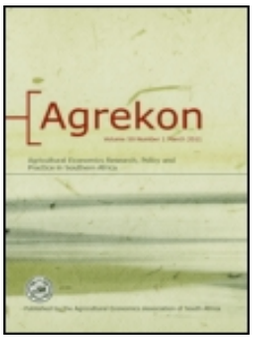

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THE RELEVANCE OF EUROPEAN UNION–SOUTH AFRICAN TRADE AND THE TDCA FROM A PERSPECTIVE OF SOUTH AFRICA'S AGRICULTURAL EXPORTS BETWEEN 1997 AND 2008

C.N. Mbatha*

ABSTRACT

The European Union (EU) has remained South Africa's biggest trading partner, with total exports destined for the Union constituting about 30 per cent of South Africa's total exports in the last ten years. However, owing to recent developments, new market opportunities, especially in the developing world, have emerged, with countries like China capturing some of South Africa's total exports. Analysts like Sandrey and Jensen (2007) have argued that such developments signal a significant change in the relevance of the EU as South Africa's main trading partner. This paper, however, argues that, even with the rise of emerging markets, South Africa still needs to take the EU seriously and remain strategic in its relationship with the Union.

Even though total export flows to countries like China have risen exponentially since 2005, they still constituted only about 5 per cent of South Africa's total exports in all other sectors in 2008. More specifically, agricultural export data shows that, since 1997, EU-destined exports in the sector have been growing at a rate above that of agricultural exports to the world. The trends could imply that the ongoing implementation process of the Trade, Development and Cooperation Agreement (TDCA) between the EU and South Africa remains relevant for economic growth and probably for poverty alleviation as well.

Keywords: European Union, South African agricultural exports, TDCA

JEL Classification: F14

1 INTRODUCTION

The efforts aimed at increasing trade among developing countries in recent years have, among other things, led to an expansion of the pool of South Africa's trading partners globally. In addition to the traditionally dominant trading partners like the EU, United States (US), Japan etc, the important destinations of South Africa's exports now include countries like China, India and Brazil. The exponential

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increases in trade volumes and values between South Africa and China in particular have led some analysts to propose that South Africa's trade policies should be reconfigured and focused on emerging markets, at the expense of "a dead horse" like the EU (e.g. Sandrey and Jensen, 2007). Although it is understandable how such conclusions could be reached, and they appear logical given the trade share developments in recent years, this paper proposes that the EU remains an important trading partner for South Africa. This is in terms of potential economic injections stemming from trade, and possibly because the gains, especially in the agricultural sector, have a better chance of being readily distributed through relatively higher multipliers if there was new employment being created (Mullins, 2004). If such distributions took place, the expansion of labour-intensive agricultural production would have a greater chance of impacting positively and directly on low-skilled workers. In line with this argument, it is therefore proposed that the implementation process of the TDCA between South Africa and the EU needs strategic support from both sides. For example, in cases where it is clear that particular goods have lost their EU market share, or that such markets were negligible to start off with, South Africa's policy could either support the development of new markets for such products, or focus on their importation. On the other hand, South Africa's strategy should continue to support EU destined goods like wines, grapes, citrus, etc., which have been doing well during the period covered by the research, and especially if the production process of such goods creates labour-intensive jobs for low- to semiskilled workers.

Data on trade flows between South Africa, the world and the EU between 1997 and 2008 are presented to support this position. Selected data are analysed for trends in EU-destined export shares and values at general and agriculture-specific levels. General employment data from Statistics South Africa (STATS SA, 2010) for the same period, and qualitative data from micro case studies in selected agricultural sectors like wines and citrus, are reviewed.

Section 2 of the paper presents a theoretical framework, from which stems the approach taken in analysing and interpreting the data. In Section 3, an institutional context for South Africa's main trade agreements, including the TDCA, is provided. Export and employment trends are presented and discussed in Sections 4 and 5. Conclusions are presented in Section 6, and the limitations of the study alongside potential future research are presented in Section 7.

2 THE THEORETICAL FRAMEWORK

For trade liberalisation to have positive effects on the poor, there have to be strong links between economic growth and poverty alleviation, and the liberalisation process must translate into growth. Catteneo and Dodd (2007) argue that the potential positive net incomes, material and social assets stemming from trade

liberalisation must be distributed effectively to the poor sections of society. Winters (2000) and McCulloch et al. (2001) provide a framework that provides useful tools for linking varied socioeconomic sectors to trade transactions taking place at border posts. Some of these tools are used in the present paper.

In neoclassical trade theory, the Hechscher-Ohlin model and its Stolper-Samuelson corollary (Samuelson, 1971) are used to link trade liberalisation to income accumulation and distribution. However, these theoretical processes are linearly conceived; hence they have limitations in explaining or predicting the effects of trade liberalisation on social welfare. For example, from the Hechscher-Ohlin model, it is concluded that a trading country should focus on production that uses its most abundant factors in relation to its trade partner. It is believed that this would increase the relative price of the exported good that uses the most abundant factor inputs. The process would expand not only that particular export sector, but also its related factor input sectors. For example, a country should decide to export labour-intensive goods, like agricultural goods, if it has abundant labour resources. In the agricultural export sector, demand for labour and its price (wages) would increase, while returns from capital use would decrease. The increase in agricultural employment levels and wages would benefit employees in agriculture, who also tend to be unskilled and poor (Catteneo and Dodd, 2007). These neoclassical propositions are theoretically sound. However, they are limited, because they link potential trade benefits to poverty alleviation linearly and simplistically. The framework proposed by Winters (2000) and McCulloch et al. (2001), on the other hand, accounts for more dynamic institutional and social factors in the *trade-growth-poverty* linkage. As illustrated in Figure 1, the framework describes and explores the empirical trade effects on the poor through production, labour and household markets, as well as through government revenue generation and spending.

Essentially, the framework's income distribution channels act through the price transmission mechanism, the enterprise channel of wages and employment and the government channel of taxes and expenditure choices (McCulloch et al., 2001). The level of income distribution to a particular sector in the framework should be determined by the strength of the sector's link to trade-related transactions taking place at the border post. A useful and illustrative South African application of the framework is performed by Edwards and Stern (2007).

The analysis in the present paper is partial. It pays special attention to the possible link between a particular trade agreement (i.e., the TDCA) and its effects on exports, especially in agriculture, to the EU, and then qualitatively looks at the agreement's potential impacts on welfare changes, such as those brought about by employment level changes, over the period from 1997 to 2008. It is acknowledged that this partial analysis is limited, for example because the potential import-related

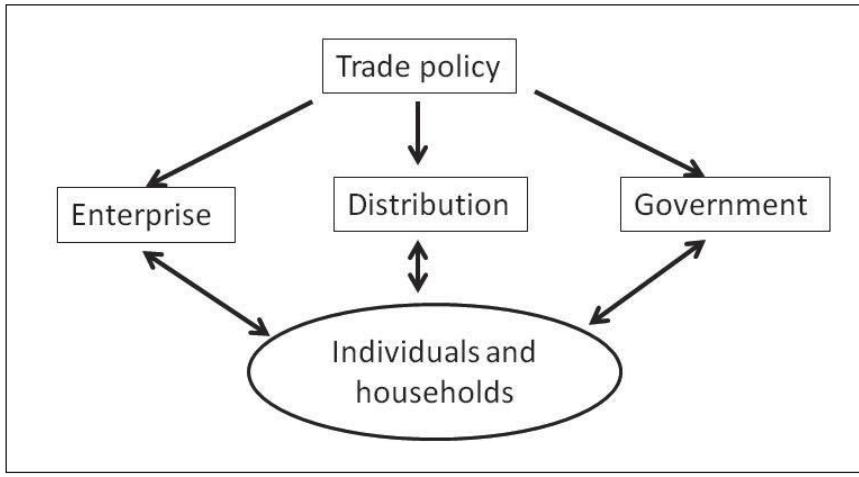


Figure 1: A schematic presentation of the distribution channels of trade benefits
Sources: Winters (2000) and McCulloch et al. (2001)

effects on consumer welfare through the price mechanism, for instance, have been excluded owing to space limitations. It is further acknowledged that a focus on the agricultural sector alone is not enough to explore the ways through which the country's exports could impact on poverty or employment in an economy like that of South Africa, with varied dynamic links between rural and urban communities. On such points in particular, Rodrik (1998) reported that, while Sachs and Warner (1995) found that factors such as the primary share of exports in an economy were important contributors to growth in a global context, in the context of sub-Saharan Africa these factors were not so significant, perhaps with the exception of the "level of export taxation" on growth. Hence, the potentially positive link between agricultural exports and low-skilled employment in South Africa is understood and discussed mainly as an indirect link, and potentially working through the strong agriculture-labour multiplier effects as reported by Mullins (2004) for South Africa.

3 AN INSTITUTIONAL OVERVIEW

South Africa is a signatory to the 2002 SACU[1] and the 2008 SADC[2] Free Trade Area (FTA) agreements, and therefore most of the country's trade happens within these institutional arrangements. For example, like other SACU countries, South Africa has preferential trade agreements with the European Free Trade Association (EFTA) and the South American MERCOSUR bloc and is eligible for the Generalised System of Preferences (GSP) and the African Growth and Opportunity

Act's (AGOA) non-reciprocal preferential treatment. SACU members and the US are also partners in the Trade, Investment and Development Agreement (TIDA) aimed at promoting investment and trade diversity between the two parties. South Africa has also sought bilateral general, free and preferential trade agreements with other regions and countries, including those in Africa, Asia and the Middle East. To further South-South trade and cooperation, the country also participates in cooperation initiatives within blocs such as IBSA (India-Brazil-South Africa) and BRIC (Brazil, Russia, India and China) (WTO, 2009; South Africa.info, 2010a).

It is important to note that, although all SACU members were signatories to the Cotonou Agreement between the EU and the African, Caribbean and Pacific (ACP) countries, South Africa was excluded from the Agreement's trade provisions because of its relatively higher level of economic development. Instead, it is the TDCA, aimed at establishing an FTA between South Africa and the EU, that forms the basis of the parties' trade relationship (Mbatha and Charalambides, 2008). Within this environment of complex trade agreements, South Africa sets the Most-Favoured-Nation (MFN) tariffs in SACU's Common External Tariff (CET) system and administers the collection and distribution of the common revenue throughout the Union. A recent review of SACU tariffs shows a move towards an increasing use of ad valorem tariffs, while specific duties have fallen by almost 50 per cent from 195 lines, and mixed duties from 1,774 to 98 lines since 2002. The remaining specific duties (94 of 109) and mixed duties mainly apply to agricultural products. The tariff changes have also afforded more relative protection to the agricultural sector. For instance, while the effective SACU average tariff rate has dropped from 11.4 per cent to 8.1 per cent from 2002 to 2009, the average rate has increased for agricultural products from 9.6 per cent to 10.1 per cent in the same period. The SACU agreement, however, affects mainly imports into the SACU region and South Africa, while exports are affected by various other agreements which have been outlined. With the EU being South Africa's most important trading partner, the TDCA, among others, is a particularly significant agreement for discussing the country's exports. Concluded in 1999, the TDCA came into force provisionally in 2000 and permanently in 2004 and is aimed at forming an FTA by 2012. It was agreed that, in the twelve years between 2000 and 2012, South Africa would liberalise 86 per cent of its EU imports, while the EU would liberalise 95 per cent in the ten years from 2000. While South Africa would remove about 81 per cent of duties on EU agricultural imports, 72 per cent of South Africa's agricultural exports would receive preferential treatment in the EU (WTO, 2009). This time framework provides an ideal opportunity at the present moment to analyse the varied potential impacts of the TDCA, which is done in this paper.

Since the analysis is performed from the South African perspective, Table 1 presents the average tariff phase down offer from the EU relating to South African

exports to the EU, aimed at gradually achieving the FTA within the specified twelve-year period.

Table 1: TDCA's average tariff phase down offer to South Africa: 2000 to 2009

Chapter 23	Description	2000 average	2003 average	2006 average	2009 average
01*	Live animals, animal products	15.47	15.14	13.41	10.83
02*	Vegetable products	7.30	6.21	4.70	3.02
03	Animal or vegetable fats & oils	4.53	1.65	1.25	0.76
04*	Food, beverages & tobacco	17.09	14.06	12.35	10.36
05	Mineral products	0.00	0.00	0.00	0.00
06	Chemical products	1.61	0.23	0.21	0.21
07	Plastic products	1.82	0.00	0.00	0.00
08*	Raw hides	0.86	0.00	0.00	0.00
09*	Wood products	1.82	0.00	0.00	0.00
10*	Paper products	0.19	0.00	0.00	0.00
11	Textiles & clothing	7.53	1.80	0.00	0.00
12	Footwear	4.77	0.00	0.00	0.00
13	Non-metallic minerals	1.28	0.00	0.00	0.00
14	Precious stones & metals	0.06	0.00	0.00	0.00
15	Base metals	1.97	1.26	0.04	0.04
16	Machinery	0.54	0.00	0.00	0.00
17	Transport equipment	2.52	1.32	0.63	0.38
18	Specialised equipment	0.48	0.00	0.00	0.00

Chapter 23	Description	2000 average	2003 average	2006 average	2009 average
20	Miscellaneous manufactured articles	1.18	0.00	0.00	0.00
21	Collectors' pieces & antiques	0.00	0.00	0.00	0.00
	Total	**3.75**	**1.95**	**1.29**	**1.02**
*Agricultural sector					

Source: Tralac (2008)

The tariff offer for the products in the indicated chapters shows a gradual decline in average rates per chapter. As in the case of the SACU CET, the protection of agricultural products remained relatively strong throughout the 2000 to 2009 period. Products in many other chapters had zero tariff rates by 2003. It is expected that the trends in most exports to the EU will be either catalysed or discouraged by the applicable protection measures presented in Table 1.

The selected trends in South Africa's general and agricultural exports to the world, and to the EU in particular, are presented and analysed in the following sections. This is done to propose that the EU trade partnership, and hence the TDCA's potential importance to South Africa, through trends in agricultural export levels and values, continue to be relevant.

4 SOUTH AFRICA'S EXPORTS TO THE WORLD AND THE EU

The EU remains South Africa's biggest export destination, with EU-destined exports contributing between 25 per cent and 34 per cent of South Africa's exports in money values to the world between 1997 and 2008. Although there was a sustained increase in South African exports to the EU between 1997 and 2001, peaking at about 34 per cent, this was followed by marginal declines thereafter, as illustrated in Figure 2.

The other countries in Figure 2 were the top six importers of South African products. The relative shares of these big importers grew marginally in the given period, with the exception of Japan between 2002 and 2004 and China after 2005. The trends for the biggest destinations do not however illustrate the overall increases in South Africa's total exports to the world and the EU in Figure 3.

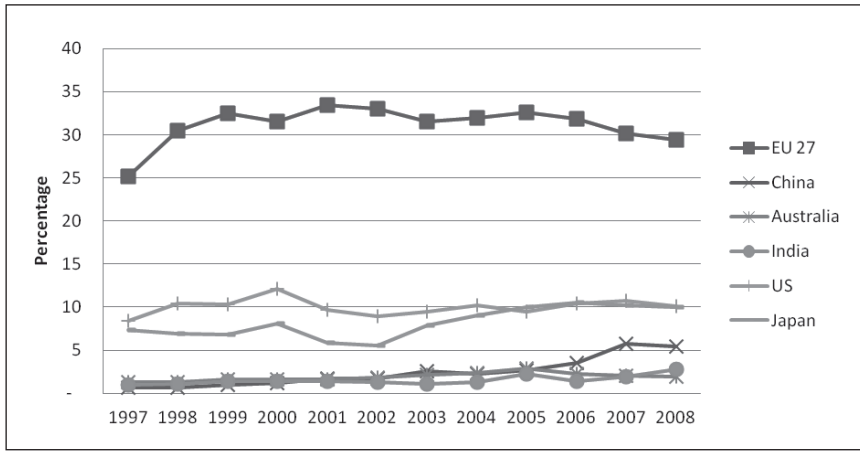
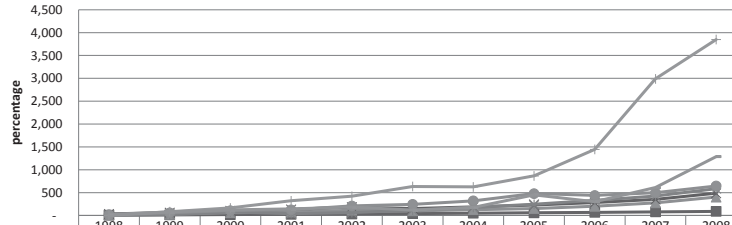


Figure 2: The share of exports to selected countries in real money terms (1997–2008)
Source: World Trade Atlas Data (2009)

Figure 3 shows these increases in percentage terms from monetary values of South African exports to the world and various countries, with 1997 as the base year. The real increases, with the Consumer Price Index (CPI) factored in, are also presented and illustrate that the nominal value increases of exports to the selected countries were also real. What the data in Figures 2 and 3 illustrate in combination is that, even though the EU's and some of the selected countries' *shares* of world exports have marginally decreased and increased at different times, in absolute terms, South Africa's exports to the world and the selected countries have increased, with China having the biggest absolute increases from 2001, followed by India from around 2006.

For the top countries, the monetary value of exports grew positively and at percentage rates above the average inflation rate during the given period.[3] The figures also show that exports to destinations with smaller initial shares in total world exports (China and India in Figure 2) grew at comparably higher rates (Figure 3) compared with destinations with bigger initial shares (the EU and the US). The implication is that, with growth in South Africa's total exports to the world, there has been a creation of new trade alongside some diversification of destinations, including those in the top six. Nevertheless, the relative importance of regions like the EU and the US as represented by their shares in Figure 2 remained consistent throughout the studied period. The implication of this should be that a strategic combination of policies within the regions remains crucial, even though new policies should pay attention to emerging markets like China and India which, historically, have had smaller shares of South Africa's total exports.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CPI growth	6	12	19	26	34	42	50	59	69	79	90
World growth	10	26	60	75	116	101	126	153	202	276	402
EU-27	33	63	101	132	184	151	187	227	282	351	486
Japan	4	17	76	40	62	116	178	246	331	426	587
Australia	16	57	107	123	209	243	321	480	438	497	645
China	1	83	164	322	421	634	625	866	1,446	2,990	3,850
India	21	77	121	143	183	119	176	451	299	611	1,289

Figure 3: Percentage increases in South Africa's exports to the world's top destinations from nominal values

Source: World Trade Atlas Data (2009)

In any case, a comparison of South Africa's exports destined for the world and those destined for the EU provides a useful tool for evaluating, in the sections that follow, the continued relevance of the EU as a trade partner and of the TDCA.

4.1 EU versus world agricultural performance

It was argued in Section 2 that the growth of labour-intensive agricultural sectors should lead to an increased level of welfare for the local poor as proposed (e.g. the Stolper-Samuelson model in Samuelson (1971)). But also, Catteneo and Dodd (2007) proposed that these welfare increases could only take place if the net incomes, material and social assets from positive performances in agricultural export sectors were distributed to the poor. One of the ways in which this could be achieved is through increased employment levels in exporting agricultural and related sectors or even through direct money transfers.

Therefore, it must be encouraging that Figure 4 shows that the agricultural sector performed comparatively well with respect to South Africa's other exports to the world in nominal and real monetary terms (refer to Appendix 1 for actual values). Four of the ten (40 per cent) top exports to the world were agricultural products[4].

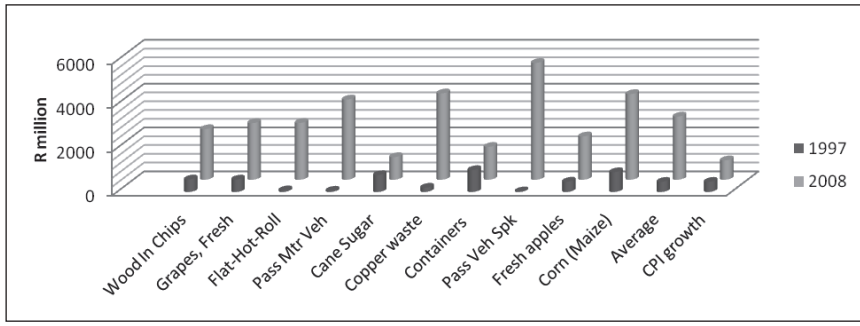


Figure 4: Growth trends in South African top ten exports to the world (1997 v 2008)
Source: World Trade Atlas Data (2009)

The data show that there was a sustained growth in real monetary terms of the top export products, especially after 2003 (year 7 in Appendix 1). The real monetary increases were *802 per cent* for world-destined exports. This serves as a first positive sign regarding the overall welfare of those involved in the exporting sectors, including agricultural exports. The growth of exports to the EU was, however, lower (at 747 per cent) than to the world, but, given the discussion in the previous section and Figure 3, it was as should be expected. The EU gains are illustrated in Figure 5 (refer to Appendix 2 for actual values).

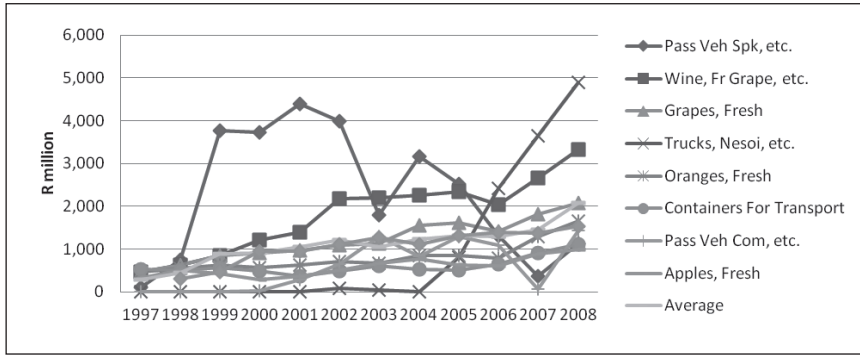


Figure 5: Real growth trends in South African top ten exports to the EU
Source: World Trade Atlas Data (2009)

Although there was generally real growth for most goods exported to the EU in Figure 5, the trends also indicated higher levels of fluctuations in comparison with world-destined exports. This was, however, not the case for wine and grape products, and for oranges and apples, which all performed well above the expected

CPI and average levels. In fact, some of these agricultural products even performed better than some mechanical and manufacturing goods.[5]

As mentioned already, South Africa's top ten export products to the EU grew by about 747 per cent, lower than the 802 per cent for the world in real terms. Nonetheless, this still indicated the overall positive monetary injections to South Africa's economy stemming from the country's trade with the EU. A presentation of selected agricultural exports in particular shows even more favourable monetary gains from EU exports compared with the same agricultural exports to the world. The trends are presented further in Table 2, where they were looked at as groups in their broad HS02 categories. In this case, the analysis ranked about 24 product categories in terms of their total monetary values as observed in 2008 by destination (the world versus the EU, in column 3).

The related percentage value increases for the two destinations are shown in column 4. For example, the citrus/nuts/fruits group was ranked number one in world-destined exports and had a growth rate of 391 per cent between 1997 and 2008. This growth rate was lower than the rate for prepared products (653 per cent), but the latter products were not as significant in terms of size; hence they had a lower ranking of only twelve.

For trade-deepening, it would be expected that the highly ranked products would also show relatively high growth rates. But, for trade diversification, high growth rates would be associated with low-ranked product groups to indicate the emergence or growth of new markets in the EU. With respect to world-destined exports, there appears to have been a relatively higher level of deepening than diversification compared with EU-destined exports. This observation is also supported by a more negative correlation coefficient value between *rank* and % *growth* variables for EU-destined exports (-0,09) in comparison with exports to the world (-0,03)[6].

The average monetary growth in agricultural exports to the EU (at 251%) exceeded the world's real growth rate (213%), showing that, in the agricultural sector alone, exports to the EU performed relatively better than agricultural exports to the world.[7] Moreover, the EU share of South Africa's world agricultural exports was 39.7 per cent, almost 10 per cent higher than the average percentage share reported in Figure 2. The implication is that, relative to the world, the EU was more important to South Africa with respect to *agricultural* exports. Nonetheless, even though there may have been more trade diversification in EU-destined exports, and even though agricultural exports grew at higher rates compared with world agricultural exports, some agricultural product groups still showed negative growth rates in the same period. But the relative monetary values of those poor-performing, EU-destined exports were not as high, relative to their world counterparts. Table 2 shows the maize[8], cane, cocoa and tea/coffee industries as

Table 2: Agricultural exports to the world versus the EU by products chapters – 1997 and 2008 (in R million)

HS 2 description	SA agricultural exports to the world: 1997–2008 changes				SA agricultural exports to the EU (27): 1997–2008 changes			
	1997	2008	Rank in magnitude (of 24)	**Approximate % change**	1997	2008	Rank in magnitude (of 24)	**Approximate % change**
Columns ->	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
02: Meats (red and fowl)	150	774	16	417	59	438	10	641
03: Fish	**876**	**3841**	**6**	**338**	**460**	**2393**	**4**	**421**
04: Dairy	222	453	11	104	2	2	23	-16
07: Vegetables	167	438	13	162	70	133	9	89
08: Citrus/ nuts/fruits, including grapes[1]	**2695**	**13,234**	**1**	**391**	1950	7778	1	299
09: Tea/ coffee	139	318	17	129	**96**	**92**	**8**	**-4**
10: Maize, barley, wheat, rice	**1295**	**5641**	**4**	**336**	**17**	**5**	**14**	**-67**
11: Grains/ flour	274	820	8	199	3	7	22	154
12: Beans/ seeds	240	1563	10	551	**98**	**652**	**7**	**566**
14: Vegetable materials (e.g. cotton)	3	9	24	204	7	11	18	59
16: Prepared meats	72	330	19	359	5	153	20	3246
17: Cane	1332	2051	3	54	**113**	**38**	**5**	**-66**
18: Cocoa/ chocolate	163	234	15	44	**15**	**12**	**15**	**-16**

20: Prepared fruits and vegetables (e.g. orange juice)	1210	3154	5	161	492	1129	3	129
21: Prepared products (yeast)	182	1372	12	653	20	161	13	690
22: Alcohol/ wine	**1,587**	**8633**	**2**	**444**	**602**	**4755**	**2**	**690**
24: Tobacco	**361**	**1217**	**7**	**237**	52	114	11	119
Total	**11,657**	**46,966**		**303 (Real 213)***	**4224**	**18,650**		**342 (Real 251)***

Source: World Trade Atlas Data (2009)

threatened sectors. The poor performance of these products could however also be traced to factors outside the TDCA, including EU tastes for genetically modified organism-free (GMO-free) maize and the EU's preferential agreements with other exporters like Swaziland, for instance in the case of sugar cane. In any case, Table 2 also shows that high EU export gains came from the high-ranked sectors like the alcohol, beans and fish sectors, and the citrus, nuts and other fruit sectors[9], indicating more trade-deepening regarding these specific product groups.

It is also worth noting that, while the values of products like maize, barley, wheat and cane exports to the EU have been declining, during the same period they increased with respect to the world as a destination. These may be prototypical cases of trade diversions away from the EU; hence, the data and the discussion of Table 2 may highlight future opportunities for strategic policy measures. The opportunities would, among varied factors, depend on whether both the poor- and well-performing sectors were (or could be) globally competitive and whether they would have readily transferable gains to the poor, for example in terms of labour-intensive employment creation. Otherwise, the public policy support for these sectors, without tangible welfare gains, could not be advocated.

In Table 2, the 08 products (60 in total) were shown to be the most important exports both to the world and the EU. The trends regarding these 08 products therefore warrant a separate discussion.

4.2 Performance analysis of HS 08 agricultural products

Some of the agricultural exports in Table 2 that showed great potential with respect to growth rates both for the EU and the world were in the HS 08 category (e.g. grapes, oranges, apples etc.) These products are further analysed and are presented in Table 3.

Table 3: The performance of chapter 8 export products

	Trends in the top five of 60 export products to the EU in real monetary values					
HS	**Description (examples)**	**Size in 000 (1997)**	**Size in 000 (2008)**	**% growth**	**EU % share (1997)**	**EU % share (2008)**
080610	Grapes	455	2082	357	80	81
0805100	Oranges	458	1663	262	68	45
080810	Apples	324	979	201	69	49
080820	Pears	208	618	196	82	67
080520	Mandarins	34	362	961	70	85
	Trends in the fastest growing export products to the EU					
HS	**Description (examples)**	**Size in 000 (1997)**	**Size in 000 (2008)**	**% growth**	**EU % share (1997)**	**EU % share (2008)**
081040	Cranberries	0.05	12	23160	100	99
081020	Raspberries	0.11	15	13445	100	100
080250	Pistachios	0.01	1.3	12800	6.67	17
081010	Strawberries	0.06	5.7	9416	40	84
080410	Dates	0.39	35	8785	85	86

Source: World Trade Atlas Data (2009)

While grapes (080610) were the biggest exports to the EU in the HS 08 category, oranges were the biggest exports to the world. Table 3 shows that the average relative shares of EU-destined exports versus those to the world declined between 1997 and 2008. With some selected products, however, the shares remained similar (e.g. grapes), and in some cases they grew (e.g. mandarins). Of the products that experienced the highest growth rates during the study period, the EU's relative share of the world total was, on average, higher in 2008 than it was in 1997 (e.g. strawberries); hence this agricultural export data still showed that, as regards *new* products, however small, the EU as a destination is still preferred to the world. Nonetheless, both the general (Figure 5) and agricultural data (Tables 2 and 3) illustrate that, even though the EU's relative share of world exports decreased, on average, between 1997 and 2008, the percentage growth rate of

EU-destined products was still *higher for agricultural products in particular* when compared with the world rate.

The top five, and fastest-growing, export products to the EU (presented in Table 4) were also evaluated against their average TDCA tariff offers to determine whether the offers may have had any impact during the studied period. The reported tariffs are the effective rates per category following the EU reduction offer to South Africa in Table 1.

Table 4: The TDCA offer to South Africa for years 01 to 09 with regard to specific products

Top five HS 08 exports to the EU			Fastest growing HS 08 exports to the EU		
HS	**Description (examples)**	**Average tariff reduction (1997-2009)**	**HS**	**Description (examples)**	**EU % share (2008)**
080610	Grapes	12.85	081040	Cranberries	1.95
080510	Oranges	17.77	081020	Raspberries	7.4
080810	Apples	42.82	080250	Pistachios	0
080820	Pears	29.77	081010	Strawberries	10.07
080520	Mandarins	16.02	080410	Dates	1.6

Source: Tralac (2008)

In Table 4, the average tariff reduction offer was higher for grapes (HS 080610) (because the effective average tariff rate was reduced to a lower 12.85% in 2009 compared to 1997 level) than for oranges (HS 080510) (where the effective rate was reduced only to a reported 17.77%). The three products that still faced the highest effective rates (i.e. had lower reductions) were apples (42.82%), pears (29.77%) and oranges (17.77%). In Table 3, these were the products whose relative EU share had dropped significantly in 2008 from 1997. On the other hand, the products with the highest tariff drops (i.e. mandarins and grapes) had their relative shares increasing from 70.07 per cent to 84.86 per cent and from 80.11 per cent to 80.56 per cent respectively. Most of the fastest-growing exports into the EU (Table 3, part 2) had the biggest reduction offers (in Table 4). The average share of the products with big tariff reductions (in Table 4) also grew from 66.29 per cent (1997) to 77.08 per cent (2008) (see Table 3).[10] There was also a negative, although weak, correlation coefficient observed for the 2008 EU share values and the effective tariffs for the HS08 products in general. The trends indicate that, of the fastest growing and top performing agricultural exports to the EU, those which faced higher tariff reductions from the TDCA offer performed relatively better than those that did not with respect to their EU shares.

From the perspective of South Africa's agricultural exports, EU trade remained the fastest growing and grew at relatively faster rates compared with other

regions. It also appears that the tariff reductions from the TDCA offer may have contributed to the growth of new markets with respect to their EU shares, even if this is only with regard to agricultural products. Given the growing values (higher than inflation) coming from the EU and world export payments into the economy, it can be argued that the economy received positive injections during the research period. However, whether such benefits have been distributed fairly to the poor remains a challenging question, which is looked at only in qualitative terms in the following section.

5 THE SOCIAL WELFARE EFFECTS: TRENDS IN SOUTH AFRICA'S EMPLOYMENT LEVELS

The preceding section shows that positive export performances were experienced in several agricultural sectors (e.g. wines, grapes, citrus etc.) exporting to the EU. As reiterated throughout the discussion, the positive trade gains in various assets have to be distributed to the poor, especially if the liberalisation process is to impact positively on social welfare and equity. Some of the ways in which such transfers are possible is through employment creation or direct money transfers to targeted groups. Positive trends in the data on agricultural and labour-intensive employment would be partially indicative of whether the impact would have a chance to be felt among the poor.

The nature of the employment data available from the collecting agencies like STATS SA (2010) does not readily lend itself to such investigation. For instance, the employment data as presented for various categories in Figure 6, does not discriminate between agricultural products.[11]

Figure 6 shows employment data by category for 1997 to 2008 (see Appendix 3). Overall, more positions were created in most sectors, although these cannot be directly attributed to the positive gains from trade that have been identified. In any case, growth in job numbers does not necessarily mean that there has been an increase in employment levels. This is because an increase in jobs could be accompanied by an even larger increase in the number of job seekers.

The agricultural employment data show increases from 1997 to 2000, and steady decline from then onwards. Therefore, it is not possible to conclude that any gains from total agricultural exports during the research period accrued to the poor. This should be particularly worrying because, historically, agricultural employment has been seen as very important in poor rural areas (Simbi and Aliber, 2000). The trend would be an added worry if South Africa's macroeconomic policy was to put undue emphasis on the agricultural sector as the driver of employment creation to the detriment of urban sectors like manufacturing.[12] Furthermore, and in relation to similar policy approaches, it was stated earlier that the support to varied sectors would only be justifiable if the targeted sectors had the potential

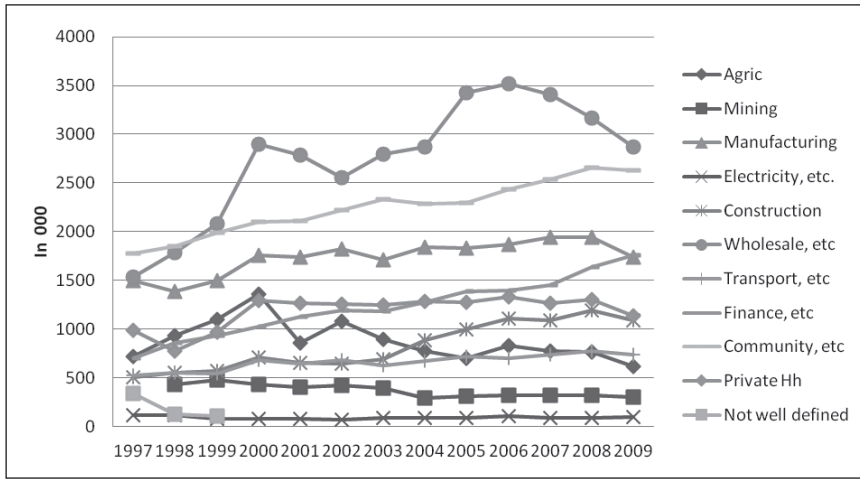


Figure 6: Employment trends in various sectors in South Africa
Source: STATS SA (2010)

to be competitive and could also bestow the desired distributional benefits on targeted groups.

It may also seem counterintuitive that, while agricultural exports have performed relatively well in the last ten years, employment levels in the sector were decreasing. But various factors may be responsible for the negative correlation between the two variables. Firstly, agricultural exports are only a part of a bigger agricultural sector which generates employment trends as measured by STATS SA (2010). Secondly, it could well be the case that there were limited avenues through which the net incomes and assets (Catteneo and Dodd, 2007) generated from agricultural exports could be redistributed to the poor. In plain language, the gains were not readily distributed to the poor. Among other explanations, this could mean that the increased net incomes did not stem from labour-intensive agricultural products and hence there was a drop in, especially, low skilled agricultural employment as shown in Figure 6[13]. Thirdly, not all the agricultural exporting sectors in Table 2 experienced positive growth trends between 1997 and 2008, especially with respect to the EU. Thus, it is possible that the exporting sectors that experienced losses contributed to job losses more than the ones that experienced gains contributed to job creation. These factors seem to validate Rodrik's (1998) conclusions regarding the missing link between trade, growth and poverty alleviation, especially in sub-Saharan Africa. For the conclusions to be validated in the case of South Africa, however, agricultural employment data collected at a specific product level is required, in particular for exports like grapes,

oranges, wine etc. Without the data, the empirical link between job creation for the poor and the reported positive performance of the agricultural sector could not be interrogated. What are available, instead, are micro-level employment studies that only reiterate what we already know about the growth and importance of some of the sectors already identified from the trade export data. A brief review of the studies is presented in the following section.

5.1 A review of selected microeconomic studies from secondary sources

In a study by Conningarth Economists, the annual contribution of the wine industry to South Africa's gross domestic product (GDP) grew by 2.2 per cent from 2003 values in 2008 (from R22.5 billion to R26.2 billion). They concluded that the exporting capacity of the industry was surpassed only by the minerals and motor car sectors. Of the total turnover of R19.2 billion, R6.3 billion (33%) was directly from exports, with imports amounting to only 2 per cent. More than 50 per cent of the wine industry's benefits accrued to the Western Cape, which also supported about 275 600 employment opportunities in total (SouthAfrica.info, 2010b). Even though Mullins (2004) reported a very high employment multiplier for the agricultural sector, it is likely that not all of the reported jobs were in labour-intensive primary agricultural activities, as opposed to supporting industries higher up in the value chain of the wine production and related sectors.

Nonetheless, the study does reiterate the potentially positive contributions stemming from the wine production and exporting industries. From the perspective of EU trade, such developments are important, given that, while EU-destined exports constituted only 38 per cent of world alcohol exports (R602 v R1 587 million) in 1997, the EU percentage share of the same exports had grown to 55 per cent (R4 755 v R8 633 million) in 2008 (Table 2). The reported growth in EU wine exports could only have been a positive development in the growth of the wine sector, including those employed in it and its associated sectors – also, given the direct and indirect multipliers reported by Mullins (2004), the highest of all other South African industries at 54.02[14].

Another micro study, by the International Institute for Environment and Development (IIED) (Urquhart, 1999:5), also reiterated the importance of the citrus exporting sector. It reported that "export citrus made up 2.46 per cent of the gross value of agricultural products in 1996" and that 65 per cent of the crop was exported, while "a recent World Bank study reported [that] the southern African citrus industry [was] responsible for 7% of world citrus export volume". These statements indicate the importance of the citrus exporting industry based on size. The Citrus Growers Association of South Africa (CGASA, 2003) reported that about 100 000 workers were employed in the industry. That is more than 10 per

cent of total agricultural employment as reported by STATS SA (2010) for the same year. Hence the growth of more than 300 per cent in citrus exports to the EU between 1997 and 2008 (see Table 2) should have made the most welcome and positive contributions to the sector and its capacity to create employment, also given the sector's reported multiplier of 26.63 (Mullins, 2004).

6 CONCLUSION

The evidence presented in this paper illustrates that exports, including agricultural exports, to the world and the EU increased between 1997 and 2000. Although the relative EU shares compared with those for the world declined for many products, the EU growth rate was higher than the world rate. These trends signal that higher levels of new trade with the world and the EU were mostly created, as opposed to trade being diverted from the EU. In comparison with 1997, the 2008 EU shares in respect of agricultural exports that received favourable offers from the TDCA tariff reductions were higher than the shares in respect of products that faced lower reductions. The indications are that EU trade and the TDCA remained important for South African exports.

The specific agricultural exports that performed well in the EU and the world were mainly in the HS 08 category, which includes grapes, oranges, apples, pears etc. It was indicated that the net monetary gains from these sectors would have had positive monetary injections into the local economy. There was, however, no direct supporting data to illustrate unambiguously the links between these export gains and employment creation for low-skilled workers. The reviewed micro case studies only reiterated the conclusions reached about the importance of the studied sectors seen in the trade data and given the high labour multipliers in agriculture. They highlighted the importance of sectors like the wine, grape and citrus exporting industries, in terms not only of their monetary size but also of their potential to create employment. Given these arguments, it cannot be argued that the EU has become a "dead horse" vis-à-vis South Africa's trade policy.

7 THE STUDY'S LIMITATIONS AND FUTURE RESEARCH

A more complete investigation of EU-South African trade and its welfare analysis regarding the relevance of the TDCA must include an analysis of South Africa's imports from the EU. The present discussion considered only exports, with the emphasis on agricultural products. Therefore, complementary investigations in the future will have to analyse the imports variable in the equation.

Impacts from economic policies usually have a time lag before they are manifested. It was reported that the liberalisation process within the TDCA implementation context would take at least twelve years to be finalised. This

time is yet to elapse, and the present discussion only considered the years until 2008, which do not account for an agreed level of liberalisation for both parties as reflected in Table 1, which only goes up to 2009, regarding tariff reductions to South Africa. Therefore, the observed trends, whether with respect to exports or imports, illustrate only a fraction of the potential impacts of the Agreement. It will therefore be necessary to revisit the study at given time intervals beyond 2012 to discover the full picture as to what the trends have been regarding EU-South African trade.

A clear idea of the effects of EU trade on South Africa's poor would require more sector-specific data, also from sectors where low-skilled workers are employed. The available data from STATS SA (2010) are not useful for this contribution. Therefore, the employment and poverty link to the trade channel as proposed by Winters (2000) could not be evaluated. The reviewed micro studies only give indications of the socioeconomic importance of the agricultural sectors already identified in the trade data. The engagement, therefore, with Winters's (2000) framework was only partial. For example, it excluded the trade impacts through distribution channels to individuals and households. Nevertheless, the discussion has illustrated the size and fast growth of EU-destined exports as against those destined for the rest of the world. Specific agricultural sectors, like grapes, oranges, wines etc, were all identified as important, and growing at rates higher than those for the rest of the world within the study period. How important the identified sectors really were with respect to low-skilled employment creation, and hence their potential redistributional impacts, remain questions for further research.

NOTES

1 The Southern African Customs Union comprising Botswana, Lesotho, Namibia, Swaziland and South Africa.

2 Southern African Development Community comprising fifteen countries in Southern Africa.

3 When comparing the year 2008 with 1997, it is clear that South Africa's total exports in nominal values grew by more than 400%, while increases at the average inflation rate of 6% grew by only 90%. It is acknowledged that factors besides inflation (although useful) would not have been the only factors influencing export values. Other factors, for example, would include exchange rates.

4 Non-agricultural exports have been included in Figures 4 and 5 to measure or illustrate the relatively good performance of agricultural products against other exports.

5 For example, wine, grapes, oranges (Figure 5).

6 The 08 chapter includes all related products in this category such as oranges, fresh and dried grapes, strawberries etc.

7 A correlation coefficient value of 1 would mean that the fastest growth was experienced in the biggest sectors. This would be a perfect measure of trade-deepening. On the other hand,

a -1 value would indicate that the fastest growth was experienced in the smallest sectors, an indication of diversification.

8 Previously, the world rate was 804 per cent and the rate in respect of the EU was 747 per cent.

9 HS 10 features mostly maize, barley, rice and wheat.

10 This HS (08) includes grapes, oranges, apples, nuts etc.

11 Averages of column 6 versus 7 of fastest gainers.

12 The data give overall employment in agriculture as a whole.

13 As a response to (the) challenges our Manifesto identifies the following five priority areas of the ANC government in the next five years: Creation of decent work and sustainable livelihoods; Education; Health; Crime; *Rural development, including land reform, and food production and security* (my emphasis) (ANC, 2009)

14 Other explanations include possible technical choice changes in agricultural production processing, while Conradie (2007) reported mostly institutional and legal factors as other contributing factors to the decline and *casualisation* of farm employment.

15 The weighted average for all sectors was 8.16.

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APPENDICES

Appendix 1: South Africa's top exports to the world at HS6 level in R million

SA top ten exports to the world at HS 6 level												
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Filter/ purify machine, etc	698	1485	2593	4691	9002	9280	8178	8291	9939	15,814	21,714	24,299
Wood in chips, etc	575	776	853	1051	1464	1965	1858	1884	2142	1860	1797	2310
Grapes, fresh	569	784	1049	1102	1157	1341	1382	1822	1881	1733	2201	2585
Flat-hot-roll, etc	77	121	40	566	1029	1522	1264	1965	2118	1259	2404	2593
Passen-ger motor vehicles, etc	61	48	38	58	47	140	2,253	2,317	1,602	1,688	2,173	3,661
Cane sugar, etc	773	1220	871	1052	1990	1385	1134	882	1274	1,745	653	1034
Copper waste, scrap	197	216	240	302	416	503	476	535	1052	2570	3099	3941
Con-tainers	1003	1256	1,082	795	700	861	961	786	689	964	1321	1501
Passen-ger vehicle spk, etc	29	38	89	91	275	631	199	375	1515	1454	1811	5333
Apples, fresh	472	693	596	469	603	880	1074	1157	981	1069	1495	1978
Corn (maize), etc	904	438	308	461	610	834	768	540	1,514	876	111	3911
Average	466	559	517	595	829	1006	1137	1226	1477	1522	1707	2885
CPI growth	466	494	524	555	588	624	661	701	743	787	834	885
Total	5358											53,146

Source: World Trade Atlas Data (2009)

Appendix 2: South Africa's top exports to the EU at HS 6 level in R million

SA top ten exports to the EU at HS 6 level												
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Filter/ purify machine	636	1297	2020	3935	6991	7453	6749	6959	8439	13,190	16,854	20,579
Parts of seats	1341	1673	1768	1839	2229	2971	2652	2798	2312	2334	2723	3061
Passen-ger vehicle spk, etc	97	756	3774	3718	4384	3991	1799	3158	2527	1314	368	1129
Wine, grapes, etc	462	623	856	1201	1389	2175	2204	2250	2,343	2045	2669	3318
Grapes, fresh	455	634	852	917	971	1086	1125	1552	1613	1413	1809	2083
Trucks, etc	4	0	1	1	2	73	50	10	808	2425	3651	4901
Oranges, fresh	458	544	627	560	626	701	669	841	841	784	1300	1663
Contain-ers	517	502	559	478	355	480	612	521	509	646	899	1102
Passen-ger vehicle com	1	1	8	25	280	643	1300	817	1293	1086	53	1433
Apples, fresh	325	505	425	291	359	502	669	763	621	604	878	979
Average	407	582	985	1003	1177	1403	1231	1412	1430	1406	1595	2185
CPI growth	407	431	457	485	514	545	577	612	649	688	729	773
Total	4296											40,248

Source: World Trade Atlas Data (2009)

Appendix 3: South Africa's employment trends by sector (in 000): 1997–2009

Employment trends by sector (in 000)													
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture, hunting, forestry and -fishery	717	935	1,099	1,362	861	1,080	894	773	702	833	770	764	614
Mining and quarrying		435	476	431	399	417	396	295	311	316	323	321	296
Manufacturing	1,499	1,385	1,498	1,754	1,739	1,824	1,713	1,842	1,833	1,864	1,941	1,945	1,742
Electricity, gas and water	112	113	78	79	79	73	83	84	87	102	84	86	98
Construction	509	548	567	709	653	642	692	882	999	1,103	1, 093	1,191	1,085
Wholesale, retail trade, catering, accommodation	1,532	1,787	2,079	2,896	2,785	2,552	2,794	2,874	3,424	3,523	3,410	3,164	2,873
Transport, storage, communications	524	552	539	684	645	682	628	671	715	697	734	774	739
Finance, insurance, real estate, business	704	855	931	1,021	1,123	1,193	1,183	1,271	1,387	1,395	1,447	1,636	1,759
Community, social and personal services	1,777	1,848	1,984	2,103	2,109	2,218	2,331	2,285	2,299	2,434	2,540	2,661	2,628

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Private household	989	771	967	1,297	1,267	1,255	1,246	1,288	1,277	1,334	1,266	1,298	1,135
External organisation & foreign governments			9*										
Not adequately defined	338	125	106										
Unspecified		36	37									5	3
Total	8,700	9,390	10,369	12,336	1,660	1,935	11,959	12,265	13,034	13,601	13,609		

Source: STATS SA (2010)