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New Trade Opportunities for South African Exports to Indonesia

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In a new deal signed on 11 April 2016, the Indonesian Quarantine Agency granted South Africa's food safety control system "country of recognition". This new development means that key agricultural products can now avoid the non-tariff barriers previously associated with costly and timely regulatory processes when entering the Indonesian market. It also allows access to the main Jakarta port where they previously had to enter through the port in Surabaya which had increased the transport costs of getting produce to the nation's capital Jakarta 770km away (Hortgro, 2016; Meinjies, 2016; Mokhema, 2016).

The 15 products to which the "country of recognition" applies are apples, apricots, cherries, citrus fruits, grapes, grapefruit, lemons, nectarines, oranges, peaches, pears, peanuts, plums, pomelos and prunes (Meinjies, 2016). This is of great significance to South Africa, where 14 of the 15 products included (excluding peanuts) fall under products classified as being highly labour intensive in the country's National Development Plan (NDP) and hence this new development offers significant potential for job creation in the country through growth in production of these products (NPC, 2011).

The Indonesian Economy

Indonesia is home to 254 million people, accounting for 3.5% of the world's population and making it the fourth biggest population in the world. The population growth since 1960 has been strong and steady averaging 2.0% per annum, slowing slightly to 1.3% per annum for the past 10 years. Even in the past 10 years the growth of the Indonesian population has exceeded global aggregate population growth which has been at a rate of 1.2% (World Bank, 2016).

Accompanying the strong population growth, real GDP per capita has been on the rise, indicating that overall there is more wealth per person even after accounting for inflation. The strong growth can be seen in Figure 1 which shows Indonesia's GDP per capita in constant local currency units. In the past 10 years GDP per capita in local currency units has been growing at an annual rate of 4.4% in real terms (World Bank, 2016).

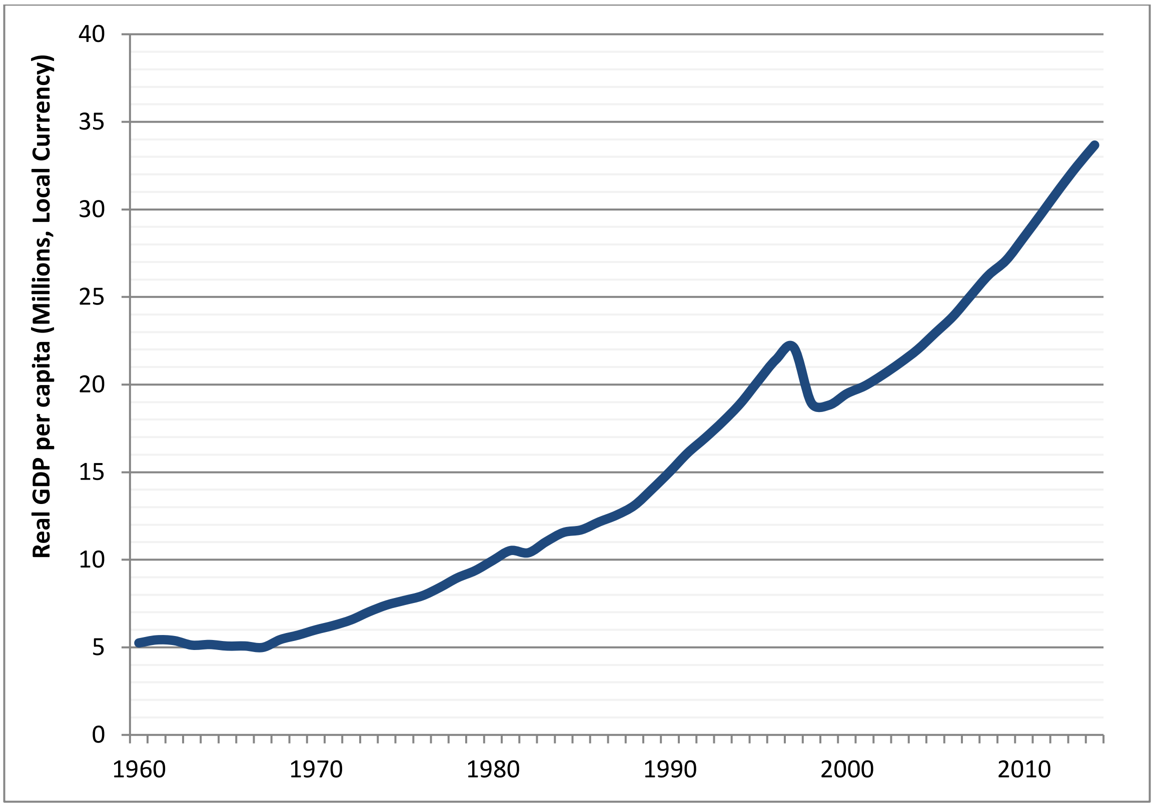

Figure 1: Real GDP per Capita, Indonesia 1960-2014 (Constant Local Currency Units)
Source: (World Bank, 2016)

The significant growth in the population and the increasing wealth generated per person in the country has led to Indonesia growing into a very sizeable economy. In 2014 the Indonesian economy had a GDP of US$ 889 billion making it the world's sixteenth largest economy after Republic of Korea, Spain and Mexico (World Bank, 2016).

New Trade Potential

The Indonesian market for primary agricultural produce is significant, due to a growing population with increasing incomes and also a well-established and rapidly growing agri processing sector (EIBN, 2014). The 15 products for which improved access into Indonesia will now be available fall under 5 main product groups which will be the focus of the analysis in this section, namely:

- citrus (citrus fruits; grapefruit; lemons; nectarines; oranges; pomelos)
- grapes (grapes)
- apples and pears (apples; pears)
- stone fruit (apricots; cherries; peaches; plums; prunes)
- ground-nuts (peanuts).

The size of the Indonesian import market for the above products can be seen in Table 1 which shows Total Indonesian imports from the world in 2014 as well as the nominal annual growth over the ten year period from 2004 to 2014. It is clear that there are significant imports of these products, with the exception of stone fruit which is substantially smaller than the other products analysed.

Table 1: Indonesian Imports of Select Products

Product	HS Code	Imports: 2014 (US$ '000)	Annual Growth: 2004-2014 (%)
Citrus	0805	175 486	13%
Grapes	0806	154 776	19%
Apples and pears	0808	278 871	12%
Stone fruit	0809	193	-6%
Ground-nuts	1202	284 615	26%

Source: (ITC, 2016)

It is also evident from Table 1 that these large markets have been growing rapidly. From a comparative point of view, the growth in ground-nuts imports has been particularly strong, as illustrated in Figure 2 which plots the annual growth rate from 2004 to 2014 for each product from Table 1. Indonesian ground-nuts imports grew at 26% in nominal terms over the ten year period, whilst grapes also showed strong annual growth of 19%. Even when looking in nominal terms, imports of stone fruits declined over the period reviewed.

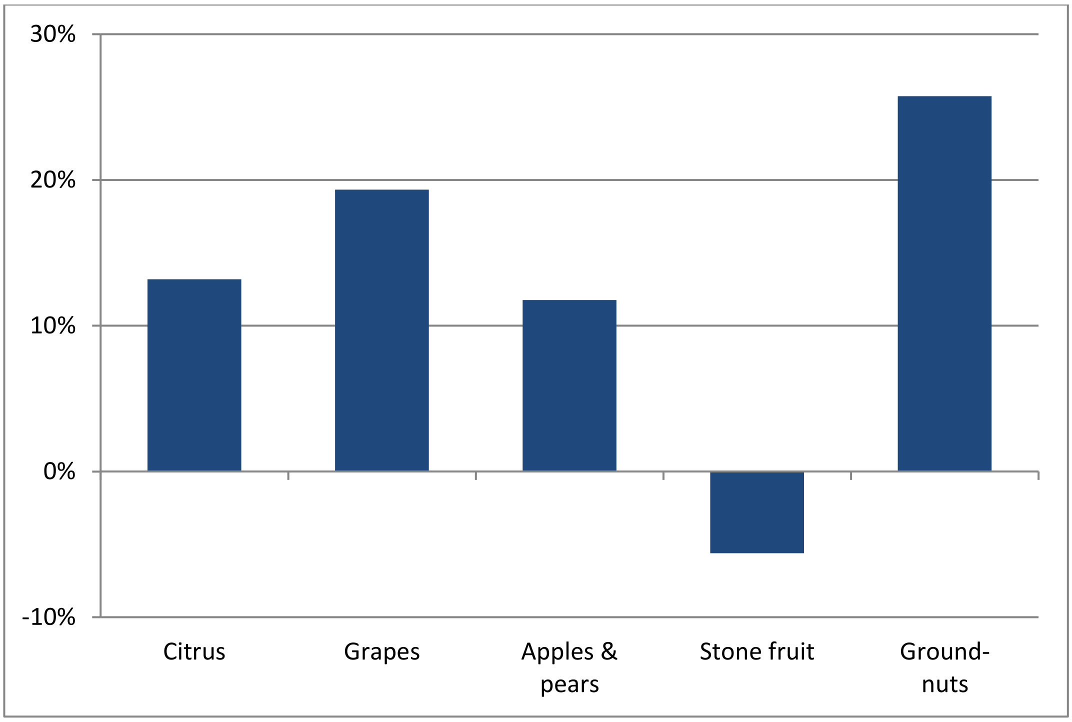

Figure 2: Nominal Annual Growth in Indonesian Imports of Select Products, 2004-2014
Source: (ITC, 2016)

Despite the size of the Indonesian market for the products reviewed, only a small fraction of South African exports are destined for Indonesia. The product with the largest share of exports going to Indonesia for the products analysed is for apples and pears where the share totals 1.12%. For all other products the share is less than 1% and the share for stone fruit is negligible.

Table 2: South African Exports of Select Products by Destination, 2004 (US$ '000)

Product	World	Indonesia	% Share
Citrus	1 073 762	4 825	0.45%
Grapes	580 669	3 699	0.64%
Apples and pears	544 275	6 099	1.12%
Stone fruit	138 818	2	0.00%
Ground nuts	13 081	65	0.50%

Source: (ITC, 2016)

Figure 3 compares the annual growth of South Africa's exports of the analysed products going to Indonesia and the world. It is clear that in general exports to Indonesia have been growing faster than aggregate exports, the exception being stone fruit where the decline in Indonesian import demand illustrated in Figure 2 appears to also have resulted in a nominal decline in South Africa's stone fruit exports to Indonesia, despite strong annual growth in world exports of approximately 10% per annum. Ground-nuts are not included in Figure 3 due to the fact that there were no ground-nuts exports in to Indonesia in 2004 meaning annual growth rates cannot be calculated on a comparable basis.

It should be noted from Figure 3 that whilst South African exports to Indonesia of the select products have been growing more rapidly than overall exports, exports to Indonesia come from a very low base due to the small share of South Africa's exports of these products going to Indonesia.

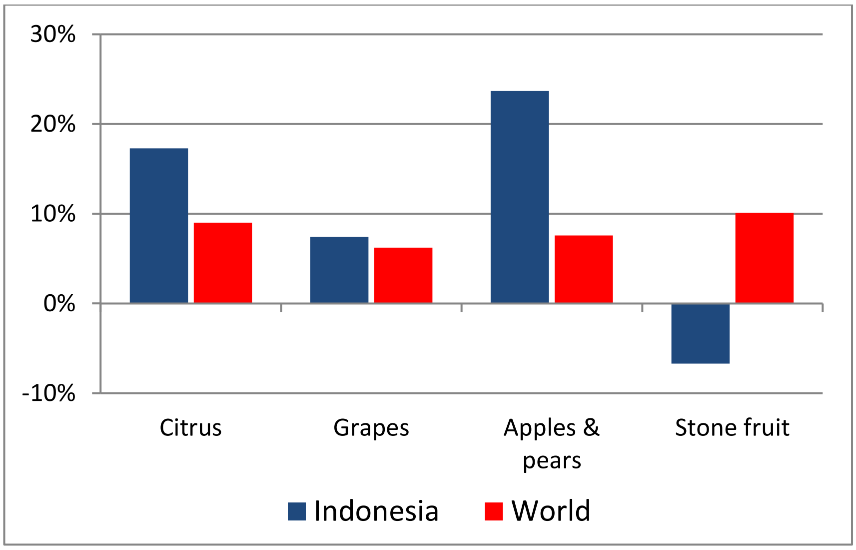

Figure 3: Nominal Annual Growth in South African exports of Select Products by Destination, 2004-2014
Source: (ITC, 2016)

To go deeper into the various products included in this analysis, the rest of this section looks at each of the five products individually. For each product category, the potential trade is presented for each specific product at the HS2-level falling in that category. The value of potential trade is calculated by the International Trade Centre (ITC) which defines it as follows:

> *"Potential trade between the two selected countries calculated using the trade data for the latest available year. Trade potential is defined as the lower value between the country's exports and the partner country's imports, minus the actual current trade between the two countries. In other words, high potential means that the partner country's imports are significant and the country's exports are also significant while at the same time the country's share in the imports of the partner country is small"* (ITC, 2014, p. 97)

In addition to analysing the trade potential, the analysis looks at who the main competitors are for each product in the Indonesian market and looks at the tariffs each one is subject to.

Citrus

According to the International Trade Centre, citrus exports to Indonesia have the potential to increase by US$ 170 million. This is largely driven by soft citrus with potential of US$ 142 million, with lemons and soft citrus also offering significant potential.

Table 3: Trade Potential of South African Citrus Exports to Indonesia, 2014 (US$ '000)

Product	HS Code	Potential Trade
Oranges	'080510	16 325
Lemons	'080550	11 588
Soft citrus	'080520	142 605
Grapefruit	'080540	143
Other citrus	'080590	0
Total		**170 661**

Source: (ITC, 2016)

In 2014 China accounted for 63% of Indonesia's citrus imports valuing US$ 109 million. South Africa was the sixth biggest citrus supplier to the Indonesian market with imports valuing US$ 5 million making up 3% of total imports. In addition to the distance advantage China possesses over other key suppliers, it also receives duty free access to the market where other suppliers face a 15% tariff.

Table 4: Top Ten Suppliers of Citrus to Indonesia, 2014 (US$ '000)

#	Country of Origin	Imports	Market Share	Effective Tariff
1	China	109 774	63%	0%
2	Pakistan	19 315	11%	15%
3	Australia	15 690	9%	15%
4	USA	11 916	7%	15%
5	Argentina	9 172	5%	15%
6	South Africa	4 825	3%	15%
7	Egypt	3 348	2%	15%
8	Turkey	913	1%	15%
9	Taipei, Chinese	242	0%	15%
10	Spain	138	0%	15%

Source: (ITC, 2016)

Grapes

Grapes also provide a substantial opportunity for South African export growth, estimated at US$ 147 million in 2014. This is almost all attributable to fresh grapes, although there is also a significant opportunity for dried grapes exports.

Table 5: Trade Potential of South African Grapes Exports to Indonesia, 2014 (US$ '000)

Product	HS Code	Potential Trade
Grapes, fresh	'080610	146 951
Grapes, dried	'080620	4 126
Total		**151 077**

Source: (ITC, 2016)

Despite China having the same distance and access advantage as with citrus, albeit in relation to a lower tariff of 5%, it is only the third biggest supplier of grapes to the Indonesian market with the USA (US$ 52 million) and Australia (US$ 31 million) together accounting for 54% of imports. South Africa is again the sixth biggest supplier with imports totalling US$ 4 million.

Table 6: Top Ten Suppliers of Grapes to Indonesia, 2014 (US$ '000)

#	Country of Origin	Imports	Market Share	Effective Tariff
1	USA	52 012	34%	5%
2	Australia	30 650	20%	5%
3	China	27 929	18%	0%
4	Peru	23 102	15%	5%
5	Chile	12 386	8%	5%
6	South Africa	3 699	2%	5%
7	Mexico	2 255	1%	5%
8	Greece	1 044	1%	5%
9	Egypt	463	0%	5%
10	Argentina	317	0%	5%

Source: (ITC, 2016)

Apples & Pears

The trade potential for South African exports of apples stands at US$200 million, the highest for all products analysed at the HS 6-digit level. Pears also show a substantial US$ 73 million potential, bringing the total potential to US$ 273 million for the two products combined.

Table 7: Trade Potential of South African Apples and Pears Exports to Indonesia, 2014 (US$ '000)

Product	HS Code	Potential Trade
Pears and quinces	'080820	73 218
Apples	'080810	199 554
Total		**272 772**

Source: (ITC, 2016)

South Africa is the third biggest supplier of apples and pears to Indonesia with imports totalling US$ 6 million in 2014. However these imports only account for 2% of total imports with China's duty-free access helping it dominate the market with a 73% share. The USA is also a big supplier with 21% of the market. Republic of Korea is the only country other than China in the top 10 supplier list which is exempt from the 5% tariff imposed on other countries, but still only makes up a small share of total imports.

Table 8: Top Ten Suppliers of Apples and Pears to Indonesia, 2014 (US$ '000)

#	Country of Origin	Imports	Market Share	Effective Tariff
1	China	202 630	73%	0%
2	USA	58 185	21%	5%
3	South Africa	6 099	2%	5%
4	New Zealand	5 576	2%	5%
5	Australia	2 735	1%	5%
6	Argentina	1 453	1%	5%
7	France	958	0%	5%
8	Korea, Republic of	747	0%	0%
9	Japan	179	0%	5%
10	Canada	109	0%	5%

Source: (ITC, 2016)

Stone Fruit

The potential of stone fruit exports to Indonesia is significantly smaller than the products analysed thus far, with total potential totalling only US$ 0.2 million. The biggest potential comes through plum exports, US$ 76 thousand.

Table 9: Trade Potential of South African Stone Fruit Exports to Indonesia, 2014 (US$ '000)

Product	HS Code	Potential Trade
Plums	'080940	76
Apricots	'080910	20
Cherries	'080920	47
Peaches	'080930	49
Total		**192**

Source: (ITC, 2016)

The biggest competitor in the Indonesian stone fruit market is Australia with imports totalling US$ 70 thousand making up 36% of total imports. Australia faces a 5% tariff on stone fruit imports, the same as every other country in the top ten list other than China, the second biggest supplier with a 22% market share. Imports from South Africa in 2014 totalled US$ 2 thousand, the sixth biggest supplier accounting for1% of total imports.

Table 10: Top Ten Suppliers of Stone Fruits to Indonesia, 2014 (US$ '000)

#	Country of Origin	Imports	Market Share	Effective Tariff
1	Australia	70	36%	5%
2	China	42	22%	0%
3	France	33	17%	5%
4	USA	30	16%	5%
5	Turkey	17	9%	5%
6	South Africa	2	1%	5%
7	Chile	0	0%	5%
8	Greece	0	0%	5%
9	Hong Kong, China	0	0%	5%
10	Italy	0	0%	5%

Source: (ITC, 2016)

Ground Nuts

Ground nuts exports to Indonesia also offer significant potential for South Africa, equalling US$ 13 million. This is mainly in the form of shelled groundnuts with a much smaller potential being offered by ground-nuts in the shell.

Table 11: Trade Potential of South African Ground Nuts Exports to Indonesia, 2014 (US$ '000)

Product	HS Code	Potential Trade
Shelled ground-nuts	'120220	12 967
Ground-nuts in shell	'120210	49
Total		**13 016**

Source: (ITC, 2016)

Despite the significant potential, South Africa only exported ground-nuts with a value of US$ 65 thousand to Indonesia in 2014 making it the tenth biggest supplier. The market is dominated by India with a 79% market share. Whilst India faces the same 5% tariff as South Africa, there are four countries in the top ten supplier list which benefit from duty-free access, namely China, Malaysia, Viet Nam and Singapore.

Table 12: Top Ten Suppliers of Ground Nuts to Indonesia, 2014 (US$ '000)

#	Country of Origin	Imports	Market Share	Effective Tariff
1	India	226 230	79%	5%
2	China	35 011	12%	0%
3	Malaysia	11 675	4%	0%
4	Mozambique	9 279	3%	5%
5	Tanzania	1 320	0%	5%
6	USA	329	0%	5%
7	Sudan (North + South)	275	0%	5%
8	Viet Nam	179	0%	0%
9	Singapore	122	0%	0%
10	South Africa	65	0%	5%

Source: (ITC, 2016)

Conclusion

In conclusion, it is clear that the new developments in South Africa's relations with Indonesia, namely the granting of "country of recognition" to South Africa's food safety control system and access to the Jakarta port for key South African agricultural products, presents a significant market opportunity in markets were South Africa currently holds significant, but not substantial market shares. This implies there is room to expand South Africa's exports of these products to Indonesia. If realised, these opportunities could help boost South Africa's agricultural exports, contributing significantly to economic growth and job potential in South Africa. Almost all the products for which access will now be improved into Indonesia are classified as highly labour intensive in the country's NDP, the only exclusion being ground-nuts, although the size of this market and strong growth potential also makes this an attractive market opportunity.

Despite the increased access, South African producers will face strong competition from other big producing countries of these products. In particular China, which receives duty-free access for these markets where South Africa will be forced to pay a tariff and is at a relative distance disadvantage. Other key competitors include countries which also have been granted "country of recognition" status including USA and Australia, countries with a tariff advantage such as China and Republic of Korea, as well as countries with a relative distance advantage such as India and Pakistan. Whilst these advantages and the fact that some of these countries possess more than one of the advantages described (e.g. China and Australia) will make it challenging, the significance of this opportunities and size of the potential benefits makes it an opportunity which should not be overlooked and resources should be applied in order to make the most of it.

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