

Opportunities for strategic intervention in the South African agricultural sector: Trade and employment

EXECUTIVE SUMMARY

There is scope for a number of strategic interventions by the South African government to support agro-industrial production. These could make a significant difference to the country's foreign trade and its domestic employment record. This policy brief outlines the potential impact that a more labour-intensive agriculture sector, which is also focused on high value-added products, could make in reducing the balance of payments constraint and support transformation and employment, particularly in rural areas. The policy brief makes a case for agriculture's central role in growth, transformation and empowerment.

RECOMMENDATIONS

- Reallocating resources to promote a rapid rate of growth of high-value, agriculture-derived exports would make a substantial contribution to addressing foreign exchange constraint on growth and the challenge of generating higher rates of employment.
- Designing a set of policies and refining existing policies and institutions to support large-scale, export-oriented agribusiness has the demonstrated merit of being able to address the balance of payment and the unemployment constraint.
- Industry incentive schemes need to reconsider the exclusion of activities that are deemed non-industrial when it is obvious that export-orientated agribusinesses are highly sophisticated operations that involve integrated and inter-dependent activities in farming, manufacturing, processing and distribution.
- Far higher levels of investment are required in advanced (water efficient) irrigation systems, in agricultural inputs such as fertiliser being supplied into the market at competitive prices, in transport infrastructure, in agricultural research and development, in associated tertiary education and training, in phyto-sanitary certification, and in monitoring capabilities.

INTRODUCTION

Agriculture has been central to all successful experiences of sustained economic growth, structural change, and poverty reduction. This is evident in middle-income countries such as Brazil and Chile, it is palpable in the record of East Asian economies including South Korea, Japan, Taiwan, and it is even obvious in advanced industrial economies such as the United States and European Union (EU). While the development process is one in which people shift increasingly out of low productivity activities (low value add) and into higher productivity activities (high value add), it is misleading to over-simplify this as a shift out of agriculture and towards manufacturing and urban services.

History has shown that there is plenty of scope for rising productivity within agriculture. This is even more the case

nowadays than it was in the past, given the ways in which global agriculture has been transformed. Capital, sophisticated technology and scientific innovations have migrated into agriculture, transforming global competition and the structure of production, chiefly through large-scale agribusiness supported by public sector spending on infrastructure and research and development.

The boundaries between manufactured and agricultural (primary) products are blurred and increasingly hard to define with any degree of analytical rigour. In developed and increasingly in middle-income countries food systems are increasingly detached from agriculture: food is increasingly an industrial enterprise and produced mainly by large-scale firms benefitting from economies of scale and distributed through a network of formal retailers.

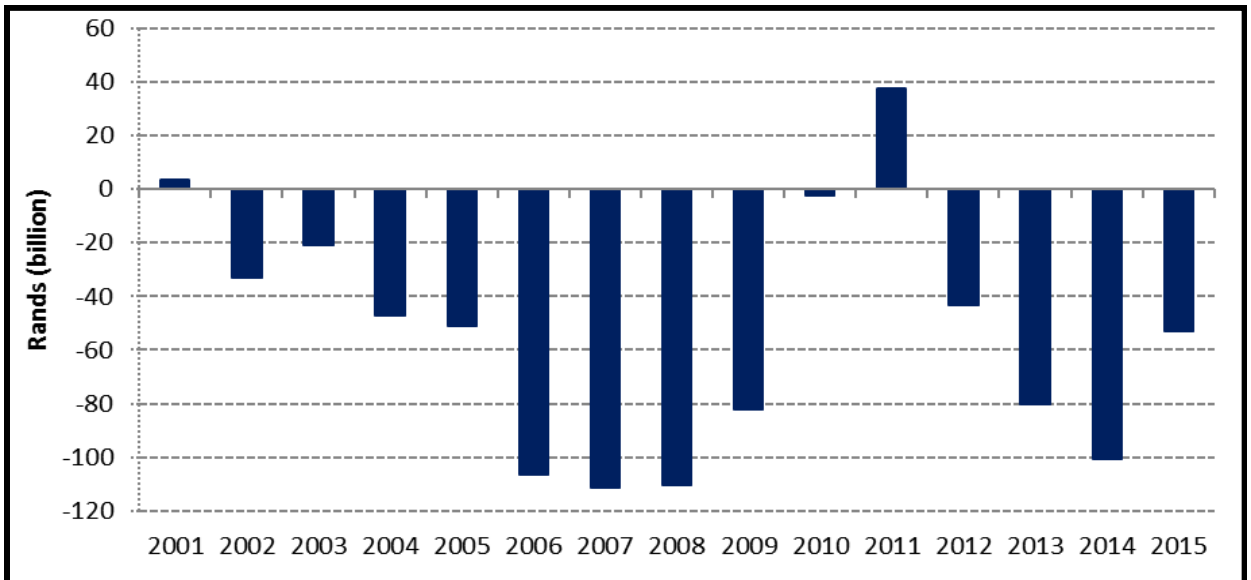
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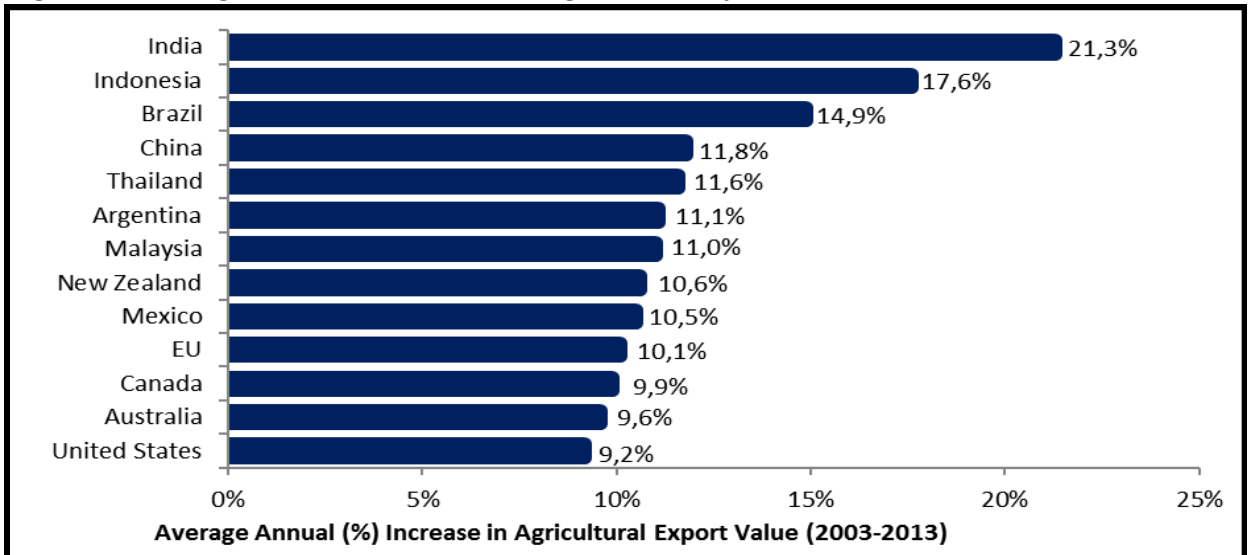
Based on
TIPS research on
*Agro-processing,
wage employment
and export revenue:
Opportunities for
strategic intervention*
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Figure 1: South Africa's trade balance with the world, 2001-2015



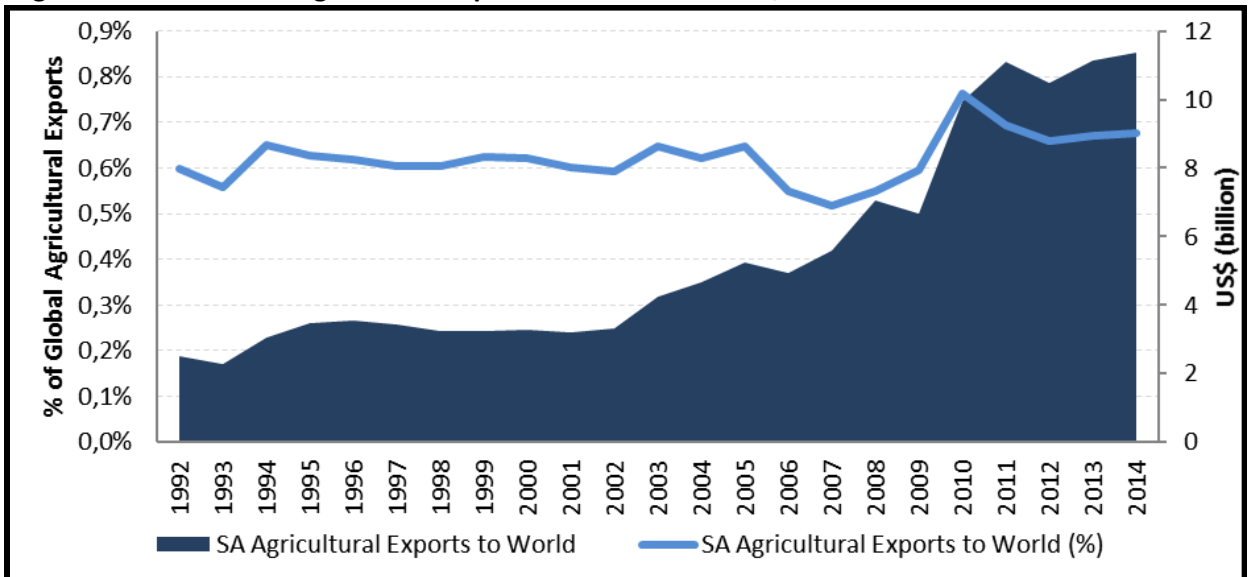
Data Extracted from: ITC calculations based on UN Comtrade and South African Revenue Service (SARS)* statistics, 2016 (ITC calculations based on SARS statistics since January, 2015)

Figure 2: Fastest growth rate in the value of agricultural exports, 2003-2013



Data extracted from: Flake, 2014

Figure 3: South Africa's agricultural exports and share to world, 1992-2014



Data extracted from: ITC calculations on UN Comtrade Statistics, 2016

BALANCE OF PAYMENTS CONSTRAINT

As an economy grows, imports tend to increase rapidly: the very process of growth, structural change and catching up with advanced economies involves a thirst for imports – of machinery, manufactured and raw material inputs, oil and capital goods, as well as imports of consumer goods for which there was less or no demand at lower average levels of income. This propensity to import as incomes rise and economies grow varies across countries but is a striking feature of all experiences of growth and transformation.

The only effective long-term way to manage the balance of payments constraint on growth is to do what is possible to promote a rapid rate of growth of export earnings. (A notable example is South Korea in the late 1970s. The South Korean government at the time pushed with ferocious commitment for a surge in export volumes and earnings.) Targeting exports has the additional benefit of tapping additional sources of demand. This additional demand in itself becomes a powerful mechanism for spurring further growth, among other things, by creating scope for economies of scale where, without such external demand, they might take longer to emerge.

Balance of payments deficits, particularly when persistent, can be a source of economic anxiety. The trade deficit in South Africa in 2015 was R52.8 billion (Figure 1, page 2). The trade deficit was lower in 2015 compared to previous years and likely based on slow growth and currency depreciation. As one analyst explained: “Unfortunately, the extent of the improvement is likely to be relatively modest given the still high propensity to import, which means South Africa remains highly dependent on foreign capital inflows to stop the Rand weakening further” (STANLIB, 2015).

The World Bank argues that during 2014 the current account deficit was mainly funded by volatile capital flows, as net foreign direct investment inflows remain very low. The value of merchandise imports, on the other hand, increased as higher import volumes countered the subdued international oil prices (World Bank, 2015).

GLOBAL AND SOUTH AFRICAN AGRICULTURAL EXPORT TRENDS

The value of world trade in agricultural commodities has been growing rapidly over recent decades, especially in high-value agricultural commodities such as horticultural products. Some countries have invested to take advantage of these remarkably high rates of growth of global demand and to increase their share of these rapidly expanding agricultural markets. South Africa was not able to match the high rates of growth in the value of agricultural exports achieved by the star performers (India; Indonesia; Brazil; China; Thailand) (Figure 2, page 2).

As a consequence, South Africa’s share of world agricultural trade has been small (less than one percent) and stagnant since 1992 (Figure 3, page 2), well below the share it achieved in the 1970s and 1980s, and it could be argued that a good opportunity to tackle the persistent balance of payment shortfall and the crisis of unemployment has been lost.

It has been argued that world trade in processed agricultural products (that require more value added before final consumption) has been growing faster than global trade in agricultural products and that the high-income Organisation of Economic Co-operation and Development (OECD) economies have been investing to expand production of this type of export, continuing to be the suppliers of the vast majority of processed agricultural exports in the world (Liapis, 2011: 16)*.

High-income economies, above all EU members, are also by far the most important market for these products, accounting for almost 75 percent of global imports of processed agricultural products. Again, South Africa does not appear to have taken full advantage of opportunities to shift towards exporting processed agricultural products to the important EU market: Figure 4 (page 4) shows a fall in South Africa’s real export values of processed exports to the EU since 2008.

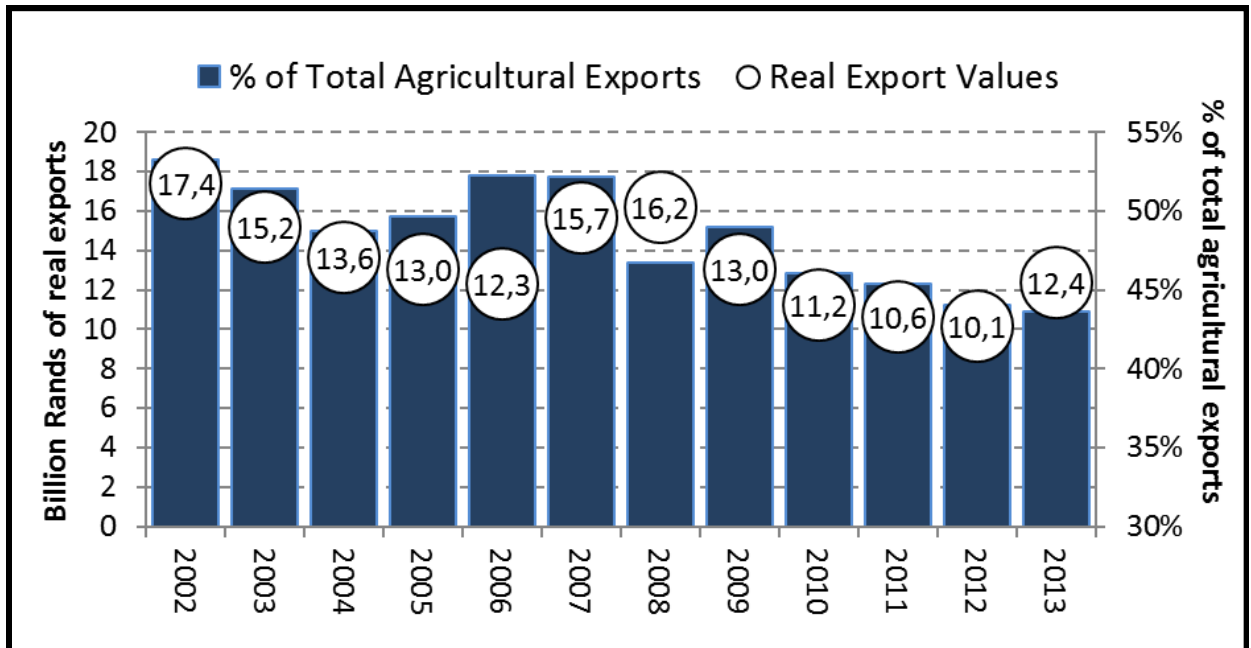
IS THE GROWTH OF SOUTH AFRICA’S AGRICULTURAL EXPORTS TO AFRICA EVIDENCE OF SUCCESS?

There does appear to have been a sudden surge in the value of South African agricultural exports to Sub-Saharan Africa in 2007 (Figure 5, page 4). Various explanations for this surge in exports to Africa have been suggested.

For example, that it can be explained by the sudden inclusion of the Southern African Customs Union (SACU) in the statistics on exports to Sub-Saharan Africa; that the expansion into Sub-Saharan Africa of South African retail conglomerates has encouraged new exports (and re-exports) from South Africa to fill supermarket shelves; that lower quality and fewer Non-Tariff Barriers (NTBs) made it an easier option for the least efficient South African exporters to enter these markets, rather than to supply the larger EU, US, Chinese and other East Asian markets (World Bank, 2014: 29).

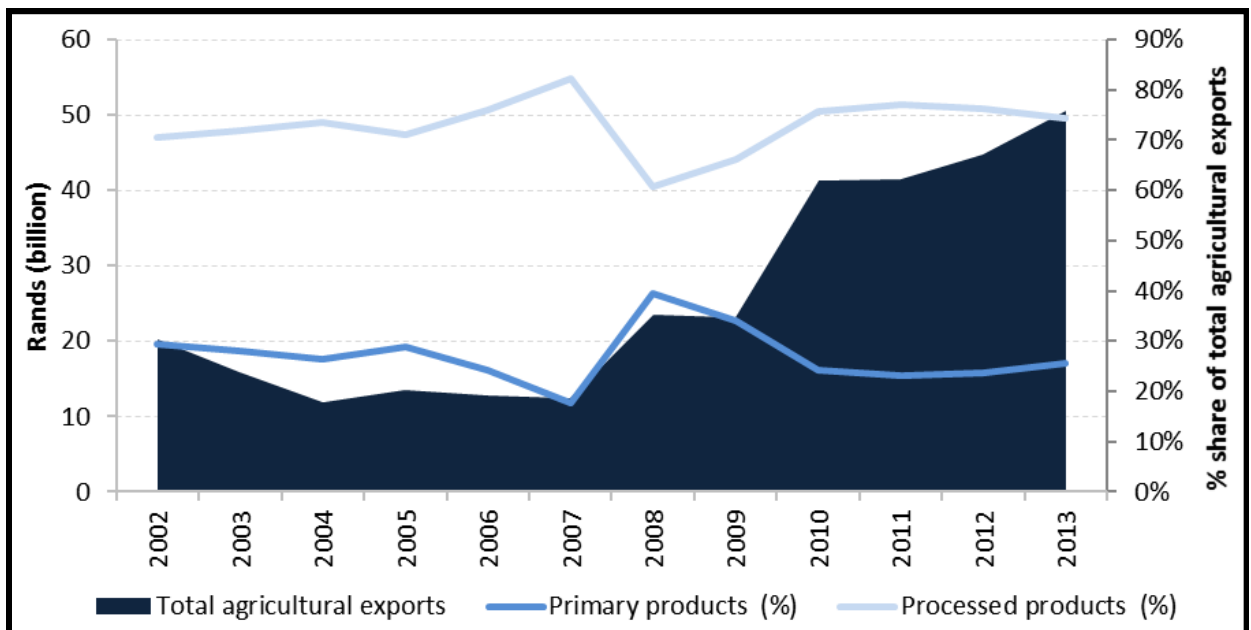
** It might be useful to move away from the conventional definition of “processed” agricultural exports used and identify a new category of agricultural exports. This would include only those exports that have achieved a fast rate of growth in value, or value per unit. The conclusions about the dominance of OECD economies in patterns of growth in world trade would probably be reinforced.*

Figure 4: South Africa's processed agricultural exports as percentage of total agricultural exports in billion real Rand value to the EU, 2002-2013



Source: Data extracted from Pienaar and Partridge, 2015

Figure 5: South Africa's agricultural exports to sub-Saharan Africa and share of processed and primary exports, 2002-2013



Source: Data extracted from Pienaar and Partridge

Table 1: Employment per hectare (permanent worker equivalents) in deciduous fruit production, 2003-2013

Fruit	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Apples	0.80	1.25	1.37	1.25	1.12	1.25	1.25	1.25	1.25	1.25	1.25
Pears	0.79	1.26	1.26	1.26	1.26	1.26	1.26	1.26	1.26	1.26	1.26
Peaches	0.83	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.29
Plums	0.76	1.32	1.32	1.48	1.47	1.47	1.46	1.43	1.43	1.32	1.44
Apricots	0.91	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.20
Nectarines	0.80	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.30
TOTAL	0.81	1.24	1.29	1.25	1.19	1.25	1.25	1.25	1.25	1.25	1.28

Data extracted from Visser and Ferrer, 2015

Two of the largest South African single items of processed agricultural commodity exports to Sub-Saharan Africa in 2013 were refined sugar and tobacco and tobacco products. Sugar remains the only agricultural commodity subsidised by the South African state, while the area of tobacco harvested in South Africa has collapsed since 2004 (FAOSTAT, online), suggesting that re-exports have underpinned the fourfold growth in the value of tobacco exports to Sub-Saharan Africa since 2008.

THE UNEMPLOYMENT CRISIS AND ITS CONCENTRATION IN RURAL SOUTH AFRICA

Labour absorption, or the employment to population ratio, is relatively low in South Africa (compared to all other upper middle income economies) and has fallen rather rapidly in recent years, from 45.3 percent in 2006 to only 43.5 percent in the third quarter of 2015. Labour absorption is low for women compared to men (less than 28 percent), especially for women who have not completed matric. More than 6.5 million South Africans, or one third of the labour force, are now either unemployed or discouraged from seeking work, and unemployment by this broad definition has recently risen quite rapidly – from less than 30 percent in 2009 (Stats SA, 2015 and ILOSTAT, online).

The agricultural sector and rural non-farm enterprises have not been making an adequate contribution to alleviating the employment crisis of the poorest and most vulnerable South Africans. Rural women who have not completed secondary school (and their children, many of whom will also fail to achieve a matric qualification) are likely to depend on low-wage, manual and elementary employment within rural areas and on farms. A slow or negative rate of growth of such wage employment will have a major impact on their standard of living and survival prospects.

RELATIVE LABOUR INTENSITY: CROP CHOICE AND THE SMALL AND MEDIUM ENTERPRISE SECTOR

The agricultural sector is more labour intensive than other sectors: in contrast to mining or manufacturing, it makes a much larger contribution to total employment in South Africa than to total output. Within the sector, different farming systems and different crop choices make a huge difference to rural employment generation – the labour input requirement per cultivated hectare. Some of these differences are illustrated in Table 1 (page 3).

Although all production of deciduous fruit is relatively labour intensive, plums appear to require the input of

almost 20 percent more permanent labour equivalents than apricots. But apricots also need far more (almost seven times more) labour per hectare than sugarcane cultivation, which requires only about 0.18 full-time equivalent (FTE) labour inputs per hectare, and can make no contribution to export revenues without tariff protection from lower priced imports (BFAP, 2015: 67).

Sugarcane is not the least labour intensive crop in South Africa: maize requires only about 0.004 FTE labour inputs per hectare, i.e. on average, deciduous fruit production will employ 300 times more permanent workers per hectare than maize (Visser and Ferrer, 2015: 131-3). Apart from maize, the other enterprises employing relatively small amounts of labour per hectare in South Africa include those producing wheat; barley; soybeans; sunflower; canola; livestock sheep and beef; poultry; and dairy (Meyer et al, 2011).

Some other crops appear to be particularly labour intensive, including flowers; tomatoes; carrots; pumpkins; berries; avocado; and grapes. An expansion of the area cultivated with these latter types of crop could directly create several hundred thousand jobs, as well as some tens of thousands of additional jobs in enterprises supplying inputs to, and packaging/processing, the output from expanded cultivation.*

These jobs in exporting agribusinesses may be regarded as more attractive than other rural jobs, because employees are more likely to benefit from union protection – over 60 percent of Food and Allied Workers Union (FAWU) members are employed in export enterprises – and because exporting agribusinesses tend to offer higher wages (Visser and Ferrer, 2015: 161).

South Africa's quarterly employment statistics survey contains employment information on a nationally representative sample of enterprises from 2005 to 2011. An analysis of panel data from this survey shows that larger firms are much better net creators of jobs than small firms. As in other economies, small firms have higher job creation and destruction rates than larger firms, reflecting the large number of small firms that fail and the churning at the bottom end of the size-distribution of enterprises (Kerr et al, 2014).

There is also evidence that SMEs are much less likely than large enterprises to make a significant and sustainable contribution to export revenues.

* *Precise estimates of the direct employment consequences of acreage expansion, as well as estimates of the less impressive volume of additional employment arising from forward and backward linkages, have been tabulated (Meyer et al, 2011), but the basis for these estimates has not been published.*

A small number of very large firms (about 38 firms) account for most of South Africa's exports — the top one percent of firms earns about 78 percent of the cumulative total value of exports. The list of the bottom 80 percent of exporters contains smaller firms paying much lower wages; these smaller firms may be considered marginal exporters, accounting for a very small amount of exports. (Matthee et al, 2015).

CONCLUSION

Two of the most serious challenges the South African economy faces are the balance of payments constraint on growth and the high levels of unemployment, much of which is concentrated among extremely poor people in rural areas. As economies grow, there is a strong and often rising propensity to import, for consumer goods and for capital goods and inputs to new businesses and processes. But these require foreign exchange to cover the import bill. Without strong export performance, governments risk exposure to the whims of short-term foreign financial flows and the vagaries of concessional lenders.

South Africa's trade balance trends strongly suggest a structural balance of payments problem. At the same time the record on employment and unemployment in South Africa is unimpressive.

Declines in jobs available in agriculture have been larger than in other sectors and the growth elasticity of manufacturing remains low; overall the employment to population ratio in South Africa is much lower than in comparable economies and has been declining for years. In the past, policies towards agriculture and agro-industry have not created the employment opportunities or been used to overcome balance of payments problems; a policy shift to focus on labour intensive agriculture enterprises that are export orientated will create decent jobs and make a significant positive contribution to overcoming these challenges by reallocating resources to promote a rapid rate of growth of high-value, agriculture-derived exports.

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