ABSTRACT

STRATEGIC MARKET RESEARCH ON SACU EXPORTS: A FOCUS ON AGRICULTURE

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Strategic market research refers to the benchmarking of national and sectoral trade performance and to the identification of priority products and markets for trade development, both by the public and the business sectors.

Strategic market research is an indispensable element in trade promotion and development. At the national level, governments need to monitor trade performance in order to provide adequate trade policy support. Trade support institutions have to set priorities in terms of sectors, partner countries or instruments in order to get the best mileage out of limited resources. Firms need to scan the world market for opportunities for product and market diversification.

The aim of this working document is to provide a basis on which a more comprehensive trade strategy could be developed for South African agriculture. By far the best source of information on these important issues is the business community. This kind of market research in combination with the direct feedback and vision of the business sector constitute the best basis for building national export strategies.

This document discusses four different areas of research. Chapter 1 discuss Trade Maps for identifying the most important exports, Chapter 2 discuss Trade Potential Indexes, which reveal the competitive and comparative advantages of exports, Chapter 3 discuss market diversification prospects and Chapter 4 discuss Trade Simulation to identify trade potential. Research should still be done on bilateral trade maps, not covered by this study.

Research reveals that SACU has a comparative advantage in agricultural exports comparing to the world, since most of the studied SACU agricultural exports have gained world market share. The export of all SACU agricultural goods increased by 7% in US$ from 1994 to 1998, compared to the growth of trade of the same goods in the world by 5,6%. SACU has performed 41st in the world (out of the 178 countries studied). However, world markets for most of the studied agricultural products exported by SACU are declining, compared to the general world trade growth average.

The analyses indicate that the champions in SACU agriculture exports are grape wines (smaller than 2 litres), plums and sloes (fresh) and grapes (fresh). These SACU commodities have increased their world market share in the high growth dynamic world markets for these products. These products are also less risky and promotional efforts should aim at broadening the supply capacity.

Underachievers in high world growth market sectors are avocados and to a lesser extent pears (processed). Avocados present special challenges for trade promotion efforts. Statistics reveals that the world demand is high, but that promotional efforts should concentrate on the supply side efforts for quality export fruit as well as promotional / marketing efforts in high growth markets where SACU is underrepresented.

The bulk of the analyzed SACU agriculture exports were achievers in declining markets, also called the “cash cows” e.g. black tea, bulk wine, mandarins, clementines, pears and quinces, oranges, pineapples, meat, sugar, processed fruit, grapefruit, ground-nuts and cotton. Many of

these products also face major tariff and non-tariff constraints in the world markets (e.g. mandarins, sugar and meat). Most of the products exported by developing countries, and in which they have a comparative advantage, fall in this category (achievers in adversity). Therefore the liberalization of these markets could be persuade in a development round within the WTO, to free up the restrictions that puts constraints on the demand for these products.

The Trade Performance Index (TPI) is a tool for assessing and monitoring the multifaceted dimensions of export performance (position) and competitiveness (adaptation to change) of countries and their principal export sectors. It reveals how competitive and diversified a particular export sector are in comparison to those of other countries. It covers 90% of world trade. Overall South Africa had a high composite ranking position (25th out of 178 countries) on the exports of fresh food and the position for processed food was 43^{rd,} which is still above average.

South Africa's ability to adapt to change in the dynamics of world demand for the fresh food sector as well as the processed food sectors is poor and rank 117th and 102nd respectively. These results need further clarification from industry and product specialists. The initial geographic and product specialization on the dynamic markets were also poor according to indicators (probably due to the past effect of sanctions), ranking 78 to 131st in the world for fresh food and 69th to 85th in the world for processed food. The main problem, which was identified for agriculture, was the industry's poor adaptation towards new export products, compared to its competitors, with indicators for SACU ranking 107th to 133rd in the world. SACU could also improve on market diversification and market concentration of dynamic world markets.

Results of many of the indicators of individual processed agricultural products reveal that they were performing poor in the adaptation to world dynamics, especially the inability to develop new export products, comparing to competitors. Examples of such products are textile fibers, food preparations (incl. beverages) and hides and skins and leather. These products were probably highly protected in the past. The fresh fruit and vegetables also seems to adjust poorly with the development of new dynamic export products comparing to competitors, although the scope of adjustment would be much narrower than for processed produce. However, there is scope for improving market diversification.

Research on market diversification prospects for various products reveals that SACU exports are underrepresented for many dynamic markets of especially the America's and Asia. SACU exports are underrepresented in many of Americas dynamic import markets (e.g. USA, Mexico, Chili, Brazil and Canada) for various high growth import markets such as for e.g. meat, avocados, mandarins, grapes, pears, plums, groundnuts, processed peaches and wine. Results also reveals SACU's under-representation on some high growth import markets of Asia and Australasia (e.g. Australia, Japan, Singapore, Hong-Kong, Indonesia and Korea) on products for e.g. avocados, grapefruit, grapes, plums, groundnuts, sugar, processed pears and apricots, processed peaches and wine. Improvements could also be made to the concentration of diversification of SACU exports to the EU countries. The EU showed one of the highest import growth of meat and SACU were underrepresented in countries such as Spain, France and Norway. Market diversification prospects are discussed per individual product and therefore it would be difficult to give a clear picture with a summarized version.

Research was also done by simulation of trade to discover trade potential. A econometric model was used, Trade Sim (based on macro-economic and other country data such as GDP, GDP per capita, existence of trade agreements between countries, geographic distances, cultural factors etc.) to estimate the bilateral trade potential of developing countries and

economies in transition with any of their partner countries. ITC's models build on the resent progress in the theoretical foundations and on the empirical robustness of gravity models for the analysis of international trade.

Results reveal that the USA is by far the most untapped potential market for SACU exports in general, but also for agriculture. The results could be an indication on how badly SACU was affected by the USA trade sanctions and that the discrepancy in potential and the actual trade is still very wide. Other countries to which discrepancies exist between potential and actual trade, indicating potential trade, were: Japan, Brazil, Canada, Australia and some countries within the European Union. These results do not take into account the future potential growth prospects of markets such as Asia and Latin America and therefore does not give a complete picture on future markets. However, it does reveal the potential markets where SACU trade is underrepresented. According to the results, SACU has potential and can still do better for agro based products as well as for Yarn, fabrics and textiles, leather and leather products, computers, telecom, electronic and misc. manufacturing. By far the largest potential for SACU's exports existed to the USA on fresh food and agro-based products where the present structure is 4% and the simulated structure is 34% as well as for processed food where the present structure is 4% and the simulated structure is 9%.

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