Overview of the Macroeconomic Drivers of the Region

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Abstract

The ecosystems in Southern Africa are impacted by economic activity and population growth and pressure. There are several macro-economic drivers shaping these economic and population pressures and it is for this reason that this chapter unpacks the macro-economic drivers in the region. With the economy of South Africa dominating the regional economy (90% of Gross value added) it makes sense to discuss to the macroeconomic situation in Southern Africa by referring to policy and macro indicators in South Africa as a proxy of the regional situation. We also focus on the Limpopo province which shares boundaries and an ecosystem with three other countries in Southern Africa. Starting from the general macropolicy situation, major macro indicators for the region, the country and Limpopo are presented, jointly with the specific challenges, regulatory frameworks and policies that govern the development processes in the region. We focus on environmental, agricultural and trade policy measures, including their interlinkages, and illustrate that they provide a volatile and uncertain environment for structural development of the agricultural sector.

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4.1 Introduction

The economy of the Southern Africa is dominated by the sheer size, diversity, and magnitude of the South African economy. South Africa is responsible for 90% of all gross value added in the region and its markets, policies, infrastructure have an important impact and effect on all the other economies and people of the region. The study region of Limpopo is imposed in the region of Southern Africa, which is a point in case of the heterogeneous economic conditions that can be found in Africa. Most predominantly, the stark contrast of the value addition in South Africa compared with those of neighboring countries, but also the different importance of sectors in other economies of the region is striking. However, these macroeconomic conditions critically determine economic, social and environmental value creation in the study region of Limpopo. Moreover, as Limpopo borders with Botswana, Zimbabwe and Mozambique, the macroeconomic developments of these regions—as much as potential differentials therein—are important to consider.

This chapter sets the stage by providing an overview of the macroeconomic drivers in the region using an analysis of South Africa indicators and trends as the reference point. We focus on environmental, agricultural and trade policy measures, including their interlinkages, and illustrate that they to provide a volatile and uncertain environment for structural development of the agricultural sector. Given the geographical location of the Limpopo region, the chapter adopts a hierarchical structure and provides insights at the supranational, the national and the regional level. In the rest of the chapter, we describe the macroeconomic trends starting from the broader region and subsequently narrowing down to the national and finally the regional level. Similarly, we provide key agricultural and trade policy insights again on these three levels. Finally, we conclude the chapter with recommendations for policy reforms.

4.2 Macroeconomic Trends in Southern Africa

Southern Africa[1] is responsible for about one third of Africa's GDP. Average per capita incomes are higher than the average per capita income of Africa. In the more recent past, growth in the region was slower than in most other parts of

[1] Southern Africa may refer to three different regional entities, each with a different composition of countries. First, in a geographical sense, it comprises countries that are south of the Congo river basin, but usually excluding the Democratic Republic of the Congo (DRC). Second, in a political sense, Southern Africa is often used to refer to members of the Southern African Development Community (SADC)—the regional economic and trade community—headquartered in Gaborone, Botswana. Third, Southern Africa also groups the countries of Botswana, Eswatini, Lesotho, Namibia and South Africa into a subgroup of the United nations (UN) geoscheme for Africa. In this chapter, we adopt a slightly modified denition of Southern Africa where we extend the UN subgroup with Zimbabwe and Mozambique to more adequately reflect the surrounding economies of our focus region, the province of Limpopo in the Republic of South Africa (RSA).

Africa, due to the already relatively large economies compared with others on the continent. In further comparison with the continent at large, the economies of southern Africa are characterized by homogeneously strong mining sectors and comparably large contributions from the secondary and tertiary sectors. Table 4.1 shows the relative contributions to total value added by sector in Southern Africa and selected southern African countries. With the exception of Eswatini, mining and utilities are responsible for between 10% and 15%, and in all countries, the secondary and tertiary sectors mostly make up for more than 70% of GDP. The importance of agriculture to national income on the other hand is the most diverse indicator, ranging from 2.1% in South Africa to almost one third in Mozambique (UNCTADstat 2022).

In the past, the development of manufacturing, predominantly in South Africa and Zimbabwe, benefited from larger investments in infrastructure, education and healthcare and led to improvements in related development indicators. Both regions were classified as lower-middle income countries since the 1980s. The region as a whole developed better than other countries in other parts of Africa in terms of income and other developmental outcomes. However, since the 1990s, increased competition with East Asia and South East Asia led to staggering manufacturing sectors and even deindustrialization in Zimbabwe. Today, poverty, inequality, corruption, HIV/AIDS and skilled workers emigration are the predominant impediments to GDP growth in the region (Nshimbi and Fioramonti 2014; Moyo et al. 2014).

As evidenced in Table 4.1, South Africa is by far the most important economy in the region with about 90% of the GDP of the political Southern Africa. Also compared with other countries in the region its GDP exceeds others by a factor of 10 or more in some cases. Given the predominant economic role of South Africa in the region, as well as the fact that Limpopo is a region within South Africa, the following section focuses on the macroeconomic situation in RSA in more detail.

4.2.1 The Situation in South Africa

Statistics South Africa (StatsSA) has in August 2021 released a new set of GDP numbers for South Africa. Real gross domestic product (GDP) is now measured at constant 2015 prices instead of 2010 prices. The revised estimate of GDP in 2020 is R5 521 billion, an increase of 11% compared with the previous estimate of R4 973 billion. The annual growth rate for 2020 was revised from −7.0% to −6.4%. With this GDP revised numbers, the South African GDP per capita is now R79 913 per person.

Based on the latest estimates by StatsSA, shown in Table 4.1, the tertiary sector makes up 65% of the South African economy—while the primary sector—mining and agriculture—which is dominant in the Limpopo region, is responsible for only 8.9% of gross value added in the South African economy.

The biggest concern for the South African economy is the alarming unemployment statistics. According to the most recent Quarterly Labour Force Survey

Table 4.1 Composition of GDP in Southern Africa and selected southern African economies (2019)

Sector	Botswana	Eswatini	Mozambique	Namibia	South Africa	Zimbabwe	Southern Africa
Gross value added	16.6	4.3	13.6	11.4	313.1	19.4	347.6
Agriculture, hunting, forestry, fishing	2.2	9.1	29.3	7.1	2.1	9.0	2.4
Construction	7.5	3.4	1.4	2.3	3.8	2.5	3.9
Mining and utilities	18.0	1.3	14.1	13.7	12.2	8.9	12.3
Manufacturing	5.8	30.6	10.2	12.7	13.2	12.3	13.1
Transport, storage and communications	6.8	4.8	9.9	4.8	9.8	11.4	9.4
Wholesale, retail trade, restaurants and hotels	21.43	15.6	12.4	13.4	15.1	22.5	15.4
Other services	38.3	35.1	22.7	45.9	43.8	33.4	43.5

Source: UNCTADstat (2022)

(QLFS), 7.8 million people were unemployed in the second quarter of 2021. The reality is even worse: besides the almost eight million officially classified as unemployed, we should add people who are not seen as part of the labor market because they have given up looking for work. These discouraged work seekers totaled 3.3 million in the second quarter. So, in broad terms there were 11.1 million people of working age not employed during the second quarter. Given an estimated labor force of 22.8 million, this means that the expanded unemployment rate in South Africa is now heading toward a staggering 50% (48.9% in the second quarter).

For some perspective, during the first quarter of 2008, which was the first time that the current version of the QLFS was published, 4.2 million people were unemployed. At the time, discouraged work seekers were 1.2 million. Therefore, 5.4 million were unemployed if the broader measure is used. In terms of the expanded definition of unemployment, roughly 5.5 million more people did not have a job in the second quarter of 2021 compared to early 2008. In the first quarter of 2008, the expanded unemployment rate was at an already worrisome 30%. For the expanded unemployment rate to deteriorate by roughly another 19 percentage points to almost 50% over the following decade suggests a major crisis.

A multitude of factors, including two very severe external shocks in the form of the global financial crisis (GFC) in 2007/8 (and its aftermath) and the COVID-19 pandemic since 2020, more than a decade of periodic Eskom (the South African power utility) load-shedding (switching of electricity to municipalities on a rotational basis to prevent total power grid collapse), and the devastating period of state capture help to explain why the labor market has deteriorated so significantly over the last decade and more. Not long after the release of the first iteration of the current QLFS in early 2008, the aftermath of the GFC resulted in a severe global economic downturn in 2009. As a result, real GDP in South Africa contracted by 1.5% in the same year. At the time, this was by far the worst GDP performance of the democratic era since 1994. As a result, 1.2 million private sector jobs were lost between 2008Q4 and 2010Q3, before a recovery followed.

The South African economy was already shedding jobs before the Covid-19 hard lockdown and the associated massive private sector job losses of 2.2 million in the second quarter of 2020. The weak pre-Covid labor market followed a sustained period where domestic real GDP growth was unable to keep up with the rate of population growth. Even after incorporating StatsSA's GDP rebasing and historical revisions that were released this week, real GDP growth averaged only 1% in the six years between 2014 and 2019. The weak growth meant that the economy was unable to absorb most of the new entrants into the job market. Compared to this period of weak output expansion, real GDP growth averaged 4.5% between 2003 and 2008, translating into average total annual private sector employment growth of 3.4% during these years. During a period of sustained robust GDP growth, the economy was able to generate jobs. One therefore needs to ask the critical questions such as what in government policy, political processes and general governance contributed to this weak growth performance. If policy levers, policy incentives and clean and effective government were in place (and which ones), would South Africa would have had better growth performance?

It is important to appreciate that the paltry GDP growth between 2014 and 2019 and the sharp rise in unemployment since 2008 was despite significantly more accommodate macropolicy settings than in the preceding period. Between 1994 and 2007, the SA Reserve Bank's repo policy interest rate averaged 12%. On average, the policy rate was almost halved to an average of 6.7% between 2008 and 2019. The policy rate was subsequently reduced dramatically further, amid the Covid shock last year and remains accommodate. Indeed, after adjusting for forward-looking inflation, the policy rate is negative in real terms.

In terms of fiscal policy, expressed as a share of the economy's size, main budget noninterest expenditure rose from just below 23% of GDP during the 2006/7 fiscal year to 26.5% in 2019/20. Expenditure rose further to 28.5% of GDP in 2020/21. The quoted numbers already incorporate the higher denominator (nominal GDP) after the recent GDP revisions. The key here is that despite a much lower policy interest rate and more government spending, real GDP growth severely underperformed in the years before Covid-19. This again flies against the argument that more government spending would bring about higher economic growth. While the pandemic has been a major blow to GDP and the local job market, weak output and employment growth precede it. Importantly, the sustained poor growth performance of recent years should not be laid at the door of excessively restrictive macroeconomic policy settings.

Except for gold, the prices of SA's major export commodities continued to rise in 2021Q1. Relative to 2020Q1, all South Africa's major export commodity prices were notably higher. **Rhodium** remained the star performer, but there were strong annual gains across the board. In some cases, the price gains continued in the early part of 2021Q2, with **palladium** reaching an all-time (nominal) high above $2900/oz. in the week ending 23 April. The platinum group metals (platinum, palladium and rhodium) continue to be supported by stricter vehicle emission standards in places like Europe and China. This increases the demand for these metals, which are used in catalytic converters.

The price movements have had a major impact on the contribution of the individual commodities to SA's total mineral export sales. In a nutshell, while the contribution of gold (long-term trend, 2020 being an exception), platinum (since 2015) and coal has declined, the opposite is true for iron ore, palladium and rhodium.

Regarding SA's import bill, the **Brent crude oil** price has increased at a faster tempo than anticipated. The sharp price gains in 2021Q1 were again driven by an improved outlook for global GDP growth and oil demand. Developments on the supply side also supported the price. In early March, the OPEC+ grouping of major oil producers agreed to extend oil output curbs. In addition, one-off events affected the oil price through the quarter. These included disruptive weather in Texas, which shut-in oil production totaling more than 10% of US oil supply, drone attacks on Saudi Arabia oil facilities and delays caused by the blockage in the Suez Canal. This increased shipping costs, as well as the oil price.

Focusing on the agricultural sector amidst all of the negative impacts and projections as a result of the COVID-19 pandemic, the South African agricultural sector has emerged as a shining light, growing by 13% in 2020 (StatsSA 2022). This represents a sharp turnaround and an illustration of the sector's ability to recover from extremely tough conditions over the past five years where the agricultural real growth rate averaged negative 1.3% per annum.

Compared to other economic sectors, the agriculture and food sector has been relatively insulated from the effects of the COVID-19 crisis because as an essential service, operations were allowed to continue, with the exception of alcoholic beverages and tobacco and initially also wool, mohair and cotton. Overall, agriculture was mainly affected in the short-run by a decline in sales due to the closure of hospitality, take-away-food outlets and informal trading and the ban on alcohol and tobacco sales greatly impacted the liquor and tobacco value chains. Moreover, the devaluation of the South Africa Rand during lockdown affected the cost of imported inputs like agrochemicals but also benefited exporting industries.

4.2.2 The Situation in Limpopo

The economy of Limpopo province has developed along similar trends as South Africa at large. Some differences emerge, however, because of the differences in the sectoral composition of GDP (Fig. 4.1).

As Fig. 4.1 illustrates, the primary sector has a much larger role in Limpopo than in South Africa at large. Mining and quarrying, as the largest industry, contributes about 28% of the provincial level GDP while agriculture, forestry and fishing add another 4%, totaling to about a third of provincial level GDP from the primary

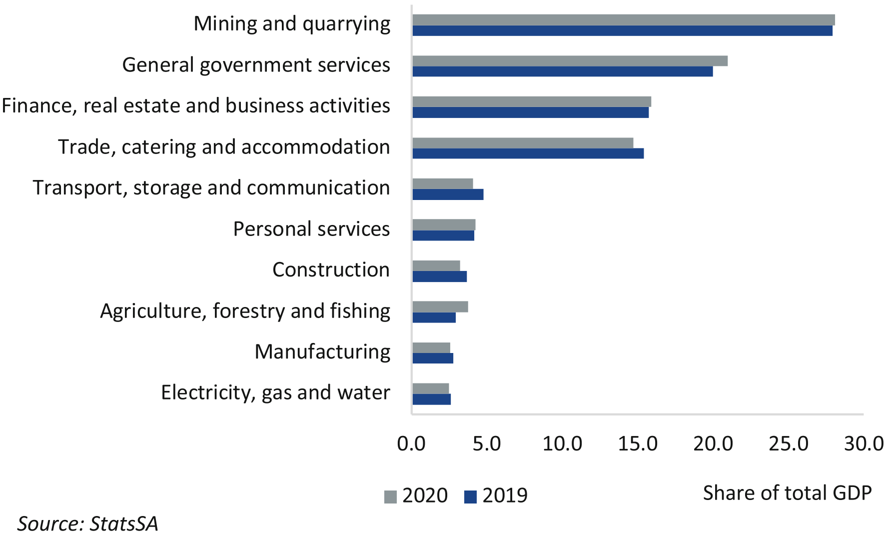

Fig. 4.1 Composition of Limpopo province's GDP (2019 and 2020). Source: StatsSA

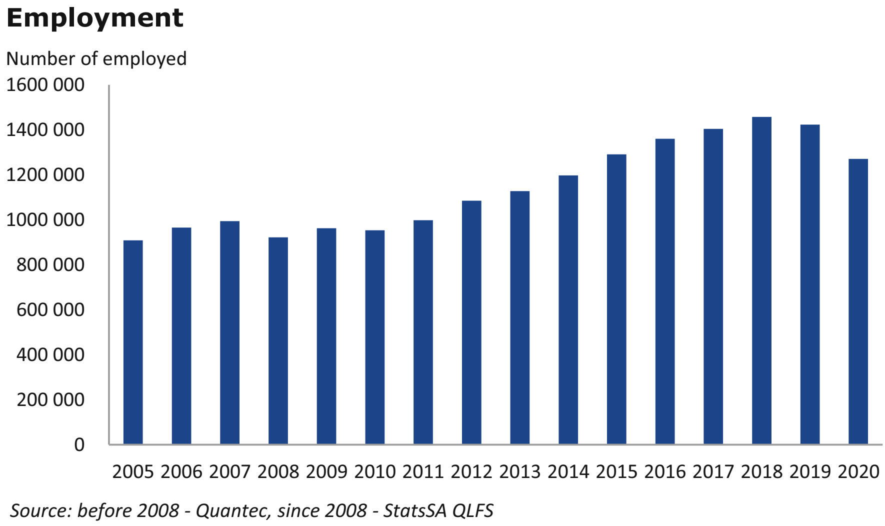

Fig. 4.2 Number of employed persons over the past 15 years in the Limpopo province. Source: before 2008—Quantec, since 2008—StatsSA QLFS

sector. Nationwide, the contribution of the primary sector is below 10%. The tertiary sector contributes to the GDP of Limpopo province to a similar extent as in national GDP but the secondary sector, with only 2.6% in 2020, is very underdeveloped compared to the rest of the country. This situation persisted already before the Covid-19 crisis and must thus be viewed as a structural property of Limpopo province.

The important role of the primary sector is visible in the trade statistics for Limpopo, too. Limpopo's share in the total value of South African exports was at 4.5% in 2020 and almost exclusively consisted of raw materials. Since the population of Limpopo province amounts to 5.8 million people, equivalent to 9.8% of the total South African population, the per capital export value from the province is less than half of the average number for South Africa. The most important agricultural exportables were fruit and nuts, which alone contributed 5.6% of the export value of the province.

The lackluster development of Limpopo province can at least to a large extent again be explained by the difficult conditions on the labor market. Figure 4.2 depicts the number of employed persons over the past 15 years. While a mild positive trend in employment numbers is present over the years between 2005 and 2018, when employment grew on average by 3.3% per year, this development came to an end already in 2019, before the Covid-19 shock hit the world economy. This shock, however, had a very strong negative effect on the labor market in Limpopo, even when compared to the rest of South Africa. With a drop of 10.7%, the loss of jobs was most marked among all provinces in South Africa.

The agricultural sector in Limpopo is dominated by horticultural production, followed by animal production activities, and field crop production. The contribution of horticulture to gross farming income amounts to about 60%, while the contributions of livestock and crop production are about 20% and 15%, respectively. Limpopo is well known for its substantive production of tomatoes, potatoes, onions, mangoes, avocadoes, citrus fruits and various nuts, confirming the dominance of the horticultural industry, which is water intensive and labor intensive. For tomatoes, pumpkins and subtropical fruits, Limpopo has the largest planted area in South Africa. In particular, Mopani district in Limpopo, where many of these crops are grown, is ranked sixth among all districts in SA with the highest agricultural employment numbers (29,000 workers).

The farm structure in Limpopo is characterized by a mixture of commercial, emerging and smallholder farms. There are about 3000 commercial farming units (540 of these are owned /operated by black farmers) in the province employing 97,400 farm workers, (63,000 are full-time employees).

4.3 The Policy Arena

At the Southern African level, the economic, trade and agricultural policies in RSA are embedded within the regional integration framework of the Southern Africa Development Community (SADC). The organization is one of the eight Regional Economic Communities (RECs) in Africa. Its current form emerged in the early 1990s with the aim of an intensified socioeconomic, political and security cooperation among its members. Between 1996 and 2012 a total of 27 protocols were ratified, which define the cooperation activities in various subfields, including agriculture and trade. In 2008, an additional free trade agreement (FTA) was implemented with the long-term targets to implement a customs union, a common market, a monetary union and eventually a single currency. However, besides the FTA, none of these milestones have been achieved to date (SADC 2022).

The main challenge of further integration within to SADC is overlapping memberships of its economies. For example, RSA and Botswana are also members in the Southern Africa Customs Union, Zambia joined the Common Market for Eastern and Southern Africa, and Tanzania is also part of the East African Community. Since all of these organizations target integration in overlapping or even identical areas, a number of regulatory, organizational and political conflicts of aims have arisen as impediments to negotiations and integration processes as a whole. In particular with regards to trade policy, where for instance tariff rates, quotas and rules of origin are regulated differently across these different economic integration endeavors, inducing contradicting trade governance that are not solved generically, but rather on a case by case basis.

However, efforts with regards to regional integration in SADC and neighboring RECs in the more recent past are likely to be outpaced by developments on the continental level. Since the foundation of the African Union (AU) in 2002, a number of socioeconomic, justice, political and security cooperation agreements have been negotiated at the continental level. On the one hand, this added a further layer of complexity to the already cumbersome regional integration processes. On the other hand, these AU-based initiatives allowed for some overarching, continent wide regulations. For example, in 2021, the African Continental Free Trade Area (AfCFTA) was launched, which aims at the implementation of free trade relationships across all of the African continent. Even though many of the details of the agreement remain to be negotiated, it is expected that in the medium term, the AfCFTA subsumes most of the regionally regulated trade relationships, such as those of SADC, and eventually forms a viable umbrella for most of intra-African trade.

In South Africa, the National Development Plan (NDP) identifies the key challenges facing South Africa as a country but argues that the country can eliminate poverty and reduce inequality by 2030. It emphasizes the importance of hard work, leadership and unity. It furthermore identifies Infrastructure Development, Job Creation, Health, Education, Governance, Inclusive Planning and the Fight against Corruption as key focus areas and spells out specific projects for each.

The NDP was developed after a detailed diagnostic assessment of the issues constraining economic development and improvement in social wellbeing. It identifies the critical interventions needed to improve education and health outcomes as well as grow the economy and reduce unemployment and alleviate poverty.

As the primary economic activity in rural provinces such as Limpopo, the NDP identifies agriculture as having the potential to create close to one million new jobs by 2030, a significant contribution to the overall employment target. To achieve this, the NDP proposes the following policy imperatives:

- Expand irrigated agriculture. Evidence shows that the 1.5 million ha under irrigation (which produce virtually all South Africa's horticultural harvest and some field crops) can be expanded by at least 500,000 ha through the better use of existing water resources and developing new water schemes.
- Use some underused land in communal areas and land-reform projects for commercial production.
- Pick and support commercial agricultural sectors and regions that have the highest potential for growth and employment.
- Support job creation in the upstream and downstream industries. Potential employment will come from the growth in output resulting from the first three strategies.
- Find creative combinations between opportunities. For example, emphasis should be placed on land that has the potential to benefit from irrigation infrastructure; priority should be given to successful farmers in communal areas, which would support further improvement of the area; and industries and areas with high potential to create jobs should receive the most support. All these will increase collaboration between existing farmers and the beneficiaries of land reform.
- Develop strategies that give new entrants access to product value chains and support from better-resourced players.

The NDP makes the following detailed recommendations, in achieving the goal of 1 million new jobs by 2030:

- Substantially increase investment in water resources and irrigation infrastructure where the natural resource base allows and improves the efficiency of existing irrigation to make more water available.
- Invest substantially in providing innovative market linkages for small-scale farmers in the communal and land reform areas, with provisions to link these farmers to markets in South Africa and further afield in the subcontinent.
- A substantial proportion of the agricultural output is consumed in the "food-away–from-home" market in South Africa. While this includes restaurants and take-away outlets, which are hardly relevant in most rural areas, it also includes school feeding schemes and other forms of institutionalized catering, such as food service in hospitals, correctional facilities and emergency food packages where the state is the main purchaser. As part of comprehensive support packages for farmers, preferential procurement mechanisms should be put in place to ensure that new entrants into agriculture can also access these markets.
- Create tenure security for communal farmers. Tenure security is vital to secure incomes from all existing farmers and for new entrants. Investigate the possibility of flexible systems of land use for different kinds of farming on communal lands.
- Investigate different forms of financing and vesting of private property rights to land reform beneficiaries that does not hamper beneficiaries with a high debt burden.
- There should be greater support for innovative public–private partnerships. South Africa's commercial farming sector is full of examples of major investments that have resulted in new growth and new job opportunities.
- Increase and refocus investment in research and development for the agricultural sector.

Although the NDP is very ambitious with the 1 million jobs in agriculture target, the plan and vision for the agricultural sector is much more inspiring and innovative than many of government's current action programs.

From our review of all the relevant policy documents and frameworks relevant to the agricultural and food sector, it is evident that the main focuses of these policies and plans are job creation in agriculture and dealing with process of empowerment and redistribution of resources and opportunities in the sector. Although food security and nutrition issues are mentioned and discussed as one of the main challenges it is merely seen as an important outcome if the agricultural and food sector performs optimally.

The National Development Plan is the only policy framework reviewed here that presents specific plans and suggestions on how to tackle the problems of food insecurity and malnutrition. To reduce the acute effects of poverty on millions of South Africans over the short term, the plan proposes to:

- Introduce a nutrition program for pregnant women and young children and extend early childhood development services for children under five.
- Ensure household food and nutrition security.
- Urgent action is required on several fronts: Households and communities. Proper nutrition and diet, especially for children under three, are essential for sound physical and mental development. The Commission makes recommendations on child nutrition, helping parents and families to break the cycle of poverty, and providing the best preparation for young children—including a proposal that every child should have at least two years of preschool education.

It has to be stated that these are just recommendations and suggestions and have yet to be translated into real policies with action programs and budgets. This point applies equally to most of the policy frameworks discussed above. The translation of strategic plans and policy frameworks into well-funded and efficiently executed government programs remain a major omission in the South African government. Implicitly most of the policies to promote increase agricultural production are listed and well argued—but never executed. South Africa has always the best plans and the most modern legislation but political rhetoric and nondelivery and general political insecurity flies against all these noble plans resulting in further job shedding and decrease in production.

4.3.1 Agricultural Policies

At the Southern African level, the key role of agricultural policies has been recognized in various of the regional organizations. SADC has recognized the importance of agriculture to food security in the region as the incomes of about 70% of the population in SADC countries depends on agriculture. Moreover, as agriculture in the region is relatively labor intensive, it is also heavily affected by the HIV/AIDS pandemic, which SADC identified as a major challenge for agricultural development. Given the mainly smallholder-based agricultural sectors of most member states, another pertinent issue is the access of smallholders to functioning product and factor markets, exacerbated by problems of road and marketing infrastructure. On the other hand, agricultural products account for about 13% of the total export value SADC, highlighting the key role of agricultural development from yet another perspective (SADC 2022).

The Dar-Es-Salaam declaration of agriculture and food security in the SADC region of 2004 addressed both market access as well as labor shortage problems. The declaration furthermore aimed at streamlining regional agricultural and food security policy with the Millennium Development Goals (MDG) of the United Nations (UN). In the short term, members agreed to facilitate smallholder access to improved seed varieties, fertilizers, agrochemicals, tillage services, farm implements and the construction of irrigation systems. For the medium and long terms, the SADC member countries also mandated the allocation of at least 10% of national budgets to agriculture and decided to implement national food reserves programs to buffer negative food supply shocks that are also pertinent in the region (SADC 2004).

In 2008, the SADC Multi-country Agricultural Productivity Programme implemented further measures to achieve the targets of the Dar-Es-Salaam declaration. The most overarching concern was low agricultural productivity in the region. The program stretches over a 15 year period and targets to enhance (1) food (crop, livestock and fishery) production and productivity through improved access to and sustainable use of agricultural productive assets, (2) diversification and value added through the establishment of a supportive policy and an adequate institutional environment for the development of efficient agroindustrial commodity chains, (3) disaster prevention, preparedness and mitigation through the implementation of a comprehensive strategy involving the development of drought and pest tolerant crop and livestock varieties, and (4) institutional collaboration in the region. These targets are mandated to be pursued and implemented by the member states.

The Government of National Unity (GNU) that was formed in April 1994 set in motion radical changes in the political economy of South Africa, but in agriculture policy changes had to wait until 1996 when the GNU was replaced by the ANC government whose policies over the following 27 years focused on the delivery of basic services, reducing poverty and expanding the payment of social grants to poor communities, all of which have implications for the demand for agricultural products.

In the agricultural sector, the most important policy initiatives in the post 1994 years included land reform; institutional restructuring in the public sector; the promulgation of new legislation, including the Marketing of Agricultural Products Act (No 47 of 1996) and trade policy and water and labor policies and laws within the framework of wider macroeconomic policy reform. At the same time, the political decision was made to dismantle the support services that favored white commercial farmers as part of the restructuring of government services to the population at large and reprioritization of government expenditure. The combined effect was that South African agriculture was exposed to all the volatilities of international commodity markets. The reduced levels of subsidization were supposed to reduce land values and hence to support land reform and the transformation of the agrarian economy. In reality, the impact was different: it made the process of integrating new and previously disadvantaged farmer communities into commercial agricultural value chains very difficult and was one of the main reasons for the failure of agrarian transformation in general and of land reform in particular (e.g., Hebinck and Cousins 2013). In an effort to correct these weaknesses, the government initiated various support programs to help land reform beneficiaries, including the Comprehensive Agricultural Support Programme (CASP), the Recapitalization and Development Programme (RECAP) and the Micro Finance Scheme for Agriculture (MAFISA), but these have met with little success (Kirsten et al. 2019).

The withdrawal of this support to white farmers had two consequences. First, it allowed the growth of very large-scale ("mega") farming operations (about 2600 (or 6.5%) of them), especially (but not exclusively) in intensive irrigated horticulture production (StatsSA 2020). Second, it was accompanied by the abolition of support measures, from direct subsidies to indirect market interventions, from funding of research and extension to the withdrawal of subsidies on conservation works (Vink 2000). The result was that black farmers were bereft of the support services that they had been denied under the previous regimes.

Unfortunately, the many attempts to remedy this situation (e.g., through the Comprehensive Agricultural Support Programme CASP and other programs) have been ex post, piecemeal and unsuccessful. Unless this is changed, commercial agriculture will remain white dominated, only slightly less racially segregated than in the 1980s, but with a strong bias against those smaller scale family farming operations whose development can do much to initiate growth and employment opportunities throughout the country, in the manner envisaged in the National Development Plan.

In the last three decades, the value of South African agricultural output more than doubled in real terms (DALRRD 2020). This growth has largely been driven by increased productivity, which has been underpinned by technological innovation, as well as growth in traditional export markets as well as access to new ones and has spanned across all subsectors of agriculture (livestock, horticulture and field crops).

Black farmers were largely excluded from the benefits of this agricultural growth while the various programs and plans were not sufficiently broad based to foster an inclusive and prosperous sector and, combined with the slow pace of land reform, contributed to frustrations among black farmers.

Despite remarkable growth during the last three decades, South Africa's agricultural sector remained plagued by dualism, mistrust and suboptimal performance. On the one hand, South Africa agriculture has surpassed the NDP targets in expanding a number of high-value commodities (citrus, macadamias, apples, table grapes, avocados, dairy and pork), but on the other hand the country has not fully achieved the jobs target and expansion of agriculture in the former homelands. The dualistic nature of the sector remains therefore entrenched. The only way this can change is through a capable and effective state (provincial and national), stable and conducive policy and investment environment; infrastructure development and services including electricity and water; and effective farmer support programs, among other support measures.

The expansion and growth of the industry over the last three decades was driven by new technology (irrigation, cultivation techniques, genetic material, etc.) and by the 2607 large farm enterprises that have capital and systems in place to invest, to expand and to export. Although these large enterprises are responsible for 67% of total farm output, cornerstone of the agricultural sector remains the many small family farms. More than 90% of all commercial farming units in South Africa are small family-based operations at different levels of commercial activity.

A number of prevailing and perpetuating cross-cutting factors are hindering inclusive growth and investment in the agriculture and agroprocessing value chains to a greater degree. These factors include continued policy ambiguities, mainly related to access to land and ownership as well as water rights, diminishing/unreliable infrastructural capacity (electricity, water, rail, roads, fresh produce markets and ports), major safety concerns for farmers and farm workers living in rural areas and a sharp increase in theft of stock and farming equipment, limited drive to opening new export markets and the inability to comply with stringent market access protocols, deteriorating biosecurity management, rising concentration and market power at food production, processing and distribution levels partly due to growing barriers to entry that limit access to key routes to market, and skills shortages and decaying research capacity in the country.

Moreover, coupled with consistently low and ineffective farmer support, in particular to subsistence and emerging farmers and high barriers to entry, these constraints contribute to an uncertain and unstable investment environment, resulting in limited growth and job creation in the sector, and thereby perpetuating inequality and exclusion of historically disadvantaged farmers and agripreneurs in agriculture and food value chains in the country.

The constraints and factors hindering the agricultural sector to grow and to transform to be more inclusive, are not new and have been identified in 1995 (White Paper on Agriculture), affirmed in 2001 (Agricultural Strategic Plan) and again in the diagnostics leading up to the National Development Plan (NDP) in 2011 and more recently by the High Level Panel Report led by former president Motlanthe and the Presidential Panel Report on Agriculture Land led by the late Vuyo Mahlati. They have not changed, and while some progress in some areas has been achieved since the adoption of the NDP, there are still areas of substantial underperformance. These include:

- Investment in agriculture and agroprocessing of the former homeland regions and state acquired land to drive overall productivity and commercial production to boost food security and alleviate poverty.
- Effective farmer support services and financing to increase black farmers' share of total agricultural output.
- Redistribution of agricultural land for sustainable agricultural production.
- Increased state capacity to open new export markets for a broader range of agricultural produce.
- Maintenance and upgrading of key infrastructure (roads, rail, ports, electricity.)
- Greater inclusion, participation and competition in agroprocessing.
- Transformation of agricultural and agroprocessing value chains, including the removal of barriers to entry.

4.3.2 Trade Policies

Trade policies constitute the key policy framework for the development of the South African economy. This holds in particular for Limpopo province, with its relatively strong reliance on the primary sector. Unleashing the full potential of agriculture in particular requires improved market access to high-value export chains. The development in this regard has been quite remarkable over the past decades, starting from the free trade agreement with the European Union (1999, fully implemented since 2004) and the regional free trade agreement within the

Southern African Development Community (fully implemented since 2012) up to the African Continental Free Trade Area (2020). Nevertheless, macroeconomic instability and policy incoherence remain substantial risk factors for agricultural value chains (SADC 2022).

Trade policy in South Africa has always had a strong regional focus. From the beginning of the Southern Africa Customs Union (SACU) more than 50 years ago, South Africa has been the driving and dominating force in regional integration. Currently, regional trade relations are mainly governed by the SADC free trade area. The loss of national decision power over tariffs and other trade-related policies that usually goes hand in hand with the formation of a free trade area or a customs union, has been not a major challenge for South Africa since the country accounts for about half of the current GDP of the SADC FTA. This retained national autonomy might explain why the regional integration within SADC FTA has remained somewhat subdued, with only 10% of the bloc's total trade being intra-FTA trade. While lack of physical infrastructure and the strong role of nontariff measures are common to many, in particular smaller, developing countries (Fiankor et al. 2021), the role of the policy process seems to be specific to SADC (Sikuko 2018), where a dominating influence seems to be exerted by South Africa.

The meager intraregional trade development within SADC has been present in many of the continents regional trade agreements. In the early 2000s, SADC and two more regional blocs (COMESA and EAC) aimed at forming a larger regional trade agreement, the Tripartite Free Trade Area. However, this initiative was never ratified but was replaced by a continent-wide initiative for boosting intra-African trade, the African Continental Free Trade Area (AfCFTA). This agreement is effective since 2019, and the expected effects on intra-African trade are huge. For instance, the World Bank (2020) estimates that intra-AfCFTA imports will double relative to the baseline by 2035. For total exports in agricultural products, the study expects an increase of more than 30% relative to the baseline. While the main effects for South Africa will materialize in increasing trade opportunities in manufacturing and services, the important role of agriculture in Limpopo suggests that for this province, new opportunities for intra-African exports might open up.

Overall, the trade policy of South Africa can be viewed as relatively liberalized, with open import and export markets. However, access to high-value export markets remains hampered by sanitary and phytosanitary measures (e.g., Kalaba et al. 2016) and the increasing role of private standards (e.g., Fiankor et al. 2020) that are increasingly used by developed countries' food importers and retailers.

4.4 Recommendations for Reform

In terms of **macroeconomic policies**, the hindrances to economic development are related to labor markets, monetary stability and external trade. The basic lessons to pursue these objectives can be learnt from other countries' experience and have frequently been put on the policy agenda. The willingness of policy makers to commit to these objectives, however, seems to be much less of a clear issue.

In light of these structural realities in the field of **agricultural policies**, the necessary guidelines to facilitate the growth and financial sustainability of the agricultural sector at large should be obvious and clear. What has been lacking over the past two decades is the practical implementation of the government policy frameworks and legislation, which, in turn, reinforced the lack of access among black farmers, and few opportunities within the input supply, agroprocessing and food retail sectors. The underlying factors behind this lack of implementation can be categorized into four broad streams. First, the limited government capacity to execute government programs together with a misalignment of functions and priorities between the three spheres of government. Second, the misallocation of the budget by the national and provincial governments. Third, the poor and uncoordinated transformation programs between government, private sector and civil society. Fourth, the abolishment of crucial institutions such as the Agricultural Credit Board and corporatization of farmer cooperates that were essential in coordinating and providing financial and nonfinancial support to farmers prior to 1998.

Biosecurity for plants and animals are becoming a critical issue as South Africa expands its production of exportable products. Government systems have time and again failed the agricultural sector in this regard with them unable to deal with animal diseases and plant diseases. At the same time, these impact South Africa—and especially the Limpopo province to trade with other countries in livestock products such as beef, game meat, and chicken and eggs. Stronger emphasis on developing and implementing standards and technical regulations in the field of biosecurity is therefore warranted, including cooperation with trading partners like the EU to both ensure the mutual acceptance of standards and technical regulations and to develop solutions for managing isolated outbreaks of pests or diseases in a better way. Promising ideas, e.g., “green corridor” zones with stricter regulation that could remain in export business even in case of phytosanitary problems elsewhere in the country, should be explored by bringing policy makers and private actors in the value chain from both South Africa and important destination markets together.

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