

# **REPORT ON DIVERSIFICATION PROSPECTS FOR SOUTH AFRICAN AGRICULTURAL EXPORTS INTO DYNAMIC MARKETS OF THE WORLD**

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## ***The problem of unfair trade***

Ultimately Africa was the loser in world trade over the past two decades, despite the fact that African trade has grown faster than its GDP. Africa's share of world exports fell from 6% in 1980 to about 2% in 2002. According to a recent UNCTAD (2004) report African countries have been locked in the commodity trap due to their dependence on commodity trade, which also became a poverty trap as world commodity prices became depressed. Many of South Africa's small and rural farmers are in the same situation. High price volatility and decline in real prices have caused the inability of small farmers to generate savings for diversification and modernization.

This unfortunate result was caused by developed country subsidies on commodities that suppress world prices of commodities as well as the aggressive expansion of other developing countries (especially Latin America and Asian) due to improved productivity and the adoption of new technologies. Developed countries trade barriers and subsidies depressed world agricultural prices across the board by 12 per cent, constraining the economic potential of African countries (EAU, 2003).

Institutional support is needed to facilitate adjustments of local small farmers to adjust to the realities of the changing business environment and to enable them to diversify in dynamic markets and products including value added products. Research on new profitable opportunities and assistance to develop entrepreneurs as well as obtaining venture capital to bridge the savings gap are some of the fundamental support measures needed to move away from commodity dependence. Opening up an economy through trade liberalization ultimately generate more opportunities only if local sectors are competitive. However, where local industries are not competitive, the opening up can even cause deindustrialization and marginalization of industries.

The solution to commodity dependence and declining commodity prices would be to promote diversification prospects into dynamic markets and to strengthen institutional support to enable entrepreneurs to improve their competitiveness and to diversify into dynamic markets.

## ***Dynamic markets in world trade***

A recent UNCTAD (2002) study found that trade in manufactured goods with high levels of skills and knowledge generally has grown the fastest in world trade. Therefore agricultural products produced and processed for the pharmaceutical industry, the cosmetic and perfumery industry as well as the flavor and fragrance industries is

performing particularly well. Generally, countries that have not been able to move away from primary commodities have been marginalized in world trade. Nevertheless, some primary commodities have also grown fast. Out of products that relate to agriculture, directly or indirectly in some way, the following products count among the top 20 dynamic products in world trade; Silk, Leather Products, Non-alcoholic beverages, Cereal preparation, Perfumery and cosmetics and Pharmaceutical products. Some of the other leading market dynamic products where exports were higher than the world trade growth of about 8% p.a. were: preserved food, chocolate, starch, inulin, gluten, albuminoidal substance, sugar confectionary and preparations, essential oils and flavour materials, live animals, crustaceans and molluscs, fresh fish, alcoholic beverages and vegetables.

Various trends in the agricultural and food sectors have changed which affects the profitability of a business enterprise. There is a power shift in favour of distribution. In the new Millennium, distribution costs already account for 70% of the typical retail production cost compared to only 50% in the late 1960's (Pilzer, P. Z., 2001). Generally the greatest opportunities lie in the distribution sector rather than in production and manufacturing. This means that generally more money is to be made in the distribution sector than in the production and manufacturing sectors. Producers and exporters in developing countries face ever increasing powerful distribution chains in developed countries that dictate even production specifications and manufacturing processes. These distribution chains demand products just on time from capable and larger producers and consolidators, and demand traceability to be able to provide guarantees to their consumers.

Research and development and intellectual distribution (to educate consumers) and intellectual property will become more important ways of making money. Vertical integration in the food chain becomes an important option to remain in the food and farming business.

Declining terms of agricultural trade have caused smaller profit margins with increasing production volumes as a result of technology improvements and increased productivity. Industries with high levels of Research and Development have managed to move away from declining terms of trade and moved towards dynamic products.

Market-orientated farming and food processing recognize that exports can be highly specialized based on the specifications of overseas requirements and demand in those countries. Consumer trends are changing due to the way people live, especially in the cities and their changing requirements and spending patterns.

### ***Dynamic South African Agricultural Industries***

Recent research done by the International Trade Centre indicate that SA's agricultural industries that are most competitive in the world are; Fruit Juices, Sugar Industry, Beverages, Fruit and Vegetables, Cutflowers and ornamental plants and Animal products.

South African Industries with a very high export growth (1997-2001) was: Fragrances and Flavors, Tea and Tea products, Nuts, Specialty Foods and Cereal Products.

Among these, the SA industries with the strongest upcoming trends in import coverage by exports and that also have positive growth in world market shares are; Fragrances and Flavours, Meat and animal products, Tea and Tea products, Nuts.

### ***Dynamic South African agricultural export products***

A further break-down of trade statistics provide some indication of the dynamic products based on historical performance in exports. Dynamic products of the world that account for high growth in demand can be categorized in two: the “infant industries or underachievers in dynamic markets” and the “champions or performers”. The Infant Industries account for about 1% of South Africa’s agricultural recorded exports. The Champions account for about 14% of exports. The other 85% of agricultural trade by value have been amongst the less dynamic world markets and could be called the “Cash Cows or achievers in declining markets” and the “Dogs or Underachievers in declining markets”. Following is a list of the dynamic agricultural products which had both a high world demand and a high growth of South African exports.

#### Methodology used:

The principal source of information was the Trade Map database of the International Trade Centre, a United Nations Trade database, with about 90% of world trade and representing trade of about 200 countries. National Export Trade-Maps was used to identify important products and markets and potentially important ones covering 80% of South African trade by value. Products have been presented in a Boston matrix concept with the different categories. Statistics are readily available for most high volume commodity markets. World growth and changes in South Africa’s share have been important indicators to map products. However, statistics were not always readily available for the Infant Industries. The analysis provides an indication of the historical performance of products based on trade statistics and therefore can not be used as a sole source for decision making. However, it may provide a valuable starting point for further investigation into diversification opportunities.

*Business or Industries in South Africa that would like to do more in depth analysis of the world trade statistics and diversifications prospects in terms of products and countries can have access to the United Nations trade statistics through TradeMap. Trade Potential Indicators for 72 clusters are also available are on Products-Maps. These can be accessed through the website of the Trade and Policy Strategies (TIPS): [www.tips.org.za](http://www.tips.org.za) . Industries who want to know more about strategic analysis can make contact with the Department of Agriculture, Directorate International Trade 012-319 6000.*

### Infant Industries [ Underachievers in dynamic markets]

Based on Customs and Excise statistics, this category may account for less than one percent of the South African exports. These are the so-called new industries with high world demand and a lack of local supply. They are the typical industries in which it is still possible to make a good income from a small farm. However, generally this category may require high capital inputs. Research and development has an important role to play. These new industries often lack cooperation between producers. Best production and manufacturing practices are often lacking, which restrict the development of these industries. Bottlenecks are often found in marketing links, knowledge, promotion and lack of industry standards. Many producers in new industries do not want to share knowledge in order to keep out competitors. Infant industries may often require a high level of technology for the right markets and are often produced for very specific overseas markets with very specific requirements.

Potential products in this category with a particular higher value of trade recorded (>1 US\$/kg) are: high value meat cuts, fresh water fish-fillets, yogurt, fresh and powder cheese, preserved capers, various berries, green tea, nutmeg, pectic substance, meat of duck and goose, seafood preparations, preserved meat, juices and extracts of meat, cocoa powder, couscous, ginger bread, preparations of cereal foods, soups and broths, sauses, essential oil of jasmine, casein glues and glues based on starch and equine skin. Other typical products with lower unit values are; processed or frozen vegetables, flowering tubers and bulbs, subtropical fruits, various nuts, rye, barley and sorghum, various milling products, various edible oils, fructose, juices mixes and various processed food, non alcoholic beverages, essential oils and flavours. However, many new industries and products exist that do not appear on the radar screen of trade statistics. Examples of such products are; aloe, avocado- and macadamia oils, aqua culture, rooibos tea, marula products, agricultural services and technology, essential oils, game meat and many more. These are industries where knowledgeable entrepreneurs who can obtain good information can establish themselves. The new industries are not for the fainthearted.

### Champions [Performers]

Champion products account for about 14% of South African exports in value according to an analysis of combining high world demand with high SA export growth. Champion products have a high world demand and high local export supply by volumes and export growth. Such product exports are generally regarded as successful and growth was usually high. These may be relatively safe industries to invest provided economies of scale and international standards are met. South Africa has a high competitiveness in world trade in these products. Generic marketing for these industries become important because their image is often connected to the country as a whole. Such industries may have supply chain constraints because of fast expansion.

A typical list of such products with trade unit values larger than 1 US\$/kg are: higher value meat cuts, duck, geese and guinea fowl cuts, milk and cream powder, various berries, green tea, curry, spices, oats rolled or flaked, oilseeds, wool derivatives, meat

preparations, preparations of cereals and milk for infant use, processed strawberries, tea extracts, protein concentrates, grape wine (<2l), tobacco extracts, essential oil of bergamot, aqueous distills of essential oils, hide sections of bovine. Examples of other products in this grouping with lower unit values are: Live horses, trees and cuttings, leeks, peppers, fresh grapes, cashew nuts, pineapples, almonds, other citrus fruit, seeds for vegetable sowing, fructose, orange juice, grape juice and other juices, mineral waters sweetened and flavored, pure mineral waters and essential oil of lime. When deciding on a particular export business it is always wise first to study more in-depth market briefs and to do further market research.

#### Cash Cows [ Achievers in declining markets]

Cash Cow products still provide the largest exports - in value it is 60% of South Africa exports. Many developing economies have most of their exports in this category. It provides an important base for the sector and bulk for food processing. Cash Cows are products with a declining world demand compared to the world average growth but it has a competitive and growing local supply. This category normally contains products from older grandfather industries. Most developing economies have a competitive edge in these industries and products. Unfortunately some of these industries are often plagued by protectionisms and they have to make the largest adjustments in trade liberalization. The challenge is to maintain and increase your market share in a world market that is declining. It is often valuable to study competitors. Profit margins are low and economies of scale are important.

Most typical commodities are in this group, e.g. sugar and confectionary, meat lower value cuts, eggs, plants and foliage, tubers, mushrooms, onions, potatoes seed, dried vegetables, Mandarins and Clementine's, lemon and limes, grapefruit, coffee and black tea, grains, flours and starches, groundnut in shell, vegetable saps and extracts, soybean-oil, sunflower oil, groundnut oil, margarine, bovine meat and offal preparations, certain fruit juices such as grape, orange, apple and tomato juices, food preparations, bulk wine and beer, tobacco, certain essential oils and bovine skins.

#### Dogs [Underachievers in declining markets]

Dogs are losers in a declining world market and are between twenty to thirty percent of South African exports. It is possible to turn a dog into a star. Commodity markets go up and down in often cyclical movements, and therefore these categories are not cast in stone. However, this category has experienced a five year decline in world demand and our local exports have also experienced negative growth.

Generally export prospects for this category is bleak and promotion efforts are difficult. An integrated approach is needed to re-strategize both supply and demand. Products in this group include: fowls whole frozen, feathers, potatoes, oranges, tomatoes, garlic, apples, apricots, peaches, maize, molasses, pineapple juice and preserved fruit and chicory.

**Research Information has been obtained from the following sources:**

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