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# Why agriculture is vital for South Africa's economic future

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**C**ountries that tax agricultural sectors are normally poor. Countries which subsidise the agricultural sector are normally rich.

This is according to agricultural economist professor **Mohammad Karaan**, a speaker at National Treasury's Public Economics Winter School being held at the University of Pretoria this week. Karaan shared evidence to show why agriculture should be part of economic and industrial policy.

“Agriculture must form an important part of the economic future of South Africa,” he said. Most economic evidence does not favour agriculture as a future development path. But there is enough evidence to show that agriculture can play a role in modernising economy, he explained.

Looking at China as an example, within 15 years, the country was able to take almost 20% of its population out of poverty through agricultural development. Much of economic development in South-East Asia, China, Singapore and others was based on industrialising agriculture, introducing land reform and developing the manufacturing industry, he explained. A country's future is also

developed around planning with surplus factors of production such as labour.

## **Agriculture as part of industrial development**

The fact that technical change brings about specialisation and productivity, shows that agriculture should be part of an industrial development strategy. “If it was not for technical change which has taken place in the last 20 years in agricultural research and innovation, we would not be able to deal with the current drought, the worst in 100 years,” said Karaan.

Looking at the growth of South Africa’s real GDP per capita over the last 300 years, prior to the gold rush and the discovery of diamonds, GDP was low. At the time South Africa was largely an agricultural economy, exporting field crops, wool and wine. “If a sector only relies on agriculture, it will get poorer overtime, unless there is some industrialisation,” he added.

## **Challenges to SA’s agricultural sector**

In South Africa, other than land reform being a challenge, policy inconsistency is another issue. A second problem is related to the capacity of the State.

“There is no shortage of people in state departments.

”The Department of Rural Development and Land Reform has over 2 000 people who work there. If you have 2 000 people working in nine provinces, then it should be possible to deliver land reform.

“However, the capacity to execute it is not there,” he said.

The level of domestic investment is another issue. Foreign Direct Investment follows domestic investment; it does not lead domestic investment, said Karaan.

“The problem with agriculture is that domestic investment is too low compared to current Foreign Direct Investment.”

It's not usually governments which bring about jobs or investment flows, much of it comes from markets. There is little collaboration between the private sector and the state to advance economic growth in the sector. “The incentives (on the) state side to encourage private sector investment is not there,” he said.

South Africa's agricultural sector's employment levels 100 years ago, was around 1.8m to 2m people. It is currently down to 850 000 to 900 000 people, said Karaan.

In 2008 the level had dramatically declined from 850 000 to 650 000. The levels increased again in 2012 with the introduction of minimum wage.

“Job creation potential is there ... 450 000 out of 960 000 jobs created were formed in developing areas,” he said. 🇿🇦

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