Competitiveness and the Sustainability of South African Agriculture

by
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Contents

• Introduction
• Economic progress in South Africa?
• What is sustainability?
• What is competitiveness?
• Agricultural productivity in SA
• What competitiveness is not
• SA’s competitiveness and productivity
• National competitiveness in industries
• Need for a new paradigm
• Essential elements of competitive advantage
• South Africa’s competitive ranking
• Agenda for the future
Introduction

- Why are We so Rich and They so Poor? (Landes, 1989)
- An Inquiry into the Nature and Causes of the Wealth of Nations. (Adam Smith’s famous treatise)
- Thomas Mathus – concerned about future growth prospects – the dismal science.
- SA’s concern today – Why are they getting richer and we poorer?
Economic Progress in South Africa

- Significant economic growth continues to elude SA.
- Long-term structural decline in growth rather than a sudden poor performance?
- Taking social responsibilities into account - How sustainable are we?
- SA performs below its peer economies.
- Growth remains a central concern.
What is Sustainability?

• Sustainable agriculture is the intersection of economically sound, ecologically viable, and socially responsible approaches.

• The South African agricultural sector has gone through the full circle from a very regulated and subsidised environment up until the early nineties, to the current liberalised, open and very competitive environment.

• To reach long term sustainability countries have to be competitive.
What is Competitiveness at the National Level?

Productivity with which resources are deployed

- Depends on product quality and features (determine prices).
- Efficiency with which products are produced.
- Productivity leads to high wages, low inflation.
- Depends on capacity to compete in sophisticated industries.
- Depends on the upgrading of the competitive position.
- Move from competing on price and quality to higher margin levels.
Agricultural Productivity in SA

• Before 1965 agricultural productivity was around 0.65% per annum.
• Between 1965 to 1981 it increased to 2.15%.
• From 1981 to 1989 it increased to 3.98% due to mechanization, better use of inputs and deregulation.
• Currently it is stagnant around 1.5%.
• Productivity is lower than it could be due to:
  ➢ Low investment
  ➢ Government policies
  ➢ Low R & D spending
Profitability is improving but investment is lagging (¥’000 000)

- Ratio of investment to debt has steadily declined since 2007.
- From 2004 to 2013, investment in the sector increased by 5.9% compared to 19.8% and 11.9% for net farm income and total farming debt respectively.

What Competitiveness is Not

• Low exchange rate

• Positive Trade Surplus

• Jobs

• Economic Growth
Agricultural terms of trade and exchange rate since 1995
## Exchange Rate Forecasts

<table>
<thead>
<tr>
<th>Forecast</th>
<th>Actual</th>
<th>Q2/17</th>
<th>Q3/17</th>
<th>Q4/17</th>
<th>Q1/18</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency R/$</td>
<td>R13,23</td>
<td>R13,72</td>
<td>R13,85</td>
<td>R14,26</td>
<td>R14,12</td>
<td>R16,30</td>
</tr>
</tbody>
</table>

Source: http://www.tradingeconomics.com/south-africa/currency/forecast
What Competitiveness is Not

- Low exchange rate
- Positive Trade Surplus
- Jobs
- Economic Growth

Source: Own calculations based on SARS data (2017)
SA’s trade balance for processed agricultural products

Source: International Trade Centre, 2016 Graph: Agbiz, 2016
SA’s trade balance for primary agricultural products

Source: International Trade Centre, 2016 Graph: Agbiz, 2016
What Competitiveness is Not

- Low exchange rate
- Positive Trade Surplus
- Jobs
- Economic Growth
Employment in SA’s agricultural sector

Chart 1: Employment in SA’s agri. sector (‘000)
Source: Statistics South Africa, Agbiz Research
Labour productivity & unit labour costs

Source: IDC, compiled from SARB data
What Competitiveness Is Not

- Low exchange rate
- Positive Trade Surplus
- Jobs
- Economic Growth
South Africa’s Manufacturing Output Index (Seasonally adjusted)

Source: Stats SA, Agbiz Research
GDP growth in South Africa

South Africa GDP growth and the rand

Source: Thomson Reuters Datastream, data to Q3 15

Vincent Flasseur | @ReutersGraphics
Contribution of Primary Agriculture to GDP

Source: StatsSA  Graph: Agbiz
National Competitiveness in Industries

- Standard theory of comparative advantage has diminished relevance. (Nations will be able to compete in those things in which they have a relative abundance)

- Reasons for this are:
  - Globalization (Increasingly exposed if competitiveness is based on natural resources).
  - A threshold of development has been attained in many nations.
  - Technological advances.

- What is the role of nations? They have not lost their relevance!
National Competitiveness in Industries

• Leading Industries compete globally.
• Use home base to compete globally.
• Develop world strategy from home base.

Need for a new paradigm

• Competitive advantage results from rapid innovation and improvement not static advantages.
• Sustaining advantages requires continuous upgrading of resources.
• Early movers – International leaders.
• The value of old ways.
Essential Elements/determinants of National Competitive Advantage

Government policies

Factor conditions

Firm strategy, structure and rivalry

Demand conditions

Relating and supporting industries

Chance

Source: Porter (1985)
<table>
<thead>
<tr>
<th>Rank in SA exports</th>
<th>Industry</th>
<th>Share in global exports (%)</th>
<th>Rank in global exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...</td>
<td>1.9</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>Vehicles other than railway or tramway rolling stock, and parts and accessories thereof</td>
<td>0.7</td>
<td>26</td>
</tr>
<tr>
<td>3</td>
<td>Ores, slag and ash</td>
<td>4.9</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...</td>
<td>0.5</td>
<td>39</td>
</tr>
<tr>
<td>5</td>
<td>Iron and steel</td>
<td>1.8</td>
<td>20</td>
</tr>
<tr>
<td>6</td>
<td>Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof</td>
<td>0.3</td>
<td>37</td>
</tr>
<tr>
<td>7</td>
<td>Edible fruit and nuts; peel of citrus fruit or melons</td>
<td>2.7</td>
<td>10</td>
</tr>
<tr>
<td>8</td>
<td>Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...</td>
<td>0.1</td>
<td>48</td>
</tr>
<tr>
<td>9</td>
<td>Aluminium and articles thereof</td>
<td>1</td>
<td>29</td>
</tr>
<tr>
<td>10</td>
<td>Beverages, spirits and vinegar</td>
<td>1.1</td>
<td>20</td>
</tr>
<tr>
<td>11</td>
<td>Plastics and articles thereof</td>
<td>0.2</td>
<td>46</td>
</tr>
<tr>
<td>12</td>
<td>Articles of iron or steel</td>
<td>0.4</td>
<td>36</td>
</tr>
<tr>
<td>13</td>
<td>Organic chemicals</td>
<td>0.3</td>
<td>36</td>
</tr>
<tr>
<td>14</td>
<td>Pulp of wood or of other fibrous cellulosic material; recovered [waste and scrap] paper or ...</td>
<td>1.9</td>
<td>13</td>
</tr>
<tr>
<td>15</td>
<td>Miscellaneous chemical products</td>
<td>0.5</td>
<td>30</td>
</tr>
<tr>
<td>16</td>
<td>Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...</td>
<td>0.8</td>
<td>28</td>
</tr>
<tr>
<td>17</td>
<td>Paper and paperboard; articles of paper pulp, of paper or of paperboard</td>
<td>0.4</td>
<td>37</td>
</tr>
<tr>
<td>18</td>
<td>Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...</td>
<td>0.1</td>
<td>44</td>
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<tr>
<td>19</td>
<td>Preparations of vegetables, fruit, nuts or other parts of plants</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td>20</td>
<td>Commodities not elsewhere specified</td>
<td>0.2</td>
<td>35</td>
</tr>
</tbody>
</table>

*Source: ITC Trademap (2017)*
### Top 10 SA export Industries (2016 : % share)

<table>
<thead>
<tr>
<th>Rank in SA exports</th>
<th>Product</th>
<th>Export value in USD 1000</th>
<th>Share SA’s exports (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bituminous coal, whether or not pulverised, non-agglomerated</td>
<td>3 707 265</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>Gold, incl. gold plated with platinum, in semi-manufactured forms, for non-monetary purposes</td>
<td>3 440 264</td>
<td>5%</td>
</tr>
<tr>
<td>3</td>
<td>Ferro-chromium, containing by weight &gt; 4% of carbon</td>
<td>3 047 854</td>
<td>4%</td>
</tr>
<tr>
<td>4</td>
<td>Motor vehicles for the transport of goods, with compression-ignition internal combustion piston ...</td>
<td>2 400 127</td>
<td>3%</td>
</tr>
<tr>
<td>5</td>
<td>Agglomerated iron ores and concentrates (excluding roasted iron pyrites)</td>
<td>2 358 340</td>
<td>3%</td>
</tr>
<tr>
<td>6</td>
<td>Platinum, in semi-manufactured forms</td>
<td>2 313 561</td>
<td>3%</td>
</tr>
<tr>
<td>7</td>
<td>Motor cars and other motor vehicles principally designed for the transport of persons, incl. ...</td>
<td>2 293 381</td>
<td>3%</td>
</tr>
<tr>
<td>8</td>
<td>Light oils and preparations, of petroleum or bituminous minerals which &gt;= 90% by volume &quot;incl. ...</td>
<td>1 951 208</td>
<td>3%</td>
</tr>
<tr>
<td>9</td>
<td>Platinum, unwrought or in powder form</td>
<td>1 910 269</td>
<td>3%</td>
</tr>
<tr>
<td>10</td>
<td>Motor cars and other motor vehicles principally designed for the transport of persons, incl. ...</td>
<td>1 569 095</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Source: ITC Trademap (2017)*
Exports are factor driven.
Weakness in advanced created factors.
Compete on price and quality.
Import highly productive goods.
More and more exposed to competition.
Capital constraints.
Cost and quality of unskilled labour.
Cost and availability of skilled labour.
Quality of national infrastructure.
Cost and availability of technology.
Natural disasters – droughts and floods.
Factors of production specifically related to Agriculture

- High input prices.
- Relatively low-potential soils.
- A dry and unstable climate.
- High-cost economy.
- Absence of state support.
- High production costs.
- High administration costs.
- Political instability.
Role of demand

- Home base should have demanding customers.
- Few pockets of sophisticated demand.
- Continue to compete on price.
- Strong local competition is essential for global competitiveness.
- Lack of information affects competitiveness.
- Market opportunities are often not developed owing to a lack of information.
- As long as the economic growth rate is lower than its potential growth rate, the size of the South African market and its slow growth rate for food and fiber products will hamper the competitiveness of agriculture.
Firm Strategy, Structure and Rivalry

- Unsustainable competitive advantage.
- Goals have a short horizon.
- Lack of domestic rivalry.
- Local competition is important.
- Open free trade is not the full answer.
- No excuses for local rivals.
- Motivation of individuals.
Financial institutions are an important link in ensuring competitiveness.

Financial institutions have a limited outreach and services in poor communities.

Small farmers are excluded from most financial services, owing to a high perceived risk profile.

Efforts to develop innovative substitutes for collateral needs to be encouraged.

Promote the establishment of locally-based and micro-financial institutions that include financial service cooperatives and village banks.
Key drivers pressurise the South African agricultural industry to change

- Trade liberalisation
- Decoupled support
- Land reform
- New labour laws
- Agro-industrialisation
- Environmental awareness
- Consumer power
- Biotechnology
- Information technology

Businesses that serve this industry need to adapt to these pressures too.
Relating and Supporting Industries

• Develop skills.
• Develop supporting industries.
• Supporting industries must be able to compete internationally.
• Must be able to sustain an upgrading sector.
• Research institutions.
• Agricultural information.
• Agricultural businesses.
• Financial institutions (Land Bank etc.)
Managerial capabilities of farmers and the market power of buyers are very important factors in the competitive success of the agro-food sector.

Encourage the development of competitive supply chain partnerships within major commodity groups.
Farmer’s needs are changing

Agribusiness that serves the primary agribusiness of farming will adapt to meet the farmers changing needs.
Government policies

• Government influence (policies and operational systems).
• Junk-status of South Africa.
• Land reform.
• Focus on upgrading competitiveness not relief from pressure.
• Create an enabling environment.
• Strategies should not only be influenced by chance events.
• Vulnerable to exogenous shocks.
• Investment Trust in South Africa.
Despite its recent credit ratings downgrades, and political risks, South Africa has climbed back into the 2017 A.T. Kearney Foreign Direct Investment (FDI) Confidence Index.

Note: Values are calculated on a 0 to 3 scale, with 3 being the highest level of confidence in a market as a future destination for FDI.

Source: 2017 A.T. Kearney Foreign Direct Investment Confidence Index
Inadequacy and fragmentation of certain services, weak governance and accountability and poor executive decisions as well as slow implementation of executive decisions are matters requiring urgent attention.

Government needs to give particular attention to improvements at all levels of service delivery.
### South Africa 47th / 138

**Key Indicators, 2015**  
Source: International Monetary Fund, World Economic Outlook Database (April 2016)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
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<tbody>
<tr>
<td>Population (millions)</td>
<td>55.0</td>
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<tr>
<td>GDP (US$ billions)</td>
<td>313.0</td>
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<tr>
<td>GDP per capita (US$)</td>
<td>5894.6</td>
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<tr>
<td>GDP (PPP) % world GDP</td>
<td>0.64</td>
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#### Performance overview

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<td>Subindex A: Basic requirements</td>
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<td>6th pillar: Goods market efficiency</td>
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<td>10th pillar: Market size</td>
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<td>12th pillar: Innovation</td>
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</tbody>
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South Africa’s Global Competitiveness

Most problematic factors for doing business

- Inefficient government bureaucracy: 17.7
- Restrictive labor regulations: 17.5
- Inadequately educated workforce: 12.9
- Policy instability: 12.8
- Corruption: 12.3
- Crime and theft: 6.9
- Poor work ethic in national labor force: 4.8
- Inadequate supply of infrastructure: 4.2
- Tax rates: 2.6
- Access to financing: 1.8
- Inflation: 1.7
- Foreign currency regulations: 1.7
- Government instability: 1.5
- Tax regulations: 0.8
- Poor public health: 0.6
- Insufficient capacity to innovate: 0.2


Note: From the list of factors, respondents to the World Economic Forum’s Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.
• New strategies must be followed ... avoid competing on price.
• Develop supporting industries.
• Link with research and training.
• Develop local consumers.
• Compete globally.
• Lobby for the right government policies.
• Upgrade standards.
Strategic repositioning to compete globally

Invest in fixed production and marketing assets

Invest in flexible knowledge assets