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Southern African Customs Union (SACU): A Study of India's Trade and Investment Potential

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In recent years, various arrangements to promote economic integration and intra-regional trade and investment flows have been undertaken by African Countries. One such arrangement is the Southern African Customs Union (SACU). The Southern African Customs Union (SACU) was formed in 1910, making it the oldest customs union in the world. SACU brought together the Union of South Africa (now Republic of South Africa) and the other British protectorates (or 'High Commission Territories' (HCTs) as they were called) of Bechuanaland (now Botswana), Basutoland (now Lesotho) and Swaziland. A new agreement was signed on December 11, 1969, and entered into force on March 1, 1970. In 1990, Namibia gained its independence and became a formal contracting party to the 1969 SACU Agreement.

A Customs Union means a lowering or removing of tariffs and other trade barriers within the union and establishing a Common External Tariff (CET), thus combining free trade with protectionism, thereby leading to trade creation within the union and hence to an increase in welfare for its members. This is particularly relevant for relatively smaller economies (such as Botswana, Lesotho, Namibia and Swaziland) since, with the formation of the union around a big member (South Africa) would help to integrate the region as a major economic bloc, providing greater stability in the policy environment, possible terms of trade gains, gains from increasing the power of members in the formulation of global trade policy and substantially increased investment opportunities in the region.

In line with the needs of a customs union, the SACU Agreement aims to facilitate and promote, among others, cross-border movements of goods and services within the members, investment opportunities in the region, economic development, industrialization and competitiveness of member states, and integration of the member states with the global economy through enhanced trade and development.

The New SACU Agreement

The new SACU Agreement was signed on October 21st 2002 in Gaborone, Botswana, by the Heads-of-State of all SACU countries. SACU Member States recognized the need to renegotiate the old 1969 Agreement to cater to the needs of a customs union in the 21st century, and align it with current developments in international trade relations. As member states of SACU are at varying levels of development, a key objective of the negotiations was to promote equitable development across SACU on the basis of mutual benefit.

Economic Enviornment

The five member states of SACU (Botswana, Lesotho, Namibia, South Africa, and Swaziland) have continued their economic reform programmes in the recent past. Macroeconomic convergence has been faster in these 5 countries, as compared to the other southern African countries. The countries in the region have very different levels of economic scale, structure, and development. Botswana and South Africa are upper middle-income countries (although very different in economic structure), Namibia and Swaziland are lower middle-income countries, and Lesotho is a least developed country.

Monetary and exchange rate policies within SACU are largely led by South Africa. Lesotho, Namibia, South Africa and Swaziland have a Common Monetary Area (CMA) Agreement, where the loti (Lesotho's currency), the Namibian dollar and the lilangeni (Swaziland's currency) are pegged to, and freely convertible into, the South African rand at par. Although a non-member of the CMA, Botswana has pegged its currency (pula) to a basket of currencies, including the rand, and has generally contained its fluctuations against the rand. This monetary stance disciplines, to a certain extent, the fiscal policy within the customs union.

SACU: Trade Structure

Total exports by SACU have increased in the recent years, from US$ 32.5 billion in 1995 to US$ 44.1 billion in 2003, accounting for as much as 28.1% of Africa's total exports. Imports by SACU have also risen from US$ 33.5 billion to US$ 40.4 billion during the same period, accounting for 25.8% of Africa's total imports. Bulk of SACU's trade is accounted for by South Africa, with a share of around 87% of SACU's total trade.

India's Trade Relations with SACU

India and SACU countries have robust trade relations, with the trade turnover (i.e. exports plus imports) increasing from US$ 900 million in 1997-98 to US$ 2.5 billion in 2003-04. India's trade deficit with the region has increased from US$ 99.7 million in 1997-98 to US$ 1.3 billion in 2003-04. Among the SACU countries, South Africa is the biggest partner accounting for more than 98% of the total trade. Thus, bilateral trade relations between India and the SACU countries depends significantly on the trend in India's bilateral trade with South Africa. Other than South Africa, India has maintained a trade surplus with the rest of the countries. With South Africa, India's trade deficit has widened from US$ 104.4 million in 1997-98 to US$ 1.4 billion in 2003-04, which was mainly due to increase in imports of gold from South Africa.

Trends in FDI Inflows into SACU

While the foreign direct investment (FDI) inflows into SACU has registered a fluctuating trend over the recent past, FDI decreased from US$ 1.4 billion in 2002 to US$ 1 billion in 2003. SACU countries accounted for 6.8% of Africa's total FDI inflows in 2003. Among the SACU countries, South Africa accounts for the major share of FDI inflows to the region.

In 2003, South Africa accounted for as much as 74.9% of the FDI flowing into the SACU countries followed by Botswana (8.4%), Namibia (8.3%), Swaziland (4.3%) and Lesotho (4.3%).

United States, with it's recent initiatives like the African Growth and Opportunity Act (AGOA), which improves market access for African exports at favourable terms, is poised to be a major source of FDI going to the African states.

Table 4.1: India's Trade with SACU Countries

(US$ Million)

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Exports	400.28	404.26	292.22	318.26	370.29	511.06	584.82
(% Change)		*1.0*	*-27.7*	*8.9*	*16.3*	*38.0*	*14.4*
Imports	500.01	1351.9	2015.73	1021.11	1446.21	2102.67	1898.84
(% Change)		*170.4*	*49.1*	*-49.3*	*41.6*	*45.4*	*-9.7*
Trade Balance	-99.73	-947.64	-1723.51	-702.85	-1075.92	-1591.61	-1314.02
Total Trade	900.29	1756.2	2307.95	1339.37	1816.5	2613.73	2483.66

Source: Directorate General of Commercial Intelligence & Statistics (DGCIS), Ministry of Commerce & Industry, (MOCI)

The European Union is also among the principal sources of FDI in the African LDCs.

To attract more investment, all the select SACU countries have introduced various investment incentives in the form of protection against expropriation, repatriation of profits, non-discrimination between foreign and domestic investors, etc. To actively promote foreign investment, these countries have set up investment promotion agencies, which in most cases serve as a one-stop shop for all investment related matters. These are *Botswana* Export Development and Investment Authority (BEDIA); *Lesotho* Investment Promotion Centre (IPC); *Namibia* Investment Centre (NIC); The Chief Directorate: Export and Investment Promotion in the Department of Trade and Industry (DTI) is the major government agency in *South Africa;* and *Swaziland* Investment Promotion Authority (SIPA).

Export Potential

While India's exports to the SACU countries have witnessed positive growth during the past few years, potential exists to further enhance exports to the region. Matching the import profiles of the SACU countries and India's export capability, some potential items are identified for each country.

Passenger transport vehicles, machinery for SSI units, garage equipment, portland cement, medicaments, metal structure & parts and printed books & globes are some of the items with export potential in *Botswana*.

Items that have export potential in *Lesotho* include goods vehicles, agricultural pumps, tractors, medicaments, portland cement, soap and wooden furniture.

Passenger transport vehicles, motor vehicle parts, machinery for SSI units, medicaments and goods vehicles are some of the items that have export potential in *Namibia*.

Commodities having potential to be exported to *South Africa* includes passenger transport vehicles, office equipment accessories, medical instruments, electrical circuit equipments and special industrial machinery.

Knitted/crocheted fabrics, agro/food processing machinery, passenger transport vehicles, goods vehicles, motor vehicle parts and wheat are some of the items that can be exported to *Swaziland*.

Investment Potential

The focus countries offer opportunities in terms of foreign direct investment. Tourism, pharmaceuticals, electronics, computer software and accessories, information technology related products, financial services and textiles hold large potential for Indian investors.

Botswana offers opportunities for Indian investment in mining exploration, financial services, and tourism. *Lesotho* has unexploited investment potential in minerals, agro-based products and tourism. Food processing, textile & garments, tanning of hides and skins, mining and infrastructure are some areas, which offers a lot of investment opportunities in *Namibia*. *South Africa* offers opportunities in the agro-processing industry, textile clothing & apparel, manufacturing and tourism. *Swaziland* holds opportunities in the areas of agriculture, manufacturing, mining and tourism for Indian investors.

Besides participating in investment activities that are promoted by the respective governments in the SACU countries, Indian companies should also endeavour to increase participation in multilateral funded projects. Multilateral institutions such as the World Bank and the African Development Bank support and fund a number of projects in the SACU countries particularly in the transportation, education and urban development related fields, among others. At the same time, increased efforts to participate in technical assistance in terms of project preparation and advisory services in such multilateral agencies' funded projects would serve to enhance Indian commercial presence in the SACU region.

Exim Bank in the SACU Region

The *Export-Import Bank of India (Exim India)* operates a range of lending, service and support programmes to support and enhance bilateral trade and investment in the region. Towards this end, Exim Bank has extended Lines of Credits (LOCs) to select countries in the African region. The operative LOCs covering this region include US$ 5 million to Government of Lesotho; US$ 10 million to ABSA Bank, South Africa; and Rs. 200 million (US$ 4.5 million) to Offshore Development Company (Pty) Limited, Namibia. Overall, the Bank has operative LOCs covering 32 countries amounting to US$ 238 million in the African region.

Exim Bank also operates a comprehensive programme, through equity, loans and guarantees, to support setting up of joint ventures and wholly owned subsidiaries by Indian enterprises. The Bank has supported several such ventures in the SACU region, as for instance, in the software sector in South Africa. Exim Bank also takes direct equity participation in select ventures with a view to supplementing the Indian company's equity. Further, in the SACU region, Exim India has supported Indian companies to execute projects in South Africa and Namibia by way of extending funded and non-funded facilities for overseas industrial turnkey projects, civil construction contracts, supplies as well as technical and consultancy service contracts.

Further, the Bank assists Indian companies to participate more actively in projects funded by multilateral agencies. Exim Bank has an active programme which offers a range of information, advisory and support services to Indian companies to enable more effective participation in projects funded by Multilateral Funding Agencies such as World Bank and African Development Bank (AfDB). Under the Technical Cooperation Agreement between Government of India and AfDB, Exim Bank provides a shortlist of Indian consultants for consideration of AfDB in respect of technical assistance being supported by GOI under Indian Consultancy Fund. Exim Bank and AfDB have also signed a Memorandum of Understanding (MOU) for co-financing projects in Africa.

Exim Bank has long standing working relationships with International Finance Corporation (IFC) (of the World Bank Group) to facilitate the utilisation of Indian consultants for initiatives/ project facilities promoted and sponsored by IFC to develop private sector small and medium enterprises in Africa. The tie up with IFC is under arrangements including Africa Project Development Facility (APDF) and Africa Enterprise Fund (AEF). Under these arrangements, Exim Bank funds the cost of Indian consultant and APDF bears the cost of travel and local expenses. This facility will enable the African entrepreneur to access Indian consultancy expertise at no cost or minimum cost. Exim Bank has also working relationships with African Management Services Company (AMSCO), and the Eastern & Southern African Trade & Development Bank (PTA Bank). Under the working arrangement with IFC, Exim India has supported over 50 assignments in Africa, including the SACU members such as Botswana, Lesotho and Namibia. APDF has an office in Johannesburg (South Africa), which covers all the SACU member countries. Private sector entrepreneurs seeking to use Indian consultancy expertise under Exim-IFC cooperation arrangements can approach this APDF office.

Exim Bank has an MOU with Central Food Technological Research Institute (CFTRI), India to promote small-scale food processing projects in the African region. Exim Bank's publication titled "Market Maker: Technology Aided Business Solutions" contains project profiles in agro/food processing sectors based on CFTRI technologies, which are most appropriate, adaptable and affordable for developing country environment. Exim Bank also brings out a quarterly, bilingual (English & French) business journal "Indo-African Business" focusing on business and investment opportunities for enhancing trade with Africa.

Besides being a member of Association of African Development Finance Institutions (AADFI), Exim India has taken equity in the West African Development Bank (BOAD), Development Bank of Zambia and Afrexim Bank, which reinforces the Bank's institutional linkages while also supporting capacity creation and enhance institutional strengthening.

Strategy for Boosting Trade and Investment

The strategy for enhancing bilateral trade and investment relations between India and the SACU countries would include among others:

- The speedy formation of the PTA between Indian and the SACU countries, with liberalization of the investment regime and other facilitating measures would be an important step towards realising potential bilateral trade and investment between India and the SACU region.
- Dissemination of information relating to trade/investment opportunities to potential exporters and investors in India, as also prospective partners in Africa would prove to be a critical element of the strategy to enhance India's presence in the SACU region. This can be achieved by means of trade/economic missions to and from the SACU countries, which would be the suitable fora for active marketing of Exim's LOCs; an interactive portal for identification of project profiles, partner search, match making.
- Specialized e-learning courses for providing technology assistance, manufacturing process know-how, trouble shooting and other technical services; training facilities for African entrepreneurs and technical personnel under Government of India's International Technical and Economic Programme (ITEC) programme would also add to the entrepreneurship development of the human resources in the SACU countries.
- Indian companies can develop South Africa as a regional hub for the entire SACU region, for enhancing bilateral trade and commercial relations. The creation of such a hub would encourage and lend support to prospective companies who are interested in developing commercial relations and establishing presence in the SACU region.
- Encouraging the Indian Entertainment Industry as well as the Indian Tourist Operators to use the virgin locales in the SACU region would also facilitate the increased presence of India in the region.

Note: Indian Rupees are referred in crore and lakhs:
1 crore : 10 million
1 lakh : 100 thousand

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