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South African Agricultural Policy 1994 to 2004: Some reflections

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1. Introduction

Time constraints limits this paper to giving a brief overview of a selection of only the most important events on the policy front. The aim is to set the stage for the conference by giving a synoptic overview of South African agricultural policy between 1994 and 2004. To put the policy development in historical and developmental perspective, relevant pre-1994 realities will be mentioned first. After outlining the policy development between 1994 and 2004, the presentation concludes with some 2004 realities and a perspective on the relevance of agricultural economics as a discipline.

2. Pre-1994 realities

2.1 Global scene

Since about 1980 rapid and drastic changes occurred in many parts of the world. Democracy and free enterprise spread through Eastern Europe, Asian economies experienced strong economic growth, the Chinese economy expanded rapidly and moved in the direction of individualised forms of enterprise as well as openness, South America underwent good economic growth while, in most of Africa, economic growth remained slow (Groenewald, 2004).

Changes in national economic policies designed to protect local industries and/or agriculture have been implemented since the 1970s because of increasing ineffectiveness and expensiveness, both in terms of government finance and general welfare of the population (Groenewald, 2004 and Schuh, 1986 cited by Groenewald, 2004).

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The World Trade Organization's (WTO) emergence as a successor to the General Agreement on Tariffs and Trade (GATT) accelerated globalisation and changed the international environment within which the South African economy has to operate (Groenewald, 2004).

World trade underwent fundamental changes. Drucker (1990, as cited by Groenewald, 2004), said that trade changed to adversarial trade that aims at domination. To combat this, countervailing power obtainable through the formation of economic regions or blocks was needed. A successful regional or trading block is a unit that can mould an effective trade policy that transcends both protectionism and free trade and is capable of reciprocity.

South Africa's competency to participate effectively in international trade negotiations with economic modelling support was largely absent before 1994.

2.2 South African political scene

Backeberg (2003a), states that, prior to 1994, public policy in South Africa was exercised within a welfare state and minority rule. According to Terreblanche and Natrass (1990) and Marais, 1991 (as cited by Backeberg, 2003a), this essentially involved centralisation of authority, government interference in the economy and social life, and parliamentary sovereignty.

The 1983 Constitution with its tricameral parliament, distinction between own and general affairs departments, and with continuation of a dualistic agricultural policy contained therein, largely determined South Africa's agricultural policy during the 1980s (Jooste, Viljoen, Meyer, Kassier & Taljaard, 2001).

In 1985 the "infamous" Rubicon Speech by the then State President PW Botha was an important political event, which elicited with many responses. One of its consequences was the reintroduction of exchange rate control and the postponement of economic liberalisation (Vink, 2004).

The unbanning of the ANC in February 1990 set momentous political changes in motion. In 1995 an interim Constitution (Act 200 of 1993) was drafted in preparation for the first free democratic elections of 1994.

2.3 South Africa's macroeconomic scene

Towards the end of the 1970s and early 1980s South Africa's macroeconomic policy changed from non-market to market-oriented control. Prior to this there had already been a shift away from interest rate controls, liquid asset and cash

reserve requirements as the main policy instruments. Although these changes resulted in a dampening of inflationary expectations after the mid-1980s, macroeconomic policy suffered from economic and political inconsistencies (Vink, 2004).

Fiscal policy during the 1970s and 1980s, with its main feature the rising cost of financing the apartheid system (Strydom, 2002 as cited by Vink, 2004) was not more successful than monetary policy. One important consequence was that the budget deficit peaked in 1993 (7,3% of GDP), leading to high real interest rates.

2.4 South African agricultural policy scene

State intervention in agriculture reached a zenith around 1980, with a host of laws, ordinances, statutes and regulations affecting all aspects of agriculture (Jooste *et al*, 2001).

Agricultural policy in the 1980s was largely determined by the 1983 Constitution and, with regard to "white" commercial agriculture, by the 1984 Agricultural Policy White Paper. The objective was to guide development of agriculture to ensure that factors of production would be used optimally with respect to economic, political and social development and stability, while also contributing to enhancing an economically sound farming community (Jooste *et al*, 2001).

Agricultural credit, besides the Agricultural Marketing Act, was a major policy instrument. Agricultural policy was characterised by large government subsidies to farmers, usually in the form of drought aid and other disaster payments, as well as industry subsidies to, amongst others, the wheat, maize and dairy industries (Jooste *et al*, 2001).

Increasing deregulation and market liberalisation occurred from the mid-1980s in the agricultural sector, but it started outside agriculture in the late 1970s, when the financial sector was extensively liberalised, after the publication of the De Kock Commission report (Vink, 2004).

Other changes in the broader political economy that affected agriculture policy include lifting of controls over movement of labour in the mid-1980s and considerable microeconomic deregulation, leading to increased activity in the informal sector.

Important shifts in agricultural policy that took place during the 1980s (Brand, Christodoulou, Van Rooyen & Vink, 1992; Vink, 1993) include the following:

- Budgetary allocations to white farmers declined by about 50 per cent between 1987 and 1993.
- Real producer prices of important products like maize and wheat declined by more than 25 per cent since 1984 and 1986 respectively.
- Tax treatment of agriculture changed, for example by extending the period within which capital purchases could be written off, thereby reducing the implicit subsidy.
- A shift away from settlement schemes and large-scale projects as the major instruments of agricultural development in the developing areas, in favour of an approach based on the provision of farmer support services.
- Scrapping of the Land Acts and related legislation that enforced the racially based segregation of access to land after the important political events of February 1990.
- Application of certain elements of labour legislation, namely the Basic Conditions of Employment Act in May 1993, also to farm workers. The farmer sector then became part of the mainstream of industrial relations in South Africa.
- Reduction in institutional confusion by amalgamation of all "own" affairs and "general" affairs departments of agriculture and by dismantling the Department of Development Aid.
- Initiation of removal of quantitative protection and introduction of tariffs for farm commodities as a result of pressures arising from the Uruguay Round of the GATT.

3 Policy development between 1994 and 2004

3.1 Policy environment

The year 1994 saw the first free and democratic elections in South Africa. The African National Congress won the election with a huge majority and the ANC-led Government of National Unity was formed. The new government, which included members of the NP and IFP, members of different races and faiths, and women, oversaw the development of a new South African constitution (www.capetown.at/heritage/history/newSA_gov.htm/11November 2004) and set up the South African Truth and Reconciliation Commission to help deal with what happened under apartheid (National Unity and Reconciliation Act, No 34 of 1995) (www.doj.gov.za/trc/11November2004).

The New Constitution (Act 108 of 1996) forms the new supreme law of South Africa and *inter alia* "requires" that all laws of the country should be scrutinized and changed, where necessary, to serve the needs of the new broader constituency according to the principles contained in the Bill of Rights (Chapter 2 of the Constitution) (www.polity.org.za/govdocs/constitution/saconst.html/11November2004).

3.2 Macroeconomic policy

South Africa's New Democratic Government of National Unity adopted the Reconstruction and Development Programme (RDP) as its key economic policy position. The RDP spelled out a wide-ranging set of sector reforms aimed at:

- correcting the injustices of past policy,
- setting the economy on an employment-creating and less capital-intensive growth path,
- enhancing international competitiveness, and
- creating a "developmental state" (Vink, 2004; Meyer, 2004).

Although the RDP was widely accepted, problems stemming from the bureaucracy surrounding the programme and increasing pressure to spell out more explicitly its macroeconomic policy, led to the announcement of the Growth, Employment and Reconstruction Programme (GEAR) in 1996.

GEAR, positioned as the macroeconomic policy framework for the RDP, is basically only a set of desired economic outcomes. At its core the programme envisaged the achievement of a sustained real economic growth rate target (revised annually) as well as job creation targets to be brought about by (Strydom, 2002):

- Fiscal reforms (redistribution of spending, lowering the budgeted deficit, privatisation of state assets and increased infrastructure spending).
- Labour market reforms aimed at the creation of more flexible labour markets.
- Opening up of the economy through reform of the international trade regime aimed at both lowering tariffs and simplifying the tariff structure.
- Monetary policy aimed at bringing down the rate of inflation.

3.3 State support to agriculture

Some fiscal policy measures that were applied did not favour the agricultural sector in general or the commercial farming sector in particular, as reflected in the following examples:

- State spending on the farm sector, measured by the budgeted amounts for the national Department of Agriculture plus the agricultural budgets of the nine provinces was, in 1998 in real terms, 46% of the 1988 budget of the Department of Agriculture plus the budgets of the former homeland departments (Vink & Kirsten, 2003).
- The decline in state spending in agriculture is also illustrated by the rapid decline of government funding of agricultural research. Base line funding for agricultural research (ARC) provided by government through the parliamentary grant system dropped from a high of R337 million in 1997/98 to R262 million in 2001/2002 – equivalent to only 55% in real terms of the parliamentary grant it received in 1992 (Liebenberg & Kirsten, 2003).
- Following the "increase" in income tax imposed on the farm sector by lengthening the period within which capital purchases could be written off from one to three years, a land tax will be introduced next, which will increase further the tax burden on the farm sector (Meyer, 2004; Van Schalkwyk, Groenewald & Jooste, 2003).
- Actions were launched to eliminate funding of many activities, such as subsidies on fencing, installation of irrigation facilities and the establishment of farm infrastructure. Drought subsidies were also scaled down drastically (Backeberg & Viljoen, 2003).

3.4 State support for rural infrastructure and social welfare

Government spent considerable amounts on rural development and social welfare, although some of the projects were more successful than others (Everatt & Zulu, 2001 as cited by Vink & Kirsten, 2003).

- The Community Based Public Works Programme has, since 1994, delivered less than two infrastructure projects per magisterial district per year.
- R1,3bn was spent in rural areas under the Consolidated Municipal Infrastructure Programme until September 2000.

- Of the R253m available to the Poverty Relief and Infrastructure Investment Fund of the then Department of Welfare in 1998/99, some 72% was spent in rural areas, while some 32% was spent on agricultural projects.
- Between 1994 and 2001, more than seven million South Africans received access to free basic water.
- Over the same period 3,48 million electricity grid connections were made.
- In 2001, over 20% of the national budget was allocated to education.
- By 2003 three million children had received access to Child Support Grants.

When added to the financing of municipal infrastructure by DBSA, and the provision of potable water by institutions such as Mvula Trust, the increase in the real value of pensions and other welfare payments, amount to potentially substantial transfers to rural people.

3.5 Marketing policy

Until early 1997 marketing was extensively regulated. The Marketing of Agricultural Products Act (Act 47 of 1996) set up the National Agricultural Marketing Council (NAMC) with as its main objectives to increase market access, promote marketing efficiency and optimise export earnings (Vink & Kirsten, 2003; Van Schalkwyk *et al*, 2003).

The impact of marketing reform include, amongst others (Jooste, 2004), large export drives by various sectors (mostly uncoordinated) e.g. the fruit sector, introduction of risk management tools (e.g. SAFEX), extreme managerial burdens on producers and lack of market information.

Benefits that must be noted include opportunities created for entrepreneurs and forced efficiency and productivity.

3.6 Trade policy

Under the Marrakech agreement, to which South Africa became a signatory, quantitative trade restrictions were replaced by tariffs, tariffs were downscaled, and market access requirements, such as reduction of support to agriculture and greater emphasis on sanitary and phytosanitary measures, became effective (Jooste *et al*, 2003).

There was also an increased drive to regional integration and important trade relations, including SACU, SADC, other Southern African agreements and SA-EU TDCA (Jooste, 2004).

3.7 Land reform policy

Although the process of land reform policy design was completed with the 1996 White Paper, implementation started as early as 1994 (Vink & Kirsten, 2003). The policy consists of three programmes, land restitution, land redistribution and tenure reform.

Much effort was initially spent in mobilising communities to access government settlement/land acquisition grants (SLAGs) to acquire land. Due to problems (farms too small to support beneficiaries as full-time farmers and slow pace of land reform) a new approach to land reform (LRAD) was implemented from 2001.

The LRAD (Land Redistribution for Agricultural Development) programme provided for an extended scale of grants and made it possible for aspiring commercial farmers who were excluded under the SLAG programme to access LRAD grants. Success of the new programme depends on efficiency of LRAD implementation (Lyne & Darroch, 2003) and farmers' access to support services.

3.8 Labour market policy

Historically, until the 1980s, farm workers had little legal protection with regard to rights to organise and to basic conditions of employment (Vink & Kirsten, 2003).

Although the Agricultural Labour Act (147 of 1993) dealt with the shortcoming to some extent, it was only after 1994 that farm workers' rights became could compare with that of workers in other sectors of the economy. The Labour Relations Act (1997), the Skills Development Act (1998) and the Employment Equity Act (1998) now also apply to the agricultural sector.

3.9 Water policy

The aim of the new water policy development after 1994 is to manage the quantity, quality and reliability of the nation's water resources to achieve optimum, long-term, environmentally sustainable social and economic benefits from their use for society. The New Water Act (Act 36 of 1998) in which the

policy is contained re-defined the status of water such that all water is for public use (Backeberg, 2003b). Changes that impact most on agriculture include:

- Higher priority afforded to water used by humans, including preferential access for small farmers and the environment.
- Authorised water use through compulsory licensing.
- Termination of the riparian principle of water rights.
- Implementation of an integrated catchment management system.
- Decentralisation of water management through CMAs.
- Termination of subsidised water prices.
- Greater cross-border cooperation between Southern African countries.

The draft of the National Water Resource Strategy (NWRS) published in 2002 and currently under review provides the implementation framework for the New National Water Act and has four main objectives:

- Establish a national framework for managing water resources.
- Establish a framework for the preparation of catchment management strategies.
- Provide information.
- Identify development opportunities and constraints.

3.10 Agriculture policy

The 1995 White Paper on Agriculture and 1998 Discussion Document on Agricultural Policy in South Africa spelled out the new agricultural policy. Agriculture has a central role in building a strong economy and reducing inequalities by increasing incomes and employment opportunities for the poor, while nurturing natural resources. Three major goals of policy reform are to build an efficient and internationally competitive agricultural sector, to support the emergence of a more diverse structure of production with a large increase in the numbers of successful smallholder farming enterprises, and to conserve agricultural natural resources and establish policies and institutions for sustainable resource use.

Core Strategies to implement the policy, contained in the 2001 Agricultural Strategic Plan, are an equitable access and participation strategy, a global competitiveness and profitability strategy and a sustainable resource management strategy.

A comprehensive drought management strategy, forming part of last mentioned core strategy, was drafted in 2003 (Backeberg & Viljoen, 2003).

4. 2004 realities

From the brief synopsis of agricultural policy development over the past decade, it can be concluded that significant development over a wide range of issues took place. To contextualise the policy development from a relevancy perspective, reflections will be made against the background of important 2004 realities.

4.1 Global scene

A host of issues are important but only a few relevant for this presentation are highlighted (Groenewald & Nieuwoudt, 2003).

Globalisation is becoming increasingly important but also more controversial. Besides its many benefits, it brings with it many disadvantages (Stiglitz, 2002; news.bbc.co.uk/1/hi/english/special_report/1999/02/99-e-cyclopedia/newsid_711000/711906.stm 15 November 2004).

International trade is also more important than ever and has special demands with regard to trading partners, cooperation and negotiating power (Sunter, 1997 as cited by Groenewald, 2004).

Environmental awareness and sustainability concerns have become major issues all over the world as are *inter alia* reflected in the discussions at the World Summit for Sustainable Development in Johannesburg in 2002, subsequent discussions of the issues raised, the concerns over global climate change, as well as the policy agendas of different countries. See for example the 2004 Agri-food Policy Report, by the German Federal Ministry of Consumer Protection, Food and Agriculture.

Health issues have become very important; not only human health as reflected in the high and growing incidence of HIV/AIDS worldwide, but also animal health, plant health and environmental health issues. (See, for instance, NIEHS news on the Web.)

Biotechnology, like GMOs and organic farming linked to consumer protection is receiving greater attention worldwide. Chronic hunger and poverty as well as unemployment have become part of the normal scenery in many parts of the world. Successes in decreasing these challenges are elusive.

Disasters, man made as well as natural, have become more frequent and, despite much effort to combat them, more people worldwide are becoming vulnerable to the consequences of disasters (Viljoen & Backeberg, 2004).

The relative importance of world economies has changed considerably over the past number of years and 2004 sees, for instance, stronger economies in Western Europe, Asia and China, but a weaker USA economy.

South Africa's role in Africa has become very important with regard to development and stability. The African Renaissance and NEPAD initiatives as well as South Africa's role as mediator in unrests in other African countries and as host of the African Parliament, are cases in point.

4.2 Political scene

The ANC-led Government won the 2004 elections with the strongest support ever, while the NNP disappeared from the political scene.

Policies formulated during the first ten years of democratic government are well in place and are generally regarded as good policies. What has now become very important on the political agenda is deliverance performance in relation to these policies. Trade unions like COSATU have become very strong and are increasingly challenging the government on politically sensitive issues.

Land reform is taking place at too slow a pace and dissatisfaction with the progress is common, not only amongst the previously deprived portion of the community.

Affirmative action remains high on the political agenda, although concerns in public opinion on the desirability of this policy for economic growth and development are being raised more frequently. Gender equality is still a very important policy aim, as is Black Economic Empowerment (BEE).

HIV/AIDS has reached monstrous proportions in South Africa, and the spread of this disease is not yet under control. Full implications for the social and economic life of our community are difficult to determine or predict.

Other important concerns on the policy agenda include the high unemployment rate, high incidence of poverty and hunger in different population groups, very high crime rate and dissatisfaction with the rate of job creation.

4.3 Macroeconomic scene

The economic growth rate of about 3 per cent per annum achieved over the past two years, until mid 2004, is 50 per cent lower than the set monetary policy target of 6 per cent needed for sufficient job creation. On the other hand, the inflation rate target has been reached and the exchange rate is much stronger and more stable than anticipated, reflecting *inter alia* the strength of and trust in the South African economy. Although the interest rate is relatively low, in comparison with some of South Africans trading partners, it could still be too high.

With regard to fiscal policy, the question remains whether the agricultural sector receives fair treatment in comparison to other economic sectors, given the strategic role it must play in the South African dispensation and the intrinsic risks involved in farm production, financing and marketing.

Substantial fiscal support is needed to remove backlogs and/or exploit potential with regard to applied research, education at various levels, physical infrastructure creation and social welfare.

4.4 Agricultural policy scene

General consensus exists that good policies presently serve the agricultural sector. However, strategies to give effect to these policies, of which a number already exist, need further attention to overcome implementation problems. One of the biggest challenges presently (if not the biggest) is how to bridge the gap between the traditional commercial farming sector and the new commercial farming sector. Successful small farmer settlement, land redistribution and Black Economic Empowerment in the agricultural sector are taking place too slow. Creative thinking and greater commitment by all parties involved are needed to overcome implementation problems.

Other issues in the agriculture arena that need more attention/commitment and/or investments are agricultural research, agricultural education and certain special challenges facing the commercial farming sector to keep it viable and internationally competitive.

4.5 Relevance of agricultural economics

Against the background of what have been said so far, the 2004 relevance of agricultural economics as a discipline should be of concern to us all.

Changes that occurred in the policy arena and elsewhere in South Africa and across the world over the past decade have increased the relevance of agricultural economics as a discipline. Greater relevance is demonstrated in the greater involvement of agricultural economists in policy research, policy formulation activities and in the expanding work field for agricultural economists.

Besides the intrinsic contemporary relevance of the disciplinary subject matter, increased importance is achieved by exploring opportunities such as:

- Obtaining and incorporating new knowledge. The response at tertiary education level is to adopt curricula catering for changing needs in the work environment.
- Formation of new working alliances.
- Actively building and maintaining information networks.
- Greater involvement in multidisciplinary research and cooperation.
- Acquiring new skills. In addition to those mentioned above, learning how to work effectively within multi-cultural research groups, improving communication skills, learning future/forward trading and how to effectively implement research recommendations.
- Active marketing of competencies and skills.
- Refocusing of the research/work agenda.
- Effectively adopting and responding to new demands and challenges.

The role that a dynamic and effective AEASA plays in promoting relevance of the discipline must also not be overlooked. AEASA activities, like presenting high-level annual conferences, regular publication of a scientific journal, promoting regional activities, identifying and awarding excellence in the discipline through the AEASA awards, partaking in and contributing to the activities of other sister organizations, like the IAAE in 2003 and the AAAE this year, all contribute to enhancing the relevance of the discipline.

What must be emphasised in closing is that relevancy of our discipline is in the hands of people who form the agricultural economic fraternity. Each and every one of us has the task and responsibility to improve our own relevance as well as that of our discipline, by *inter alia* partaking in and contributing to activities such as this conference.

5. Concluding remarks

Meaningful agricultural policy development took place during the first decade of democratic government in South Africa. The policies together can sustainably improve the welfare of South Africa and all its peoples. Good results have already been achieved in certain areas, but important challenges remain. Suitable strategies to implement policies and full commitment by all role players are essential for success. Agricultural economists have an important role to play in solving the problems. Necessary adaptations in knowledge and skills are required to maintain and promote relevance. Utilise this conference to enhance your relevancy by keeping up with the challenge of change.

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