

# Deepening South Africa–India private-sector relations

Amanda Lucey and Catherine Grant Makokera

## Summary

South Africa and India share a solid bilateral relationship, and aim to expand and diversify their trade and economic relations. To help achieve this, the private sector is a critical partner and there is an increasing role for civil society to play. 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 area.

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BASED ON PRINCIPLES of solidarity, South Africa enjoys a positive relationship with India.<sup>1</sup> 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), which is to take place 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 this<sup>2</sup> and India's new government under Modi has stressed the importance of economic diplomacy as a central tenet of its foreign policy.<sup>3</sup> 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.<sup>4</sup> 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 then established a complete embargo on South Africa. 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 Mumbai.<sup>5</sup>

South Africa and India subsequently extended their bilateral engagements in a number of ways. In 1994 South Africa and India established a Joint Ministerial Commission at the level of foreign ministers to identify areas of mutually beneficial cooperation. During the commission's seventh 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 Joint Ministerial Commission has evolved to cover a wide range of issues, with seven new areas added in 2015,<sup>6</sup> and South Africa and India have agreed to address obstacles under existing mechanisms, including through the establishment of a joint working group to promote trade and investment. The two countries have agreed to develop a five-year strategic programme for cooperation, which will include annually reviewed milestones. They have also agreed to encourage trade missions, participation in trade fairs and the promotion of competitive products to enhance trade.<sup>7</sup>

### South Africa and India believe global institutions must be reformed to reflect shifts in political and economic power

There have also been a number of ministerial-level exchanges, such as the visit of the South African Minister of International Relations and Cooperation, Maite Nkoana-Mashabane, to India in January 2015.<sup>8</sup> South Africa's 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 on cooperation in the fields of agriculture, air services and diplomatic training academies were signed, and the South African delegation met with Indian business leaders.<sup>9</sup> The visit also resulted in the resuscitation of negotiations on a preferential trade area between India and the Southern African Customs Union (SACU), which had been on the agenda since 2003, and the re-establishment of the India-South Africa CEO Forum.<sup>10</sup>

Alongside 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 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 Organization (WTO), the UN, the G20 (Group of 20) and international financial institutions, as well as in negotiations over climate change. In the G20, for example, the two countries have opposed competitive devaluations of currencies and a resurgence of protectionism.<sup>11</sup>

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 various shared issues. In 2006 the forum was upgraded to the level of a heads-of-state summit. Five IBSA summits have been hosted so far, the latest in Pretoria in 2011.<sup>12</sup> South Africa also lobbied to join the BRIC (Brazil, Russia, India and China)

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JUNE

2010

SOUTH AFRICA'S PRESIDENT,  
JACOB ZUMA, UNDERTAKES  
A STATE VISIT TO INDIA

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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 BRICS grouping, and hosted the fifth BRICS summit, in Durban in 2013.<sup>13</sup>

Despite these advances in India–South Africa relations, however, Sidiropoulos<sup>14</sup> 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, 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 are important elements of economic diplomacy, relating particularly to commercial activities. So, 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 latter lifted economic sanctions against South Africa after the end of apartheid. Bilateral trade increased from a value of US\$2.5 billion in 2003/04 to US\$13.18 billion in 2012/13.<sup>15</sup> 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 European Union, 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 India.<sup>16</sup> Imports from South Africa into India include gold, steam coal, copper ores and concentrates, phosphoric acid, manganese ore, aluminium ingots and other mineral/extractive products.<sup>17</sup>

In 2015 over 100 Indian companies had a physical presence in South Africa. These were mainly engaged in mining, general manufacturing, information technology (IT) and financial services.<sup>18</sup>

A major growth area is pharmaceuticals: in 2013/2014 the Export Import Bank of India (Exim) reported that South Africa had a share of 3.5% as an export destination for pharmaceuticals.<sup>19</sup> Major Indian investors in South Africa include Tata (automobiles, IT, hospitality and ferrochrome products); the United Breweries Group (breweries, hotels); Mahindra (automobiles); a number of pharmaceutical companies (including Ranbaxy and CIPLA); and IT companies. There is also Indian investment in South Africa's mining sector.<sup>20</sup>

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

**Table 1: Indo-South African trade (US\$ 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	2 188	3 034	3 754	3 917
South African Imports from India	130	280	318	266	328	752	1 762	2 484	2 847	4 589	4 710

Source: Extracted from the Department of Trade and Industry, government of South Africa, [http://tradestats.thedti.gov.za/ReportFolders/reportFolders.aspx?sCS\\_referer=&sCS\\_ChosenLang=en](http://tradestats.thedti.gov.za/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en), accessed 6 April 2015.

engage in banking and finance, financial and health insurance, food and wines, and mining.<sup>21</sup>

A number of South African multinational corporations operate in the Indian market, and FDI to India from South Africa is growing at a steady pace, although fewer than 50 South African companies currently operate in India. South African companies such as Tiger Brands, the Airports Company South Africa, Bidvest, SABMiller, FirstRand Bank, Standard Bank, Old Mutual, Balela Leisure, Anglo American, Sasol, and Nando's Group Holdings have made investments in the Indian market. Although Shoprite, South Africa's second largest retailing group, withdrew its operations in India in 2005, it is eyeing the Indian market again after the Indian government announced plans to liberalise its retail sector.

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

### Bottlenecks for business

India–South Africa private-sector relations are positive, although there has been less investment by South African businesses in India than vice versa. Even so, there have been challenges for Indian businesses operating on the African continent. For example, there is a lack of information, particularly online data, for Indian companies doing business in Africa.<sup>22</sup> In India there are agencies that promote the country as a business destination (such as Invest India), whereas similar effective partners do not, as a rule, exist in African countries (although this applies less in South Africa).

India–South Africa private-sector relations are positive, but there has been less investment by South African businesses in India than vice versa

Other factors that hinder Indian investment in South Africa are 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, SACU has been in discussions with India over a SACU–India Free Trade Agreement. 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.<sup>23</sup> Difficulty in obtaining business visas to South Africa is an important issue that has hindered business, and the idea of introducing a BRICS business visa has been proposed to overcome this obstacle.<sup>24</sup>

Generally, because South Africa is seen as more developed than a number of other African countries, it is perceived as a sound choice for Indian businesses wishing to operate or invest in Africa.<sup>25</sup> 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 development agency USAID on HIV/AIDS made use of Indian private-sector technologies.<sup>26</sup>

As mentioned, although there are a large number of Indian companies operating in South Africa, it is unclear why the converse is not the case. But, to improve India–South Africa relations it may be useful to determine whether this is due to South

\$112 million

SOUTH AFRICA'S FOREIGN  
DIRECT INVESTMENT (FDI)  
STOCK IN INDIA

African companies' limited knowledge of the Indian market or because of specific barriers to conducting business. For example, there are difficulties surrounding tax requirements, which vary in India from state to state.<sup>27</sup> As a result, India is currently considering a goods and services tax, which would provide a uniform national taxation policy. The South African government could also help identify the challenges that businesses face. However, at the same time, the South African government also suffers from a lack of capacity. Civil society could therefore help by playing a role in conducting research and giving policy advice on these matters. The next section examines specific business platforms that have made attempts to enhance India–South Africa relations.

### Platforms to strengthen business relations

The two biggest Indian business platforms are the Confederation of Indian Industry and the Federation of Indian Chambers of Commerce and Industry.<sup>28</sup> In general, Indian business organisations work with Business Unity South Africa and the Black Business Chamber, although South African business structures are arguably less organised and much weaker than their Indian business counterparts.<sup>29</sup>

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. The event included a conference, *Doing Business in India*, which focused on infrastructure financing and investment.<sup>30</sup> Other examples of South African efforts have included the Investment and Trade Initiative, the Mining Indaba and the WINDABA.<sup>31</sup>

In 2002 the Indian government launched its Focus Africa Programme, which engages with 24 African countries using Indian business structures. As part of the programme, the Indian government facilitates visits to Africa, participation in trade expos and exhibitions, and follow-up business-to-business meetings.<sup>32</sup>

The India–South Africa CEO Forum, initially led by Ratan Tata (chairman of the Tata Group) and Patrice Motsepe (chairman of African Rainbow Minerals), was also relaunched in 2010 after being largely dormant for several years.<sup>33</sup> Four sectoral working groups have been established in the areas of energy, financial services, mining and infrastructure.<sup>34</sup> President Zuma addressed the forum's conference to show his support,<sup>35</sup> and the senior level 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.<sup>36</sup>

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 Ababa)<sup>37</sup> that aims to enhance India's cooperation with Africa by encouraging cooperative business ventures, human-capital and infrastructure development, cultural exchange and academic interaction. Although IAFS III does present an opportunity to enhance economic relations, the benefit that South Africa will derive from it will not be as great as its benefit for other African countries, since the IAFS Framework Agreement's broad focus is on least developed countries, and therefore does not include South Africa.

In 2002 India launched its Focus Africa Programme, which engages with 24 African countries

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. For South Africa's part, better organisation and stronger business structures would help improve engagement for trade and investment. It has also been argued that South African business structures need to learn how to become self-sustainable and less reliant on government if they are to become more successful.<sup>38</sup>

In all of these initiatives, civil society has either been non-existent or has played a very limited role. However, as discussed in the next section, there are a number of opportunities for civil-society engagement through these business structures.

### Enhancing Indian–South African private-sector relations

There are a number of ways in which Indian–South African private-sector relations can be enhanced. The South African government has already begun experimenting with some new initiatives. 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 the first country where South Africa has placed a Department of Trade and Industry official in the embassy.<sup>39</sup> At the same time, South African business must become more self-sustainable 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. And 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 US\$80 million in an effort to improve its defence capabilities.<sup>40</sup> 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, determining if there are ways to engage that are of mutual benefit.

### The trade sector between India and South Africa needs to be broadened and diversified, with small and medium-sized enterprises playing a greater role

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

The trade sector between India and South Africa needs to be broadened and diversified, and small and medium-sized enterprises can play a greater role to this end. It is important for the Indian and African governments to consider and consult with business on the underlying reasons for not investing in certain instances – despite facilitation measures such as reduced trade barriers. There need to be frank discussions in this area. India's duty-free, quota-free system, for example, allows 90% of goods to be exported duty-free and quota-free yet not many African countries take advantage of this exemption. Why is this the case? 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 help create awareness of 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 might be enhanced engagement with diasporas in India and South Africa to gain a better understanding of the 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 relations is maximised. In the future, closer collaboration and continual dialogue will be essential.

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90%

THE PERCENTAGE OF GOODS THAT CAN BE EXPORTED DUTY-FREE AND QUOTA-FREE FROM AFRICAN COUNTRIES TO INDIA

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## Notes

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## About the ISS

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