing systems that had served agriculture relatively unchanged in principle since the mid thirties were no longer sustainable in the nineties, led to an accelerated liberalisation of statutory marketing in the last three years. In 1990 there were 21 agricultural marketing boards, the majority of which had a profound influence over the price; the export and import; and manner in which the products they controlled, were marketed. With the exception of most vegetables and subtropical fruit, important facets of the marketing of practically all the other primary food and fibre agricultural products were managed in some or other form by producer-dominated control boards. Through the Import and Export Control Act (Act 45 of 1963) and the Marketing Act (Act 59 of 1968), quantitative limits were placed on the import and export of most major agricultural products. Agricultural producers themselves had an important input into this process. In this way the producer's price was shielded and the trade was often committed to a single regulated marketing channel.

Since 1990, in concert with the changing approach internationally, the South African marketing boards came under increasing pressure to allow greater participation on local and international markets. A very incisive process of deregulation of the powers of marketing boards followed and the last two years have

seen the elimination of producer controls over imports, tariffication of agricultural imports, the removal of most single channel marketing schemes, and a general reduction of the authority of marketing boards. While the number of boards has reduced to 15, their influence on the market has waned to a far greater extent than is generally recognised. In many cases the remaining boards now perform mainly non-trade distorting functions such as generic advertising and market information. The only notable and substantive statutory imposition on markets remaining, is the single channel export of fruits, maize and oilseeds and the local marketing for wheat and dried fruit. These industries are also engaged in debates regarding the way forward.

These changes have de facto propelled South Africa from the "market management" camp it inhabited during the Uruguay Round negotiations into the company of the group of agricultural exporters which championed market liberalisation during the Uruguay Round. This is evidenced by the 1995 Producer Subsidy Equivalents calculated by the OECD (Organisation for Economic Co-operation and Development) and the Department of Agriculture.

This development and our new important relationships in Southern African are leading South Africa to reassess its stance and positioning in multilateral arenas which deal with agricultural and trade issues such as the WTO (World Trade Organisation), UNCTAD and the FAO (Food and Agriculture Organisation).

Notwithstanding the short-term advantages accruing to exports from the recent moves in the exchange rate, the agricultural sector has not viewed the replacement of the General Export Incentive Scheme (GEIS) with a menu of supply side measures with great enthusiasm. Where industries received export incentive benefits under GEIS in the past, the profitability of their exports will come under pressure with its removal. However, the agricultural sector should not only closely investigate the opportunities available in terms of the new supply side measures, but it should also ensure that the subsidisation of agricultural exports by its competitors is under constant surveillance. Furthermore it should work together with the Government in a concerted effort to improve market access. This combined effort should provide long-term benefits and make up for the loss of GEIS in a more sustainable way.

THE TRADING ENVIRONMENT

There are a number of key factors in the international environment which are shaping South Africa's agricultural trading relationship with the rest of the world.

South Africa's political acceptance in the international community has been a primary determinant of new market opportunities and the enhancement of our products in traditional markets. This factor alone has provided the most important stimulus to the development of new government policies and the broadening of private sector trading activity.

The current international trading scene is frequently characterised as globalised, which is a reflection of shrinking virtual distances through technology and the growing interdependence of the economies of countries.

This epithet is supported by a perceivable shift by governments from bilateral to multilateral relations to deal with the broader, more complex and integrated nature of modern economic matters.

The WTO came into being in January 1995 as a result of the lengthy Uruguay Round of multilateral trade negotiations. While the General Agreement on Tariffs and Trade (GATT) 1994 updates the rules which have applied to international trade since 1947, it is but one of a bevy of agreements and decisions that make up the Results of the Uruguay Round initialled in Marrakech in April 1994. The WTO currently has 123 members representing more than 85% of world trade, while a further 31 countries are in the process of accession.

The fundamental principles upon which the international trading rules were based in 1947 remain and are reaffirmed in the new agreement. These principles are:

- The protection of domestic industries should, with only a few exceptions, be effected by tariffs and not quantitative or other non-tariff measures;
- tariffs should be bound against increases and member countries are urged to reduce this protection and limit levels to those listed in national schedules deposited with the WTO;
- most favoured nation (MFN) treatment means that tariffs and other measures should be applied in a non-discriminatory manner among member countries. Therefore, the best treatment (e.g. low tariffs) offered to the imports from any member, should be accorded to all other members; and
- the national treatment rule which prohibits a country from discriminating between imported and domestic products.

Apart from maintaining the earlier principles of the GATT, the coverage and effectiveness of GATT rules and procedures have been broadened and strengthened in the Marrakech Agreements. An indication of the continued political will to support the multilateral rules based WTO system, is the considerable increase in the last 18 months in the use of strengthened and more effective dispute settlement procedures provided for by the WTO.

The greater availability of information relating to trade policy measures; the enhanced discipline resulting from countries' commitments to the WTO; and the transparency provided by the review and dispute settlement procedures of the WTO, are significant resources and instruments available to members to ensure that trade (also in agriculture) takes place on fairer terms than in the past. Ensuring this, transparency and compliance are currently a preoccupation of members in the different WTO bodies.

Another important feature of the Uruguay Round was the strong political commitment to include agriculture. The Uruguay Round Declaration included the following:

"Contracting parties agree that there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing

restrictions and distortions ... so as to reduce the uncertainty, imbalances and instability in world agricultural markets".

This led to an agreement on agriculture and a number of explicit commitments by members regarding domestic support, market access and export subsidies in agriculture.

In the agricultural field the relevant agreement and commitments by members are a first step in a process which is due, according to the so-called built-in agenda of the WTO, to be taken up again in further negotiations in 1999.

Alongside the results of the Uruguay Round a number of new issues relating to trade are being debated in international forums, such as the relationship between trade and the environment, labour standards, investment, bribery and corruption, competition policy and food security. Although no consensus has been reached on these issues, some will move to the centre stage in ensuing deliberations in the WTO and may be addressed at the WTO Ministerial Meeting in Singapore in December 1996.

After almost two years since the WTO's inception, it is evident that there is good progress with the implementation of the commitments negotiated under the Uruguay Round agricultural reform programme. In the first year the Agriculture Committee has principally focused on the implementation by members of their market access commitments, e.g. tariffication and minimum market access quotas, while the Committee's perspective is broadening to the other areas such as export subsidies and domestic support, as compliance to commitments regarding these measures are notified by members to the WTO.

South African import duties of practically all agricultural products have been re-evaluated in the last two years, and minimum market access quotas, where appropriate, have been opened since the beginning of the year. Although a few industries have difficulties with minimum market access, South Africa should otherwise not find it too painful to meet its WTO agricultural commitments.

In view of the programmed next round of WTO negotiations on agricultural trade in 1999, I would recommend that the agricultural sector and notably members of the AEASA should, in the next three years, focus attention on international agricultural trade and work together with the Government to formulate sound and coherent negotiating objectives. In the meantime South Africa should fully participate in the WTO process of ensuring fairness and transparency in agricultural trade. The Department of Agriculture has positioned itself to follow and contribute to the international debate and activities on the above-mentioned issues.

THE PROLIFERATION OF TRADING BLOCS

Practically no major trading nation is presently not a member of some form of preferential trade arrangement or bloc. Furthermore, new associations between partners, entailing liberalisation to a greater extent than their commitments in the WTO context, are regularly being promoted.

Apart from the well-known customs unions and free trade agreements (FTA's), such as the European Union, NAFTA (North American Free Trade Agreement) and Mercosur, important other developments in this field include EU enlargement and EU initiatives to restructure its relationship with Mediterranean countries to allow for freer trade; and greater coherence in each of the Asian continent, the Pacific Rim and the Americas.

South Africa is also investigating the possible value of a free trade agreement with the EU and has recently initialised its agreement to a SADC (Southern African Development Community) Trade Protocol that foresees the phasing out of customs duties between SADC members over an eight year period. These latter two developments are discussed further below.

This trend toward regional blocs, in as much as it represents both further liberalisation between bloc members and therefore possible market shifts detrimental to non-members, needs to be closely followed and appropriate policy steps taken in the event that our interests are affected.

SOUTH AFRICAN AGRICULTURE AND THE EU

The implications of a free trade agreement between the EU and South Africa have over the last nine months been rigorously analysed in Government circles in collaboration with the business community and labour representatives. The Department of Agriculture has worked closely with the agricultural community in a Steering Committee chaired by the Department in this matter and to ensure close co-operation and consultation on other issues relating to agricultural trade. In general the agriculture sector is in favour of an FTA if certain conditions can be met in the negotiations.

The EU is South Africa's main agricultural export market. While domestic agriculture remains a sensitive sector for both the EU and South Africa, the removal of all import duties on agricultural products, as implied by a full FTA, would be unacceptable to both parties. However, there is a WTO requirement that substantially all trade should be covered by an FTA and that no sector should be excluded. This means that agricultural trade will need to be included and, from a South African export perspective, we would wish to see market access for all our major products improved by an FTA. Disappointingly, the EU has chosen to exclude from the negotiations a number of agricultural products which are important to South Africa. This and the fact that Government support to the EU's agriculture by far exceeds that which is received by South African farmers will have to be addressed in the negotiations.

SACU AND SADC

Africa is one of the regions in which South African trade has grown the most rapidly in the last few years and with which South Africa has a positive trade balance.

Normalising South Africa's relations with Southern Africa has become a primary feature in our foreign policy. This is evidenced by the current re-negotiation of the Southern African Customs Union in which the democratisation of decision making, a preserve of the South African Government in the old agreement, is playing an important role. Equally, South Africa's membership of SADC and in particular its agreement to

a trade protocol which is due to lead to free trade in goods and services in the region, underlines its primary commitment to the region.

The emerging vision of freer trade in Southern Africa will bring with it both opportunity to our North and greater competition in the agricultural market place in South Africa. It can be expected that comparative advantages will result in some shifts in production and trade in the region.

CONCLUSION

Much has changed in South Africa - in its relations with the rest of the world and in the trading environment

itself. The liberalisation of our marketing has brought with it the necessity to reassess our alliances, and make full use of international trading opportunities.

In our present eagerness to forge a new relationship with the EU, we should not lose sight of the opportunities presented by the rest of the world, including growing markets of the East and in Africa.

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