



The Emerging Powers *Policy Brief*



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Deepening South Africa-India Private Sector Relations

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Summary

South Africa and India share a solid bilateral relationship and aim to expand and diversify their trade and economic relations. In doing so, the private sector will need to play a critical role, and there is an increasing role for civil society. This paper examines ways of enhancing private sector relations between India and South Africa and makes suggestions for government, business and civil society in this regard.

Introduction

Based on principles of solidarity, South Africa enjoys a positive relationship with India.¹ Both countries have consistently reiterated the importance of their bilateral strategic relationship and multilateral engagements through the Brazil-Russia-India-China-South Africa (BRICS) and the India-Brazil-South Africa (IBSA) groupings. In the future, their bilateral cooperation is set to expand in a number of areas, including the diversification and multiplication of trade and economic relations between India and South Africa through the third India-Africa Forum Summit (IAFS III) in October 2015.

Both countries have increasingly adopted an aggressive stance on economic diplomacy as a means of promoting growth and reducing poverty – South Africa has a number of policy documents, including its National Development Plan, that refer to this² and India's new government has stressed the importance of economic diplomacy as a central tenet of its foreign policy.³ Government-business platforms have played a role in enhancing private sector relations, but increasingly it is also thought that civil society should be engaging on economic diplomacy initiatives.⁴ This paper examines India-South Africa private sector relations and suggests a number of opportunities for all stakeholders to enhance these relations.

India-South African Diplomacy

India has had a long relationship with South Africa's liberation struggle dating back over a century to the start of Mahatma Gandhi's Satyagraha (non violent resistance) movement in South Africa. India was the first country to enact trade sanctions against the apartheid government in 1946 and followed with a complete embargo on South Africa. After 40 years, India's formal relations with South Africa were restored in May 1993 with the opening of a cultural centre and consulate in Johannesburg. The Indian High Commission in Pretoria was established in May 1994, closely followed by the Durban Consulate General, and the Consulate in Cape Town in 1996. South Africa has a High Commission in Delhi and a Consulate General in Mumbai⁵.



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South Africa and India subsequently expanded their bilateral engagements in a number of ways. In 1994 South Africa and India established a Joint Ministerial Commission (JMC) at the level of foreign ministers to identify areas of mutually beneficial cooperation. At the 7th session held in Pretoria in 2008, three agreements on customs cooperation, science and technology, and visa-free travel for diplomatic passport holders were

signed. The agenda of the JMC has expanded to cover a wide range of issues, with seven new areas added in 2015⁶. South Africa and India have agreed to address obstacles under existing mechanisms including through the establishment of a Joint Working Group (JWG) to promote trade and investment. The two countries have also agreed to develop a Five Year Strategic Programme for Cooperation, which will include annually reviewed milestones. The countries also agreed to encourage trade missions, participation in trade fairs and the promotion of competitive products to enhance trade.⁷

There have also been a number of Ministerial level exchanges, such as South African Minister of International Relations and Cooperation Nkoana-Mashabane’s visit to India in January 2015.⁸ South African President Jacob Zuma paid a state visit to India in June 2010 where he was accompanied by seven cabinet ministers and a cohort of 200 businessmen and senior officials. During the visit, three memorandums of understanding (MOUs) on cooperation in the fields of agriculture, air services, and diplomatic training academies were signed and the South African delegation met with Indian business leaders⁹. The visit also resulted in the resuscitation of negotiations on a preferential trade area (PTA) between India and the Southern Africa Customs Union (SACU) (still to be concluded), which had been on the agenda since 2003, and the re-establishment of the India-South Africa CEOs Forum¹⁰.

Along side these developments, South Africa and India have furthered their relationship on a multilateral level. Both share the belief that the status quo has to be reformed in order to reflect shifts in political and economic power and to give a greater voice to developing countries in global institutions. This shared outlook has fostered cooperation between the two states in forums such as the World Trade Organisation (WTO), climate change negotiations, the United Nations (UN), G20, and international financial institutions. In the G20, for example, the two countries have opposed competitive devaluations of currencies and a resurgence of protectionism¹¹.

South Africa and India are also party to two more exclusive multilateral groupings with potentially huge global impact. In June 2003, the Foreign Ministers of Brazil, South Africa, and India agreed to establish a dialogue forum for regular consultation on a variety of shared issues. In 2006, the forum was upgraded to Heads of State Summit level and five IBSA Summits have been hosted so far, the latest in Pretoria in 2011.¹² South Africa also lobbied to join the BRIC (Brazil, Russia, India, and China) grouping, and in the first 18 months of Zuma’s presidency he visited all four of the BRIC countries. South Africa was invited to join the BRIC grouping in December 2010, forming the contemporary BRICS grouping and hosting the fifth BRICS Summit in Durban¹³.

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Despite these advances in India-South Africa relations, Sidiropoulos¹⁴ argues that since the resumption of diplomatic relations in 1993, South Africa and India have not realised the full political and economic potential of their relationship. She apportions this to capacity constraints, a lack of clarity on where each country stands on certain issues, and that fact that both countries are potential rivals or competitors despite their shared rhetoric about “South-South cooperation”. As this policy brief argues, there are a number of ways in which economic relations can be enhanced. Trade and investment is an important element of economic diplomacy, relating particularly to commercial activities. What is the current state of trade relations between India and South Africa?

Trade and Investment

Trade between South Africa and India has flourished since the lifting of economic sanctions against South Africa after the end of apartheid. Bilateral trade has increased from a value of USD \$2.5 billion in 2003-04 to USD \$13.18 billion in 2012-13¹⁵. South Africa is India’s largest export market in Africa and accounts for over 22% of India’s merchandise exports. India has emerged as the fourth largest exporter to South Africa, following behind the EU, China, and the US in 2011. South Africa has a high demand for refined petroleum products, automobiles, pharmaceuticals, and electrical and industrial machinery produced in India¹⁶. Imports from South Africa into India include gold, steam coal, copper ores and concentrates, phosphoric acid, manganese ore, aluminium ingots, and other materials¹⁷.

Indo-South African Trade (USD \$ Millions)

Year	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014
South African Exports to India	137	237	299	427	378	573	761	2188	3034	3754	3917
South African Imports from India	130	280	318	266	328	752	1762	2484	2847	4589	4710

Source: Department of Trade and Industry, Government of South Africa

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In 2015, over 100 Indian companies had a physical presence in South Africa. They were mainly engaged in the following sectors:

- Mining
- General manufacturing
- IT
- Financial Services¹⁸

A major growth area is pharmaceuticals - in 2013-2014 Exim Bank reported that South Africa has a share of 3.5 percent as an export destination for pharmaceuticals.¹⁹ Major Indian investors in South Africa include Tata (automobiles, IT, hospitality, and ferechrome plant), UB group (breweries, hotels), Mahindra (automobiles), and a number of pharmaceutical companies (including Ranbaxy and CIPLA) and IT companies. There is also Indian investment in South Africa's mining sector²⁰.

South Africa is the third largest African investor country in India with an foreign direct investment (FDI) stock of USD \$112 million. In India, South African companies mostly engage in the following areas:

- Banking and finance
- Financial and health insurance
- Food and Wines
- Mining²¹

A number of South African multinational corporations are operating in the Indian market, and inward FDI to India from South Africa is growing at a steady pace. South African companies such as Tiger Brands, Airports Company South Africa, Bidvest, SAB Miller, Firstrand Bank, Standard Bank, Old Mutual, Balela Leisure, Anglo-American, Sasol, and Nandos Group Holdings have made investments in the Indian market. While Shoprite, South Africa's second largest retailing group, withdrew its operations in India in 2005, it is looking towards the Indian market again after the Indian government announced plans to liberalise its retail sector. Fewer than 50 South African companies currently operate in India but these are important for others in demonstrating the possibilities of the Indian market.

Trade relations between India and South Africa are therefore productive and there remain a number of investment opportunities for both countries in the future. However, if these relations are set to increase, bottlenecks that hinder business must be addressed. What are the current challenges facing businesses?

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Bottlenecks for business

India-South Africa private sector relations are fairly good and this is reflected in the steady growth of trade and investment described above. Even so, there have been some challenges for Indian businesses operating on the African continent. For example, there is a lack of information, particularly online, for Indian companies doing business in Africa.²² Whilst in India there are agencies that promote India as a business destination (such as Invest India), such effective partners do not always exist in African countries and there is some room for improvement in South Africa where there are a number of competing national, provincial and municipal agencies seeking to attract investors. Additional factors that hinder Indian investment in South Africa include inadequate and inefficient infrastructural services, low levels of human capital development, and non-conducive investment policies.

“To improve investment opportunities for Indian businesses in Southern Africa, the Southern African Customs Union (SACU) has been in discussions with India over a SACU-India Preferential Trade Agreement...”

To improve investment opportunities for Indian businesses in Southern Africa, the Southern African Customs Union (SACU) has been in discussions with India over a SACU-India Preferential Trade Agreement but these negotiations have been limited in scope and proven difficult to conclude. Decisions on visa exemptions for diplomatic and official passport holders, science and technology cooperation and cooperation on customs issues are expected to be reached in the near

future.²³ Access to business visas to South Africa is an important issue that has hindered business in the past, and there are proposed ideas of instituting a BRICS business visa to facilitate engagements.²⁴

Generally, because South Africa is seen as more developed in comparison to a number of African countries, it is seen as a good choice for Indian businesses wishing to work in Africa.²⁵ At the same time, Indian business has also increasingly become engaged in enhancing South African development. For example, in South Africa a project funded by USAID on HIV/AIDS made use of Indian private sector technologies.²⁶

Whilst there are a large number of Indian companies operating in South Africa, the number of South African companies doing business with India remains fairly limited. Some research has been done on the barriers²⁷ but this requires expansion and updating to determine the ongoing challenges. In order to enhance India-South Africa relations it may be useful to determine whether the challenges to investment in India are related to South African companies' limited knowledge of the Indian market, or due to specific barriers to conducting business. For example, difficulties include tax requirements that vary across different Indian states.²⁸

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As a result, India is currently considering a Goods and Services Tax (GST) which will provide a uniform taxation policy. The South African government could assist in identifying the challenges that business face, though at the same time, the South African government also suffers from a lack of capacity. Civil society could therefore assist in playing a role in conducting research and giving policy advice on these matters. The next section examines business platforms that have made attempts to enhance India-South Africa relations.

Platforms to enhance business relations

The two biggest Indian business platforms are the Confederation of Indian Industry (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI).²⁹ In general, Indian business structures work with Business Unity South Africa and the Black Business Chamber, although South African business structures are arguably less organised and much weaker than Indian business structures.³⁰ These organisations participate in together in bilateral initiatives such as the South Africa-India CEOs Forum and also in the multilateral space through the BRICS Business Council and the Business 20 or B20 (the business council for members of the G20).

These business platforms, alongside the Indian and South African governments, have developed initiatives to enhance India-South Africa relations. For example, an Indian Trade Show was hosted in South Africa in 2010 to strengthen ties between South African and Indian businesses, and to boost trade and investment between the two countries.

“In 2002, the Indian government launched its “Focus Africa” programme, which engages with 24 Africa countries...”

The event included a conference on “Doing Business in India” which focused on infrastructure financing and investment³¹. Other examples of South African efforts have included the ITI Investment and Trade Initiative, the Mining Indaba, the WINDABA and Africa Electoral Mining.³² In 2002, the Indian government launched its “Focus Africa”

programme, which engages with 24 Africa countries using these business structures. As part of the programme, the Government of India facilitates visits to Africa, participation in fairs and exhibitions, and follow-up business-to-business meetings.³³

The India-South Africa CEOs’ Forum, initially led by Ratan Tata (chairman of the Tata group) and Patrice Motsepe (chairman of African Rainbow Minerals) was also re-launched in 2010 after being largely dormant for several years.³⁴ Four sectoral working groups have been established in the areas of energy, financial services, mining, and infrastructure³⁵.

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South African President Jacob Zuma gave an address to the conference to show his support³⁶ and the increased seniority of the Indian CEOs represented at the forum is symbolic of the increasing importance given to African markets in the strategies of Indian multinational corporations (MNCs).³⁷

The forthcoming IAFS –III, scheduled for October 2015, is another initiative aimed at enhancing India-South Africa private sector relations. This will be the third head of state level summit (the first was held in New Delhi in 2008 and the second in 2011 in Addis Ababa³⁸ which aims to enhance India's cooperation with Africa by encouraging business cooperative ventures, human capital and infrastructure development, cultural knowledge, and academic interaction. Whilst IAFS III does present an opportunity to enhance economic relations, the benefit to South Africa will not be as big as to other countries in Africa, since the IAFS Framework Agreement has a larger focus on Least Developed Countries (LDCs) and therefore does not include South Africa.

As can be seen, the South African and Indian governments have been active in terms of engaging with business on these initiatives, although there are a number of ways in which relations can be further improved. On the South African side, better organisation and stronger business structures could enhance engagement. Furthermore, it has also been argued that that South African business structures need to learn how to become self-sustainable and less reliant on the South African government for guidance in order for them to become more successful.³⁹ In all of these initiatives, civil society has either been non-existent or played a very limited role. However, as is discussed in the next section, there are a number of opportunities for civil society engagement through these business structures.

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ENHANCING INDIA- SOUTH AFRICA PRIVATE SECTOR RELATIONS

In the future, there are a number of ways in which India-South Africa private sector relations can be enhanced. The South African government has already begun experimenting with some new initiatives.

“South African business must become more effective in terms of its organised structures if it wishes to advance its objectives and engage fully with the South African government.”

For example, India is the first country where South Africa’s Department of International Relations and Cooperation (DIRCO) has used the private sector to support government activities, with the private sector contributing to transport costs and jointly attending certain meetings. India is also one of the countries where South Africa has placed a Department of Trade and Industry (DTI) official in the embassy, in acknowledgment of the growing trade and investment relationship.⁴⁰ At the same time, South African business must become more effective in terms of its organised structures if it wishes to advance its objectives and engage fully with the South African government. South African business could

also learn from India by organising itself provincially and sending provincial delegations to Indian states in collaboration with DIRCO. DIRCO and business would also do well to consider how civil society could also be leveraged to give greater input in the future, providing a voice on fair competition, sustainable development and good governance. Engaging civil society through business platforms may be a good starting point.

As the Indian government adopts and implements a more assertive approach to economic diplomacy, the South African government will need to see how the Indian government’s priorities fit with those of South Africa’s national priorities and what opportunities exist. For example, India recently signed a deal with South African companies in the defence sector worth around USD \$ 80 million in an effort to improve its defence capabilities.⁴¹ The South African government can therefore inform the South African private sector and civil society of developments in the Indian government’s approach to economic diplomacy, seeing if there are ways to engage that are of mutual benefit.

In this regard, civil society could also play a proactive role in policy dialogue, by ensuring that these engagements contribute to sustainable development and benefit the population as a whole, rather than a few specific individuals, and by advising the government and business on how certain projects may impact local communities. Civil society and business can also work together to ensure greater monitoring, transparency and risk reduction.

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The trade sector between India and South Africa needs to be broadened and diversified. In this regard, small and medium enterprises (SMEs) can play a larger role. It will also be important for Indian and African governments to consider and consult with business on the deeper reasons for not investing in certain instances despite facilitation measures such as reduced trade barriers. There needs to be frank discussions in this regard. India's duty free quota free system (DFQFS) for example allows 90% of goods to be exported duty free and quota free from least developed countries (like Lesotho and Swaziland in SACU) but this is not utilised by many African countries. Why is this? Civil society could assist by carrying out in depth research and analysis of why certain policies are not effective and use this information to inform government positions. Civil society could also assist in creating awareness on opportunities in the Indian private sector, for instance by facilitating an economic study of the Indian market and by improving knowledge networks.

The South African and Indian governments must also consider how to use their embassies to enhance their economic diplomacy. One area of stronger focus could be the use of diaspora in India and South Africa to get a better understanding of challenges and opportunities for the private sector.

Enhancing economic diplomacy requires a close partnership between all relevant stakeholders. Each of these stakeholders plays an important role in ensuring that the impact of these relations is maximised. In the future, closer collaboration and continuous dialogue will be essential.

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¹ See for example DIRCO, Communique of the 9th Session of Joint Ministerial Commission between the Republic of South Africa and the Republic of India, Durban, 18-19 May, available from <http://www.dfa.gov.za/docs/2015/indi0519.htm>

² ISS, Catherine Grant, South African Economic Diplomacy Engaging the private sector and parastatals, available from www.issafrica.org/publications/papers/south-african-economic-diplomacy-engaging-the-private-sector-and-parastatals

³ Ved Singh, India's Economic Diplomacy, available from <http://www.nbr.org/research/activity.aspx?id=515>

⁴ Raymond Saner & Lychia Yiu, International Economic Diplomacy: Mutations in Post-Modern Times, available from http://clingendael.info/publications/2003/20030100_cli_paper_dip_issue84.pdf

⁵ Ministry of External Affairs (MEA), Government of India. 2013. *India-South Africa Relations*. Available http://mea.gov.in/Portal/ForeignRelation/India-SouthAfrica_Relations.pdf

⁶ These included finance, tourism, business process outsourcing, infrastructure, defence, deep mining and coal and gas. See Communiqué of the 9th Session of Joint Ministerial Commission between the Republic of South Africa and the Republic of India, Durban, 18 - 19 May 2015. Available <http://www.dfa.gov.za/docs/2015/indi0519.htm>.

⁷ Communiqué of the 9th Session of Joint Ministerial Commission between the Republic of South Africa and the Republic of India, Durban, 18 - 19 May 2015. Available <http://www.dfa.gov.za/docs/2015/indi0519.htm>.

⁸ Ibid

⁹ Ministry of External Affairs (MEA), Government of India. 2013. *India-South Africa Relations*. Available http://mea.gov.in/Portal/ForeignRelation/India-SouthAfrica_Relations.pdf

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¹³ Sidiropoulos, E. 2011. India and South Africa as Partners for Development in Africa? *Chatham House Briefing Paper* .

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¹⁵ Ministry of External Affairs (MEA), Government of India. 2013. *India-South Africa Relations*. Available http://mea.gov.in/Portal/ForeignRelation/India-SouthAfrica_Relations.pdf

¹⁶ CII/WTO. 2013. *India-Africa South-South Trade and Investment for Development*. Confederation of Indian Industry and the World Trade Organisation.

¹⁷ Ministry of External Affairs (MEA), Government of India. 2013. *India-South Africa Relations*. Available http://mea.gov.in/Portal/ForeignRelation/India-SouthAfrica_Relations.pdf

¹⁸ Based on interviews with a number of Indian business associations, 10-13 March 2015

¹⁹ Exim annual report 2013-2014

²⁰ Ministry of External Affairs (MEA), Government of India. 2013. *India-South Africa Relations*. Available online: http://mea.gov.in/Portal/ForeignRelation/India-SouthAfrica_Relations.pdf

²² Based on interviews with a number of Indian business associations, 10-13 March 2015

²³ Based on interviews with a number of Indian business associations, 10-13 March 2015

²⁴ SACU, SACU-India Trade Agreement on Agenda, available from <http://www.sacu.int/main.php?id=170>

²⁵ Ibid

²⁶ Based on interviews with a number of Indian business associations, 10-13 March 2015

²⁷ Ibid

²⁸ For example, the briefing papers prepared for the South Africa-India CEOs Forum by Rand Merchant Bank and others.

²⁹ Based on interviews with DIRCO officials, 10-13 March 2015

³⁰ Ibid

³¹ Based on interviews with a number of Indian business associations, 10-13 March 2015

³² Media Club South Africa. 2010. *Trade Show to Boost India-South Africa Ties*. Available <http://www.mediaclubsouthafrica.com/economy/1913-trade-show-to-boost-sa-india-ties>



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³⁴National Centre for Trade Information, Focus Africa Programme, available from http://focusafrica.gov.in/Focus_Africa_Programme.html

³⁵India-Africa Connect, India-South Africa CEO Forum to boost bilateral ties, available from <http://www.indiaafricaconnect.in/index.php?param=news/229/business-industry/107>

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³⁹Lal, J. 2013. India Africa Forum Summits: Engagement and Outcomes. *Indian Council of World Affairs View Point* November 2013.

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⁴²Z News, Boost for S African defense industry from Indian Military deal, available from http://zeenews.india.com/news/india/boost-for-s-african-defence-industry-from-indian-military-deal_1571220.html



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