

A REVIEW OF SCENARIO OF TRADE BETWEEN INDIA AND SOUTH AFRICA

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Abstract: The present research paper is an attempt to understand and analyze the trade scenario between India and South Africa. Close associations between these two countries, strategic ties, cultural and social affinity developed between the two nations post-apartheid enabled both of them to enjoy amicable and mutual support for each other. The burgeoning economic and trade relationship between the two countries is taking this age long old relationship to a new direction. Post-apartheid, several of the investment led by the Government of India and many by the private sector players has opened up a plethora of growth and development opportunities between the two countries. In a way, it has injected a new rigor in the bilateral relationships between both the countries. The current as well as the future investment that are aimed at by these countries holds immense promise for taking millions and millions out of poverty from their respective nations.

This research work is aimed at analyzing the change in trade scenario that has taken place in the last few decades between the two nations and have accelerated the pace of development in the two countries owing to substantial increase in the investment patterns across various sectors of the economy by different companies of both the countries. The research work also tries to highlight the export and import index values between the two nations.

Keywords: Economic Development, Export, Import, Investment Scenario, Post-WTO Regime.

1. INTRODUCTION

Amongst the several countries in the African continent, South Africa has emerged as one of the top destinations that have witnessed tremendous growth in the last few decades. The country has been continuously rated as one of the fastest growing economies in the world in the last few years. Its relationship with India has always been extremely cordial and the business ties have also improved substantially in the last few years. The Indian Consulate is desperately trying hard to explore opportunities for Indian exporters to further strengthen their footprints in the South African market, an export market which has grown four and a half times in the last decade and a half or so. The value of Indian exports that stood at around 94.5 million in 1995-96 touched an all-time high value of around 4.1 billion dollars in 2021. The senior officials in the India Consulate present in Johannesburg are trying their level best to identify further opportunities of growth and development for the Indian exporters in the Post-Covid scenario.

Investment and export opportunities for the Indian exporters though witnessed a slight downfall during the times of Covid; it regained its lost momentum post that. In fact, during that period, despite the fact that the exports or the investment curve witnessed a declining trend, some items of exports like the motor vehicles and the pharmaceuticals experienced double digit growth rate and enjoyed tremendous demand from the South African consumers. India was the top country of origin for the vehicle imported by South Africa and it posted a sharp 10.97 percent of growth that has a total value of around \$557 million. Pharmaceuticals is another area where Indian exporters did exceedingly well during the covid times and doing phenomenally well post-covid also. The Indian export value of pharmaceuticals stood at 33 percent touching a value of around \$750 million in 2020-2021 with a focus on demand that is increasing continuously.

2. REVIEW OF LITERATURE

Dixit, Gill and Kumar (2019) have talked about South Africa's economic growth, public expenditure and debt and its trade relation with India and China. It also tries to highlight how the country is trying to break all shackles of poverty and scarcity of resources and gnawing its feet hard to carve a niche for itself in the league of middle income group countries which is thriving primarily because of its relations with countries like India and China. In a significant piece of research work being conducted on 590 business institutions, **Delaney (2018)** found and established that there exists a positive and significant relationship between the trade and investment practices of Indian organizations in South Africa and its overall performance that generally substantiates or gets measurable in terms of quantifiable success.

Debashish (2016) has clearly inundated certain important dimensions and reference points that have been a major highlight in the burgeoning of ties between both the nations. Removal of regional disparities in trade and regulations has played an enormously important role in creating an ecosystem of growth of business opportunities. **Evans (2014)** confirms that the performance of several developing economies and the nature of business opportunities and strategic tie-ups largely depend upon the amount of involvement and inclination they put in the partnership and the type of support they get from their counterparts.

Sidiropoulos (2011) evaluates the rationale between the economic cooperation between India and South Africa from the perspective of South Africa's development. She elucidated in his research work that both the countries are desirous of playing a pivotal role in this partnership that is aimed at mutual growth and development and are ready to shoulder responsibilities at the global level. **Alden and Viera (2008)** in their research work has elaborately discussed about the aftermath of 9/11 and its enormous significance in the setting up of a North-South divide as a defining moment in the scenario of international trade. In the light of such a system, the trilateral partnership that has emerged over the course of time between India, South Africa and Brazil is actively challenging the existing supremacy of the Northern countries and their established hegemony in the world affairs.

Shoeman (2005) has actively work upon the subject of burgeoning trade relations between India and South Africa and the resulting need of these two countries to offer mutual benefits and trade treaties to arrive at a position where they can substantially challenge the third world order of developed countries. **Desai & Desai (2002)** in their book – "*We are the Poors*" have categorically defined the socio-political and economic status of South Africa post-apartheid when Nelson Mandela was elected as the President of the country. The country at that point of time was going through turmoil and nothing seemed to be going their way. There were several fringe groups that were trying their best to disturb the political and economic set up of the country. Businesses and trade organizations were finding it very difficult to survive in that scenario and sustain them. It was during this period of time that India extended its help and proved to be a major contributor in reviving the business and economic landscape of the country by actively supporting it and helping in the abolition of various sanctions at the International level.

Soderling (1998) has worked rigorously on the subject of trade relations between India and South Africa and have been able to present certain critical points and that were surely of high significance from the long term significance of developing strong relations between the two countries. And amongst them –mutual admiration and free trade practices were the main ones that would take them forward.

3. RESEARCH METHODOLOGY

3.1 Research Objectives

- To understand and analyze the investment scenario between India and South Africa in the Post WTO regime.
- To identify and highlight those trade items and commodities with enormous trade potential that can further enhance the business relationship between the two nations.
- Identifying sectors that have attracted maximum investment from companies across the two nations.
- To discuss the various challenges of trade and investment between India and South Africa.

3.2 Research Methodology

The present study is based on secondary data and it is descriptive in nature. The data for the research work has been collected through a wide range of sources i.e. newspapers, magazines, journals, online journals, research papers, websites, government

websites and portals, statistical journals and reports, periodical reports from international organizations like, UN, WTO, IMF and several other online sources like web articles and web blogs.

3.3 Models used in the Research Work

- Export Intensity Index
- Import Intensity Index
- Revealed Comparative Advantage Index (RCA)
- Revealed Imports Dependency Index

3.3.1 Export Intensity Index

Export Intensity Index is defined as the ratio of export share of a particular country to the export share of world going to a partner. It can be expressed as -

$$XII_{ij} = X_{ij} / X_{iw} \times X_{wj} / X_{ww}$$

Where X_{ij} represents dollar value of exports of a country/region i to country/region j , X_{iw} is the dollar value of the exports of country/region i to the world, X_{wj} is the dollar value of world exports to country/region j , and X_{ww} is the dollar value of world exports. An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in world trade.

3.3.2 Import Intensity Index

It is defined as a ratio of import share of a country/region to the share of world imports going to a partner. III can be defined as,

$$III_{ij} = M_{ij} / M_{iw} \times M_{wj} / M_{ww}$$

Where M_{ij} is the dollar value of imports of country/region i to country/region j , M_{iw} is the dollar value of the imports of country/region i to the world, M_{wj} is the dollar value of world imports to country/region j , and M_{ww} is the dollar value of world imports. An index of more than one indicates higher import intensity between the nations.

The Export Intensity Index and the Import Intensity Index of India and South Africa were calculated in the research work to understand the intensity of trade taking place between both the countries.

3.3.3 Revealed Comparative Advantage Index (RCA)

The revealed comparative advantage index of a country is generally measured as –

$$RCA_i = (X_{ij} / X_{it}) / (X_{wj} / X_{wt}),$$

Where X_{ij} and X_{wj} are the values of country's exports of product j and world exports of product j and where X_{it} and X_{wt} refer to the country's total exports and world total exports. A value of less than unity implies that the country has a revealed comparative disadvantage in the product. Similarly, if the index exceeds unity, the country is said to have a revealed comparative advantage in the product.

The present research work has tried to identify the pattern of revealed comparative advantage index using the Balassa's index for the given export data. The export potential of the country has been measured using the revealed comparative advantage index. The Revealed Comparative Advantage Index highlights whether the country is working upon extending the products in which it has substantial trade potential.

3.3.4 Revealed Imports Dependency Index

This index identifies those commodities that have import dependence on the partner countries. The Revealed Imports Dependency (RID) index will give us the commodity-wise structure of imports in the countries. The RID is defined as commodity ' i 's share in country's total imports vis-à-vis its share in total world imports. The RID index can be computed as follows:

$$RID_i = (M_{ia} / M_a) / (M_{iw} / M_w),$$

Where Mia is equal to imports of commodity 'i' from a country 'a', Ma is equal to total imports of a country 'a', Miw is equal to total value of the world imports of commodity i and Mw is equal to total world imports. As in the case of RCA index, an RID index exceeding one suggests a strong dependence of the country on the import of a specific item in a reference period and vice-versa.

4. ANALYSES OF DATA

The research paper tries to analyze the data regarding the investment scenario between India and South Africa in the Post-WTO regime. It tries to highlight the various investments made by Indian companies in South Africa and vice-versa. The research paper further tries to estimate the export-import intensity index between the two countries and tries to identify those products and commodities that have enormous trade potential.

4.1 Bilateral trade and Investments between India and South Africa

In the modern era of enhanced multilateralism it's a pertinent reality that regionalism is still of much significance. Conforming to this fact, India undoubtedly has emerged possibly one of the biggest (largest in trade volume) trading and investment partner of the African giant. By achieving phenomenal success and unprecedented growth, these two nations are generally ascribed as the fastest growing economies of the world and regional super powers. Both the countries are hailed as socio-economic and political movers of the world economy, particularly in the business arena. Exponential rise of India and South Africa as developing and emerging economies since 1990's was possible only after these countries had allowed for following a liberal policy regime and removing all the restrictive trade barriers to align themselves with the rest of the world. In the past several years, there has been a propelling rise in India's economic activity with South Africa in fields related to commerce and business investments. To add adequate fuel to their burgeoning economies, both the nations complement one another in terms of business partners.

The total investment value of Indian companies in South Africa accounts to US\$2.3 billion by 2020 and South African investment in India amounted to US\$ 735 million during the same period.

4.2 Commodity wise trade (exports) by Indian companies to South Africa

Table 1.1 - Composition of major trade items (US \$ million)

S.NO.	Commodity	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
1.	Tea & coffee	1732.1	1597.6	1495.8	1503.9	1574.1	1805.9
2	Other Agricultural Products	13971	15738.7	15473	13006.5	13310.4	15877.3
3	Tobacco	924.1	1011.4	958.6	982	958.7	934.2
4	Oil Meals, seeds	4406.9	4088.1	3059.6	1799.9	2160.6	2264.2
5	Marine Products	3464.1	5016.6	5510.5	4767.5	5903.1	7387.7
6	Meat, dairy & poultry products	3804.3	5292.9	5385	4575.5	4368.8	4610.1
7	Iron Ore, Mica, Coal & Other Ores, Minerals	5466.5	5574.9	4418.8	3847.5	5111.7	5246.1
8	Leather & leather product	4771.9	5572.8	6030.5	5407.8	5165.6	5288.9
9	Ceramic products & glassware	1156.1	1292.2	1644.4	1712.1	1856.6	2131.4
10	Gems & Jewellery	42988.2	41388.3	41266.1	39284.3	43412.8	41544.4
11	Drugs & Pharmaceuticals	14421	14949.5	15431.5	16909.5	16785	17282.4
12	Organic & Inorganic Chemicals	11478.8	12286	12473.6	11731.3	12336.1	15938.2

13	Engineering & electronic Goods	67434.5	71745.7	79335.6	67909	73179	85100.2
14	Cotton Yarn, Handloom Products etc. Man-made Yarn/Fabs./	14135.7	16199.6	16049.6	14741.1	14419.3	15084.1
15	RMG of all Textiles	12948.7	14990.5	16833.3	16964.4	17368.2	16706.7
16	Jute Mfg. including Floor Covering, carpets, handicrafts	2449.6	3029.2	3035.8	3383.5	3726.8	3587.4
17	Petroleum Products	60865.1	63179.4	56794.1	30582.6	31545.3	37456.6
18	Plastic & Linoleum	14421	6147.0	5746.0	5764.2	5796.5	6850.9
19	Other Commodities	11478.8	25315.3	19410.2	17418.8	16873.7	18279.4
	Total Exports	300400.6	314415.7	310352.0	262291.1	275852.4	303376.2

Source: (Reserve Bank of India bulletin 2020-21)

Amongst the above mentioned commodities, Indian companies have made substantial investments in the following sectors in South Africa –

- Agricultural products
- Pharmaceuticals
- Automobiles
- Heavy Machinery
- Oil and Petroleum
- Leather products
- Gems and jewellery
- Petroleum byproducts
- Cotton Yarn
- Dairy products
- Information Technology

The direction of trade between the two developing countries has been quite positive and had opened up significant avenues of growth in both the countries. This has been a major factor that has provided enough impetus to the various sectors and economies of South Africa as well as India.

A joint study conducted by TERI and CII hints close to 145 companies have made substantial investments in South Africa and several others are in pipeline to make prolific investments that will amount to further strengthening of trade between the two countries. Some of the leading Indian companies include Wipro, Coal India, Cipla, HCL Technologies, Tata Motors, Zomato, Mahindra and Mahindra etc.

The direction of trade is not just unilateral from the perspective of Indian companies, the counterparts from South Africa has also started to invest in a big way in India. Indian Investment in South Africa is predominantly led by SAB Miller breweries which have started to unleash their true potential in India in a significant manner. Some of the other companies that have made rapid strides and inroads in the Indian market include companies like ACSA, SANLAM Insurance, ALTECH, Hard Rock, Rand Merchant Bank etc.

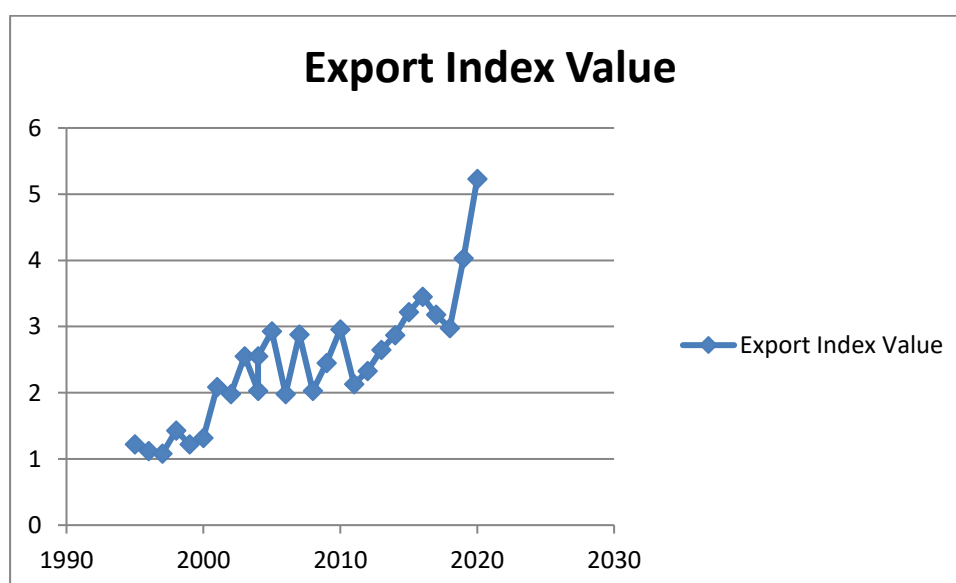
Some of the important areas of investments and trade where South Africa has been really extending its contribution to India include -

- Petroleum Products
- Edible fruits and nuts
- Inorganic chemicals
- Gems and Jewellery
- Copper and copper articles
- Agricultural products
- Coal
- Textiles
- Plastics
- Processed food
- Earthing material
- Inorganic metal compounds

It is not just about the business ties that are quite substantial between the two countries. Even the cultural ties between the two nations have always been quite strong. Close to 1.5 million people has been living in various parts of South Africa as citizens of the country and contributing to its economic development. The amalgamation of social, economic and cultural values of the citizens of both the countries have been quite instrumental in the creation of strong business ties between the two countries.

4.3 Estimating Export-Import Intensity Index between India and South Africa

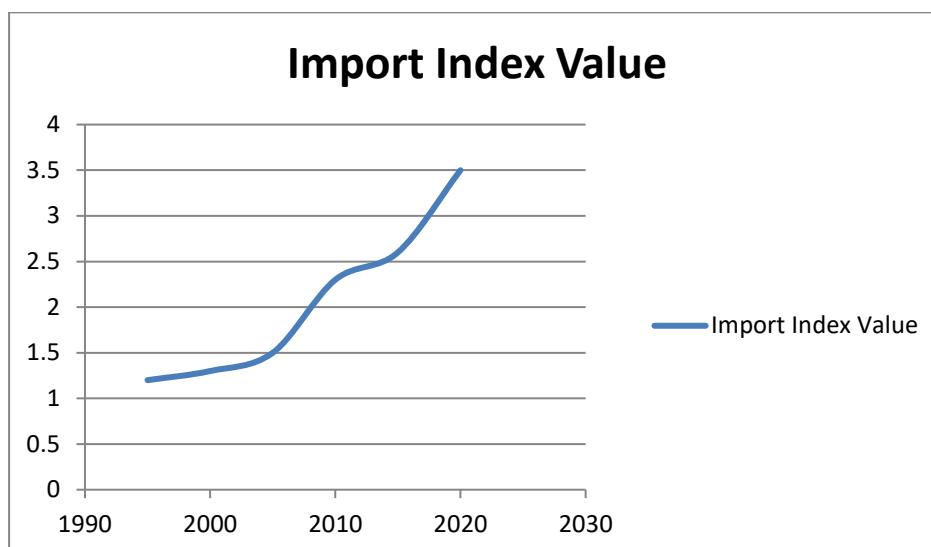
The values of export and import intensity index between India and South Africa have been calculated in this section. The time period used for calculation is from 1995 to 2020 and it presents a growing intensity of trade between India and South Africa. The trade intensity index between the two nations has been on the rise in the last few years because of several reasons, out of which economic turmoil's especially in the European Nations is the biggest one.



Graph – 1 export index values between india and south africa

Source: World Trade Organization bulletin, 2021. www.wto.org

The Export Intensity Index values between India and South Africa have seen a drastic increase in the last 3-4 years owing to the signing of several bilateral trade pacts between the two countries and increased importance given by South Africa to India by recognizing it as its foremost ally in the areas of business, trade and investment.



Graph – 2 Import Index Values between India and South Africa

Source: World Trade Organization Bulletin, 2021. www.wto.org

Similar is the case with the Import Index value between India and South Africa which has witnessed steady rise over the past few years.

4.4 Revealed Comparative Advantage and Revealed Import Dependency Index

The research aims at estimating the plausibility of commodity trade between India and South Africa. The research tries to identify the several product categories in which India has a revealed comparative advantage and which also construes the major import items for the South Africa and vice-versa. Thus, it aims to identify the complementary nature of such product categories manufactured within India vis-à-vis South Africa that reveals the extent of the export opportunities between the two nations and a strong future trade potential as well. Revealed Comparative Advantage value ($RCA > 1$) for products with substantial export potential are listed below in the table.

Table 2 Commodities of trade between India and South Africa with $RCA > 1$

Products	RCA Value	SITC Coeff.
Petroleum Products	1.02	0.12
Crude Fertilizers	1.1	0.23
Coffee, Tea, Cocoa	1.2	0.03
Spices	1.02	0.06
Oil	1.3	0.22
Seeds	1.21	0.23
Wood	2.43	0.76
Crude Rubber	3.18	0.98
Tobacco	2.89	0.03
Paper products	2.66	0.24
Natural Gas	4.32	0.48
Chemicals	3.87	0.73
Artificial Gems, Jewellery	6.23	0.33
Leather products	5.12	0.96
Iron and Steel	4.29	0.32
Clothing	2.66	0.23

Source: Author's calculation based on RCA values

Table 3 Commodities of trade between India and South Africa with RID >1

Products	RID Index	SITC Coeff.
Petroleum Products	1.01	0.12
Crude Fertilizers	1.23	0.54
Coffee, Tea, Cocoa	1.02	0.03
Spices	1.02	0.08
Oil	1.22	0.22
Seeds	1.34	0.23
Wood	1.45	0.65
Crude Rubber	1.09	0.98
Tobacco	1.43	0.23
Paper products	1.22	0.24
Natural Gas	2.21	0.76
Chemicals	1.92	0.73
Artificial Gems, Jewellery	3.21	0.23
Leather products	1.65	0.96
Iron and Steel	2.98	0.87
Clothing	1.99	0.23

Source: Author's calculation based on RID values

4.5 Commodities with high trade potential between India and South Africa (based on their trade values in 2020)

¹Table 4 Commodities of trade between India and South Africa with high trade potential

Commodities	Trade Value in 2020 (in million \$)
Machinery	628
Nuclear Reactors	714
Mineral Fuels	324
Oils	456
Pharmaceuticals	763
Cereals	309
Plastics	402
Rice	513
Pulses	667
Gems and Jewellery	623
Leather Goods	520
Handicrafts	340

Source: www.unctad.org

¹ Table 4 indicates the average value of trade of all the commodities mentioned above in the table has shown a significant and continuous increase in the last few years.

²Table 5 Commodities of trade between India and South Africa with high trade potential and having a trade volume growth index > 1

Commodities	Trade Value in 2020 (in million \$)	TV Growth index
Machinery	628	1.2
Nuclear Reactors	714	1.09
Mineral Fuels	324	1.23
Oils	456	1.22
Pharmaceuticals	763	2.34
Cereals	309	1.29
Plastics	402	2.01
Rice	513	2.33
Pulses	667	3.76
Gems and Jewellery	623	4.23
Leather Goods	520	4.12
Handicrafts	340	1.07

5. CHALLENGES OF TRADE AND INVESTMENT BETWEEN INDIA AND SOUTH AFRICA

Though the trade and investment scenario between the two countries is largely hassle free, still there are certain trade barriers that are acting as impediments of growth. These include –

- Tariff and Non-Tariff barriers
- Infrastructural issues in certain areas of South Africa
- Terrorism and cross-border infiltration in African continent
- Border closure and immigration issues
- Restrictive trade policies in certain specific sectors
- Illiteracy and shortage of skilled youth in South Africa

6. CONCLUSIONS

The trade dynamics of India-South Africa stands clearly apart from all the available discourse on the given matter. The relationship between these two countries, if described in a word, will surely be construed as quite interdependent. The Sovereign Republic of India and the Republic of South Africa share a symbiotic relationship right after the end of the *apartheid movement* in South Africa in the year 1994. Trade has generally been considered and presumed as the main factor that typically demonstrates and helps in the escalation of and coming together of economies. As more and more economies of the world congregate and come together for partnering the socio-economic and political growth of their countries, a new chapter of economic liberalization and economic proliferation gets underway. Countries like India and South Africa continuously work extremely hard and aspire for boosting up their system by entering into the regimes of global trade through multidimensional ways.

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² Table 5 indicates trade volume growth index measures the growth in trade volume of a particular commodity between the two countries

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