India and Southern African Customs Union: Building a Stronger Economic Partnership

Working Paper No: 128

India Exim Bank

EXPORT-IMPORT BANK OF INDIA

WORKING PAPER NO. 128

India and Southern African Customs Union: Building a Stronger Economic Partnership

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January 2024

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Executive Summary

The Southern African Customs Union (SACU) is a customs union among five countries of Southern African region. These countries are Botswana, Eswatini, Lesotho, Namibia and South Africa. SACU is the most advanced form of regional integration within the African continent, with a common external tariff and common excise tariff for all its members. SACU has its headquarters in Windhoek, the capital of Namibia. SACU is considered as the world's oldest custom union, dating back its roots to the Customs Union Convention held between the British Colony of Cape of Good Hope and the Orange Free State Boer Republic in 1889.

Macroeconomic Background of SACU Member Countries

SACU is a single customs territory with a free flow and duty-free intra-SACU trade and a common external tariff applicable to all goods imported from outside the Customs Union. The SACU region has a stable macroeconomic environment which creates a conducive atmosphere for trade and investment. With a nominal gross domestic product (GDP) of US$ 445.4 billion in 2022, SACU accounted for 53.3% of total GDP of the larger Southern African Development Community (SADC) and 17.9% of population of SADC. The SACU member countries are very diverse in terms of economic development: Lesotho is a least developed country (LDC), while Namibia and Botswana hold upper middle-income status and Eswatini is lower middle-income country. With a GDP of US$ 405.1 billion, South Africa accounts for 91% of SACU's combined GDP in 2022 and 88% of its population. The second largest economy, Botswana, contributed 4.6% or US$ 20.4 billion to SACU's collective GDP, while Namibia, at US$ 12.6 billion contributed 2.8% of GDP. SACU economies, largely dominated by South Africa, had a collective growth of 1.2% annually from 2014 to 2022, partially attributed to the global economic slowdown following the COVID-19 pandemic and also related to under-maintained transport infrastructure, high telecommunications costs and severe shortages of electricity.

Merchandise Trade of SACU

SACU's trade has had a wavering trend as the region's trade is significantly influenced by international commodity prices and is heavily dependent on South Africa. SACU's global merchandise exports growth during the last decade has been sluggish, growing at an annual average growth rate (AAGR) of 3.7%, with exports reaching the highest level in 2022 at US$ 141.3 billion. During 2022, imports too recorded the highest level in the last decade and stood at US$ 131.9 billion, resulting in narrowing of the trade surplus to US$ 9.4 billion. SACU's share in global trade stood at 0.55% in 2022, marginally down from 0.6% in 2013.

SACU's share in Africa's exports stood at 20.7%, while its share in world exports stood at 0.6% in 2022. South Africa is the largest exporter among SACU countries, accounting for 87.5% of the region's total exports in

2022. Other major exporters from SACU include Botswana and Namibia, accounting for over 10% of total exports from SACU. SACU accounts for a major share of Africa's mineral and metal exports. The region also accounts for considerable manufacturing exports of the continent like machinery, electrical equipment and vehicles, mainly due to the strong industrial base of South Africa. The EU-27 is the largest market for SACU exports and the largest supplier of its imports. While developed countries such as the US and Germany, among others, continue to be the traditional destinations for SACU's exports, developing countries such as China and India have emerged as major export destinations in recent years.

South Africa also dominates imports of the SACU region, accounting for 85% of the region's total imports. Other major importers in the region include Botswana and Namibia, together accounting for more than 12% of imports. China is the largest supplier for South Africa, with imports from China mainly including electrical equipment and machinery and mechanical appliances. In contrast to SACU's export basket, which is largely dominated by precious stones and metals and crude oil, SACU's imports are relatively diversified. Mineral fuels and machinery are the two largest import items, followed by electrical equipment, vehicles other than railway or tramway, precious stones and metals, plastics and its articles and pharmaceutical products.

Services Trade of SACU

The SACU Agreement of 2002 acknowledged the pressing need to align the Customs Union with current developments in international trade relations. Additionally, it considered the outcomes of the Uruguay Round of multilateral trade negotiations on global trade liberalization. In 2008, the SACU Council of Ministers agreed to incorporate new generation issues like services, investment and intellectual property rights into the SACU Agenda. This decision prompted a review of the 2002 SACU Agreement to address these issues.

SACU's trade in services has witnessed an increase from US$ 26.6 billion in 2021 to US$ 34.8 billion in 2022. While services exports moderated, services imports remained stable over the past decade for SACU. Accordingly, the services trade deficit has remained largely stable over the better part of the last decade, seeing a rise post 2020 to US$ 5.9 billion in 2021 and US$ 6.5 billion in 2022.

Within the bloc, South Africa remains the largest services exporter at US$ 12.6 billion in 2022, accounting for 88.8% of the total services exports, followed by Namibia (6.5%) and Botswana (4.1%). In case of services imports, South Africa is the largest importer at US$ 18.1 billion (87.6% of total services imports by SACU in 2022), followed by Botswana (4.6%) and Namibia (4.1%). Except for Namibia, rest of the four SACU countries, i.e., Botswana, Eswatini, Lesotho and South Africa, recorded services trade deficit in 2022. Transport and travel services represented the largest shares in services exports and imports of most member countries. Among other types of services, professional and management consulting services and technical, trade-related and other business services contributed significantly.

India - SACU Merchandise Trade Relations

India has historically close ties with Southern Africa and has steadfast commitment to deepen economic engagement with this region. Towards developing extensive economic and strategic relations with SACU member countries, discussions between SACU and India to achieve a Preferential Trade Agreement (PTA) have been revived with the two sides holding virtual meetings in 2020 to discuss various aspects of the PTA.

The economic and trade linkages between India and SACU which witnessed an expansion of trade volumes, stand testimony to the intensified economic engagement. Over the past decade, there has been a considerable rise in trade between India and SACU (South Africa in particular). India is an important trading partner for SACU, accounting for 4.6% of total exports of SACU and supplying 6.9% of total imports of SACU in 2022. During the last ten years, India's total trade with the SACU countries has increased from US$ 13.7 billion in 2013 to US$ 20.5 billion in 2022.

India's exports to SACU increased from US$ 6.1 billion in 2013 to US$ 8.9 billion in 2022. India's exports to SACU are relatively diversified with refined petroleum, motor vehicles, medicaments, unmounted diamonds, smart phones and dumpers for off-highway use being the biggest exports. Mineral fuels and oil dominate India's export basket to SACU, accounting for 42.7% of India's total exports to SACU in 2022. South Africa is India's largest export destination in SACU, accounting for 93.4% of India's total exports to the region in 2022. Other major export destinations in SACU include Namibia and Botswana.

India's imports from SACU increased from US$ 7.6 billion in 2013 to US$ 11.7 billion in 2022. India's imports from SACU are mostly raw, primary or semi-processed commodities. India's imports from SACU were largely dominated by pearls, precious stones and metals, followed by mineral fuels, oils and its products, together accounting for more than 75% of imports from the region in 2022. South Africa is India's largest import source in SACU, followed by Botswana and Namibia. South Africa is a major supplier of coal, unwrought gold, non-industrial diamonds, copper and manganese ores concentrates to India.

India had a trade deficit of US$ 2.8 billion in 2022 with SACU, mainly in commodities including pearls, precious stones and metals, copper and articles, ores, slag, and ash, pulp of wood, ships, boats and floating structures and mineral fuels and oils, among others. Within SACU, India had trade deficit with South Africa (US$ 2.9 billion) and Botswana (US$ 250 million) in 2022. Around 93.4% of India's exports to SACU is destined to South Africa, while 95.7% of India's imports from the region originated from South Africa.

India's Services Trade with SACU

Bilateral Services trade between India and SACU has been obtained from the OECD-WTO Balanced Trade in Services (BaTIS) dataset. India's services exports to SACU stood at US$ 1,401 million in 2021, increasing by an AAGR of 4.6% from US$ 964 million registered in 2012. South Africa's share in India's exports to SACU was evidently the highest at 88.4% in 2021. India's services imports from SACU increased from US$ 675 million in 2012 to US$ 814 million by 2021, growing by an AAGR of 2.3%, with South Africa accounting for 92.4% of India's services imports from SACU in 2021.

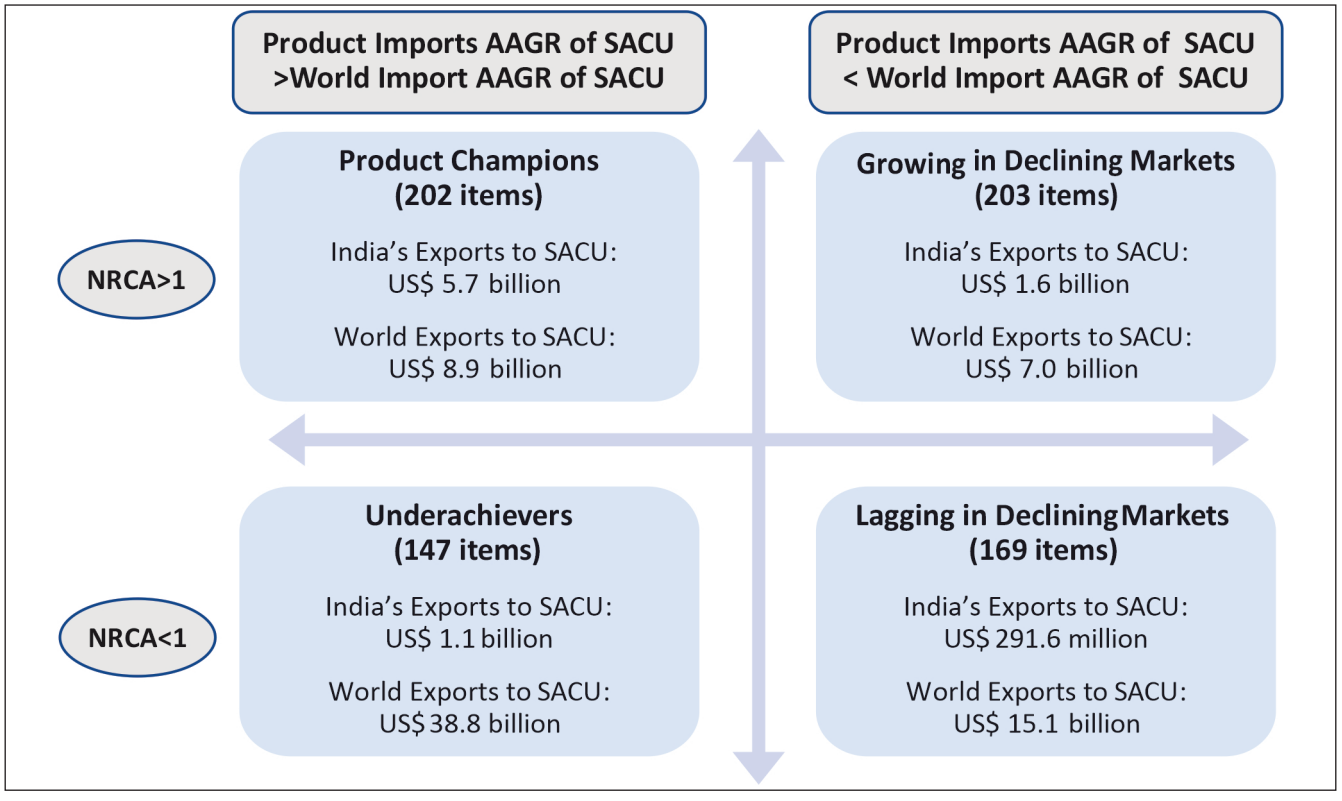
Potential for Enhancing Trade with SACU Countries

During the period 2012-2022, the complementarity index for profile of Indian exports to SACU's imports ranges from 62.3 to 71.6. This indicates a substantial complementarity in India's exports and SACU's imports. Over the years, the value of the index is rising which shows that India's export profile is converging towards SACU's import profile. During the same period, the complementarity index for SACU's export profile to India's import profile ranges from 47.8 to 58.1. This again indicates a complementarity in SACU's exports and India's imports. SACU's export profile to a certain extent matches with the import profile of the India, which indicates that SACU's exports have a corresponding demand in India. The index shows the highest value in 2017 at 58.1.

Revealed Comparative Advantage

To identify the products based on their export competitiveness in SACU, a four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their normalized revealed comparative advantage (NRCA) and mapping them against the AAGR of global imports of SACU for all products. The quadrants are drawn by comparing the overall AAGR of global imports of SACU for all products during 2018-2022 (which was 7.4%), to the NRCA of India's exports to SACU during the same period. This exercise aims to identify those products where imports in SACU over the period 2018-2022 have performed better than the overall average of SACU for all products during this period, implying that the share of such products in SACU's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US$ 0.5 million from India to SACU, 721 products have been identified with the total exports from India to SACU amounting to US$ 8.6 billion (97.6% of India's exports to SACU in 2022) while the total global imports by SACU for the same products stood at US$ 69.7 billion in 2022 (52.9% of SACU's global imports in 2022).

Table A: Product Identification for Potential Exports from India to SACU (2022)



Source: India Exim Bank's Calculations based on data derived from ITC Trade Map

Out of the 721 items at the HS 6-digit level, 202 items fell into the category of the product champions. The combined exports of these items from India to SACU were US$ 5.7 billion in 2022, representing approximately 64.3% of India's exports to SACU in 2022. Major product champions include motor cars and other motor vehicles and diamonds and dumpers for off-highway use. These products are low hanging fruits for India and can be targeted in the short to medium term. SACU's global imports of these product champions amounted to US$ 8.9 billion in 2022, implying that there remains substantial scope for tapping the SACU market for these products. The Underachievers segment has 147 items with India's exports worth US$ 1,063.3 million to SACU. These products constitute a share of 12% in India's total exports to SACU. These are the product

items in which import demand in SACU is rising, but exports from India are currently not competitive. SACU's imports of these products stood at US$ 38.8 billion in 2022, presenting significant opportunities for exporters. There is a need for capacity creation in these product categories, through an appropriate incentive framework for attracting investments in the country. The Underachievers category broadly includes light oils and preparations, smartphones for wireless networks and self-propelled mechanical shovels.

Effectively Applied Tariffs Imposed by India and SACU

In the current analysis, the tariff on 6-digit HS code is taken into consideration, using Trade Analysis Information Systems (TRAINS) based WITS data. The year considered is 2021. India's majority of imports from SACU have tariffs between 10.1% to 15% (37.4% of total imports), followed by 0.1% to 5% (37.1%). 134 tariff lines are duty-free. Lesotho is a beneficiary under India's Duty-Free Tariff Preference (DFTP) Scheme for LDCs, which provides market access on 95.5% of the lines on which LDCs have made to exports to India over the last two financial years. In 2021, India's imports from Lesotho stood at US$ 95.4 thousand, consisting of 6 tariff lines of inorganic oxygen compounds of non-metals at a duty-free rate.

The highest import tariffs imposed by India on SACU, ranging between 100%-150%, are mostly on beverages and spirits (HS-22). The imports in which case tariffs range between 10.1%-15% mainly include gold (HS-710812) as South Africa was the third largest import source of gold for India in 2021. This was followed by other items such as machinery (HS-840734 and HS-842139), apples (HS-080810), silver (HS-710691), parts and accessories for tractors (HS-870899) and display modules used for television, camera or monitors (HS-852990), among others (imports with at least value of US$ 1 million).

More than half of SACU's imports from India are duty free. However, India faces high tariffs ranging from 30.1%-45% in sectors like articles of apparel and clothing, knitted or crocheted (HS-61), articles of apparel and clothing, not knitted or crocheted (HS-62), tobacco products (HS-24) and white chocolate (HS-170490), among others. India faces tariffs ranging from 20.1% to 30% in motor cars and other motor vehicles principally designed for the transport of <10 persons (HS-870322, HS-870323 and HS-870332) and woven fabrics of cotton (various items under HS-5209 to HS-5212), among others. A major share of the unspecified effectively applied tariff is accounted by refined petroleum (HS-271000), followed by groundnut (HS-200811) and cane or beet sugar and chemically pure sucrose, in solid form (HS-170199).

Non-Tariff Measures in Goods Trade

As of June 2023, Botswana has imposed 3 sanitary and phytosanitary measures (SPS) (all 3 in initiation) and 133 technical barriers to trade (TBT) (44 in force and 89 initiated). According to broad sector classification of WTO Integrated Trade Intelligence Portal (I-TIP), prepared foodstuff, beverages, spirits and tobacco have attracted the highest SPS, whereas highest number of TBTs are for machinery and electrical equipment.

As of June 2023, Namibia has imposed 2 TBT (1 in force and 1 in initiation). According to broad sector classification of WTO I-TIP, the TBTs are imposed for protecting sectors like products of chemical and allied industries, mineral products and articles of stone and plaster.

During the same period, Eswatini has imposed 9 TBTs and 6 SPS. Out of the 9 TBTs, all have been initiated by Eswatini against all WTO members. Majority of TBTs are for part of vehicles, aircraft and vessels and machinery and electrical equipment. The second most imposed NTM is SPS with 6 initiated against all WTO

members, mainly in products of the chemical and allied industries, prepared foodstuff, beverages and tobacco and live animals and products.

South Africa has imposed 293 TBTs and 69 SPS. Out of the 293 TBTs, 266 have been initiated, whereas 27 are in force against all WTO members. Majority of TBTs are in case of parts of machinery and electrical equipment and rest are broadly spread across sectors with prepared foodstuff, vegetable products, vehicles, aircraft and vessels and live animals and products accounting for the highest number. The SPS was the second most imposed NTMs, with 65 initiated and 3 in force against all WTO members.

Foreign Direct Investment in SACU and Bilateral Investment with India

According to the United Nations Conference on Trade and Development (UNCTAD) database, in 2021, foreign direct investment (FDI) inflows in SACU reached US$ 41.4 billion, marking a remarkable increase from the unusually low levels of 2020 (US$ 3.0 billion), driven by a post pandemic recovery boosted by global stimulus packages. Particularly, the spike in FDI inflows was due to a large corporate reconfiguration in South Africa – a share exchange between Naspers and Prosus in the third quarter of 2021.

However, in 2022, FDI inflows into SACU declined to US$ 10.2 billion as investor confidence remained subdued owing to the ongoing geopolitical conflict in Europe.

According to fDi Markets, the total capital investment in SACU over the last decade has been stable with investments increasing from US$ 8.5 billion in 2013 to US$ 10.5 billion in 2021. The inflow of investments witnessed a huge jump in the year 2022 at US$ 27.7 billion. The total envisaged capital investment in SACU during 2013 to 2022 was US$ 97.0 billion. Advanced countries such as the US, UK and Germany have been active investors in Southern African region. The maximum investment into SACU were recorded from UAE, accounting for 24.2% of total capex invested in the region during January 2013 to December 2022. During the same period, South Africa received 87.3% of total envisaged investments in the region, followed by Namibia (8.9%) and Botswana (2.6%). The real estate sector accounted for the largest share of global envisaged investments into SACU countries (28% of total investments received by SACU), followed by renewable energy and communications.

India's investment to SACU has moderated over the last 10 years, with the highest investment recorded in the year 2013 at US$ 741.8 million. Investments post COVID-19 have been subdued with only US$ 55.1 million being invested in the year 2022. The total capital investment of India in SACU stood at a cumulative amount of US$ 1.6 billion during 2013-2022, through 50 projects and creating 4,541 jobs in the region. South Africa received 78.6% of India's outward direct investments in the region, with renewable energy sector accounting for the largest share of approved investments.

Way Forward and Recommendations

India and SACU share strong and deep ties of cooperation. India's engagement with SACU has been, in many areas, private sector driven resulting in greater integration with the domestic market. As new trade and investment partnerships are forming across the world, India and Southern African countries can forge mutually useful collaborations in the following areas.

Enhancing Trade based on Identified Potential

India needs to expand its production and trade in products in which it has comparative advantage with SACU. This would help in expansion of trade and improve trade balance with SACU. The study has identified

potential items of exports which could be targeted by Indian exporters. According to the analysis, in the short term, it is suggested to strengthen the existing products in the category of Product Champions to exploit the full potential for the products which are already showing a robust growth in SACU, where India's exports also hold a comparative advantage. In the medium to long run, efforts and investments are to be enhanced in Underachievers category products to develop capacities in these products, which will help in meeting the demands of SACU in a more competitive manner.

Developing Manufacturing Value Chains

Despite having high level of commodity dependence, SACU countries have been steadily developing and expanding its manufacturing sector over the last decade. With post-pandemic economic recovery picking pace, Southern African countries are increasingly focusing on bolstering manufacturing and producing value-added goods. Given the potential of economies in the region, the governments are working on initiatives to improve the manufacturing sector's global competitiveness and increase its participation in regional and global markets. Industrialisation remains an overarching objective to deepening regional economic integration in SACU, through the development of regional value chains. In this regard, the focus sectors identified are - agro processing (leather and leather products, meat and meat products, fruits and vegetables), textiles and clothing, pharmaceuticals and cosmetics and essential oils. Many SACU countries already have well-established manufacturing apparatus but are looking for latest technologies and finance to further move up the value chain. Increased FDI in the manufacturing sector by Indian companies could catalyse the development of value chains by providing foreign capital and technical know-how.

India could support the development of agricultural value chain of SACU through various mechanisms including supply of tractors and agricultural equipment, investments in tractor manufacturing or agro-based implements, providing technology-based support for irrigation including solar operated pumps and joint creation of institutions focusing on marketing and finance that can help the sector to grow, amongst many others. The SACU countries and Africa remain critically dependent on imported medicinal and pharmaceutical products. India is the largest import source for SACU for its global imports of pharmaceutical products. Opportunities for Indian companies exist in setting up pharmaceutical manufacturing units with upgraded technology, where the growing number of hospitals and other healthcare facilities create higher demand for the supply of pharmaceuticals. The Public-Private Partnership (PPP) model could be explored for the development of the pharmaceutical value chain (for research and development, production, procurement, storage and distribution). Large scale regional pharmaceutical or vaccine manufacturing plants and joint facilities could be established, which could also be utilised for research and cold storage.

South Africa, among SACU countries, is a major exporter of raw hides and skin (HS-41) and articles of leather (HS-42). For sectors like leather, the SACU countries, with their livestock resources, availability of manpower and land, offer significant opportunities to the Indian companies for co-operation in areas of raw material development, marketing, investment, skill development, technology up-gradation and joint ventures, resulting in mutual benefits. Likewise, opportunities for collaboration and investment for Indian companies exist in the production of apparels and home textiles and textile engineering equipment.

Strategic Alliance for Sourcing Critical Minerals for EV Value Chain

The growing demand for electric vehicle component will create demand for various electronics and battery-related items, including controllers and capacitors. Thus, component makers are recognizing the importance of investing in EV component technology and capacity. Demand for required minerals such as lithium, cobalt,

copper and nickel will increase with changes in component requirements. A challenge here is the reliance on limited geographical areas for the extraction of such metals. To tackle this, India needs to form strategic alliances with countries where these critical minerals are produced. Solar photovoltaic plants, wind farms and electric vehicles generally require more critical minerals to build than their fossil fuel-based counterparts. A typical electric car requires six times the mineral inputs of a conventional car and an offshore wind plant requires thirteen times more mineral resources than a similarly sized gas-fired plant. Lithium, nickel, cobalt, manganese and graphite are crucial to battery performance. Rare earth elements are essential for permanent magnets that are used in wind turbines and EV motors.

Among the SACU countries, Namibia has 230 thousand tons of lithium resources. Namibia has recently banned export of unprocessed lithium in order to encourage domestic value addition. Japan and the EU has signed Memorandum of Understanding (MoUs) with Namibia to support value addition in the critical minerals sector through environmentally sustainable mechanisms, in an attempt to secure their need for critical minerals. The Khanij Bidesh India Ltd. (KABIL) could form joint ventures to secure critical mineral assets such as lithium and cobalt that could fuel India's plan for mass adoption of electric vehicles by 2030. Strategic investment funds or import credit lines could be set up with Namibia by signing MoUs to ensure India's import requirements for lithium.

Leveraging Southern Africa's Minerals for Energy Transition of India and SACU Countries

Rare Earth Elements (REE) have unique physical and chemical properties which make them indispensable in the manufacture of high-technology products and has prompted them to be classified as critical metals. Global production of REEs for 2021 was 280,000 metric tons (MT), with an estimated global reserve of approximately 120 million MT. In the SACU region, countries like South Africa and Namibia have significant quantities of neodymium, praseodymium and dysprosium.

The Steenkampskraal mine in the Western Cape province of South Africa has the highest grade of these REEs in the world. Therefore, South Africa is expected to become a significant supplier in the world market. While relatively abundant, these elements are less minable than common ores. They can have direct technical applications or can be used to facilitate the production and refinement of common high-technology products. Access to a steady supply of rare earth elements is key to the national security and economic viability of many countries across the world. Development finance institutions (DFIs) from India and the African Development Bank (AfDB) could work closely with governments in SACU countries to understand the needs of these commercial REE development attempts and support the companies to develop the value chain from end to end.

Increasing Circularity in Southern Africa's Mining Sector

The mining industry is the second-largest consumer of water after agriculture in Southern Africa. Effective management of clean water and wastewater is key to maintaining supplies of this resource. The use of water can be decreased if the mines' wastewater is recycled, reused, concentrated and reclaimed. Mining companies can improve wastewater management in three ways: lining waste and tailing dams to avoid water seepage, put wastewater in tanks to prevent evaporation and filtering water from slurry/sludge/tailings before storing the waste in dams. Other areas of the Circular Economy that fall into this category include recycling and reusing vehicle parts, repurposing waste rock, recycle and reprocess tailings, recycle and reuse construction materials, rehabilitate mines for economic development and recycle food waste for energy generation.

Increasing Role of Development Finance Institutions in Infrastructure Investment

SACU member countries include developing countries with large as well as small, isolated economies, with a mix of low, middle and upper middle-income countries. Regional infrastructure development creates a larger market and greater economic opportunities, and the development of infrastructure is critical for promoting and sustaining regional economic development, trade and investment, and contributes to poverty eradication and improved social conditions.

In the recent strategic plan, SACU places a lot of emphasis on improving regional infrastructure to solve various inefficiencies in their economies. On soft infrastructure, the focus is on employing digital technologies, supported by emerging technologies such as blockchain, artificial intelligence, big data and virtual reality, amongst others. On hard infrastructure, the focus is on enhancing infrastructure at selected commercial border posts. This also includes promoting the use of multi-modal transportation and enhancing hard infrastructure related to road, rail and air modes of transport to ease the movement of goods in and outside of the SACU region.

The infrastructure projects executed by India have a multiplier effect not only on the partner developing economy but also on Indian project exporters. Indian companies have been active in African markets especially in sectors like energy, transport and water and sanitation projects funded by the Multilateral Development Banks (MDBs) like the World Bank and the AfDB. India was the 2nd largest in terms of securing AfDB contracts by value during 2018 to 2022, accounting for a share of 5.6%, after China which accounted for 36.6% of total AfDB contracts. In case of contracts secured in the World Bank funded projects during 2018 to 2022 in Africa, India accounted for a share of 4.5% after China (18.6%) and Nigeria (4.9%). This reflects further scope for enhancing the presence of Indian project exporters in Africa and specifically in the Southern African region.

Increasing Digital Infrastructure

Digital Public Infrastructure (DPI) can contribute to the realization of the full potential of the African Continental Free Trade Area (AfCFTA), especially for micro, small and medium sized enterprises (MSMEs) that account for most registered businesses in Africa. SACU lists low internet speed or poor connectivity as one of the key challenges that hampers its operational capabilities and aims to improve operational efficiency through the enhancement of superior IT systems. The development of digital infrastructure is expected to help SACU keep up with the evolving and advancement in technology and is seen as critical to having safe and secure online platforms. It is seen as a gateway to support advances in e-commerce in terms of providing opportunities for the development of e-markets and digitalising custom services. The implications of these are seamless transactions for trade across borders and the creation of new employment opportunities. Other implications are on logistics, where it will lead to greater trade in goods, both domestic and cross-border which in turn requires greater regional market integration for efficient operation.

Countries including Bhutan, France, Mauritius, Nepal, Oman, Singapore, Sri Lanka and UAE are now accepting transactions through India's homegrown digital payments technology. This will ensure seamless, cost effective, swift and secure settlements between India's trading partners. Being development partners, India shares similar objectives with Africa and the SACU nations in areas including financial inclusion, development of fintech sector and supporting MSMEs, thereby boosting economic growth. The usage of cash is quite high in the SACU countries. There is scope for working with SACU on the UPI technology, by collaborating with global payment system providers and regulators to ensure compliance with local regulations and standards.

By building interoperability with India through creating opportunities for travellers from India to the SACU countries to scan their UPI apps and make UPI payments would ensure lower cost of transferring funds. India can also partner with these countries to help them develop indigenous digital payment infrastructure (UPI-like ecosystems) and sign commercial partnerships with existing platforms in these countries.

Mutual Recognition Agreements

Mutual Recognition Agreements (MRAs) in the realm of Quality Standards offer a potential avenue for collaboration between India and SACU. MRAs serve as pacts between trading partners aimed at diminishing technical trade barriers, specifically through mutual acknowledgment of 'conformity assessment.' Conformity assessment encompasses diverse methods such as inspection, testing, certification and licensing, aligning with technical regulations and standards to mitigate safety, environmental and health risks.

Increasing Access to Trade Finance

Prior to the COVID-19 pandemic, the trade finance gap in Africa was estimated at US$ 82 billion. According to the Absa Bank, this is estimated to have increased between US$ 100 billion to US$ 120 billion in 2022 as a result of COVID-19, geopolitical uncertainty and resulting supply chain constraints. The Southern African region accounts for the lowest default rate for trade finance assets at 1.1% among all the African regions against the African continental average of 4%. Between 2011 to 2019, the major correspondent banks in Africa witnessed significant decline in their trade finance confirmation activities due to lower risk appetite. Regulatory restrictions and higher compliance costs have been the major constraints cited for the retreat of international confirming banks from Africa, resulting in reduced trade finance availability, especially for SMEs. This creates a need for emerging market DFIs which are acquainted with Africa to develop financial instruments in order to support non-traditional confirming banks in Africa.

To address the widening global trade finance gap, Export-Import Bank of India (India Exim Bank) introduced a new trade finance product - Trade Assistance Programme (TAP). Under the aegis of TAP, the Bank is providing support by way of credit enhancement to various trade instruments to Indian banks engaged in international trade, by offering transaction-specific partial or full guarantees to cover payment risks on banks in least developed/developing countries. This programme envisages to augment India's exports whilst also helping importers abroad to engage in international trade whilst mitigating the risks involved and expanding their market/buyers for their products which were hitherto not addressed. Thus, TAP is providing enabling environment for counterparties in settlement of trade transactions. Presently there are 30 focus countries in Africa, out of which all five SACU countries are covered under the programme for risk mitigation.

Chapter

Brief Background of SACU

The Southern African Customs Union (SACU) is a customs union among five countries of Southern African region. These countries are Botswana, Eswatini, Lesotho, Namibia and South Africa. SACU is the most advanced form of regional integration within the African continent, with a common external tariff and common excise tariff for all its members. SACU has its headquarters in Windhoek, the capital of Namibia.

SACU is considered as the world's oldest custom union, dating back its roots to the Customs Union Convention held between the British Colony of Cape of Good Hope and the Orange Free State Boer Republic in 1889. The present form of the Union was established on June 29, 1910, when a new agreement was extended to the Union of South Africa and the British High Commission Territories (HCTs), i.e., Basutoland (Lesotho), Bechuanaland (Botswana), Swaziland and Southwest Africa (Namibia). SACU countries are also members of the larger Southern African Development Community (SADC).

SACU as a regional grouping, has a combined GDP of US$ 445.4 billion in 2022. With a total population of about 69.1 million, the SACU region offers enormous opportunity for investment in key strategic sectors and enhanced regional industrial synergies through the development of cross-border value chains. The SACU region's geographic location makes it a perfect gateway to SADC. The combined market size of almost 375 million offers a large export market, not only into the SACU region but also into the broader SADC market for the products produced within the Customs Union.

The 1910 SACU Agreement which was in effect till 1969 established free movement of SACU manufactured products within the union, without any duties or restrictions. Further, a Common External Tariff (CET) for all goods imported into the Union from the rest of the world was initiated. It also brought into practice a common pool of customs duties and excise duties based on the volume, total production and consumption of excisable goods, the revenue of which, was to be shared by a Revenue-Sharing Formula (RSF).

The agreement was revised in 1969 due to the structural issues of management and decision-making processes primarily arising from the inequitable revenue sharing. Negotiations to change the 1910 Agreement began after the HCTs gained their independence in the early 1960s, resulting in the 1969 Agreement. The 1969 SACU Agreement was penned by the sovereign states of Botswana, Lesotho, Swaziland and South Africa, on December 11, 1969. The new agreement incorporated changes that brought about the inclusion of excise duties in the revenue pool and also deployed a multiplier in the revenue sharing formula that enhanced the revenues of Botswana, Lesotho and Swaziland annually by 42%.

With the independence of Namibia in 1990 and the end of apartheid in South Africa in 1994, SACU members embarked on yet another set of new negotiations in 1994, that eventually led to signing of a new SACU Agreement in 2002. New agreement addressed a key issue-joint decision-making process. Prior to 2002, SACU was administered on a part-time basis by annual meetings of the Customs Union Commission with no effective procedures for compliance or dispute resolution.

Till 2002, South Africa had retained the sole decision-making power over customs and excise policies and had open access to markets of Botswana, Lesotho and Swaziland, that benefitted only South African manufacturers. However, post the 2002 agreement, an independent administrative secretariat was established in Windhoek, Namibia to oversee the activities of the union. Further to promote equal participation from the member states, several independent institutions were created including a Council of Ministers, a Customs Union Commission, Technical Liaison Committees, an ad hoc SACU Tribunal and a SACU Tariff Board. The agreement also bought a revision to the Revenue Sharing Formula by including a customs, excise and development components.

As set out in the SACU Agreement, 2002, the region aims to, among others, substantially increase investment opportunities in the Common Customs Area and promote the integration of the member countries into the global economy through enhanced trade and investment. In order to realise this, the SACU member countries, as a bloc, have signed a number of Preferential Trade Agreements (PTAs) with key trading partners, while the SACU countries are also beneficiaries to a number of non-reciprocal preferential trade arrangements. Most important among them being the African Growth and Opportunity Act (AGOA) provided by the US and the Generalised System of Preferences (GSP) of developed countries.

In addition to the market access opportunities emanating from the trade agreements, the region also offers free and seamless flow of goods without being subjected to customs duties. This offers great opportunity for inputs and finished products to be traded within SACU without any form of restrictive cumbersome administrative and regulatory trade requirements. This is enabled by the Common External Tariff (CET) which creates a Common Customs Area. Currently, the International Trade Administration Commission (ITAC) of South Africa administers the SACU CET.

Additionally, the region's coordinated Trade Facilitation and Logistics Programme is geared to enhance the efficiency of the trading environment in SACU and beyond through: (i) improved administrative efficiencies for the cross-border movement of goods; (ii) reduction of time and cost associated with cross border trade; (iii) improved compliance and security of the supply chain in SACU; and (iv) enhanced competitiveness of the SACU members.

Four of the five member countries of SACU (except for Botswana) are members of the Common Monetary Area (CMA) with their currencies pegged and freely convertible on a 1:1 basis to the South African Rand. SACU is also an Excise Union and as such applies identical excise duties as well as rebates, refunds or drawbacks of such duties.

Macroeconomic Background of SACU Member Countries

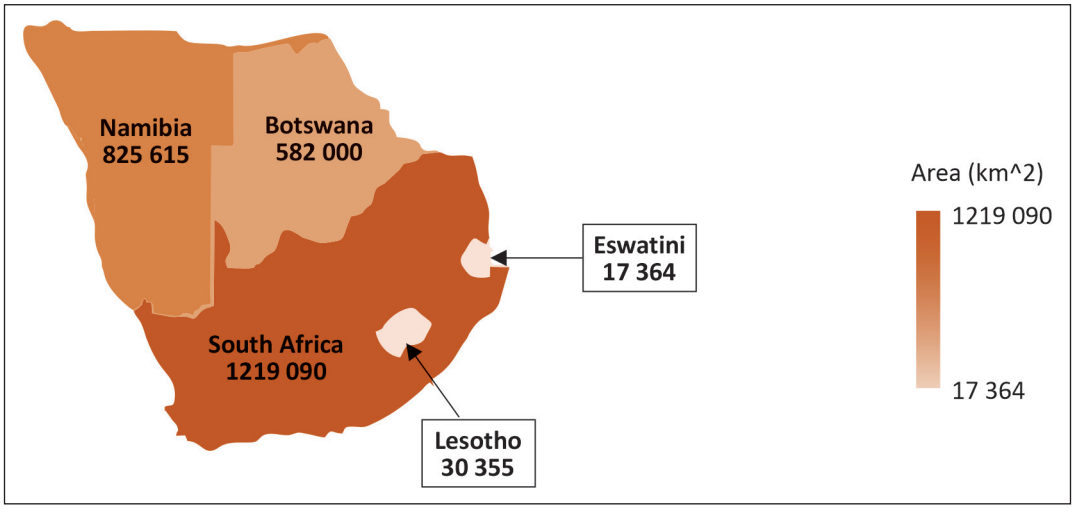
SACU is a single customs territory with a free flow and duty-free intra-SACU trade and a common external tariff applicable to all goods imported from outside the Customs Union. The SACU region has a stable

macroeconomic environment which creates a conducive atmosphere for trade and investment. With a GDP of US$ 445.4 billion in 2022, SACU accounted for 53.3% of total GDP of SADC and 17.9% of population of SADC. The SACU member countries are very diverse in terms of economic development: Lesotho is a least developed country (LDC), while Namibia and Botswana hold upper middle-income status and Eswatini is a lower middle-income country. With a GDP of US$ 405.1 billion, South Africa accounts for 91% of SACU's combined GDP in 2022 and 88% of its population. The second largest economy, Botswana, contributed 4.6% or US$ 20.4 billion to SACU's collective GDP, while Namibia, at US$ 12.6 billion contributed 2.8% of GDP. SACU economies, largely dominated by South Africa, had recorded a collective growth of 1.2% annually from 2014 to 2022, partially attributed to the global economic slowdown following the COVID-19 pandemic and also related to under-maintained transport infrastructure, high telecommunications costs and severe shortages of electricity.

South Africa is a relatively diversified economy, while the other four rely on a limited number of products. The mining and quarrying sector dominates merchandise production in Botswana, while manufacturing accounts for relatively large shares in Eswatini and Lesotho. All five economies remain dominated by the services sector (about 70% of SACU's GDP) and all have a large subsistence farming although agriculture accounts for only about 3% of GDP on average.

For the SACU region, the overall growth was 5.1% in 2021 after contracting at a pace of 6.4% in 2020 and from 0.2% in 2019. GDP growth is estimated to be at 6.4% in 2022 amid better global economic prospects and relaxation of international travel and tourism. Botswana registered the highest real GDP growth of 5.8% in 2022, followed by Namibia with its economy growing by 4.6%, Eswatini (3.6%), Lesotho (2.1%) and South Africa (1.9%). In general, the growth was attributed to real value added by activities in wholesale and retail trade; electricity, gas and water; mining and quarrying and manufacturing. SACU's harmonised consumer price index was recorded 6.2% in 2022 as compared to 5.8% in 2021 and is expected to accelerate to 7.2% in 2023.

Chart 1.1: Land Area in SACU (in km^2)



Source: SACU Website

The combined land area in SACU is 2,674,424 km^2. **Chart 1.1** shows the land area of SACU by its member states. South Africa has the largest land area among the SACU nations, followed by Namibia.

By economic activity, mining and quarrying was among the significant contributors of the economy in Botswana, while in Eswatini and Lesotho, the manufacturing sector was among key contributing sectors. In Namibia and South Africa, the financial and business services ranked among key contributing sectors.

Botswana

Botswana, located at the centre of Southern Africa is one of Africa's most stable democracies, with strong political institutions and a track record of peaceful elections. Being one of the poorest countries at the time of independence in 1966, it rapidly grew to become one of the fastest-growing economies on the back of major diamond wealth, robust political institutions and prudent economic management. With a relatively small population of about 2.6 million (2022), Botswana is classified as an upper-middle-income country by the IMF and is aspiring of becoming a high-income country by 2036. The economy is heavily dependent on the diamond mining sector. Rich deposits of diamonds, coal and copper give the country a comparative advantage.

Botswana's economy, although dominated by services (more than half of gross value added), is highly dependent on the diamond industry (the bulk of merchandise exports and nearly one-third of government revenue). Diamond cutting and polishing are the main manufacturing activities. Through its various new trade and economic plans and strategies, Botswana is seeking to diversify its economy and make it more competitive, export-oriented and focused on value-chain development.

Botswana is the largest producer of diamonds globally. The relocation of Diamond Trading Company from London to Botswana has facilitated opportunities along the diamond value chain. The government has succeeded in boosting the local diamond-cutting and polishing industry, facilitated by a new ten-year deal with De Beers, a UK-headquartered diamond company, signed in July 2023. Under the terms of the deal, 30% of rough stones will be sold locally (up from 25% previously) and the percentage will rise progressively in the final year of the agreement, to 50%. The government and De Beers also extended their 50-50 partnership in Debswana (the country's largest diamond-mining company) for another 35 years.

Despite the growth, the country has significant issues to tackle. Botswana's overreliance on the capital-intensive mining industry, mineral resources, a substantial public sector and growing susceptibility to adverse climate conditions have made the economy extremely prone to global economic fluctuations, worsening its fiscal and external vulnerabilities.

The real GDP of Botswana is expected to grow at 3.8% in 2023, which is marginally down from an estimated 5.8% in 2022 **(Table 1.1)**, owing to declining domestic diamond production and global prices. The key drivers of economic growth of Botswana in 2023 will be fiscal stimulus and loose monetary policy, with negative real interest rates at present. A significant risk to the 2023-24 growth prospect for Botswana is the possible greater than expected effect of the El Niño weather event on potable water supply for humans, agriculture and cattle ranching, affecting the agricultural output.

Prospects for years post-2024 are positive as diamond and copper mining, alongside favourable copper prices in the medium term, are expected to boost growth. Real GDP growth for the period of next 3 years is expected to average at around 5%. The average inflation is expected to moderate in 2023 and 2024, to 5.9% and 4.7%, respectively, owing to subdued domestic demand pressures, however, due to high base effects, it is still expected to be above the 3-6% target range in 2023.

Table 1.1: Macroeconomic Profile of Botswana

Economic Indicators	2019	2020	2021	2022	2023[e]	2024[f]	2025[f]
GDP (US$ bn)	16.7	14.9	18.7	20.4	20.8	21.9	23.5
Real GDP growth (%)	3.0	-8.7	11.9	5.8	3.8	4.1	4.3
Inflation (% change, avg CPI)	2.7	1.9	6.7	12.2	5.9	4.7	4.5
GDP per capita (US$)	6679.2	5863.2	7238.8	7737.7	7758.4	8067.2	8499.7
Population (mn)	2.5	2.5	2.6	2.6	2.7	2.7	2.8
Current account balance (US$ mn)	-1.2	-1.5	-0.3	0.6	0.2	0.3	0.3
Current account balance (% of GDP)	-6.9	-10.3	-1.3	3.0	0.8	1.5	1.1
General government gross debt (% of GDP)	16.5	18.7	18.7	18.0	18.7	18.1	17.0
Foreign-exchange reserves (US$ mn)	6170.2	4940.9	4801.6	4279.0	5078.0	5387.0	5523.0
Exchange rate [P: US$ (avg)]	10.7	11.4	11.0	12.3	13.6	13.8	14.0

Note: [e-] estimates; [f-] forecasts

Source: International Monetary Fund (IMF) World Economic Outlook (WEO) October 2023 and Economist Intelligence Unit (EIU)

The local currency of Botswana, 'Pula' is pegged to a currency basket comprising the Rand (with a weight of 45%) and the IMF's special drawing rights basket (with a weight of 55%). The central bank uses a crawling-band mechanism for small adjustments. A combination of strong US dollar as a result of monetary tightening by the Federal Reserve (the US central bank) and expected weakness in Rand will drive depreciation of the Pula against the US dollar, from P12.3:US$ 1 on average in 2022 to P13.8:US$ 1 in 2023.

Botswana's external position is also expected to weaken in 2023 and the current-account surplus is expected narrow from 3% of GDP in 2022 to 1.5% of GDP in 2024. Falling global diamond prices and a deterioration in the trade balance is driving this trend. Despite global food and fuel prices declining, the import bill would grow modestly owing to imports of equipment for mining projects. Botswana is expected to remain heavily dependent on receipts from SACU for both fiscal revenue and current-account inflows.

Lesotho

Lesotho is a small, mountainous, landlocked country surrounded by South Africa. Lesotho has a subsistence-based economy, relying on remittances and exports of rough diamonds and textiles for foreign exchange. The revenue generated from SACU acts as a key source of foreign currency for Lesotho, however it also exposes Lesotho's economy to other member countries' economic cycles. Lesotho's economy is dominated by the services sector (about 60% of GDP), followed by manufacturing (nearly 20% of GDP). The country is diamond rich, but value addition activities remain weak. The economy is confronted with pressing environmental issues; hence the government's major policy aims at addressing environmental deterioration and climate change.

Lesotho's economy grew by 2.1% in 2022, compared to 1.8% growth recorded in 2021 **(Table 1.2)**. The main growth drivers were construction, mining, manufacturing, business services and public administration. Agriculture also contributed positively due to good seasonal rainfalls and input subsidies.

Table 1.2: Macroeconomic Profile of Lesotho

Economic Indicators	2019	2020	2021	2022	2023[e]	2024[f]	2025[f]
GDP (US$ bn)	2.4	2.1	2.5	2.5	2.4	2.5	2.7
Real GDP growth (%)	-2.0	-3.9	1.8	2.1	2.1	2.3	2.5
Inflation (% change, avg CPI)	5.2	5.0	6.0	8.2	6.9	5.6	5.0
GDP per capita (US$)	1159.4	1034.7	1219.0	1166.2	1110.2	1166.7	1212.0
Population (mn)	2.0	2.1	2.1	2.1	2.1	2.2	2.2
Current account balance (US$ bn)	-0.04	-0.02	-0.1	-0.2	-0.1	-0.1	-0.2
Current account balance (% of GDP)	-1.5	-1.0	-4.4	-7.9	-3.1	-4.7	-9.0
General government gross debt (% of GDP)	57.0	53.6	55.7	59.9	61.3	60.4	60.3
Foreign-exchange reserves (US$ mn)	774.1	788.7	652.9	575.6	568.9	611.0	603.8
Exchange rate [M:US$ (avg)]	14.4	16.5	14.8	16.4	18.5	18.7	19.1

Note: [e-] estimates; [f-] forecasts

Source: IMF WEO October 2023 & EIU

Lesotho's real GDP is expected to grow modestly in 2024-25, driven by ongoing work on the Lesotho Highlands Water Project (LHWP II), which is expected to boost the construction sector. An expected rebound in global diamond prices from 2024 would also support the recovery of Lesotho's largest diamond mine, Liqhobong, contributing to real GDP growth. The expected resumption of monetary policy loosening from 2024, which brings down borrowing costs, alongside declining inflation, would lead to a modest rise in domestic demand, further supporting real GDP growth in 2024-25.

Major challenges to Lesotho's growth include prolonged electricity supply shortages in South Africa, directly impacting Lesotho's mining and manufacturing sectors, given its dependence on electricity supplies from South Africa. Further risks emerge in case of a more than expected impact from El Niño, which poses a risk of material damage to agricultural output, dampening GDP growth in 2024.

Inflation is expected to continue moderating in 2024-25 owing to declining global fuel prices and moderating inflation in South Africa, which dampens imported inflation, as South Africa remains Lesotho's major trading partner.

Foreign-currency reserves from SACU transfers and export receipts from diamond exports will support the Loti, limiting the pace of depreciation against the US dollar in 2024-25. Loti is pegged (at parity) to the South African Rand. An expected monetary policy loosening by the Federal Reserve (the US central bank) from 2024 (marking the reversal of the fastest pace of monetary policy tightening in more than a decade) would limit dollar strength, slowing the pace of Rand and by extension Loti, weakening against the dollar. The average exchange rate is expected to be at M18.7:US$ 1 at 2024 and M19.1:US$ 1 at 2025, from an estimated M18.5:US$ 1 during 2023. The Loti is expected to remain exposed to Rand volatility, especially prior to and following the 2024 South African elections.

Lesotho would continue to record a structural current-account deficit in 2024-25. An expected recovery in diamond prices from 2024 (with diamonds accounting for the largest share of Lesotho's exports) and elevated SACU transfers due to accelerating growth in regional economies such as South Africa from 2024 would push up exports in 2024-25, shrinking the current-account deficit. Lesotho is a beneficiary of the EU's "Everything but Arms" (EBA) scheme for least developed countries.

Namibia

Namibia is a geographically large country with a small population of about 2.6 million (2022) and a 1,500 km-long coastline on the South Atlantic. The driest country in Sub-Saharan Africa, Namibia is rich in mineral resources, including diamonds and uranium, sharing borders with Angola, Botswana, South Africa and Zambia.

Namibia's economy relies heavily on commodity exports, in particular of diamonds, exposing it to price shocks. Large graphite deposits are available in Namibia. Namibia has significant deposits of lithium, a battery metal that is pivotal to the electric-vehicle revolution, as well as rare earth minerals such as dysprosium and terbium used in magnets and wind turbines. Namibia has significant uranium mines capable of providing over 10% of world mining output. Namibia is ranked as the 3rd largest uranium producer in the world in 2022.

There have been some attempts to bring about diversification to include development of the energy sector following the discovery of major offshore oil and gas deposits. Namibia expects the first oil from major offshore finds by 2030. Namibia, which is yet to produce any oil and gas, has attracted strong interest from international energy companies.

Political stability, strong government institutions and sound macroeconomic management have helped improve poverty conditions in Namibia and have allowed Namibia to become an upper middle-income country. However, socioeconomic inequalities with a legacy of apartheid systems of government in the past remain extremely high and were worsened by the COVID-19 pandemic.

Economic activity in Namibia is estimated to grow at 2.8% in 2023, down from 4.6% in 2022, due to relatively high inflation, monetary tightening and lower growth in South Africa and Europe **(Table 1.3)**. Agricultural production has been severely hampered by uncertain weather shocks of draught and flooding and higher fertilizer prices due to the war in Ukraine. The expected deceleration reflects domestic and global monetary tightening and an economic slowdown in South Africa and Europe (major trading partners), limiting tourism and thus impacting growth. Government spending and goods exports will be the main riders of growth in 2024.

Table 1.3: Macroeconomic Profile of Namibia

Economic Indicators	2019	2020	2021	2022	2023[e]	2024[f]	2025[f]
GDP (US$ bn)	12.5	10.6	12.4	12.6	12.6	13.6	14.5
Real GDP growth (%)	-0.8	-8.1	3.5	4.6	2.8	2.7	2.7
Inflation (% change, avg CPI)	3.7	2.2	3.6	6.1	6.0	4.9	4.9
Population (mn)	2.5	2.5	2.6	2.6	2.6	2.7	2.7
GDP per capita (US$)	5099.4	4225.7	4879.2	4854.4	4785.7	5052.9	5293.9
Current account balance (US$ bn)	-0.2	0.3	-1.2	-1.6	-0.9	-0.9	-0.8
Current account balance (% of GDP)	-1.8	2.6	-9.9	-12.7	-7.1	-6.4	-5.5
General government gross debt (% of GDP)	57.6	64.3	70.4	69.8	67.6	66.8	65.4
Foreign-exchange reserves (US$ mn)	2049.1	2171.1	2763.9	2805.9	2844.4	2858.5	2848.2
Exchange rate [N$: US$ (avg)]	14.4	16.5	14.8	16.4	18.5	18.7	19.1

Note: [e-] estimates; [f-] forecasts

Source: IMF WEO October 2023 & EIU

Average inflation is expected to fall to 4.9% in 2024, from an estimated 6% in 2023. The relaxation of inflation will reflect abating global commodity prices and the impact of monetary tightening on domestic demand. Namibia's consumer price inflation will continue to reflect the trajectory of inflation in neighbouring South Africa.

The Namibian Dollar will remain pegged at parity to the South African Rand throughout 2024-28. The Rand remained under pressure in 2023 owing to a tightening of US monetary policy and softening prices for major mineral exports, in line with slowing global growth. As a commodity-dependent currency that is widely traded and serves as an emerging-market proxy, the Rand remains vulnerable to adverse global developments.

Namibia is expected to run a trade deficit in the coming years, as exports of minerals are offset by imports of food products, fuel and machinery and equipment. Namibia runs a surplus on services and this trend is likely to continue, although it will be small as a proportion of GDP. Tourism receipts are projected to rise from 2024 along with global economic growth, but local skills shortages will raise services import demand in the mining and the green and fossil-fuel energy sectors. Namibia's current account is expected to remain in deficit in 2024-28, but the shortfall would be slightly smaller than in 2023 as import prices fall, mineral production picks up and, in the near term, customs receipts from SACU rise.

Eswatini

Eswatini is a small, open economy bordering South Africa and Mozambique. The country has a population of around 1.2 million. Eswatini's economy is driven by subsistence agriculture and relies on manufacturing exports such as sugar, soft-drink concentrate, gold mining and tourism for foreign exchange. Eswatini is a major sugar producer in Africa. Eswatini has significant resource constraints hindering diversification.

From an estimated 3.1% growth in 2023, real GDP growth is expected strengthen to 3.3% in 2024 **(Table 1.4)**. Growth is projected to pick up moderately in 2024, reflecting in part improved South African growth prospects (the destination of more than 70% of Eswatini's exports) and lower inflation, supporting higher investment and stronger consumption. Economic growth, however, would remain below potential during 2024 as sustained inadequate rainfall triggered by El Niño climate patterns during the main growing season (November 2023-March 2024) negatively affects sugarcane (and consequent raw-sugar export earnings) and maize production.

Table 1.4: Macroeconomic Profile of Eswatini

Economic Indicators	2019	2020	2021	2022	2023[e]	2024[f]	2025[f]
GDP (US$ bn)	4.5	4.0	4.7	4.8	4.6	4.9	5.2
Real GDP growth (%)	2.7	-1.6	7.9	3.6	3.1	3.3	3.1
Inflation (% change, avg CPI)	2.6	3.9	3.7	4.8	5.5	5.0	4.3
GDP per capita (US$)	4031.7	3535.1	4164.8	4201.9	3995.0	4198.4	4365.8
Population (mn)	1.1	1.1	1.1	1.2	1.2	1.2	1.2
Current account balance (US$ bn)	0.2	0.3	0.1	0.0	0.3	0.2	0.1
Current account balance (% of GDP)	3.9	7.1	2.7	-0.7	6.3	3.2	1.4
General government gross debt (% of GDP)	39.5	41.2	40.8	42.0	42.4	41.9	43.0
Foreign-exchange reserves (US$ mn)	440.3	545.6	572.3	452.4	571.1	582.0	587.8
Exchange rate [E: US$ (avg)]	14.4	16.5	14.8	16.4	18.5	18.7	19.1

Note: [e-] estimates; [f-] forecasts

Source: IMF WEO October 2023 & EIU

Inflation in Eswatini broadly tracks price trends in South Africa, the source of most of its imports, as the Eswatini Lilangeni is pegged to the Rand. The Rand is expected to depreciate against the US dollar at a much slower pace in 2024-25, compared with 2023. From an estimated 5.5% in 2023, inflation is expected to moderate in 2024 to 5%, as logistical disruptions begin to ease, global prices for fuel moderate, which acts as major import moderate and regional food prices coming down.

The current-account surplus as a share of GDP is projected to widen to an estimated 6.3% in 2023 from a deficit of 0.7% in 2022, driven by a sustained widening of the large secondary income surplus, reflecting a surge in SACU transfers and a pick-up in inbound external aid.

South Africa

South Africa is Sub-Saharan Africa's largest and most advanced economy backed by a wealth of natural resources and diversified industrial base. South Africa has the world's largest reserves of platinum group metals (PGMs) and second-largest reserves of gold. South Africa accounts for approximately 30% of the world's manganese reserves and is also the largest producer of manganese globally. South Africa remains a major source of critical minerals including chromium, palladium and platinum. Chromium is consumed in the form of ferrochromium to produce stainless steel. South Africa is the world's leading chromite ore producer. Despite these advantages, South Africa faces persistent structural constraints, such as high unemployment, skill deficits and power shortages.

The real GDP growth is estimated to moderate to 0.9% in 2023, down from 1.9% in the previous year as a global slowdown heightened serious domestic constraints, led by devastating power shortages, which are disrupting day-to-day business operations **(Table 1.5)**. Exacerbating the frequent power cuts, South Africa is also battling transport bottlenecks, rampant unemployment and high interest rates. The combined impact is expected to slow down the domestic economy. Rising loan costs and difficult credit conditions are expected to reduce the household disposable income in 2023, heightening the risk of strikes and social discontent.

Table 1.5: Macroeconomic Profile of South Africa

Economic Indicators	2019	2020	2021	2022	2023[e]	2024[f]	2025[f]
GDP (US$ bn)	389.2	338.2	420.0	405.1	380.9	401.5	417.9
Real GDP growth (%)	0.3	-6.0	4.7	1.9	0.9	1.8	1.6
Inflation (% change, avg CPI)	4.1	3.3	4.6	6.9	5.8	4.8	4.5
GDP per capita (US$)	6622.6	5672.3	6983.5	6684.5	6190.7	6426.9	6590.2
Population (mn)	58.8	59.6	60.1	60.6	61.5	62.5	63.4
Current account balance (US$ bn)	-10.1	6.6	15.3	-1.8	-9.5	-11.1	-9.9
Current account balance (% of GDP)	-2.6	1.9	3.7	-0.5	-2.5	-2.8	-2.4
General government gross debt (% of GDP)	56.1	68.9	68.8	71.1	73.7	75.8	78.8
Foreign-exchange reserves (US$ bn)	48.9	47.4	50.3	53.2	57.1	61.2	64.0
Exchange rate [R: US$ (avg)]	14.4	16.5	14.8	16.4	18.5	18.7	19.1

Note: [e-] estimates; [f-] forecasts

Source: IMF WEO October 2023 & EIU

Growth is expected to recover modestly in 2024 to 1.8%, aided by a global uptick and an improvement in power supplies, led by new private-sector renewable energy projects. The policy environment is expected to become more accommodating in 2024 as the government speeds up the pace of structural reforms in a bid to facilitate private investment, including in state-run ports and railways.

Recent price trends confirm that inflation is likely to fall modestly in 2023, in line with global trends, to 5.8% on average. The main inflation risks are a sharp rise in electricity tariffs, Rand depreciation and higher global oil and food prices stemming from the Russia-Ukraine war. Factors curbing inflation are limited aggregate domestic demand, spare industrial capacity, strong retail competition and rising interest rates.

The Rand remains under pressure, owing to stringent US monetary tightening and a strong dollar, alongside softening prices for major mineral exports, in line with slowing global growth. Being commodity-dependent, widely traded and an emerging-market proxy, the Rand remains vulnerable to adverse global developments, including possible additional rise in US interest-rate.

Domestic constraints, led by the damaging economic impact of serious electricity shortages, alongside tensions with the US about South Africa's relations with Russia are amplifying the tough global backdrop.

After reverting to a deficit in 2022, South Africa's current account is expected to continue to remain in deficits during 2023-25. Commodity prices will be weaker during 2023-25 than in 2022 as slowing global growth and rising geopolitical tensions are expected to dampen both exports and imports. South Africa remains an important base for multinational companies with pan-African operations, offering services including banking, capital-raising and trade-related functions.

On February 24, 2023, the Financial Action Task Force (FATF, a global watchdog) added South Africa to its grey list of countries, with flaws in their approach to combating money-laundering and terrorism financing. Though, South Africa has made notable progress in addressing the deficiencies outlined by the FATF in October 2021, helped by the passage of remedial legislation in December 2022, further action is required for the country to be taken out of the grey list.

Chapter

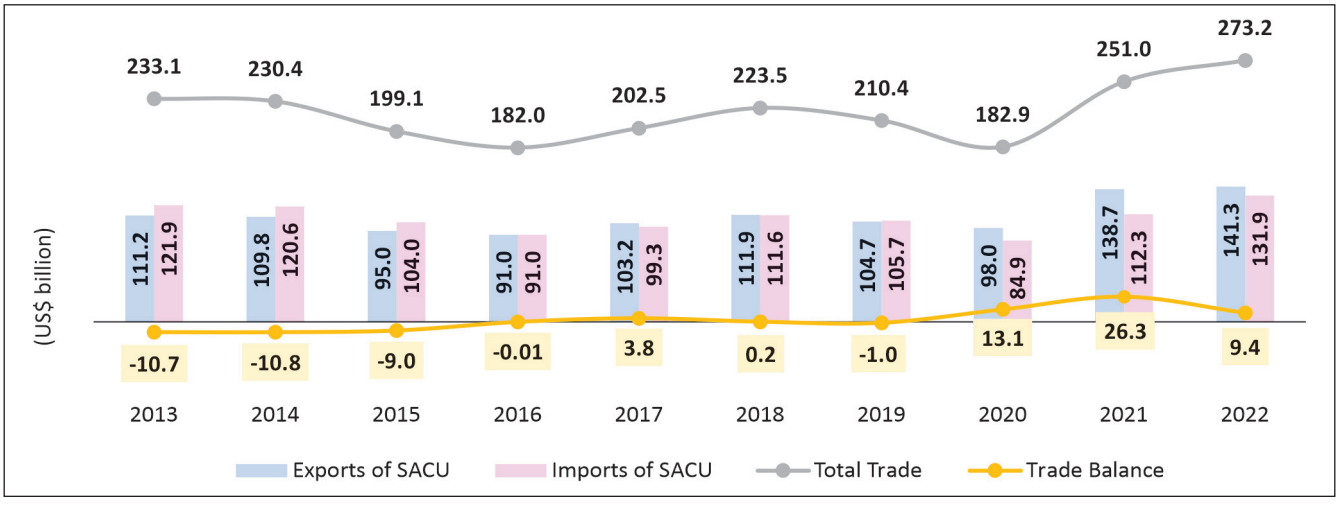
2

International Merchandise Trade of SACU

SACU's trade has had a wavering trend as the region's trade is significantly influenced by international commodity prices and is heavily dependent on South Africa. SACU's aggregate trade in goods and services as a percentage of its GDP declined from 63.6% in 2014 to 53.7% in 2020 due to the pandemic and then recovered to 59.2% in 2021 and 67.7% in 2022.

Total merchandise trade of SACU countries increased from US$ 233.1 billion in 2013 to US$ 273.2 billion in 2022. SACU's global merchandise exports growth during the last decade has been sluggish, growing at an annual average growth rate (AAGR) of 3.7%, with exports reaching the highest level in 2022 at US$ 141.3 billion **(Chart 2.1)**. Imports have declined between 2015-20 before increasing again to reach the past levels of 2013. Imports touched the highest level of US$ 131.9 billion in 2022 compared to US$ 112.3 billion in the previous year. Trade surplus has widened in 2020 and 2021 resulting from higher exports growth, before moderating to US$ 9.4 billion in 2022. SACU's share in global trade stood at 0.55% in 2022, marginally down from 0.6% in 2013.

Chart 2.1: Merchandise Trade of SACU, 2013-2022



Source: ITC Trade Map and India Exim Bank Research

SACU - Exports

SACU's share in Africa's exports stood at 20.7%, while its share in world exports stood at 0.6% in 2022 **(Table 2.1)**. South Africa is the largest exporter among SACU countries, accounting for 87.5% of the region's total exports in 2022. Other major exporters from SACU include Botswana and Namibia, accounting for over 10% of total exports from SACU.

Table 2.1: SACU's Merchandise Exports, 2013 - 2022 (US$ billion)

Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	% Share in SACU's Global Exports in 2022	% Share in Africa's Exports in 2022	% Share in Global Exports in 2022
SACU's Total Exports	**111.2**	**109.8**	**95.0**	**91.0**	**103.2**	**111.9**	**104.7**	**98.0**	**138.7**	**141.3**	**100.0**	**20.7**	**0.6**
South Africa	95.1	92.6	81.8	76.6	89.6	95.2	90.4	85.7	123.7	123.6	87.5	18.1	0.5
Botswana	7.6	8.5	6.3	7.4	6.0	6.6	5.2	4.3	7.4	8.3	5.9	1.2	0.03
Namibia	6.3	6.0	4.6	4.8	5.2	7.5	6.4	5.4	4.5	6.0	4.2	0.9	0.02
Eswatini	1.9	1.9	1.7	1.6	1.8	1.9	2.0	1.8	2.1	2.5	1.7	0.4	0.01
Lesotho	0.4	0.8	0.6	0.6	0.7	0.7	0.6	0.8	1.0	0.9	0.6	0.1	0.004

Source: ITC Trade Map and India Exim Bank Research

Major Exported Commodities and Export Destinations

SACU accounts for a major share of Africa's mineral and metal exports. The region also accounts for considerable manufacturing exports of the continent like machinery, electrical equipment and vehicles, mainly due to the strong industrial base of South Africa.

Pearls, precious stones and metals were the largest category of products exported from SACU in 2022 **(Table 2.2)**. These mainly includes platinum, including palladium, rhodium, iridium, osmium and ruthenium (HS-7110); diamonds, whether or not worked (HS-7102) and gold, including gold plated with platinum (HS-7108). South Africa accounted for 74.4% of SACU's exports of pearls, precious stones and metals, followed by Botswana (20.1%). The region accounted for 3.9% of the world exports of pearls, precious stones and metals in 2022.

Table 2.2: SACU's Major Export Items

HS Code	Products	2013		2017		2021		2022	
		Value (US$ bn)	Share in SACU's Exports (%)	Value (US$ bn)	Share in SACU's Exports (%)	Value (US$ bn)	Share in SACU's Exports (%)	Value (US$ bn)	Share in SACU's Exports (%)
	SACU's Total Exports	**111.2**	**100.0**	**103.2**	**100.0**	**138.7**	**100.0**	**141.3**	**100.0**
71	Pearls, precious stones and metals	25.3	22.8	22.3	21.6	43.1	31.1	36.1	25.6
27	Mineral fuels, mineral oils	10.3	9.3	10.7	10.4	10.5	7.6	18.0	12.7
26	Ores, slag and ash	14.9	13.4	11.9	11.5	19.4	14.0	17.8	12.6
87	Vehicles other than railway or tramway rolling stock	8.6	7.7	10.0	9.7	10.8	7.8	11.3	8.0
84	Machinery and mechanical appliances	7.0	6.3	5.6	5.4	6.8	4.9	6.9	4.9
72	Iron and steel	6.5	5.8	6.1	5.9	6.4	4.6	6.7	4.7
8	Edible fruit and nuts	2.7	2.4	3.4	3.3	4.5	3.2	4.6	3.3
85	Electrical machinery and equipment	2.4	2.2	2.0	1.9	1.9	1.4	2.2	1.6
28	Inorganic chemicals	1.0	0.9	1.0	1.0	1.5	1.1	2.1	1.5
76	Aluminium and articles	1.9	1.7	1.8	1.7	1.9	1.4	2.0	1.4
39	Plastics and articles	1.5	1.3	1.4	1.4	1.7	1.2	1.8	1.3
22	Beverages, spirits and vinegar	1.7	1.5	1.5	1.5	1.6	1.2	1.7	1.2

Source: ITC Trade Map and India Exim Bank Research

The second most exported commodities were mineral fuels and oils, mainly composed of coal, briquettes, ovoids and similar solid fuels (HS-2701), petroleum oils and oils obtained from bituminous mineral (HS-2710) and electrical energy (HS-2716). Within the region, major exporters of mineral fuels include South Africa (94.5%). SACU accounted for 0.5% of the world exports of mineral fuels in 2022.

The EU-27 is the largest market for SACU exports and the largest supplier of its imports. While developed countries such as the US and Germany, among others, continue to be the traditional destinations for SACU's exports, developing countries such as China and India have emerged as major export destinations in recent years.

In 2022, China and the US were the largest export destinations for the region, accounting for 9.1% and 8.1% of SACU's global exports, respectively. India's share in SACU's exports has increased from 4% in 2021 to 4.5% in 2022. India is currently the fifth largest export destination for SACU **(Table 2.3)**. Major suppliers to China from the SACU region include South Africa and Botswana, while major supplier to the US in 2022 was also South Africa. India's major suppliers from the region include South Africa and Botswana.

Table 2.3: SACU's Major Export Destinations

Export Destinations	2013		2017		2021		2022	
	Value (US$ bn)	Share in SACU's Exports (%)	Value (US$ bn)	Share in SACU's Exports (%)	Value (US$ bn)	Share in SACU's Exports (%)	Value (US$ bn)	Share in SACU's Exports (%)
SACU's Total Exports	**111.2**	**100.0**	**103.2**	**100.0**	**138.7**	**100.0**	**141.3**	**100.0**
China	12.3	11.1	8.9	8.6	14.6	10.5	12.9	9.1
USA	7.3	6.6	7.3	7.1	13.6	9.8	11.5	8.1
Germany	3.9	3.5	6.4	6.2	10.6	7.6	10.1	7.2
Japan	5.6	5.0	4.2	4.1	8.3	6.0	8.6	6.1
India	3.2	2.9	5.4	5.2	5.6	4.0	6.4	4.6
UK	7.2	6.5	3.6	3.5	8.3	6.0	6.4	4.5
Netherlands	3.1	2.8	2.9	2.8	4.4	3.2	6.3	4.5
Belgium	3.1	2.8	4.1	4.0	5.7	4.1	5.9	4.2
Mozambique	3.0	2.7	3.1	3.0	4.5	3.2	5.9	4.2
Botswana	5.5	5.0	4.5	4.4	5.0	3.6	5.8	4.1
UAE	1.4	1.3	3.0	2.9	4.4	3.2	5.0	3.5

Source: ITC Trade Map and India Exim Bank Research

SACU – Imports

As regards imports, South Africa dominates imports of the SACU region, accounting for 85% of the region's total imports **(Table 2.4)**. Other major importers in the region include Botswana and Namibia, together accounting for more than 12% of imports. China is the largest supplier for South Africa, with imports from China mainly including electrical equipment and machinery and mechanical appliances.

Table 2.4: SACU's Major Importers, 2013-2022 (US$ billion)

Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	% Share in SACU's Global Imports in 2022	% Share in Africa's Imports in 2022	% Share in Global Imports in 2022
SACU's Total Imports	**121.9**	**120.6**	**104.0**	**91.0**	**99.3**	**111.6**	**105.7**	**84.9**	**112.3**	**131.9**	**100.0**	**18.2**	**0.5**
South Africa	103.3	99.8	85.8	75.1	83.3	94.0	88.2	68.7	93.6	111.9	84.8	15.4	0.44
Botswana	7.4	9.2	7.2	6.1	5.3	6.3	6.6	6.5	8.4	8.1	6.1	1.1	0.03
Namibia	7.6	8.5	8.2	7.0	7.0	8.3	7.7	6.6	6.4	8.0	6.0	1.1	0.03
Eswatini	1.8	1.7	1.5	1.3	1.6	1.9	1.8	1.6	2.1	2.1	1.6	0.3	0.01
Lesotho	1.8	1.4	1.4	1.5	2.1	1.1	1.4	1.5	1.8	1.9	1.4	0.3	0.01

Source: ITC Trade Map and India Exim Bank Research

In contrast to SACU's export basket, which is largely dominated by precious stones and metals and crude oil, SACU's imports are relatively diversified. Mineral fuels and machinery are the two largest import items, followed by electrical equipment, vehicles other than railway or tramway, precious stones and metals, plastics and its articles and pharmaceutical products **(Table 2.5)**.

Table 2.5: SACU's Major Import Items

HS Code	Products	2013		2017		2021		2022	
		Value (US$ bn)	Share in SACU's Imports (%)	Value (US$ bn)	Share in SACU's Imports (%)	Value (US$ bn)	Share in SACU's Imports (%)	Value (US$ bn)	Share in SACU's Imports (%)
	SACU's Total Imports	**121.9**	**100.0**	**99.3**	**100.0**	**112.3**	**100.0**	**131.9**	**100.0**
27	Mineral fuels, mineral oils	24.8	20.3	14.3	14.4	17.9	15.9	29.0	22.0
84	Machinery and mechanical appliances	16.4	13.5	12.2	12.3	12.6	11.2	14.0	10.7
85	Electrical machinery and equipment	11.4	9.3	9.4	9.5	9.6	8.5	11.4	8.7
87	Vehicles other than railway or tramway	10.8	8.9	8.2	8.3	7.7	6.9	9.7	7.3
71	Precious or semi-precious stone and metals	3.4	2.8	2.8	2.9	4.6	4.1	4.1	3.1
39	Plastics and articles	3.0	2.4	2.9	2.9	3.5	3.1	3.7	2.8
30	Pharmaceutical products	2.6	2.2	2.7	2.7	3.6	3.2	2.9	2.2
38	Miscellaneous chemical products	1.8	1.5	1.7	1.8	2.2	2.0	2.5	1.9
90	Optical, photographic and medical equipment	2.6	2.2	2.3	2.4	2.5	2.2	2.5	1.9
28	Inorganic chemicals	1.4	1.1	1.4	1.4	1.8	1.6	2.3	1.7

Source: ITC Trade Map and India Exim Bank Research

SACU's import of mineral fuels, oils and its products were mainly dominated by petroleum oil not crude (HS-2710). The region's petroleum oil imports were mainly sourced from UAE, India, Saudi Arabia, Oman and Nigeria. SACU's import of machinery and equipment, the second-largest import item of the region, were mainly from China, the US, Germany, South Africa, Japan, Italy and India.

Within machinery and equipment, automated data processing machines were the major import items of SACU. Major importers of electrical machinery and equipment (majorly telephone sets and electric accumulators) include China, South Africa, Vietnam, India, the US and Germany.

Table 2.6: SACU – Major Import Sources

Import Sources	2013		2017		2021		2022	
	Value (US$ bn)	Share in SACU's Imports (%)	Value (US$ bn)	Share in SACU's Imports (%)	Value (US$ bn)	Share in SACU's Imports% (%)	Value (US$ bn)	Share in SACU's Imports (%)
SACU's Total Imports	**121.9**	**100.0**	**99.3**	**100.0**	**112.3**	**100.0**	**131.9**	**100.0**
China	16.5	13.5	16.1	16.2	20.3	18.1	23.5	17.8
South Africa	12.8	10.5	10.4	10.5	11.2	10.0	11.7	8.9
India	5.5	4.5	4.3	4.3	6.1	5.4	9.1	6.9
USA	6.9	5.7	5.8	5.8	6.9	6.1	8.7	6.6
Germany	10.9	8.9	9.8	9.9	7.8	6.9	8.5	6.5
Saudi Arabia	8.0	6.6	3.9	3.9	4.2	3.7	4.6	3.5
UAE	1.0	0.8	1.3	1.3	2.4	2.1	4.6	3.5
Thailand	2.8	2.3	2.5	2.5	3.0	2.7	3.1	2.4
Japan	4.2	3.4	3.0	3.0	2.8	2.5	3.0	2.3
Oman	0.3	0.2	0.6	0.6	2.0	1.8	2.7	2.1
Italy	2.8	2.3	2.3	2.3	2.6	2.3	2.6	2.0
Nigeria	3.6	3.0	1.7	1.7	2.2	2.0	2.3	1.7

Source: ITC Trade Map and India Exim Bank Research

As regards SACU's global imports, China has emerged as the leading supplier to SACU, accounting for as much as 17.8% of SACU's total imports in 2022, followed by South Africa (8.9%) supplying to rest of the SACU member countries. India was the third-largest source for SACU's imports, accounting for 6.9% share in 2022 **(Table 2.6)**. China's main market in the SACU region remains South Africa. South Africa's exports to the region were mainly destined towards Botswana and Namibia. In the case of India, its main markets in the SACU region comprise South Africa and Namibia.

Merchandise Trade of SACU Countries

South Africa

South Africa's exports moderated marginally to US$ 123.6 billion in 2022 from US$ 123.7 billion in the previous year. South Africa's imports increased to US$ 111.9 billion in 2022 from US$ 93.6 billion in 2021. South Africa's trade surplus moderated to US$ 11.7 billion in 2022 from US$ 30.1 billion in 2021. In 2022,

the major export items of South Africa were pearls and precious stones (21.8% of total exports), mineral fuels, oils and its products (13.8%), ores, slag, ash (13.2%), vehicles other than railway or tramway (9%), iron and steel (5.4%), machinery and mechanical appliances (5.4%) and edible fruits and nuts (3.6%). Top exporting destinations for South Africa in 2022 were China (9.7%), the US (8.9%), Germany (8.1%), Japan (7%), UK (5.1%) and Netherlands (4.9%). Mineral fuels, oil and their products, which accounted for 22.7% of total imports of South Africa in 2022, were the largest imports of the country. Other major items of import were machinery and mechanical appliances (11.2%), electrical machinery and parts (9.3%), vehicles other than railway or tramway (7.5%), plastics and articles (2.9%), pharmaceutical products (2.3%) and optical, photographic, medical or surgical instruments (2.1%). Major sources of imports for South Africa in 2022 were China (20.1%), India (7.5%), Germany (7.4%), the US (7.4%), Saudi Arabia (3.9%) and UAE (3.7%).

Botswana

Botswana's exports increased to an estimated US$ 8.3 billion in 2022, from previous year's US$ 7.4 billion, mainly resulting from a rise in exports of diamond. Pearls and precious stones were the main export items of Botswana in 2022, accounting for 87.4% of total exports of Botswana. Other exports of Botswana during the same year included ores, slag and ash (3.8%), electrical machinery and equipment (2%), meat and edible meat offal (1.1%) and mineral fuels and oils (0.7%). Main export market for Botswana in 2022 was UAE, which accounted for 27.2% of total exports. Other major export destinations in the same year include Belgium (19.6%), India (15.1%), South Africa (10.1%) and Hong Kong (6.5%). Imports decreased marginally from US$ 8.4 billion in 2021 to an estimated US$ 8.1 billion in 2022. Pearls and precious stones were also the main import items of Botswana in 2022, accounting for 27.3% of total imports of Botswana. Other imports of Botswana during the same year include mineral fuels, oils and distillation products (18.3% of total imports in 2022), machinery and instruments (7.2%), vehicles other than railway, tramway (5.6%) and electrical and electronic equipment (4.8%). South Africa was the leading country of origin for Botswana's imports, accounting for 62.6% of total imports in 2022. Other important origins of imports in the same year were Namibia (7.1%), Belgium (5.7%), India (4.4%) and Canada (3.6%). Due to increase in exports, trade deficit of US$ 1 billion in 2021 flipped to an estimated surplus of US$ 0.2 billion in 2022.

Namibia

Namibia's exports increased to US$ 6 billion in 2022, compared to US$ 4.5 billion registered in the previous year. Namibia's imports also increased from US$ 6.4 billion in 2021 to US$ 8.0 billion in 2022. Thus, trade deficit narrowed marginally from US$ 1.9 billion in 2021 to US$ 2 billion in 2022. The main products exported by Namibia in 2022 were pearls and precious stones (29.7% of total exports), ores, slag and ash (19.6%), fish and crustaceans (12.3%), mineral oils and fuels (7.4%), copper and articles (3.3%) and plastering materials (2.6%). Major imports by Namibia during 2022 were mineral fuels and oils (18.4%), machinery and mechanical appliances (8.6%), vehicles other than railway or tramway (7.4%), ores, slag and ash (7.0%) and electrical machinery and equipment (5.0%). The main destinations of Namibian exports during 2022 were South Africa (17.3%), Botswana (17.2%), China (12.3%), Zambia (7.7%) and DR Congo (5.5%). The main origins of imports during the same year were South Africa (39%), China (7.6%), India (4.7%), UAE (3.8%) and the US (3.3%).

Eswatini

Eswatini's exports increased to an estimated US$ 2.5 billion in 2022, as compared to US$ 2.1 billion recorded in 2021. Eswatini's imports also increased to an estimated US$ 2.1 billion in 2022, as compared to US$ 2.05 billion recorded in 2021. Accordingly, Eswatini's trade surplus widened to US$ 0.4 billion in 2022, as compared to US$ 0.02 billion recorded a year ago. Essential oils and perfumes accounted for 23.7% of Eswatini's total exports in 2022. Other principal exports in the same year were mineral fuels and oils (20.1%), sugar and sugar confectionery (15.1%), miscellaneous chemical products (9.1%), articles of apparel and clothing not knitted (6.4%) and wood and articles of wood (5.6%). Mineral fuels, oils and product of distillation accounted for 14.1% of Eswatini's total imports in 2022. Other principal imports in the same year were machinery and mechanical appliances (7.5%), vehicles other than railway or tramway (4.9%), precious pearls and stones (4.7%), plastics and articles (4.2%), cereals (4.1%) and electrical machinery and appliances (4.1%). In 2022, South Africa was the major export destination of Eswatini, accounting for 55.1% of Eswatini's exports. Other major export destinations in the same year included DR Congo (16.9%), Kenya (4.1%), Nigeria (2.8%) and Mozambique (2.5%). South Africa was also the leading source of Eswatini's imports, accounting for 72% of total imports in 2022. Other main sources of imports in the same year included China (4%), the US (3.5%), Mozambique (3.1%) and Mauritania (2.7%).

Lesotho

Lesotho's exports are estimated to have decreased to US$ 917.2 million in 2022, as compared to US$ 977.7 million recorded in 2021. Lesotho's imports are estimated to have increased marginally to US$ 1.9 billion in 2022, as compared to US$ 1.8 billion recorded in 2021. Accordingly, Lesotho's trade deficit widened to US$ 964.2 million in 2022, as compared to US$ 854.9 million recorded in 2021. Articles of apparel and clothing accessories were the largest items exported by Lesotho, accounting for 26.6% of total exports in 2022. Other major exported items in the same year included knitted articles of apparel and clothing accessories (18.8% of total exports), non-knitted articles of apparel and clothing (16.3%), beverages, spirits and vinegar (9.3%), electrical machinery and equipment (5.5%) and wool and animal hair (5.2%). South Africa was the major export destination of Lesotho, accounting for 51.2% of total exports in 2022. The other major destinations in the same year included the US (25.8% of total exports), Belgium (18.8%), Eswatini (1.2%), Germany (0.8%) and Canada (0.6%).

Mineral fuels were the major items in the import basket of Lesotho, accounting for 16.7% of total imports in 2022. Other major imported items in the same year included cotton (7.0% of total imports), knitted or crocheted fabrics (5.4%), electrical machinery and equipment (5.4%), machinery and mechanical appliances (4.9%) and vehicles other than railway (5.4%). South Africa was the largest source of Lesotho's imports, with a share of 84.9% of total imports in 2022, followed by China (4.6%), Taiwan (4.1%), Zimbabwe (3.8%), India (2.7%), Japan (0.8%) and Hong Kong (0.7%).

Intra-SACU Trade

Intra-regional trade of SACU remains limited, with intra-regional exports moderating from US$ 16.8 billion in 2013 to US$ 16.2 billion in 2022, while intra-regional imports moderated from US$ 16.2 billion in 2013 to US$ 15.8 billion in 2022. SACU's trade with member countries accounted for 11.5% of the region's exports and 12% of its imports compared to the rest of the world in 2022. The share of exports have increased compared to 2021, where intra-regional exports accounted for 10.7% of total exports in 2021 while the share of intra-regional imports have moderated with intra-regional imports accounting for 13.2% of total imports

in 2021. Eswatini and Lesotho depend more on intra-SACU trade than the other members. The combined shares of the other SACU members in South Africa's total trade are less significant than South Africa's share in their total trade. This reflects greater diversification of South Africa's import sources and export markets and the relatively narrow export baskets of the other four SACU members.

Precious stones and metals accounted for the largest share of exported goods amongst the SACU countries, accounting for 14.1% of all intra-regional exports in 2022. Other key exported goods were mineral fuels and mineral oils (13.6%), machinery and mechanical appliances (6.3%), vehicles other than railway or tramway (5.6%) and electrical machinery and equipment (5.1%) **(Table 2.7)**.

Table 2.7: Intra-SACU Exports – Major Commodities (US$ billion)

HS code	Product	2013	2017	2021	2022	% Share in 2022	Intra SACU exports as a % of SACU's Global Exports
	SACU's Intra-regional Exports	**16.8**	**14.2**	**14.9**	**16.2**	**100.0**	**11.5**
71	Precious or semi-precious stones	1.8	1.9	1.8	2.3	14.1	6.3
27	Mineral fuels, and mineral oils	2.1	1.4	1.7	2.2	13.6	12.2
84	Machinery and mechanical appliances	1.2	1.0	1.0	1.0	6.3	14.8
87	Vehicles other than railway or tramway	1.4	1.0	0.9	0.9	5.6	8.0
85	Electrical machinery and equipment	0.7	0.7	0.8	0.8	5.1	37.8
33	Essential oils and resinoids	0.6	0.6	0.6	0.5	3.3	42.9
22	Beverages, spirits and vinegar	0.4	0.3	0.4	0.5	3.1	30.5
39	Plastics and articles	0.4	0.3	0.4	0.4	2.6	23.5
17	Sugars and sugar confectionery	0.4	0.4	0.5	0.4	2.6	52.0
62	Articles of apparel and clothing, not knitted or crocheted	0.3	0.3	0.4	0.4	2.4	76.5
10	Cereals	0.3	0.2	0.3	0.4	2.2	23.2
73	Articles of iron or steel	0.4	0.4	0.4	0.3	2.1	26.1
44	Wood and articles of wood; wood charcoal	0.2	0.3	0.3	0.3	1.9	36.2
38	Miscellaneous chemical products	0.3	0.2	0.3	0.3	1.9	18.5

Source: ITC Trade Map and India Exim Bank Research

In case of intra-regional imports, mineral fuels and mineral oils accounted for the largest share (14.3% of all imports in SACU in 2022), followed by precious stones and metals (11%), vehicles other than railway or tramway (5.6%), machinery and mechanical appliances (5.6%) and electrical machinery and equipment (4.9%) **(Table 2.8)**.

Table 2.8: Intra-SACU Imports – Major Commodities (US$ billion)

HS code	Product	2013	2017	2021	2022	% Share in 2022	Intra-SACU Imports as a % of SACU's Global Imports
	SACU's Intra-regional Imports	**16.2**	**14**	**14.9**	**15.8**	**100.0**	**12.0**
27	Mineral fuels, mineral oils	2.2	1.3	1.6	2.3	14.3	7.8
71	Precious or semi-precious stones, precious metals	1.2	1.4	1.4	1.7	11.0	42.3
87	Vehicles other than railway or tramway rolling stock	1.4	1.0	0.9	0.9	5.6	9.2
84	Machinery and mechanical appliances	1.2	1.0	0.9	0.9	5.6	6.3
85	Electrical machinery and equipment	0.7	0.8	0.7	0.8	4.9	6.7
33	Essential oils and resinoids	0.6	0.6	0.6	0.5	3.4	40.6
22	Beverages, spirits and vinegar	0.4	0.4	0.4	0.5	3.1	43.8
17	Sugars and sugar confectionery	0.4	0.4	0.5	0.4	2.7	60.5
10	Cereals	0.3	0.2	0.3	0.4	2.7	26.1
39	Plastics and articles	0.4	0.3	0.4	0.4	2.7	11.3
73	Articles of iron or steel	0.5	0.6	0.4	0.4	2.3	21.7
62	Articles of apparel and clothing accessories	0.3	0.3	0.4	0.4	2.3	31.1
44	Wood and articles of wood; wood charcoal	0.2	0.3	0.3	0.3	2.0	52.7
38	Miscellaneous chemical products	0.3	0.2	0.3	0.3	1.9	11.9

Source: ITC Trade Map and India Exim Bank Research

South Africa accounted for 69.1% of intra-regional exports in 2022, followed by Namibia (13%), Eswatini (8.6%) and Botswana (6.2%) **(Table 2.9)**. During 2022, Botswana accounted for 36.1% of intra-regional imports, followed by South Africa (24.7%), Namibia (20.3%) and Eswatini (10.1%) **(Table 2.10)**.

Table 2.9: Intra-SACU Exports – By Exporting Countries (US$ billion)

Exporters	2013	2017	2021	2022	% Share in 2022
SACU's Intra-regional Exports	**16.8**	**14.2**	**14.9**	**16.2**	**100.0**
South Africa	11.8	10.1	10.8	11.2	69.1
Namibia	2.6	1.8	1.5	2.1	13.0
Eswatini	1.2	1.3	1.5	1.4	8.6
Botswana	1.0	0.7	0.8	1.0	6.2
Lesotho	0.3	0.3	0.4	0.5	3.1

Source: ITC Trade Map and India Exim Bank Research

Table 2.10: Intra-SACU Imports – By Importing Countries (US$ billion)

Importers	2013	2017	2021	2022	% Share in 2022
SACU's Intra-regional Imports	**16.2**	**14.0**	**14.9**	**15.8**	**100.0**
Botswana	5.4	3.8	5.0	5.7	36.1
South Africa	2.9	3.1	3.9	3.9	24.7
Namibia	4.9	4.4	3.2	3.2	20.3
Eswatini	1.6	1.3	1.5	1.6	10.1
Lesotho	1.4	1.5	1.4	1.5	9.5

Source: ITC Trade Map and India Exim Bank Research

Trade Agreements of SACU

All SACU members are WTO members in their individual capacities and accord at least MFN treatment to all WTO Members. Lesotho is designated by the United Nations as a "least developed country (LDC)" and, thus, is eligible for the WTO's Enhanced Integrated Framework (EIF). None of the SACU members have either joined or requested to be an observer to any of the WTO plurilateral agreements.

SACU members continue to be eligible for several non-reciprocal preferences under the Generalized System of Preferences (GSP) schemes of developed countries and of some developing countries, providing preferential access for SACU's exports. Lesotho is, in addition, eligible for various unilateral preferences schemes granted to LDCs. All SACU members continue to be eligible for trade preferences under the United States' African Growth and Opportunity Act (AGOA) initiative. Eswatini's eligibility was terminated in 2014, due to issues related to worker rights, but it was reinstated in 2017. AGOA has been extended until September 30, 2025.

Member countries of SACU have signed preferential trade agreements with several trading partners as a bloc. These agreements provide preferential market access for SACU member countries' exports. The market access arrangements available to the SACU member countries are outlined in **Table 2.11**. Pursuant to Article 31 of the 2002 SACU Agreement, no SACU member can negotiate or amend a trade agreement without consent from the other members. An annex establishing a Common Negotiating Mechanism (CNM) has not yet entered into force. This notwithstanding, SACU members are allowed to maintain pre-existing RTAs. In this regard, Eswatini participates in the Common Market for Eastern and Southern Africa (COMESA). Botswana has bilateral trade agreements with Malawi and Zimbabwe and Namibia has a bilateral trade agreement with Zimbabwe. SACU members participate in the African Continental Free Trade Area (AfCFTA) and SADC.

Tripartite Free Trade Area (TFTA) between the SADC, COMESA and the East African Community (EAC) was signed on June 10, 2015. All SACU members are parties to this agreement through their membership in SADC. However, the agreement is not yet in force, pending the required ratification by three additional members.

Table 2.11: Trade Agreements of SACU

Agreement	Type of Agreement	Parties to the Agreements	Scope and Products Covered
Southern African Development Community (SADC): Protocol on Trade in Goods	Free Trade Agreement: Protocol on Trade in Goods	SACU Members and Madagascar, Malawi, Mauritius Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe	Tariff liberalisation on goods traded among Members, subject to the Rules of Origin.
EFTA-SACU Free Trade Agreement (FTA)	Free Trade Agreement - Entered into force on May 01, 2008	SACU Members and Iceland, Liechtenstein, Norway and Switzerland	Tariff reductions on selected goods, industrial goods (including fish and other marine products) and processed agricultural products. Three bilateral agreements between the individual EFTA States and SACU cover basic agricultural products falling in Chapters 1 to 24 of the Harmonized System.
Economic Partnership Agreement between the SADC EPA States, and the European Union and its Members	Free Trade Agreement	South Africa, Botswana, Eswatini, Namibia, Lesotho and Mozambique (referred to as the SADC EPA Group) and the EU	Duty-free quota-free market access for Botswana, Eswatini, Lesotho and Namibia into the EU and partial liberalisation for South Africa.
Economic Partnership Agreement between the SACU Members, Mozambique and UK	Free Trade Agreement – Entered into force on January 8, 2021	SACU Members, Mozambique (referred to as the SACUM), and UK	Duty-free quota-free market access for Botswana, Eswatini, Lesotho and Namibia into the UK and partial liberalization for South Africa.
SACU-Southern Common Market (MERCOSUR) PTA	Preferential Trade Agreement – Entered into force on April 1, 2016	SACU Members and Argentina, Brazil, Paraguay and Uruguay	Limited scope Agreement covering 1000 tariff lines with preference margins ranging between 10 - 100%.
Generalized System of Preferences (GSP)	Unilateral preferences granted under the enabling clause of the WTO	Offered to eligible developing countries by developed countries	Products from eligible developing countries qualify for preferential market access into these markets.
Africa Growth and Opportunity Act (AGOA)	Unilateral preferences granted by the US	Granted by the US to 39 eligible Sub-Saharan African countries	Duty free access to the US market under the combined AGOA/GSP programme stands at approximately 7000 product tariff lines.

Source: SACU Member States' Country Profiles, SACU, April 2022

Agreement Establishing the African Continental Free Trade Area

The AfCFTA was approved by the African Union's Heads of States and Governments in January 2012. The Agreement entered into force on May 30, 2019, once the requisite 24 member States (including all 5 SACU members) deposited their instruments of ratification. Trading under the AfCFTA started on January 1, 2021,

for some parties (although not SACU members). The Agreement brings together the 55 countries of the African Union including the continent's 8 regional economic communities (RECs) and customs unions.

In February 2023, SACU submitted its common tariff offer covering 90% of its tariff lines to the AfCFTA Secretariat and the AfCFTA Council of Ministers. It was technically verified in May 2023 to ensure compliance with the agreed modalities for tariff liberalization. SACU members are awaiting the consideration and the adoption by the AfCFTA institutions. Once approved by the Council of Ministers for provisional implementation, SACU will be able to trade preferentially with the other AfCFTA state parties that have implemented their approved tariff offers.

The significance and relevance of SACU's RTAs to exports by SACU members vary. For example, SACU's preference utilization rates under its RTAs with the EU and with the US are relatively high. In 2021, 92.9% of SACU's exports entered the EU market duty-free under the EPA with the EU and 90.4% entered the US market duty-free under the AGOA and GSP schemes. Botswana's preference utilization rate is the lowest, with close to 100% of its exports enter both the EU and US markets at the MFN duty-free level; this might have resulted from the lack of product diversification and the nature of the goods. Eswatini's preference utilization rate is relatively high.

SACU Authorized Economic Operator Programme

In May 2023, Botswana, Eswatini, Lesotho, Namibia and South Africa, the members of SACU, signed the Mutual Recognition Arrangement to recognise SACU importers and exporters that have been granted Authorized Economic Operator (AEO) status. The AEO is a flagship customs business partnership programme that offers an opportunity for customs authorities to share compliance and security responsibilities with the private sector and provide them with trade facilitation support. Accredited traders in Botswana, Eswatini, Lesotho, Namibia and South Africa will benefit from lower trade costs and quicker turn-around times for imports and exports, leading to expedited cargo clearance processes and ultimately secure borders across SACU countries.

Chapter

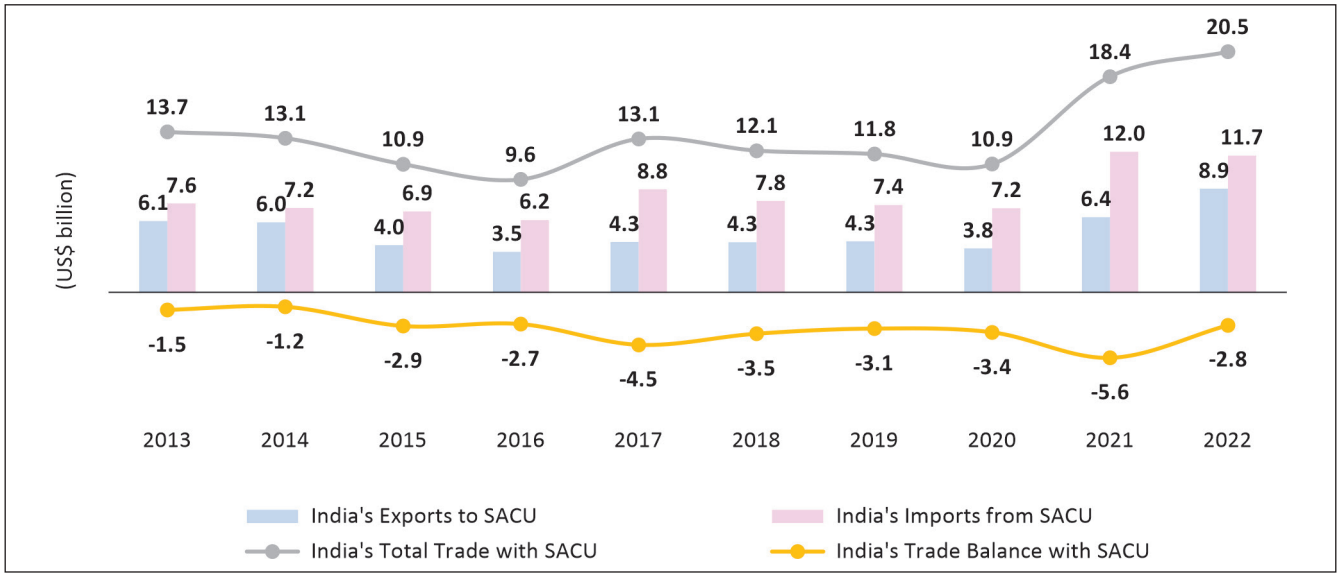
3

India's Merchandise Trade with SACU

India has historically close ties with Southern Africa and has steadfast commitment to deepen economic engagement with this region. Towards developing extensive economic and strategic relations with SACU member countries, discussions between SACU and India to achieve a Preferential Trade Agreement (PTA) have been revived with the two sides holding virtual meetings in 2020 to discuss various aspects of the PTA.

The economic and trade linkages between India and SACU which witnessed an expansion in trade volumes, stand testimony to the intensified economic engagement. Over the past decade, there has been a considerable rise in trade between India and SACU (South Africa in particular). India is an important trading partner for SACU, accounting for 4.6% of total exports of SACU and supplying 6.9% of total imports of SACU in 2022. During the last ten years, India's total trade with the SACU countries has increased from US$ 13.7 billion in 2013 to US$ 20.5 billion in 2022 **(Chart 3.1)**.

Chart 3.1: India's Merchandise Trade with SACU



Source: ITC Trade Map and India Exim Bank Research

India's exports to SACU increased from US$ 6.1 billion in 2013 to US$ 8.9 billion in 2022. Similarly, India's imports from SACU increased from US$ 7.6 billion in 2013 to US$ 11.7 billion in 2022.

India's Major Export Items to SACU

Table 3.1 presents India's major export items to SACU. India's exports to SACU are relatively diversified with refined petroleum, motor vehicles, medicaments, unmounted diamonds, smart phones and dumpers for off-highway use being the largest exports. Mineral fuels and mineral oils dominate India's export basket to SACU, accounting for 42.7% of India's total exports to SACU in 2022. Exports of mineral fuels witnessed a sharp jump in 2022 as compared to 2020. Apart from mineral fuels, vehicles other than railway or tramway and pharmaceutical products constitute as key items in the export basket, accounting for over 25% of the total exports. While vehicles other than railway or tramway has seen a rise in 2022 compared to 2020; pharmaceutical products have seen a marginal decline. Other major items of India's exports to SACU include machinery and mechanical appliances, electrical machinery and equipment, precious metals and stones and plastics and articles.

Table 3.1: India's Exports to SACU - Major Commodities (US$ billion)

HS Code	Product	2020	2021	2022	Share in India's Exports to SACU in 2022 (%)	Share of India in SACU's Global Imports in 2022 (%)	Share of SACU in India's Global Exports in 2022 (%)
	India's Exports to SACU	**3.8**	**6.4**	**8.9**	**100.0**	**6.7**	**2.0**
27	Mineral fuels, mineral oils	0.6	1.2	3.8	42.7	13.2	3.9
87	Vehicles other than railway or tramway	0.6	1.2	1.6	18.0	16.6	7.5
30	Pharmaceutical products	0.8	0.7	0.7	7.9	22.2	3.3
84	Machinery and mechanical appliances	0.2	0.3	0.4	4.5	2.7	1.4
85	Electrical machinery and equipment	0.2	0.3	0.4	4.5	3.2	1.4
71	Natural or cultured pearls	0.1	0.3	0.3	3.4	8.5	0.9
39	Plastics and articles	0.1	0.1	0.1	1.1	3.6	1.7
29	Organic chemicals	0.1	0.1	0.1	1.1	6.1	0.6
72	Iron and steel	-	0.3	0.1	1.1	4.4	0.6
38	Miscellaneous chemical products	0.1	0.1	0.1	1.1	3.4	1.1
10	Cereals	0.1	0.1	0.1	1.1	5.0	0.6
28	Inorganic or inorganic compounds of precious metals	-	0.1	0.1	1.1	3.3	2.4
40	Rubber and articles	-	0.1	0.1	1.1	4.0	1.4

Note: "-" signifies nil / negligible

Source: ITC Trade Map and India Exim Bank Research

Pharmaceutical products further play an important role despite being the 3rd largest product in the export basket, as India accounted for 22.2% of SACU's global imports of pharmaceutical products in 2022. There has been a tremendous increase in demand for pharmaceutical products in the region in recent times. Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic use (HS-3004) are the major product in India's export basket of pharmaceuticals to SACU.

India's Major Export Destinations in SACU

South Africa is India's largest export destination in SACU, accounting for 93.4% of India's total exports to the region in 2022 **(Table 3.2)**. Other major export markets in SACU include Namibia and Botswana. South Africa is among the leading market in Africa and SACU for India's exports of mineral fuels, oil and its products, vehicles, ships, boats and floating structures and pharmaceutical products **(Table 3.3)**. Namibia is the second largest export destination for India within SACU, with a 3.7% share in the total exports to SACU. The exports to the country have been marginally increasing as compared to pre-pandemic levels.

India's exports to Namibia mainly include mineral fuels and oils, pharmaceutical products, aluminium and articles and cereals. Botswana is India's third-largest export market in SACU, with a share of 2.5% in India's total exports to SACU in 2022, with major exports being pearls and precious stones and pharmaceutical products.

Table 3.2: India's Export Destinations in SACU (US$ billion)

Country	2013	2014	2017	2018	2019	2020	2021	2022	Share in India's Exports to SACU 2022 (%)
India's Exports to SACU	**6.1**	**6.0**	**4.3**	**4.3**	**4.3**	**3.8**	**6.4**	**8.9**	**100.0**
South Africa	5.7	5.7	4.1	4.0	4.0	3.5	6.0	8.3	93.4
Namibia	0.2	0.1	0.1	0.04	0.1	0.1	0.1	0.3	3.7
Botswana	0.1	0.1	0.1	0.1	0.2	0.1	0.3	0.2	2.5
Eswatini	0.03	0.03	0.03	0.02	0.02	0.03	0.02	0.02	0.2
Lesotho	0.03	0.04	0.03	0.03	0.04	0.04	0.02	0.02	0.2

Source: ITC Trade Map and India Exim Bank Research

Table 3.3: India's Export Destinations in SACU with Share in Major Export Products, 2022

Country	Value (US$ million)	HS Code	Commodity	Share in Exports to Respective Country (%)
Botswana	**223.1**		**All Products**	**100.0**
		71	Natural or cultured pearls	73.2
		30	Pharmaceutical products	14.5
		84	Machinery and mechanical appliances	5.8
		73	Articles of iron or steel	1.5
		40	Rubber and articles	0.6
Namibia	**329.2**		**All Products**	**100.0**
		27	Mineral fuels and mineral oils	82.9
		30	Pharmaceutical products	9.0
		76	Aluminium and articles	1.7
		10	Cereals	1.0
		84	Machinery and mechanical appliances	1.0

Country	Value (US$ million)	HS Code	Commodity	Share in Exports to Respective Country (%)
Lesotho	150.6		**All Products**	**100.0**
		30	Pharmaceutical products	86.6
		52	Cotton	4.9
		40	Rubber and articles	2.5
		49	Printed books, newspapers, pictures	2.5
		84	Machinery and mechanical appliances	1.3
Eswatini	198.7		**All Products**	**100.0**
		30	Pharmaceutical products	38.4
		29	Organic chemicals	21.7
		84	Machinery and mechanical appliances	13.2
		71	Natural or cultured pearls	10.4
		90	Optical, photographic, cinematographic instruments	4.7
South Africa	8265.8		**All Products**	**100.0**
		27	Mineral fuels and mineral oils	43.0
		87	Vehicles other than railway or tramway	19.4
		30	Pharmaceutical products	6.9
		85	Electrical machinery and equipment	4.3
		84	Machinery and mechanical appliances	4.3

Source: ITC Trade Map and India Exim Bank Research

Product Destination Matrix

Table 3.4 maps SACU's global imports with India's exports capabilities for the year 2022.

Table 3.4: Product Destination Matrix, 2022

Top Import Sources of SACU	HS Code	Products	SACU's Global Imports (US$ bn)	India's Exports to SACU (US$ bn)	India's Exports to SACU as % of SACU's Global Imports	India's Global Exports (US$ bn)	Top Export Destinations of India
China (17.8%)							**USA (17.7%)**
South Africa (8.9%)							**UAE (6.9%)**
India (6.9%)		**All Products**	**131.9**	**8.9**	**6.7**	**452.7**	**Netherlands (4.1%)**
USA (6.6%)							**China (3.3%)**
Germany (6.5%)							**Bangladesh (3.1%)**

Top Import Sources of SACU	HS Code	Products	SACU's Global Imports (US$ bn)	India's Exports to SACU (US$ bn)	India's Exports to SACU as % of SACU's Global Imports	India's Global Exports (US$ bn)	Top Export Destinations of India
UAE (13.4%)	27	Mineral fuels and mineral oils	29.0	3.8	13.1	98.5	Netherlands (9.6%)
India (13.1%)							UAE (8.9%)
Saudi Arabia (12.8%)							USA (6.4%)
Oman (8.6%)							Singapore (5.6%)
Nigeria (7.6%)							Togo (4.9%)
China (32.1%)	84	Machinery and mechanical appliances	14.0	0.4	2.7	27.5	USA (23%)
USA (9.2%)							Germany (5.4%)
Germany (8.5%)							UK (4.3%)
South Africa (5.7%)							Singapore (4.3%)
Japan (4.2%)							Thailand (3.9%)
China (54.4%)	85	Electrical machinery and equipment	11.4	0.4	3.2	26.6	USA (20.3%)
South Africa (5%)							UAE (13.1%)
Vietnam (4.6%)							Netherlands (5.4%)
India (3.7%)							UK (4.9%)
USA (3.6%)							Germany (4.7%)
India (17.2%)	87	Vehicles other than railway or tramway	9.7	1.6	16.5	21.3	USA (14.3%)
China (13.3%)							Mexico (7.7%)
Germany (12.3%)							South Africa (7.5%)
South Africa (9.0%)							Saudi Arabia (4.3%)
Japan (8.0%)							Bangladesh (4%)
South Africa (18.6%)	71	Natural or cultured pearls	4.1	0.4	8.5	39.3	USA (34.8%)
Namibia (18.5%)							Hong Kong (22%)
Belgium (10.9%)							UAE (14.2%)
India (7.6%)							Belgium (7.2%)
Canada (7%)							Israel (3.4%)
China (19.3%)	39	Plastics and articles	3.7	0.1	3.8	8.2	USA (18.1%)
South Africa (10.4%)							UAE (5.8%)
Germany (9.2%)							Bangladesh (4.2%)
Saudi Arabia (8.4%)							Nepal (3.6%)
USA (6.3%)							Italy (3.4%)

Top Import Sources of SACU	HS Code	Products	SACU's Global Imports (US$ bn)	India's Exports to SACU (US$ bn)	India's Exports to SACU as % of SACU's Global Imports	India's Global Exports (US$ bn)	Top Export Destinations of India
India (23.3%)	30	Pharmaceutical products	2.9	0.7	22.4	19.8	USA (33.9%)
Germany (11.8%)							Belgium (3%)
France (8.5%)							South Africa (2.9%)
USA (8.4%)							UK (2.7%)
Ireland (5.8%)							Netherlands (2.4%)
USA (15.1%)	38	Miscellaneous chemical products	2.5	0.1	3.4	8.1	USA (23.3%)
China (14.3%)							Brazil (18%)
Germany (7.8%)							Japan (3.2%)
Belgium (7.5%)							UAE (2.6%)
Eswatini (6.4%)							China (2.5%)
USA (21.6%)	90	Optical, photographic, cinematographic instruments	2.5	0.04	1.7	4.6	USA (23%)
China (16.5%)							Germany (6.4%)
Germany (11.2%)							France (6.3%)
South Africa (5.2%)							UK (4.9%)
UK (3.5%)							Singapore (4.5%)
Australia (24.2%)	28	Inorganic or inorganic compounds of precious metals	2.3	0.1	3.3	3.2	UAE (13.3%)
China (18%)							USA (9.5%)
USA (12.7%)							Oman (6.2%)
DR Congo (5.1%)							Saudi Arabia (4.4%)
Germany (3.2%)							China (4.3%)
China (38.7%)	72	Iron and steel	2.1	0.1	4.3	15.2	Italy (11%)
South Africa (10%)							UAE (8.6%)
Germany (8.2%)							USA (6.7%)
Japan (5.5%)							Nepal (6.5%)
Belgium (3.4%)							Turkey (6.1%)
USA (80.8%)	49	Printed books, newspapers, pictures	2.1	0.004	0.2	0.4	USA (27.9%)
South Africa (9.9%)							UK (7.6%)
UK (2.6%)							Ghana (5.9%)
China (0.9%)							UAE (3.6%)
Zimbabwe (0.3%)							Nigeria (3.5%)

Top Import Sources of SACU	HS Code	Products	SACU's Global Imports (US$ bn)	India's Exports to SACU (US$ bn)	India's Exports to SACU as % of SACU's Global Imports	India's Global Exports (US$ bn)	Top Export Destinations of India
China (42.9%)	29	Organic chemicals	2.0	0.1	6.0	21.9	USA (14.2%)
India (8.1%)							China (7.5%)
Saudi Arabia (7.4%)							Netherlands (5.8%)
Germany (6.8%)							Saudi Arabia (5.5%)
USA (4.4%)							Belgium (4.8%)
China (37.1%)	73	Articles of iron or steel	1.7	0.05	3.1	9.9	USA (32.7%)
South Africa (21.1%)							Germany (5%)
Germany (6.2%)							UAE (4.4%)
USA (4.8)							UK (3.6%)
Italy (4.1%)							Canada (3.3%)
Russia (16.9%)	31	Fertilisers	1.6	0.000009	-	0.1	Nepal (47.7%)
Saudi Arabia (16.8%)							USA (6.5%)
Qatar (11.9%)							Brazil (5.9%)
Oman (10.1%)							Malaysia (5.3%)
South Africa (10%)							Sri Lanka (4.9%)

Note: "-" signifies nil or negligible

Source: ITC Trade Map and India Exim Bank Research

India's Major Import Items from SACU

India's imports from SACU are mostly raw primary or semi-processed commodities. India's imports were largely dominated by pearls, precious stones and metals, followed by mineral fuels, oil and its products, together accounting for more than 75% of imports from the region in 2022 **(Table 3.5)**. Copper and articles are the third-largest items in India's import basket from the region. India accounted for 55% of SACU's global exports of copper, 35.5% of pulp of wood or of other fibrous cellulosic material exports, 22% of mineral fuels and products and 13.6% of pearls and precious stones exports of SACU in 2022. SACU is a major source for India's imports of unwrought gold (HS-7108) and diamonds (HS-7102). SACU also accounts for 11.3% of India's global imports of pulp of wood or of other fibrous cellulosic material, 9.6% of ores, slag and ash, 9.1% of copper, 8.4% of nickel and 6.3% of pearls and precious stones imports of India during 2022. South Africa is the largest source for India's imports of pearls and precious stones from SACU as well as Africa.

Within the pearls, precious stones and metals category, the major imports by India were gold (HS-7108) at US$ 3.3 billion, followed by diamonds (HS-7102) at US$ 1.5 billion. Within the mineral fuels, oil and products of distillation category, highest imports were of coal (HS-2701) at US$ 3.9 billion during 2022, followed by crude petroleum (HS-2709) amounting to US$ 17.7 million and petroleum jelly (HS-2712) of US$ 12.3 million.

Table 3.5: India's Imports from SACU - Major Commodities (US$ billion)

HS Code	Products	2020	2021	2022	Share in India's Imports from SACU in 2022 (%)	India's Share in SACU's Global Exports in 2022 (%)	Share of SACU in India's Global Imports in 2022 (%)
	India's Imports from SACU	**7.2**	**12.0**	**11.7**	**100.0**	**8.3**	**1.6**
71	Natural or cultured pearls	2.5	6.0	4.9	42.1	13.6	6.3
27	Mineral fuels, mineral oils	2.3	3.3	4.0	34.0	22.0	1.4
74	Copper and articles	0.3	0.7	0.7	5.9	55.0	9.1
26	Ores, slag and ash	0.3	0.6	0.6	4.7	3.1	9.6
47	Pulp of wood or of other fibrous cellulosic material	0.1	0.3	0.5	3.9	35.5	11.3
72	Iron and steel	0.1	0.1	0.2	2.0	3.4	1.4
89	Ships, boats and floating structures	0.9	0.3	0.1	1.2	56.0	2.0
25	Salt; sulphur; earths and stone; plastering materials	0.1	0.1	0.1	1.0	12.0	2.5
75	Nickel and articles	0.04	0.1	0.1	0.9	9.3	8.4
28	Inorganic chemicals; organic or inorganic compounds of precious metals	0.04	0.1	0.1	0.9	4.9	0.8
29	Organic chemicals	0.1	0.1	0.1	0.8	6.8	0.3
8	Edible fruit and nuts	0.03	0.0	0.1	0.6	1.6	1.6
84	Machinery and mechanical appliances	0.1	0.1	0.04	0.4	0.6	0.1
76	Aluminium and articles	0.04	0.05	0.03	0.3	1.5	0.4
23	Residues and waste from the food industries	0.01	0.02	0.02	0.2	5.0	2.6

Source: ITC Trade Map and India Exim Bank Research

India's Major Import Sources in SACU

South Africa is India's largest import source in SACU, followed by Botswana and Namibia **(Table 3.6)**. South Africa is a major supplier of coal, unwrought gold, non-industrial diamonds, copper and manganese ores and concentrates to India **(Table 3.7)**.

Table 3.6: India's Import Sources in SACU (US$ billion)

Country	2013	2014	2017	2018	2019	2020	2021	2022	Share in India's Imports from SACU in 2022 (%)
India's Imports from SACU	**7.6**	**7.2**	**8.8**	**7.8**	**7.4**	**7.2**	**12.0**	**11.7**	**100.0**
South Africa	7.4	6.0	6.9	6.6	6.6	6.7	11.1	11.2	95.7
Botswana	0.2	1.0	1.7	1.1	0.8	0.5	0.6	0.5	4.1
Namibia	0.01	0.03	0.1	0.1	0.02	0.03	0.1	0.03	0.2
Eswatini	0.03	0.1	0.03	0.01	0.01	0.01	0.3	0.005	0.04
Lesotho	0.004	0.001	0.1	0.03	-	-	-	-	-

Note: "-" signifies nil or negligible

Source: ITC Trade Map and India Exim Bank Research

Table 3.7: India's Import Sources in SACU with Share in Major Import Products, 2022

Country	Value (US$ million)	HS Code	Commodity	Share in Imports to Respective Country (%)
Botswana	**473.1**		**All Products**	**100.0**
		71	Natural or cultured pearls	99.9
		72	Iron and steel	0.1
		76	Aluminium and articles	0.04
		8	Edible fruit and nuts; peel of citrus fruit or melons	0.02
		90	Optical, photographic, cinematographic instruments	0.01
Namibia	**25.6**		**All Products**	**100.0**
		72	Iron and steel	43.0
		71	Natural or cultured pearls	24.4
		85	Electrical machinery and equipment	15.9
		25	Salt, plastering materials and cement	14.5
		84	Machinery and mechanical appliances	0.8
Lesotho	**0.002**		**All Products**	**100.0**
		58	Special woven fabrics; tufted textile fabrics	100.0
Eswatini	**4.8**		**All Products**	**100.0**
		90	Optical, photographic, cinematographic equipment	40.1
		84	Machinery and mechanical appliances	17.7
		39	Plastics and articles	17.6
		85	Electrical machinery and equipment	8.6
		40	Rubber and articles	4.1
South Africa	**11,166.1**		**All Products**	**100.0**
		71	Natural or cultured pearls	39.8
		27	Mineral fuels and mineral oils	35.5
		74	Copper and articles	6.1
		26	Ores, slag and ash	4.9
		47	Pulp of wood or of other fibrous cellulosic material	4.0

Source: ITC Trade Map and India Exim Bank Research

India's Trade Balance with SACU

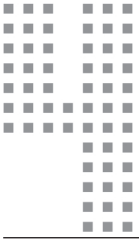
India had a trade deficit of US$ 2.8 billion in 2022 with SACU, mainly in commodities including pearls, precious stones and metals, copper and articles, ores, slag and ash, pulp of wood, ships, boats and floating structures and mineral fuels and oils, among others **(Table 3.8)**. Within SACU, India had trade deficit with South Africa (US$ 2.9 billion) and Botswana (US$ 250 million) in 2022. 93.4% of India's exports to SACU is destined to South Africa, while 95.7% of India's imports from the region originated from South Africa.

Table 3.8: India's Trade Balance with SACU (US$ million)

HS Code	Products	2020	2021	2022
	All products	**-3419.4**	**-5595.0**	**-2817.0**
87	Vehicles other than railway or tramway rolling stock	632.4	1181.0	1599.0
30	Pharmaceutical products	793.3	716.8	649.3
85	Electrical machinery and equipment and parts	208.5	246.9	339.9
84	Machinery and mechanical appliances	87.5	180.9	331.5
39	Plastics and articles	78.6	109.5	127.3
38	Miscellaneous chemical products	58.5	75.0	76.9
10	Cereals	102.2	83.1	74.5
40	Rubber and articles	37.1	55.0	66.6
61	Articles of apparel and clothing accessories, knitted or crocheted	74.1	73.4	62.3
62	Articles of apparel and clothing accessories, not knitted or crocheted	38.9	47.2	50.4
73	Articles of iron or steel	25.8	73.3	50.3
69	Ceramic products	37.7	56.8	49.6
23	Residues and waste from the food industries	-12.0	-19.1	-23.0
28	Inorganic chemicals; organic or inorganic compounds	-3.6	9.4	-25.5
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	-51.1	-78.6	-65.8
8	Edible fruit and nuts	-27.4	-47.4	-67.6
75	Nickel and articles	-44.3	-64.4	-103.1
72	Iron and steel	-107.7	186.5	-137.7
27	Mineral fuels, mineral oils and products of distillation	-1752.2	-2149.7	-142.9
89	Ships, boats and floating structures	-946.1	422.9	-143.6
47	Pulp of wood or of other fibrous cellulosic material	-104.7	-288.6	-450.7
26	Ores, slag and ash	-298.7	-619.1	-551.5
74	Copper and articles	-336.6	-710.2	-661.8
71	Natural or cultured pearls, precious or semi-precious stones and metals	-2389.5	-5682.3	-4571.9

Source: ITC Trade Map and India Exim Bank Research

Chapter



Services Trade of SACU and Bilateral Services Trade with India

The SACU Agreement of 2002 acknowledged the pressing need to align the Customs Union with current developments in international trade relations. Additionally, it considered the outcomes of the Uruguay Round of multilateral trade negotiations on global trade liberalization. In 2008, the SACU Council of Ministers agreed to incorporate new generation issues like services, investment and intellectual property rights into the SACU Agenda. This decision prompted a review of the 2002 SACU Agreement to address these issues.

The choice to include services was supported by various studies that highlighted compelling reasons to believe that excluding trade in services from the SACU Agreement would be an unsustainable strategy in the long term, potentially having significant negative effects on export competitiveness for SACU member countries.

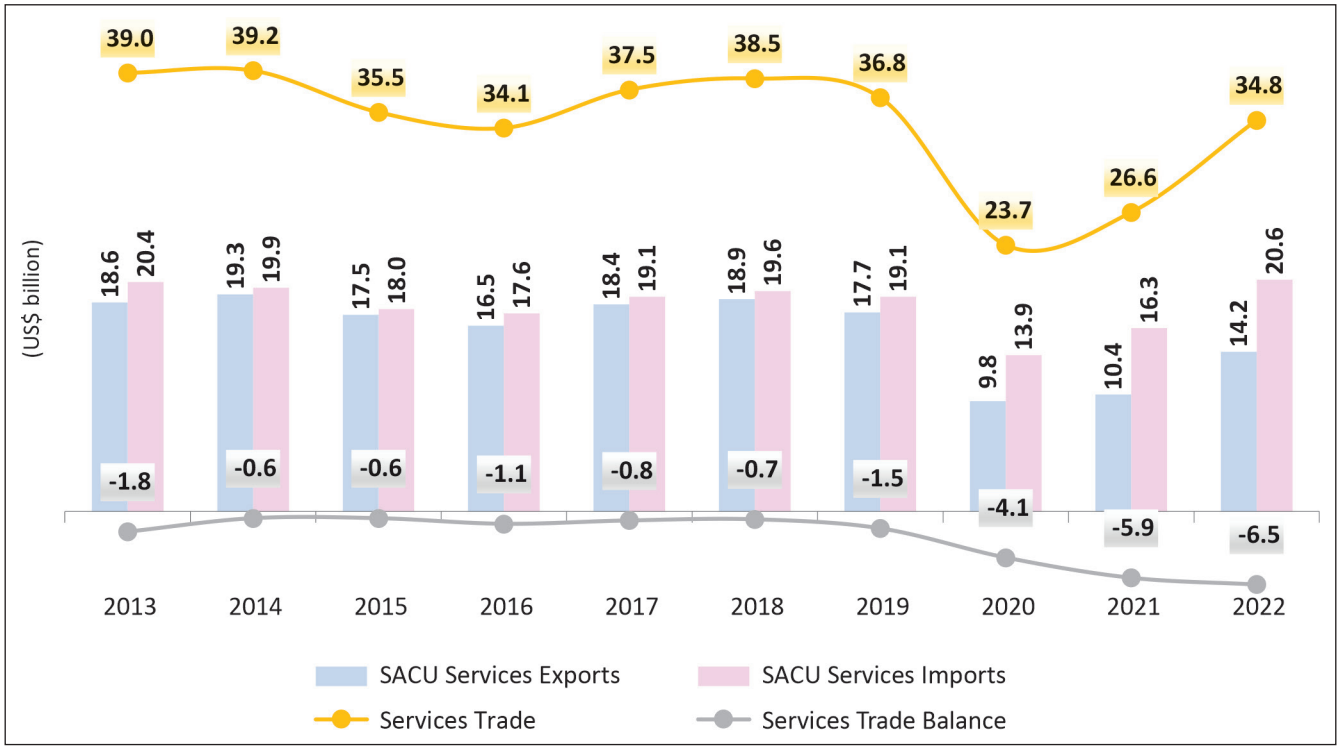
Another study assessing the impact of the COMESA-EAC-SADC Free Trade Area on SACU and its members revealed that SACU possesses a comparative advantage in trading services. Services liberalization was seen as providing a balanced benefit in the Tripartite Free Trade Agreement negotiations, particularly for countries identified as net losers under trade in goods. The liberalization of trade in services was also expected to facilitate trade, reduce logistics and transaction costs and result in welfare gains for SACU countries.

Recognizing the importance of developing and accessing services, it was anticipated that this would play a crucial role in the region's vision of promoting value addition and diversification to enhance regional industrialization. Services were considered essential inputs to other products and services and efficient services were seen as catalysts for expanding value chains.

As observed in **Chart 4.1**, SACU's trade in services has witnessed an increase from US$ 26.6 billion in 2021 to US$ 34.8 billion in 2022. Services trade moderated significantly in 2020 to US$ 23.7 billion because of the COVID-19 pandemic, however it is on the path of recovery. Services exports have moderated over the past decade for SACU. The services trade deficit has remained largely stable over the better part of the last decade, seeing a rise post 2020 to US$ 5.9 billion in 2021 and US$ 6.5 billion in 2022.

Within the bloc, South Africa remains the largest services exporter at US$ 12.6 billion in 2022, accounting for 88.8% of the total services exports, followed by Namibia (6.5%) and Botswana (4.1%). In case of services imports, South Africa is the largest importer at US$ 18.1 billion (87.6% of total services imports by SACU in 2022), followed by Botswana (4.6%) and Namibia (4.1%). Except for Namibia, rest of the four nations, i.e., Botswana, Eswatini, Lesotho and South Africa, recorded services trade deficit in 2022 **(Table 4.1)**.

Chart 4.1: International Services Trade of SACU



Source: WTO and India Exim Bank Research

Table 4.1: Services Exports and Imports of SACU Countries (US$ million)

Country	Exports				Imports				Trade Balance			
	2019	2020	2021	2022	2019	2020	2021	2022	2019	2020	2021	2022
Botswana	969	362	498	588	1370	1264	1178	943	-401	-902	-680	-355
Eswatini	67	68	72	63	200	188	238	311	-133	-120	-166	-248
Lesotho	29	13	19	14	447	378	407	442	-418	-365	-388	-428
Namibia	702	684	674	925	627	747	854	854	75	-63	-180	71
South Africa	15902	8657	9113	12594	16485	11309	13586	18097	-583	-2652	-4473	-5503
SACU	**17669**	**9784**	**10376**	**14184**	**19129**	**13886**	**16263**	**20647**	**-1460**	**-4102**	**-5887**	**-6463**

Source: WTO and India Exim Bank Research

Services Exports of SACU: Sectoral Analysis

Transport and travel services represented the largest shares in services exports and imports of most member states. Among other types of services, professional and management consulting services and technical, trade-related and other business services contributed significantly.

In case of Botswana, travel services accounted for the largest share in services at 62.9% in 2022, followed by transport services (12.8%) **(Table 4.2)**.

Table 4.2: Services Exports of Botswana (US$ million)

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Exports of Botswana	**969**	**362**	**498**	***100.0***	**588**	***100.0***
Government goods and services	5	1	-	-	-	-
Commercial services	963	361	498	*100.0*	588	*100.0*
Goods-related services	2	1	5	*1.0*	11	*1.9*
Transport	64	57	30	*6.0*	75	*12.8*
Travel	705	115	274	*55.0*	370	*62.9*
Other commercial services	192	188	188	*37.8*	132	*22.4*
Construction	23	8	-	-	1	*0.2*
Insurance and pension services	35	1	-	-	-	-
Financial services	24	12	3	*0.6*	-	-
Charges for the use of intellectual property	1	1	-	-	1	*0.2*
Telecommunications, computer and information services	18	23	14	*2.8*	24	*4.1*
Other business services	91	142	167	*33.5*	102	*17.3*
Research and development services	8	3	10	*2.0*	-	-
Professional and management consulting services	12	62	56	*11.2*	45	*7.7*
Technical, trade-related and other business services	72	77	101	*20.3*	56	*9.5*
Personal, cultural and recreational services	-	3	3	*0.6*	5	*0.9*

Note: "-" signifies nil or negligible

Source: WTO database and India Exim Bank Research

In case of Namibia as well, travel services accounted for 29.9% of total services exports in 2022 and 19% in 2021. The second largest sector accounting for services exports is transport services accounting for 25.1% in 2022. Apart from these, goods related services also accounted for 15.2% in 2022 **(Table 4.3)**.

Table 4.3: Services Exports of Namibia (US$ million)

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Exports of Namibia	**702**	**684**	**674**	***100.0***	**925**	**100.0**
Government goods and services	31	64	50	*7.4*	45	*4.9*
Commercial services	671	620	624	*92.6*	880	*95.1*
Goods-related services	155	164	139	*20.6*	141	*15.2*
Transport	109	150	154	*22.8*	232	*25.1*
Travel	349	118	128	*19.0*	277	*29.9*
Other commercial services	59	189	203	*30.1*	231	*25.0*
Construction	9	13	16	*2.4*	15	*1.6*
Insurance and pension services	4	-	4	*0.6*	1	*0.1*
Financial services	24	17	7	*1.0*	6	*0.6*
Charges for the use of intellectual property	1	2	2	*0.3*	2	*0.2*
Telecommunications, computer and information services	14	13	23	*3.4*	23	*2.5*

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Other business services	5	141	142	*21.1*	179	*19.4*
Research and development services	-	15	15	*2.2*	19	*2.1*
Professional and management consulting services	3	48	72	*10.7*	82	*8.9*
Technical, trade-related and other business services	2	78	54	*8.0*	78	*8.4*
Personal, cultural and recreational services	2	2	8	*1.2*	5	*0.5*

Source: WTO database and India Exim Bank Research

Travel services accounted for the largest share in services exports of Lesotho as well in 2022 at 50%. Further technical, trade-related and other business services accounted for 28.6% 2022 **(Table 4.4)**.

Table 4.4: Services Exports of Lesotho (US$ million)

Product / Sector of Lesotho	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Exports of Lesotho	**29**	**13**	**19**	***100.0***	**14**	***100.0***
Government goods and services	3	2	2	*10.5*	2	*14.3*
Commercial services	27	11	17	*89.5*	12	85.7
Transport	1	1	1	*5.3*	1	*7.1*
Travel	21	6	8	*42.1*	7	*50.0*
Other commercial services	5	4	8	*42.1*	4	*28.6*
Telecommunications, computer and information services	-	-	4	*21.1*	-	-
Other business services	5	4	5	*26.3*	4	*28.6*
Technical, trade-related and other business services	4	4	4	*21.1*	4	*28.6*

Source: WTO database and India Exim Bank Research

In case of Eswatini, technical, trade-related and other business services accounted 37.5% of its total services exports in 2021 (as per the latest data available) **(Table 4.5)**.

Table 4.5: Services Exports of Eswatini (US$ million)

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Exports of Eswatini	**67**	**68**	**72**	***100.0***	**63**	***100.0***
Government goods and services	3	2	4	*5.6*	-	-
Commercial services	64	66	68	*94.4*	59.0	*93.7*
Goods-related services	2	5	11	*15.3*	-	-
Transport	1	1	-	-	-	-
Travel	14	7	8	*11.1*	-	-
Other commercial services	46	54	49	*68.1*	-	-
Construction	4	6	1	*1.4*	-	-
Insurance and pension services	9	8	9	*12.5*	-	-
Financial services	2	2	2	*2.8*	-	-

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Telecommunications, computer and information services	3	3	2	*2.8*	-	-
Other business services	25	34	32	*44.4*	-	-
Research and development services	5	6	4	*5.6*	-	-
Professional and management consulting services	1	-	1	*1.4*	-	-
Technical, trade-related and other business services	19	28	27	*37.5*	-	-
Personal, cultural and recreational services	2	1	1	*1.4*	-	-

Note: "-" signifies nil, negligible or not available

Source: WTO database and India Exim Bank Research

South Africa's services exports were mainly focused on sectors like travel (37.6%) and transport (12.7%) in 2022 **(Table 4.6)**. Other important sector include technical, trade-related and other business services.

Table 4.6: Services Exports of South Africa (US$ million)

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Exports of South Africa	**15902**	**8657**	**9113**	***100.0***	**12594**	***100.0***
Government goods and services	354	248	234	*2.6*	228	*1.8*
Commercial services	15549	8409	8879	*97.4*	12366	*98.2*
Goods-related services	48	53	40	*0.4*	47	*0.4*
Transport	2240	1389	1229	*13.5*	1600	*12.7*
Travel	8390	2607	2108	*23.1*	4738	*37.6*
Other commercial services	4871	4360	5503	*60.4*	5981	*47.5*
Construction	16	11	10	*0.1*	11	*0.1*
Insurance and pension services	11	54	199	*2.2*	119	*0.9*
Financial services	1125	986	1133	*12.4*	1132	*9.0*
Charges for the use of intellectual property	151	126	135	*1.5*	207	*1.6*
Telecommunications, computer and information services	691	711	827	*9.1*	944	*7.5*
Other business services	2482	2255	2833	*31.1*	3083	*24.5*
Technical, trade-related and other business services	2482	2255	2833	*31.1*	3083	*24.5*
Personal, cultural and recreational services	397	216	365	*4.0*	485	*3.9*

Source: WTO database and India Exim Bank Research

Services Imports of SACU: Sectoral Analysis

Services imports of SACU has witnessed a stable trend with imports of US$ 20.4 billion in 2013 increasing marginally to US$ 20.6 billion in 2022. Commercial services accounted for the majority share in services imports by the SACU countries.

In case of Botswana, transport services accounted for 38.6% of services imports in 2022, followed by charges for the use of intellectual property (12.5%) **(Table 4.7)**.

Table 4.7: Services Imports of Botswana (US$ million)

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Imports of Botswana	**1370**	**1264**	**1178**	***100.0***	**943**	**100.0**
Government goods and services	59	4	-	-	2	*0.2*
Commercial services	1311	1260	1178	*100.0*	941	*99.8*
Goods-related services	32	10	9	*0.8*	15	*1.6*
Transport	264	272	357	*30.3*	364	*38.6*
Travel	291	88	77	*6.5*	98	*10.4*
Other commercial services	724	890	736	*62.5*	463	*49.1*
Construction	114	57	19	*1.6*	52	*5.5*
Insurance and pension services	53	1	2	*0.2*	2	*0.2*
Financial services	54	54	26	*2.2*	-	-
Charges for the use of intellectual property	28	110	107	*9.1*	118	*12.5*
Telecommunications, computer and information services	137	242	179	*15.2*	68	*7.2*
Other business services	336	422	383	*32.5*	188	*19.9*
Research and development services	8	9	13	*1.1*	1	*0.1*
Professional and management consulting services	177	251	234	*19.9*	91	*9.7*
Technical, trade-related and other business services	151	162	137	*11.6*	96	*10.2*
Personal, cultural and recreational services	2	4	20	*1.7*	35	*3.7*

Note: "-" signifies nil or negligible

Source: WTO database and India Exim Bank Research

Travel services (74.4%) were the major services imported by Lesotho, followed by transport (11.8%) and other business services (7.7%) **(Table 4.8)**.

Table 4.8: Services Imports of Lesotho (US$ million)

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Imports of Lesotho	**447**	**378**	**407**	***100.0***	**442**	***100.0***
Government goods and services	9	7	7	*1.7*	6	*1.4*
Commercial services	438	371	400	*98.3*	436	*98.6*
Transport	56	47	53	*13.0*	52	*11.8*
Travel	319	270	289	*71.0*	329	*74.4*
Other commercial services	64	54	58	*14.3*	54	*12.2*
Insurance and pension services	11	10	11	*2.7*	11	*2.5*
Financial services	1	1	1	*0.2*	1	*0.2*
Telecommunications, computer and information services	11	7	6	*1.5*	6	*1.4*
Other business services	38	34	37	*9.1*	34	*7.7*
Professional and management consulting services	5	4	5	*1.2*	4	*0.9*
Technical, trade-related and other business services	33	29	32	*7.9*	29	*6.6*

Source: WTO database and India Exim Bank Research

In case of Namibia, besides travel and transport services, professional and management consulting services (21.4%) and goods-related services (21%) accounted for the major share in services imports by the country in 2022 **(Table 4.9)**.

Table 4.9: Services Imports of Namibia (US$ million)

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Imports of Namibia	**627**	**747**	**854**	***100.0***	**854**	***100.0***
Government goods and services	47	52	56	*6.6*	38	*4.4*
Commercial services	580	695	799	*93.6*	816	*95.6*
Goods-related services	30	129	176	*20.6*	179	*21.0*
Transport	136	102	131	*15.3*	154	*18.0*
Travel	107	72	59	*6.9*	94	*11.0*
Other commercial services	308	392	433	*50.7*	390	*45.7*
Construction	19	2	1	*0.1*	13	*1.5*
Insurance and pension services	31	11	15	*1.8*	19	*2.2*
Financial services	4	4	1	*0.1*	1	*0.1*
Charges for the use of intellectual property	3	6	5	*0.6*	9	*1.1*
Telecommunications, computer and information services	39	43	100	*11.7*	91	*10.7*
Other business services	212	301	309	*36.2*	256	*30.0*
Research and development services	1	4	7	*0.8*	6	*0.7*
Professional and management consulting services	45	112	122	*14.3*	183	*21.4*
Technical, trade-related and other business services	166	184	180	*21.1*	66	*7.7*
Personal, cultural and recreational services	-	25	2	*0.2*	1	*0.1*

Note: "-" signifies nil or negligible

Source: WTO database and India Exim Bank Research

Transport, professional and management consulting services and travel services dominated Eswatini's imports in 2021 (as per the latest data available), accounting for 25.6%, 18.5% and 17.2% of services imports, respectively **(Table 4.10)**.

Table 4.10: Services Imports of Eswatini (US$ million)

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Imports of Eswatini	**200**	**188**	**238**	***100.0***	**311**	***100.0***
Government goods and services	32	17	16	*6.7*	-	-
Commercial services	168	171	222	*93.3*	290	*93.2*
Goods-related services	17	7	15	*6.3*	-	-
Transport	28	32	61	*25.6*	-	-
Travel	34	36	41	*17.2*	-	-

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Other commercial services	89	95	104	*43.7*	-	-
Construction	12	2	11	*4.6*	-	-
Financial services	6	3	3	*1.3*	-	-
Charges for the use of intellectual property	8	33	19	*8.0*	-	-
Telecommunications, computer and information services	15	14	17	*7.1*	-	-
Other business services	47	42	51	*21.4*	-	-
Research and development services	2	1	2	*0.8*	-	-
Professional and management consulting services	38	38	44	*18.5*	-	-
Technical, trade-related and other business services	7	4	5	*2.1*	-	-
Personal, cultural and recreational services	2	1	2	*0.8*	-	-

Note: "-" signifies nil, negligible or not available

Source: WTO database and India Exim Bank Research

Besides transport and travel services, imports which accounted for the major share in South Africa's services imports in 2022 include telecommunications, computer and information services and technical, trade-related and other business services in 2022 **(Table 4.11)**.

Table 4.11: Services Imports of South Africa (US$ million)

Product / Service	2019	2020	2021	% Share in 2021	2022	% Share in 2022
Total Services Imports of South Africa	**16485**	**11309**	**13586**	***100.0***	**18097**	***100.0***
Government goods and services	372	261	246	*1.8*	243	*1.3*
Commercial services	16113	11047	13340	*98.2*	17854	*98.7*
Goods-related services	4	2	-	-	-	-
Transport	6236	3903	5184	*38.2*	8042	*44.4*
Travel	3141	928	991	*7.3*	2220	*12.3*
Other commercial services	6732	6214	7165	*52.7*	7592	*42.0*
Construction	4	3	4	*0.03*	4	*0.02*
Insurance and pension services	300	333	414	*3.0*	483	*2.7*
Financial services	308	297	328	*2.4*	320	*1.8*
Charges for the use of intellectual property	1356	1198	1453	*10.7*	1453	*8.0*
Telecommunications, computer and information services	2504	2595	3232	*23.8*	3523	*19.5*
Other business services	2104	1665	1595	*11.7*	1667	*9.2*
Technical, trade-related and other business services	2104	1665	1595	*11.7*	1667	*9.2*
Personal, cultural and recreational services	155	124	138	*1.0*	141	*0.8*

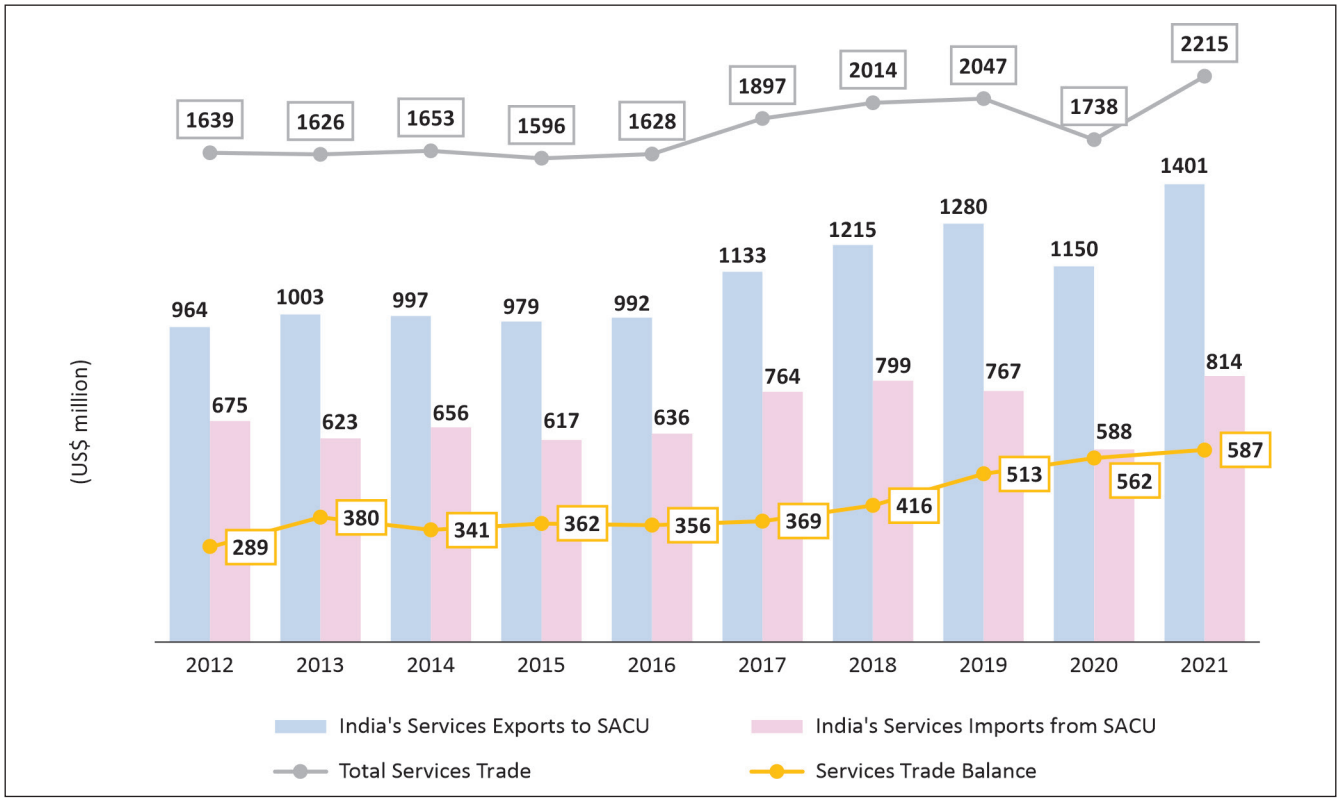
Note: "-" signifies nil or negligible

Source: WTO database and India Exim Bank Research

India-SACU Bilateral Trade in Services

Bilateral services trade between India and SACU has been obtained from the OECD-WTO Balanced Trade in Services (BaTIS) dataset[1]. India's services exports to SACU stood at US$ 1,401 million in 2021, increasing by an AAGR of 4.6% from 2012 when it was at US$ 964 million **(Chart 4.2)**. South Africa's share in India's exports to SACU was evidently the highest at 88.4% in 2021. India's services imports from SACU increased from US$ 675 million in 2012 to US$ 814 million by 2021, growing by an AAGR of 2.3%, with South Africa accounting for 92.4% of India's services imports from SACU in 2021.

Chart 4.2: India's Bilateral Services Trade with SACU



Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

Botswana

India's services exports to Botswana stood at US$ 48 million and was mainly composed of transport services (68.8%), followed by telecommunication, computer and information services (18.8%) **(Table 4.12)**.

[1] BaTIS is complete and consistent. At present, only about 63% of world trade in services is bilaterally specified and the percentage is even lower for the individual service categories. The OECD-WTO methodology leverages all available official statistics and combines them with estimations and adjustments to provide users with a complete matrix covering virtually all economies in the world. BaTIS is balanced. To resolve the asymmetries between reported and mirror flows, exports and imports are reconciled by calculating a symmetry-index weighted average between the two, following a similar approach to that developed for international merchandise trade statistics. It contains annual bilateral data covering 202 reporters and partners, broken down by the 12 main EBOPS2010 (BPM6) categories. BaTIS is the result of joint efforts by the OECD and WTO.

Table 4.12: India's Services Exports to Botswana (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Exports to Botswana	**32**	**40**	**46**	**42**	**48**
Commercial services	32	39	46	42	48
Transport	27	28	33	28	33
Other commercial services	5	11	13	14	15
Telecommunications, computer and information services	2	7	8	9	9
Other business services	2	4	4	4	5

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

India's services imports from Botswana stood at US$ 15 million in 2021 and composed mainly of travel services **(Table 4.13)**.

Table 4.13: India's Services Imports from Botswana (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Imports from Botswana	**12**	**17**	**19**	**13**	**15**
Commercial services	12	17	19	13	15
Transport	-	-	-	1	1
Travel	12	16	18	12	13
Other commercial services	-	-	-	1	1
Other business services	-	-	-	1	1

Note: "-" signifies nil or negligible

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

Eswatini

India's services exports to Eswatini stood at US$ 47 million and was mainly composed of travel services (44.7%), followed by telecommunication, computer and information services (19.1%) and financial services (17%), among others **(Table 4.14)**.

Table 4.14: India's Services Exports to Eswatini (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Exports to Eswatini	**28**	**37**	**39**	**39**	**47**
Commercial services	28	37	39	39	47
Transport	-	-	-	-	1
Travel	18	25	25	21	21
Other commercial services	10	11	14	18	25
Financial services	3	2	2	3	8
Telecommunications, computer and information services	3	3	7	8	9
Other business services	4	6	5	7	8

Note: "-" signifies nil or negligible

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

India's services imports from Eswatini stood at US$ 16 million in 2021 and was mainly composed of travel services **(Table 4.15)**.

Table 4.15: India's Services Imports from Eswatini (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Imports from Eswatini	**6**	**6**	**3**	**3**	**16**
Commercial services	6	6	3	3	16
Transport	-	-	-	-	1
Travel	6	5	3	2	14
Other business services	-	-	-	-	2

Note: "-" signifies nil or negligible

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

Lesotho

India's services exports to Lesotho stood at US$ 13 million and was mainly composed of insurance and pension services (61.5%), followed by telecommunication, computer and information services (15.4%), among others **(Table 4.16)**.

Table 4.16: India's Services Exports to Lesotho (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Exports to Lesotho	**8**	**12**	**13**	**12**	**13**
Commercial services	8	12	13	12	13
Transport	1	1	1	1	1
Travel	1	2	2	1	1
Other commercial services	6	9	10	9	11
Insurance and pension services	5	7	7	7	8
Charges for the use of intellectual property	-	-	-	1	-
Telecommunications, computer and information services	1	2	2	2	2

Note: "-" signifies nil or negligible

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

India's services imports from Lesotho stood at US$ 1 million in 2021 and was mainly composed of transport services.

Table 4.17: India's Services Imports from Lesotho (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Imports from Lesotho	**2**	**9**	**1**	**1**	**1**
Commercial services	2	9	1	1	1
Transport	2	7	1	1	1
Travel	-	1	-	-	-
Other commercial services	-	1	-	-	-
Other business services	-	1	-	-	-

Note: "-" signifies nil or negligible

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

Namibia

India's services exports to Namibia stood at US$ 54 million and was mainly composed of telecommunication, computer and information services (37%) and other business services (38.9%), among others **(Table 4.18)**.

Table 4.18: India's Services Exports to Namibia (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Exports to Namibia	**30**	**40**	**47**	**46**	**54**
Commercial services	29	39	46	46	54
Transport	3	3	3	3	4
Travel	9	14	15	9	5
Other commercial services	17	23	28	33	44
Construction	-	1	-	-	-
Insurance and pension services	-	1	1	1	1
Financial services	-	-	-	1	1
Telecommunications, computer and information services	9	10	11	12	20
Other business services	7	11	15	20	21

Note: "-" signifies nil or negligible

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

India's services imports from Namibia stood at US$ 30 million in 2021 and was mainly composed of travel services (60%) and transport services (16.7%), among others **(Table 4.19)**.

Table 4.19: India's Services Imports from Namibia (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Imports from Namibia	**13**	**28**	**25**	**26**	**30**
Commercial services	13	28	25	26	30
Goods-related services	-	-	1	1	1
Maintenance and repair services	-	-	1	1	1
Transport	1	2	2	5	5
Travel	11	24	22	16	18
Other commercial services	-	1	1	4	4
Telecommunications, computer and information services	-	1	-	1	1
Other business services	-	-	-	3	3

Note: "-" signifies nil or negligible

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

South Africa

India's services exports to South Africa stood at US$ 1,239 million and was mainly composed of telecommunication, computer and information services (65.7%), other business services (18.5%) and transport services (9.6%), among others **(Table 4.20)**.

Table 4.20: India's Services Exports to South Africa (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Exports to South Africa	**866**	**1004**	**1135**	**1011**	**1239**
Government goods and services	4	3	3	2	2
Commercial services	862	1001	1132	1009	1237
Goods-related services	-	1	1	1	2
Manufacturing services on physical inputs owned by others	-	-	1	1	1
Maintenance and repair services	-	1	-	-	-
Transport	153	113	125	87	119
Travel	105	106	110	34	26
Other commercial services	604	781	896	887	1090
Construction	2	4	5	5	5
Insurance and pension services	9	9	9	8	12
Financial services	13	13	13	11	13
Charges for the use of intellectual property	10	10	8	8	8
Telecommunications, computer and information services	383	543	639	649	814
Other business services	185	196	214	199	229
Personal, cultural and recreational services	4	6	8	7	9

Note: "-" signifies nil or negligible

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

India's services imports from South Africa stood at US$ 752 million in 2021 and was mainly composed of transport and travel services (29.7% each), telecommunication, computer and information services (8.4%) and other business services (19.8%), among others **(Table 4.21)**.

Table 4.21: India's Services Imports from South Africa (US$ million)

Product/Sector	2012	2017	2019	2020	2021
India's Services Imports from South Africa	**642**	**704**	**719**	**545**	**752**
Commercial services	636	699	712	537	742
Government goods and services	6	6	6	8	10
Goods-related services	1	1	3	2	3
Maintenance and repair services	1	1	3	2	3
Transport	187	170	170	141	223
Travel	326	369	374	197	223
Other commercial services	122	158	166	197	293
Construction	2	2	4	3	4
Insurance and pension services	18	29	30	21	27
Financial services	11	12	7	12	18
Charges for the use of intellectual property	2	3	3	4	5
Telecommunications, computer and information services	15	21	26	40	63
Personal, cultural and recreational services	4	13	14	13	27
Other business services	70	79	82	102	149

Source: WTO - OECD Balanced International Trade in Services EBOPS 2010 and India Exim Bank Research

Chapter

Foreign Direct Investment in SACU and Bilateral Investment Relations with India

SACU economies aim at positioning SACU as an industrial, investment, manufacturing and innovation hub for the African continent and beyond. The SACU member states have adopted regional industrial development as an overarching objective that would underpin the region's development and integration agenda. The SACU Strategic Plan 2022-2027 establishes practical ways to promote industrialization, export and investment, facilitate trade and logistics, diversify export markets and strengthen trade relations with third parties.

According to the UNCTAD, in 2021, foreign direct investment (FDI) inflows into SACU reached US$ 41.4 billion, marking a remarkable increase from the unusually low levels of 2020 (US$ 3.0 billion), driven by a post pandemic recovery boosted by global stimulus packages. Particularly, the spike in FDI inflows was due to a large corporate reconfiguration in South Africa – a share exchange between Naspers and Prosus in the third quarter of 2021. However, the landscape for international business and cross-border investment underwent a dramatic shift in 2022. The conflict in Ukraine, combined with the ongoing repercussions of the pandemic, has triggered a threefold crisis in many countries worldwide, affecting food, fuel and finance. The resultant investor uncertainty posed a substantial risk to global FDI in 2022 and the growth observed in 2021 could not be sustained. Accordingly, FDI inflows into SACU stood at US$ 10.2 billion in 2022, accounting for 22.8% of total FDI inflows into Africa **(Table 5.1)**. On the other hand, FDI outflows from SACU accounted for 43.3% of total FDI outflows from Africa **(Table 5.2)**.

Table 5.1: Foreign Direct Investment Inflows into SACU (US$ million)

Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Botswana	67	515	379	143	261	286	94	32	-319	216
Eswatini	85	26	41	21	-56	36	130	36	117	21
Lesotho	124	161	207	80	42	41	35	28	-12	-8
Namibia	770	441	888	356	280	209	-179	-146	697	945
South Africa	8300	5771	1729	2235	2008	5450	5125	3062	40948	9051
Total FDI Inflows to SACU	**9345**	**6913**	**3244**	**2835**	**2535**	**6021**	**5205**	**3011**	**41432**	**10225**
Total FDI Inflows to Africa	51067	54776	57580	46157	40358	44171	45962	39195	79583	44929
% Share of SACU in Africa	*18.3*	*12.6*	*5.6*	*6.1*	*6.3*	*13.6*	*11.3*	*7.7*	*52.1*	*22.8*

Source: UNCTADStat and India Exim Bank Research

Many recipients in Africa, including SACU countries experienced a moderation in FDI. The overall FDI inflows for the region was boosted by a significant intra-firm financial transaction. While Greenfield announcements showed a decline, international project finance deals witnessed an increase across Africa, particularly in extractive industries. South Africa stands out as potentially attractive destination compared to other SACU countries. However, its performance in attracting FDI is relatively lacklustre, despite advancements related to investment potential in infrastructure.

The region possesses numerous appealing attributes for investors, including a significant demographic presence, a diverse, productive and advanced economy, abundant natural resources and a degree of political stability. The government of the SACU member countries provide various sector-specific investment incentives, such as tax allowances for the automotive sector and rebates for film and television production. However, the region grapples with challenges such as a high crime rate, escalating social unrest marked by strikes and demonstrations, elevated levels of corruption and structural issues in electricity supply and logistics. Investors are also concerned about the lack of clarity regarding policy and structural reforms. Legal uncertainties further pose a hindrance to investment potential, dissuading foreign investors.

Table 5.2: Foreign Direct Investment Outflows from SACU (US$ million)

Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Botswana	85	111	183	170	-1	82	-20	-68	-33	-42
Eswatini	-4	1	-1	-7	65	-11	22	-13	60	-22
Namibia	6	22	102	-5	-66	98	9	52	17	9
South Africa	6649	7669	5744	4474	7371	4076	3147	-1951	22	2571
Total FDI Outflows from SACU	**6735**	**7803**	**6028**	**4632**	**7370**	**4246**	**3158**	**-1980**	**67**	**2516**
Total FDI Outflows from Africa	11032	10523	9540	8383	11272	8108	4965	1140	3149	5817
% Share of SACU in Africa	*61.0*	*74.2*	*63.2*	*55.3*	*65.4*	*52.4*	*63.6*	*-173.7*	*2.1*	*43.3*

Source: UNCTADStat and India Exim Bank Research

A detailed analysis of investments including sectoral investments to and from SACU is undertaken with the help of Financial Times' fDi Markets database. fDi Markets tracks cross-border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time and can channel their investment through different countries for tax efficiency.

Total capital investment in SACU over the last decade has been stable with investments increasing from US$ 8.5 billion in 2013 to US$ 10.5 billion in 2021. The inflow of investments witnessed a huge jump in the year 2022 at US$ 27.7 billion. According to fDi Markets, total envisaged capital investment in SACU during 2013 to 2022 was US$ 97.0 billion **(Table 5.3)**.

Table 5.3: Envisaged FDI Inflows into SACU (2013-2022)

Year	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs created	No. of Companies Invested
2013	8,543.9	202	21,825	173
2014	12,416.3	164	15,144	154
2015	5,320.1	163	12,993	151
2016	8,300.3	151	19,705	142
2017	3,737.0	134	8,596	108
2018	7,205.0	136	18,026	116
2019	6,232.4	164	15,289	141
2020	6,978.3	115	9,980	110
2021	10,526.8	131	12,889	102
2022	27,702.4	181	17,273	156
Total	**96,962.5**	**1,541**	**1,51,720**	**1,160**

Source: fDi Markets online database and India Exim Bank Research

As shown in **Table 5.4**, advanced countries such as the US, UK, Germany, France and Italy have been active investors in Southern African region. The maximum investment into SACU were recorded from UAE, accounting for 24.2% of total capex invested in the region during January 2013 to December 2022. UAE was followed by China (11.9%), the US (11.8%), UK (8.4%), Germany (7.4%), France (4.1%), Italy (3.6%), Mauritius (3.1%) and Japan (2.8%). In terms of the number of projects, the US stands out with 286 projects, followed by UK with 215 projects and Germany with 97 projects. India accounted for capex amounting to US$ 1.6 billion (1.7% of total investment) in SACU countries during the same time period.

Table 5.4: Major Investors in SACU (2013-2022)

Source Country	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs created	No. of Companies Invested
UAE	23,430.0	31	6,115	27
China	11,559.1	63	15,390	46
USA	11,468.8	286	29,158	213
UK	8,151.7	215	18,032	178
Germany	7,180.5	97	14,688	78
France	3,997.9	77	7,164	60
Italy	3,482.6	46	2,368	30
Mauritius	3,035.6	26	1,704	11
Japan	2,724.0	45	8,911	36
South Korea	2,234.6	10	794	9

Source Country	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs created	No. of Companies Invested
Switzerland	1,970.4	85	3,437	40
Norway	1,867.4	29	546	14
Canada	1,637.4	36	3,651	32
Saudi Arabia	1,631.3	8	721	6
India	1,621.2	50	4,541	40
Ireland	1,483.2	24	923	17
Australia	1,179.5	39	3,545	30
Netherlands	1,090.1	47	2,734	38
South Africa	929.8	51	3,861	39
Spain	827.8	35	3,035	28
Belgium	793.1	15	995	11
Others	4,666.7	226	19,407	182
Total	**96,962.5**	**1,541**	**1,51,720**	**1,160**

Source: fDi Markets online database and India Exim Bank Research

During January 2013 to December 2022, South Africa received 87.3% of total envisaged investments in the region, followed by Namibia (8.9%) and Botswana (2.6%) **(Table 5.5)**.

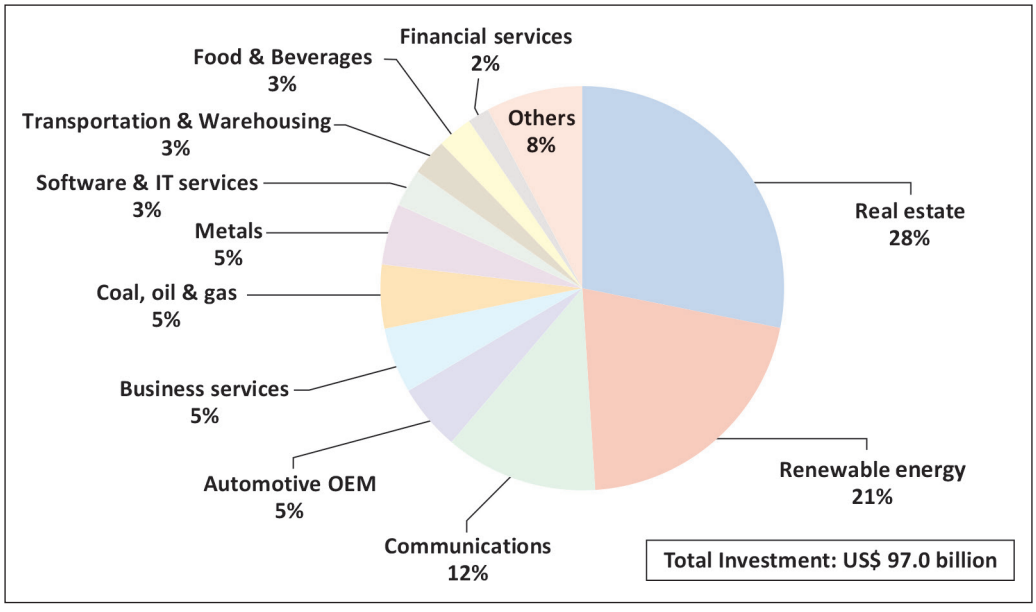
Table 5.5: Major Investment Destinations in SACU (2013-2022)

Destination Country	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
South Africa	84,685.0	1,360	1,30,728	1,049
Namibia	8,596.4	103	12,425	78
Botswana	2,490.0	57	5,683	50
Lesotho	832.2	12	1,864	11
Eswatini	358.9	9	1,020	8
Total	**96,962.5**	**1,541**	**1,51,720**	**1,160**

Source: fDi Markets online database and India Exim Bank Research

During January 2013 to December 2022, real estate sector accounted for the largest share of global envisaged investments into SACU countries (28% of total investments received by SACU), followed by renewable energy (21%), communications (12%), automotive OEM (5%), business services (5%), coal, oil & gas (5%) and metals (3%) **(Chart 5.1)**. Maximum number of projects were in business services (206 projects), followed by software & IT services sector (198 projects), communications (144 projects) and financial services (144 projects).

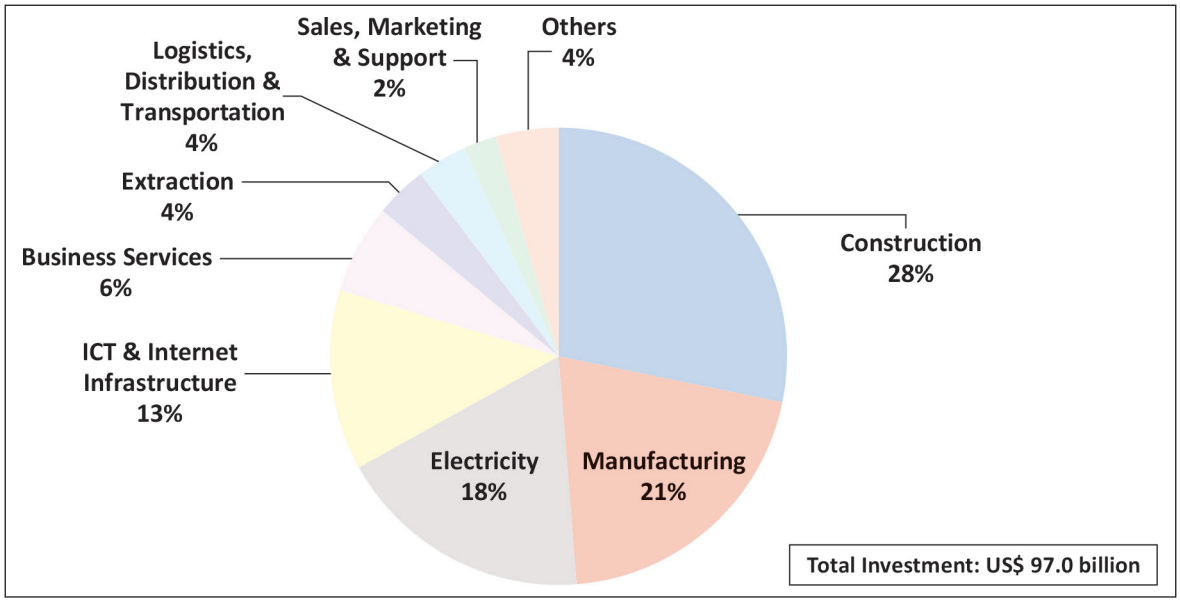
Chart 5.1: Major Sectors Receiving Investment in SACU (2013-2022)



Source: fDi Markets online database and India Exim Bank Research

Chart 5.2 shows the major business activities in SACU receiving global FDI during January 2013 to December 2022. Construction (28% of total investment) was the major business activity receiving maximum capital investment during January 2013 to December 2022 in SACU, followed by manufacturing (21%), electricity (18%), ICT & Internet Infrastructure (13%) and business services (6%).

Chart 5.2: Business Activity-wise Investment in SACU



Source: fDi Markets online database and India Exim Bank Research

FDI Outflows from SACU

A total outward envisaged investment of US$ 36.2 billion was made by SACU entities in 898 projects, resulting in 83,232 jobs across the globe during January 2013 to December 2022 **(Table 5.6)**. Investments from SACU to

the rest of the world has seen a declining trend over the last decade, with US$ 7.3 billion in 2013 moderating to US$ 1.8 billion in 2022.

Table 5.6: Envisaged FDI Outflows from SACU (2013-2022)

Year	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
2013	7,261.2	128	14,057	84
2014	4,644.9	110	10,510	70
2015	2,877.6	84	7,645	64
2016	2,488.0	88	6,904	66
2017	2,772.1	104	9,820	73
2018	4,705.9	104	13,618	64
2019	2,949.9	110	7,477	77
2020	3,188.1	47	4,075	36
2021	3,460.0	68	5,050	50
2022	1,846.8	55	4,076	44
Total	**36,194.3**	**898**	**83,232**	**437**

Source: fDi Markets online database and India Exim Bank Research

Mozambique was the largest recipient of envisaged investment from SACU, with a capex investment of US$ 5.3 billion (14.5% share) during 2013-2022 **(Table 5.7)**. Mozambique was followed by Nigeria (12%), Zimbabwe (11.4%), the US (4.8%) and Ghana (3.8%).

Table 5.7: Major Investment Destinations of SACU (2013-2022)

Destination Country	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
Mozambique	5,262.0	27	5,888	21
Nigeria	4,345.5	49	5,733	32
Zimbabwe	4,114.1	32	5,501	23
USA	1,751.7	41	3,661	37
Ghana	1,393.4	34	3,590	27
Zambia	1,151.2	43	3,688	27
UK	945.4	100	3,885	85
Chile	885.0	3	1,069	2
Bulgaria	846.2	4	3,495	4
Egypt	824.6	8	472	7

Destination Country	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
Germany	810.2	30	1,412	21
Kenya	791.0	54	4,002	38
China	748.6	11	1,213	10
Australia	698.0	19	2,178	16
Madagascar	688.8	2	114	2
DR Congo	624.4	5	963	5
Czech Republic	583.9	4	1,690	3
South Africa	544.5	7	1,807	5
Namibia	458.8	38	2,498	26
Ethiopia	371.2	7	1,479	5
Angola	366.9	8	1,119	8
Others	7,988.8	372	27,775	306
Total	**36,194.3**	**898**	**83,232**	**437**

Source: fDi Markets online database and India Exim Bank Research

South Africa was the largest outward directed investment source among SACU countries, investing US$ 34.6 billion (95.7% of the total envisaged outflows) during 2013-2022 **(Table 5.8)**.

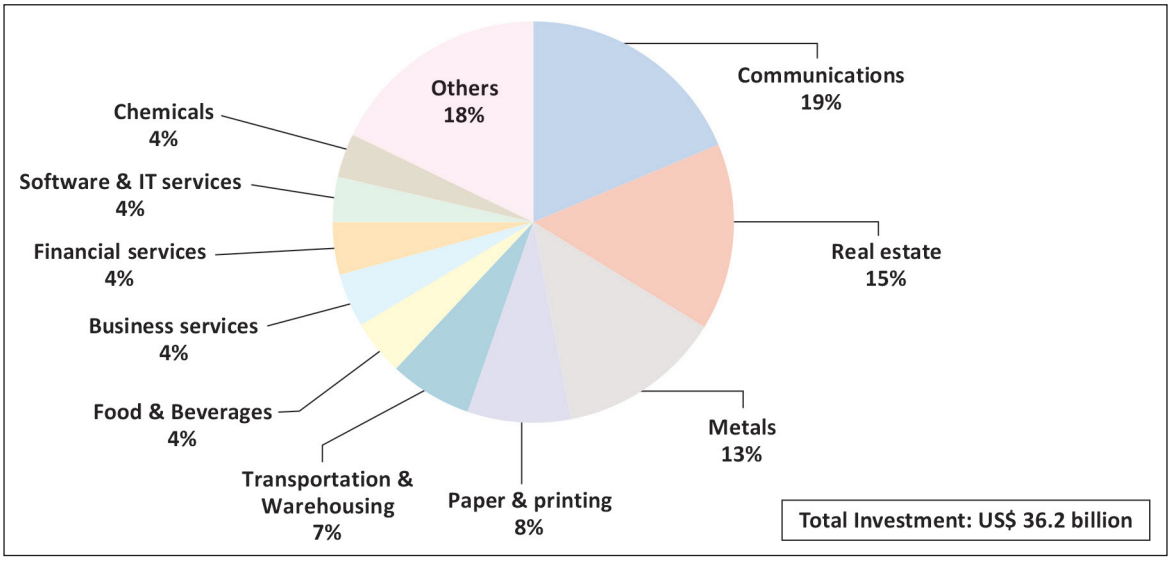
Table 5.8: FDI Source Countries in SACU (2013-2022)

Source Country	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
South Africa	34,636.30	861	78,554	422
Namibia	1,022.80	10	638	5
Botswana	535.20	27	4,040	10
Total	**36,194.30**	**898**	**83,232**	**437**

Source: fDi Markets online database and India Exim Bank Research

During 2013-2022, communications sector accounted for the largest share of approved investments from SACU to the rest of the world (19% of total investments made by SACU), followed by real estate (15%), metals (13%), paper, printing & publications (8%), transportation & warehousing (7%), food & beverages (4%) and business services (4%) **(Chart 5.3)**. In terms of job creation, food and beverages, consumer products, real estate, software & IT services, paper, printing & packaging and metals dominated in the past decade. In terms of projects, software & IT services, financial services, business services and food & beverages dominated.

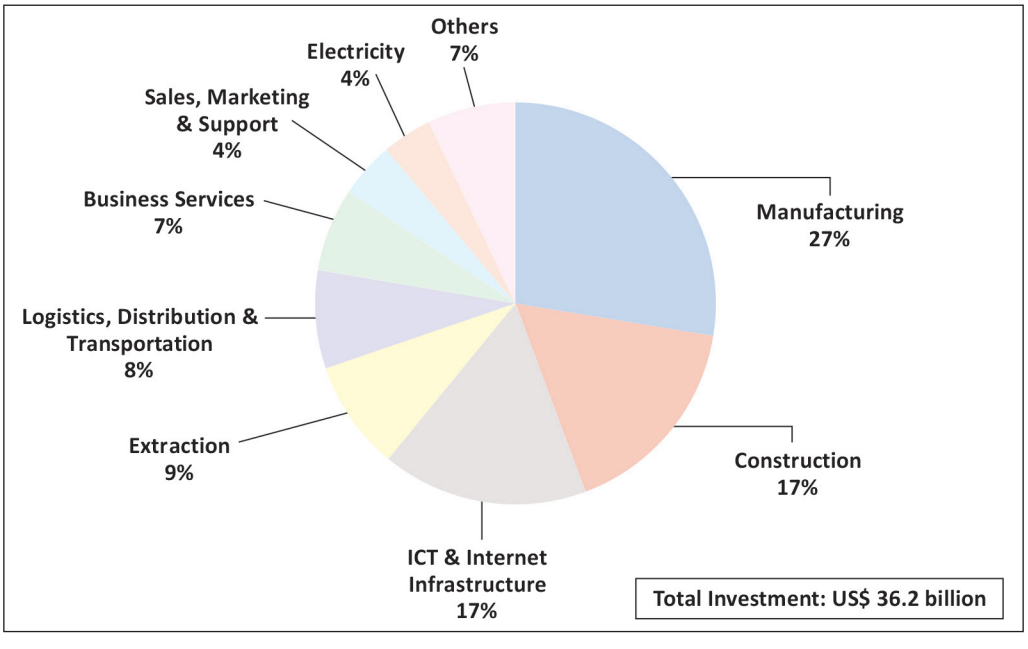
Chart 5.3: Major Sectors Attracting FDI from SACU (2013-2022)



Source: fDi Markets online database and India Exim Bank Research

Chart 5.4 shows the major business activities where SACU countries invested during January 2013 to December 2022. Manufacturing (27%) was the major business activity, receiving maximum capital investment during January 2013 to December 2022 by SACU, followed by construction (17%), ICT & internet infrastructure (17%), extraction (9%) and logistics, distribution & transportation (8%).

Chart 5.4: Business Activity-wise Investment from SACU



Source: fDi Markets online database and India Exim Bank Research

India's Bilateral Investment Relations with SACU

South-South investment has gained prominence in recent years. It is not only a key source of financing for developing countries, but also acts as a medium for transferring standards, knowledge and cost-effective

business models. These business models are often in concurrence with the requirements and conditions prevailing in developing economies. They are usually more adaptable and flexible compared to investments from developed economies. They also have an impact on bilateral and regional trade, thereby generating more employment and cost-effective production of affordable goods and services. In recent years, besides being major recipients of global FDI inflows, India has emerged as an important global investor with increasing overseas investments in other developing economies of Africa, Asia and Latin America. Though India had business interest and investment in Africa since very long, these were largely driven by small and medium enterprises and traders.

India's Investments in SACU

To get a more meaningful understanding on the trends in Indian overseas investments, this study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times' fDi Markets, during January 2013 to December 2022, total capital investment of India in SACU stood at a cumulative amount of US$ 1.6 billion, through 50 projects and creating 4,541 jobs in the region **(Table 5.9)**.

Table 5.9: Indian Foreign Direct Investments in SACU (2013-2022)

Year	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
2013	741.8	10	258	8
2014	77.6	4	254	4
2015	223.5	12	1,665	12
2016	93.8	3	218	3
2018	291.2	5	1,036	5
2019	37.4	3	265	3
2020	14.8	2	137	2
2021	86.0	8	656	5
2022	55.1	3	52	3
Total	**1,621.2**	**50**	**4,541**	**40**

Source: fDi Markets online database and India Exim Bank Research

India's investment to SACU has moderated over the last 10 years, with the highest investment recorded in the year 2013 at US$ 741.8 million. Investments post COVID-19 have been subdued with only US$ 55.1 million being invested in the year 2022.

During January 2013 to December 2022, South Africa received 78.6% of India's outward direct investments in the region, followed by Namibia (17%) and Botswana (4.3%) **(Table 5.10)**. Eswatini and Lesotho did not receive any notable investments from India during the 10-year period.

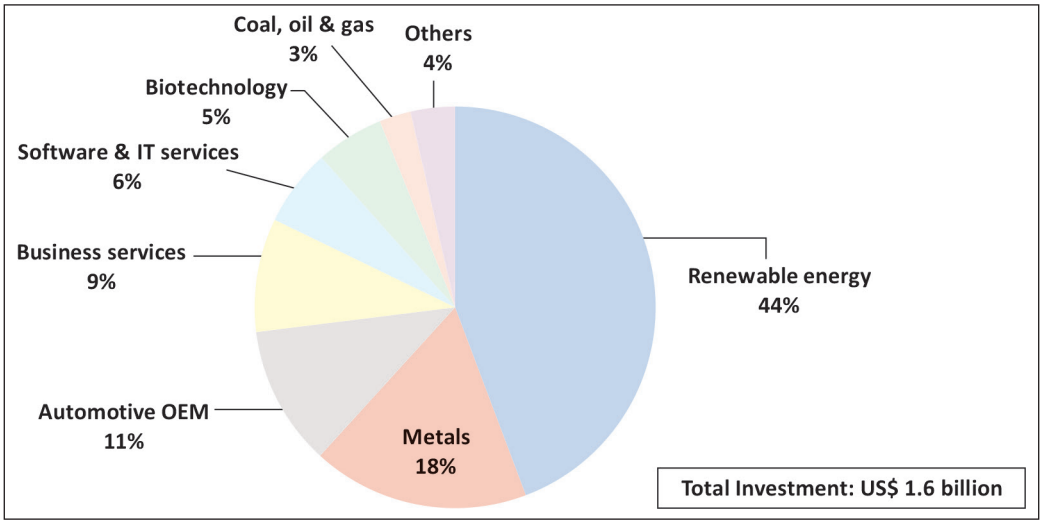
Table 5.10: Indian FDI Recipient Countries in SACU (2013-2022)

Destination Country	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
South Africa	1,274.5	45	3,569	35
Namibia	276.4	1	752	1
Botswana	70.3	4	220	4
Total	**1,621.2**	**50**	**4,541**	**40**

Source: fDi Markets online database and India Exim Bank Research

During 2013-2022, renewable energy sector accounted for the largest share of approved investments from India to SACU countries (44% of total investments received by SACU from India), followed by metals (18%), automotive OEM (11%), business services (9%), software and IT services (6%), biotechnology (5%) and coal, oil & gas (3%) **(Chart 5.5)**.

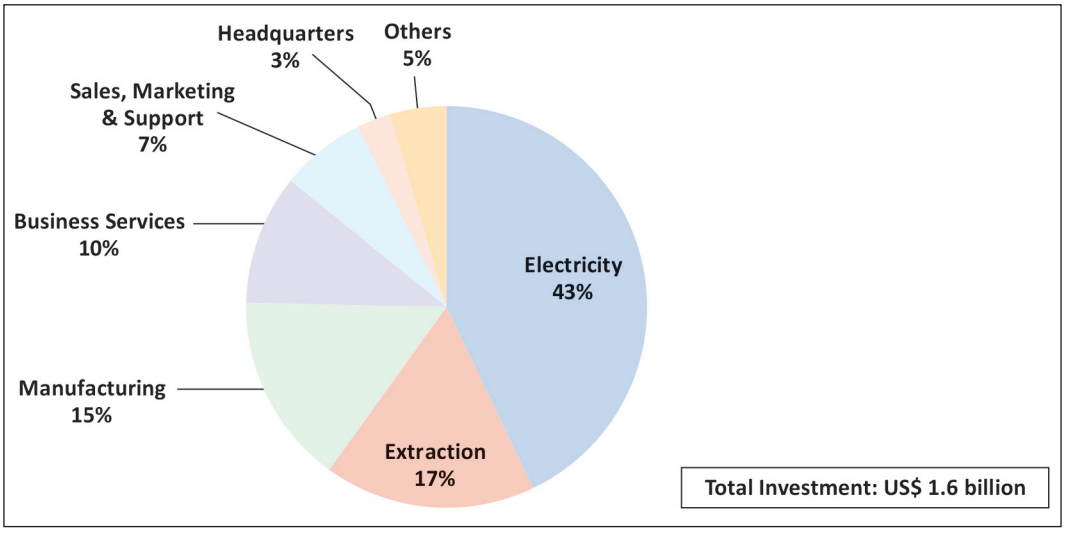
Chart 5.5: Sectoral Investments by India in SACU



Source: fDi Markets online database and India Exim Bank Research

Chart 5.6 shows the major business activities in SACU receiving FDI from India during January 2013 to December 2022. Electricity (43%) was the major business activity receiving capital investment from India during 2013-2022 in SACU, followed by extraction (17%), manufacturing (15%), business services (10%) and sales, marketing & support (7%).

Chart 5.6: Business Activity-wise Investment from India to SACU



Source: fDi Markets online database and India Exim Bank Research

SACU's Investments in India

Investments from SACU to India have been tepid over the last decade, with 13 projects and US$ 159.1 million in total capital investment between January 2013 and December 2022 **(Table 5.11)**. All the 13 projects have been invested by South Africa, with no participation from the other SACU nations.

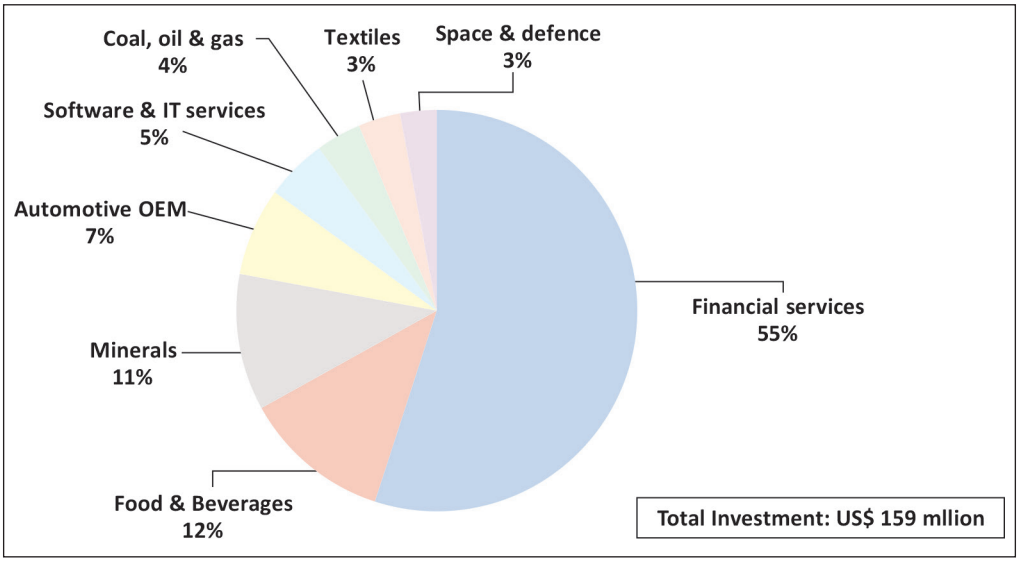
Table 5.11: Overview of SACU's Investments in India (2013-2022)

Month	Capital Expenditure (US$ million)	No. of Projects	No. of Jobs Created	No. of Companies
Jan-14	7.9	1	120	1
Mar-15	12.5	1	48	1
Aug-15	5.8	1	9	1
Mar-16	87.0	2	712	1
Nov-16	0.5	1	1	1
Dec-16	5.0	1	30	1
Jul-17	5.4	3	147	1
Nov-18	11.3	1	24	1
Feb-20	4.7	1	81	1
Dec-21	19.0	1	42	1
Total	**159.0**	**13**	**1,214**	**10**

Source: fDi Markets online database and India Exim Bank Research

During January 2013 to December 2022, financial services sector accounted for the largest share of approved investments from SACU to India (55% of total investments made by SACU), followed by food & beverages (12%), minerals (11%), automotive OEM (7%), software and services IT (5%), coal, oil & gas (4%) and textiles (3%) **(Chart 5.7)**.

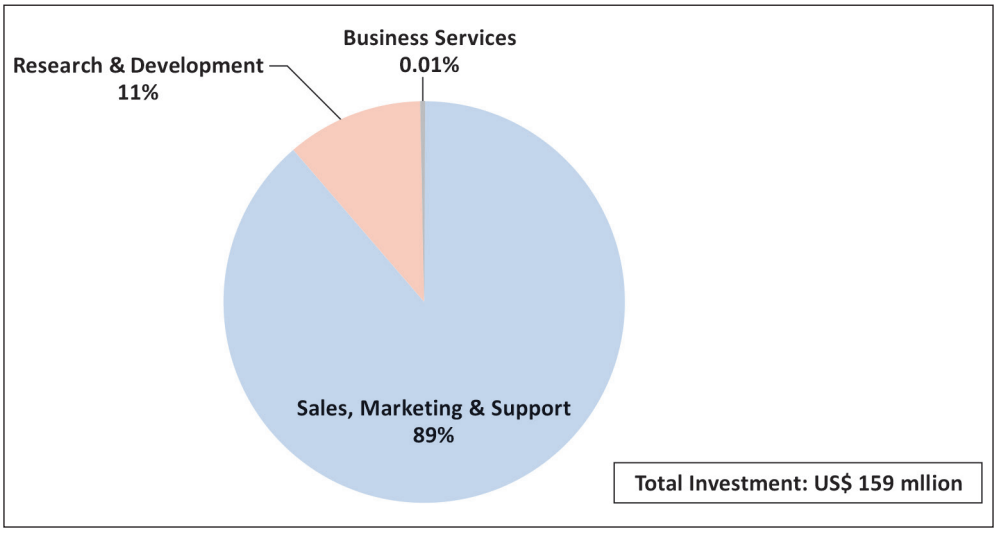
Chart 5.7: Sectoral Investments of SACU in India



Source: fDi Markets online database and India Exim Bank Research

Chart 5.8 shows the major business activities invested by SACU in India during 2013-2022. There are only 3 major business activities that have received investments. Sales, marketing & support make up the majority of the investment (89% of total investment), followed by research and development (11%) and business services (0.01%).

Chart 5.8: Business Activity-wise Investment from SACU to India



Source: fDi Markets online database and India Exim Bank Research

Chapter

Potential for Enhancing India's Trade with Southern African Customs Union

The ongoing talks for a Free Trade Agreement (FTA) between India and SACU have set the stage for enhancing future partnership between both partners. The FTA is aimed at cementing and expanding the burgeoning trade relations between India and SACU member countries. The 1st round of technical discussions for India-SACU Preferential Trade Agreement (PTA) took place in Pretoria during October 5-6, 2007, followed by the 2nd round in Walvis Bay, Namibia during February 21-22, 2008 and the 3rd round was held at New Delhi during November 25 - 27, 2008. During the 3rd round of negotiations, a memorandum of understanding (MOU), was signed on November 26, 2008, by the representatives of India and SACU to facilitate negotiations. The 4th round of negotiations was held at Pretoria during October 7-8, 2009, while the 5th round of negotiations was held during October 7-8, 2010. During the 5th round of negotiations, SACU has presented a revised text of the PTA as a working document. Further, both sides have agreed on the text on 'Dispute Settlement Procedures'; to use the text proposed by India on 'Customs Cooperation and Trade Facilitation' and 'TBT' as the working text and to use the text on 'SPS' proposed by SACU as the working text. According to PIB reports, discussions between SACU and India to achieve a PTA have been revived in July 2020.

Aligning India's Exports with SACU

A PTA/ FTA will only be beneficial if there exists complementarity between the export supply of one country to the import demand of the other country. In other words, whatever India is exporting, SACU should have a corresponding demand for it and vice versa. It is generally understood that complementarity in the trade structure of the countries facilitates higher trade between them and there is scope for mutual benefit from this increased trade.

Thus, it is important to assess the level of complementarity between India and SACU while analyzing the feasibility of a prospective FTA between both the partners. The trade complementarity index (TCI) is a useful tool, which can provide information on feasibility and prospects for intra-regional trade. A TCI between two countries shows how well the structures of foreign trade of India and SACU countries fit to understand the utility of an FTA. To sum up, TCI measures the extent to which a country's export profile matches the import profile of the partner country, in the sense that what a country exports overlaps with what the other country imports and provides an indication of the prospects for enhanced trade flows. It is a normalized index, which takes values between 0 and 100, with higher values denoting greater complementarity. TCI was first proposed by Kojima Kiyoshi and perfected by Peter Drysdale in 1967 and the major proponents of the TCI (Michaely, 1996 and Yeats, 1998) argue that the higher the value of the trade complementarity index, the more favorable the outcome of a proposed FTA would be on its potential members.

The TCI between countries 'k' and 'j' is defined as:

$$TCI_{ij} = 100\ (1 - sum\ (|m_{ik} - x_{ij}|\ /\ 2))$$

where,

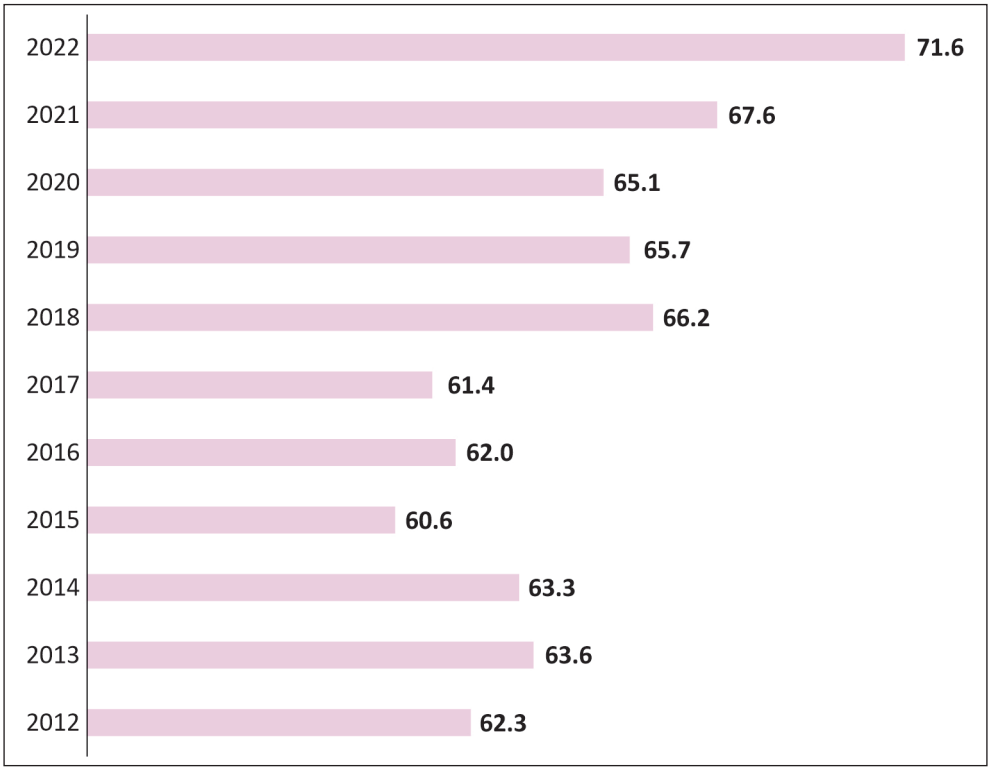
x_{ij}: Share of good 'i' in Global Exports of Country 'j'

m_{ik}: Share of Good 'i' in all Imports of Country 'k'

The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.

During the period 2012-2022, the complementarity index for profile of Indian exports to SACU's imports ranges from 62.3 to 71.6. This indicates a substantial complementarity in India's exports and SACU's imports. Over the years, the value of the index is rising which shows that India's export profile is converging towards SACU's import profile **(Chart 6.1)**.

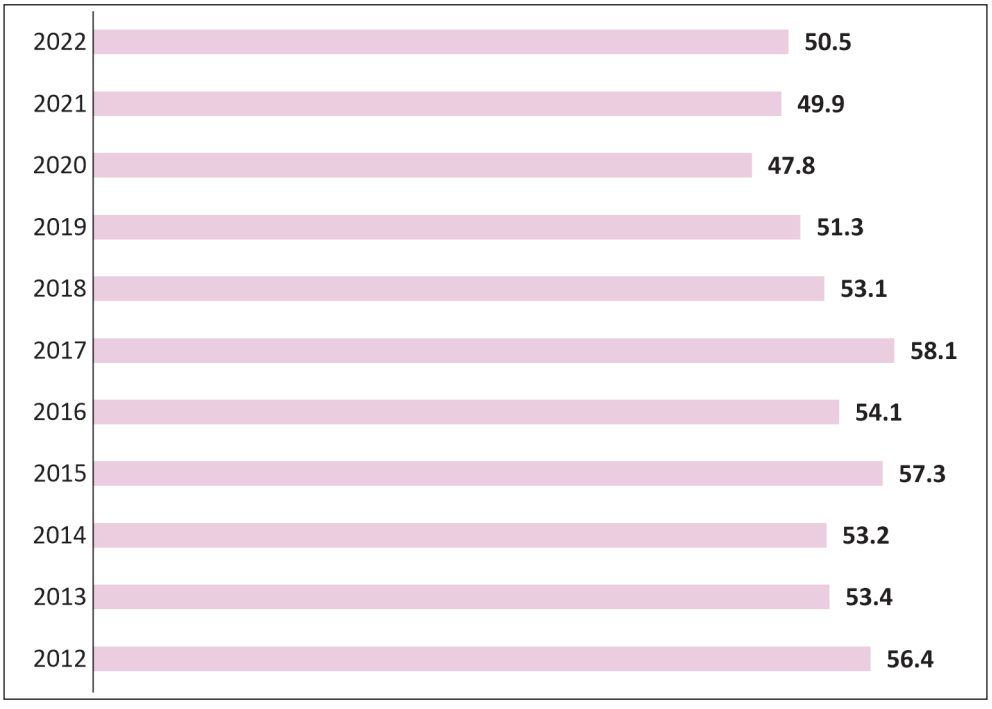
Chart 6.1: India's Trade Complementarity with SACU



Source: India Exim Bank's Estimates based on ITC Trade Map

During the period 2012-2022, the complementarity index for SACU's export profile to India's import profile ranges from 47.8 to 58.1 **(Chart 6.2)**. This indicates a complementarity in SACU's exports and India's imports. SACU's export profile to a certain extent matches with the import profile of the India which indicates that SACU's exports have a corresponding demand in India. The index shows the highest value in 2017 at 58.1.

Chart 6.2: SACU's Trade Complementarity with India



Source: India Exim Bank's Estimates based on ITC Trade Map

Revealed Comparative Advantage

Analysing the key products where India has comparative advantage and match it with SACU's import demand for these products are necessary while negotiating for an India-SACU PTA/FTA. Quantification of comparative advantage helps in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which has been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world trade scenario. It provides useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country i for commodity j is:

$$RCA_{ij} = (x_{ji}/X_i) / (x_{jw}/X_w)$$

where,

x_{ji}: Exports of Commodity 'j' from Country 'i'

X_i: Total Exports from Country 'i'

x_{jw}: Total Exports of Commodity 'j' from World

X_w: Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. An RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

Since the RCA analysis is used in regard to one country's export profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with SACU.

$$\mathbf{RCA_{ijc} = (x_{ijc}/X_{ic}) / (x_{wjc}/X_{wc})}$$

Where,

x_{ijc}: India's Exports of Commodity 'j' to SACU

X_{ic}: India's Total Exports to SACU

x_{wjc}: World's Exports of Commodity 'j' to SACU

X_{wc}: World's Total Exports to SACU

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$\mathbf{NRCA_{ijc} = (RCA_{ijc}\text{-}1/\ RCA_{ijc}+1)}$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1, means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to SACU's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted to identify products from the industries for which India has existing export capabilities to SACU. These products are the potential export growth drivers from India to SACU and could suitably be targeted. The section also attempts to identify the products where India could focus on, to realize potentially higher values of exports to SACU, especially when considering that India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in demand in SACU, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to SACU.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2018-2022.
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US$ 0.5 million from India to SACU is considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of India's performance in SACU, namely, the **NRCA for products and Average Annual Growth Rate (AAGR)** of world exports to SACU.

On the basis of these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of SACU > World Import AAGR of SACU; Positive NRCA): These products have the maximum potential, as SACU's import demand for these products has shown robust AAGR over the period 2018-2022, while India's exports of these products to SACU are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to SACU and India needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in SACU.

Underachievers (Product Import AAGR of SACU > World Import AAGR of SACU; Negative NRCA): India does not have competitiveness in these products although their import demand has grown in SACU significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to SACU and further expand its bilateral ties with the country.

Winners in Declining Sectors (Product Import AAGR of SACU < World Import AAGR of SACU; Positive NRCA): India has competitiveness in these products, even though SACU's import AAGR for these products has been declining. These products may not have much demand in the future and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

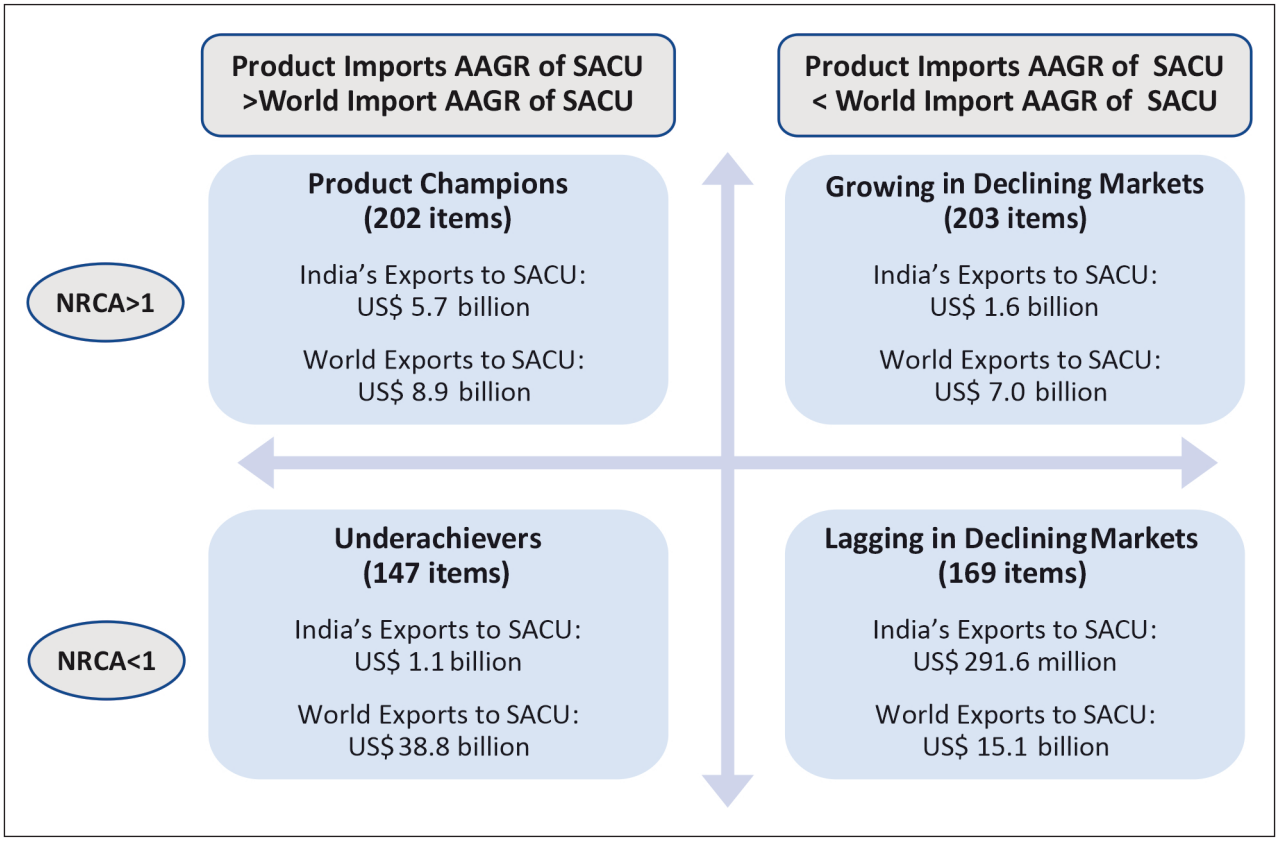
Lagging in Declining Sectors (Product Import AAGR of SACU < World Import AAGR of SACU; Negative NRCA): India does not have competitiveness in these products and these sectors have also registered weak import demand in SACU during the period under consideration.

Product Identification Based on Competitiveness

To identify the products based on their export competitiveness in SACU, a four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of SACU for all products. The quadrants are drawn by comparing the overall AAGR of global imports of SACU for all products during 2018-2022 (which was 7.4%), to the NRCA of India's exports to SACU during the same period. This exercise aims to identify products whose imports in SACU over the period 2018-2022 have performed better than the overall average of SACU for all products during this period, implying that the share of such products in SACU's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US$ 0.5 million from India to SACU, 721 products have been identified with the total exports from India to SACU, amounting to US$ 8.6 billion (97.6% of India's exports to SACU in 2022), while the total global imports by SACU in the same products stood at US$ 69.7 billion in 2022 (52.9% of SACU's global imports in 2022) **(Table 6.1)**.

Out of the 721 items at the HS 6-digit level, 202 items fell into the category of the product champions. The combined exports of these items from India to SACU were US$ 5.7 billion in 2022, representing approximately 64.3% of India's exports to SACU in 2022. Major product champions are provided in **Table 6.2**. These products are low hanging fruits for India and can be targeted in the short to medium term. SACU's global imports of these product champions amounted to US$ 8.9 billion in 2022, implying that there remains substantial scope for tapping the SACU market for these products.

Table 6.1: Product Identification for Potential Exports from India to SACU (2022)



Source: India Exim Bank's Calculations based on ITC Trade Map

Table 6.2: List of Major Product Champions from India to SACU (HS 6-digit level)

HS Code	Product	India's Exports to SACU (US$ mn)	Share in India's Total Exports to SACU (%)	Global Imports of SACU (US$ mn)	Share in Global Imports of SACU (%)
870322	Motor cars and other motor vehicles principally designed for the transport of persons	695.4	7.9	1654.9	0.53
870321	Motor cars and other motor vehicles principally designed for the transport of persons	376.0	4.2	721.5	0.29
710239	Diamonds, worked, but not mounted or set	325.1	3.7	634.8	0.25
870410	Dumpers for off-highway use	85.3	1.0	523.4	0.06
870421	Motor vehicles for the transport of goods, with only compression-ignition internal combustion	82.3	0.9	677.5	0.06
842959	Self-propelled mechanical shovels, excavators and shovel loaders	62.5	0.7	170.9	0.05

HS Code	Product	India's Exports to SACU (US$ mn)	Share in India's Total Exports to SACU (%)	Global Imports of SACU (US$ mn)	Share in Global Imports of SACU (%)
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons	53.4	0.6	468.9	0.04
870193	Tractors, of an engine power > 37 kW but <= 75 kW	51.2	0.6	137.8	0.04
250300	Sulphur of all kinds	47.3	0.5	259.9	0.04
847490	Parts of machinery for working mineral substances of heading 8474	25.7	0.3	213.4	0.02
760120	Unwrought aluminium alloys	25.5	0.3	101.8	0.02
281512	Sodium hydroxide "caustic soda" in aqueous solution "soda lye or liquid soda"	22.6	0.3	119.2	0.02
840890	Compression-ignition internal combustion piston engine "diesel or semi-diesel engine"	20.7	0.2	189.6	0.02
720839	Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, in coils	20.7	0.2	101.1	0.02

Source: ITC Trade Map and India Exim Bank Research

Medium oils and preparations of petroleum or bituminous minerals (HS-271019) accounts for the highest share in India's exports to SACU and therefore features among the top product champions. However, there is a reporting mismatch in data at HS 6-digit level by the respective countries and hence the product is not included in the table.

The total number of products in growing in declining markets category is 203, with India's exports amounting to US$ 1.6 billion and constitute a share of 18.0% of India's exports to SACU in 2022. These are the product items in which India has competitive advantage and has attained a significant share in SACU's import basket, however, SACU's import demand for these products has been falling in the last five years **(Table 6.3)**. India needs to diversify away from this segment of products and move towards the Product Champions and the Underachievers segment.

Table 6.3: List of Major Products under Growing in Declining Markets Category from India to SACU (HS 6-digit level)

HS Code	Product	India's Exports to SACU (US$ mn)	Share in India's Total Exports to SACU (%)	Global Imports of SACU (US$ mn)	Share in Global Imports of SACU (%)
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	548.7	6.2	1621.3	0.42
870323	Motor cars and other motor vehicles principally designed for the transport of <10 persons, incl. station wagons and racing cars, with only spark-ignition internal combustion reciprocating piston engine of a cylinder capacity > 1.500 cm^3 but <= 3.000 cm^3	79.0	0.9	1047.4	0.06
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	78.5	0.9	535.3	0.06
870331	Motor cars and other motor vehicles principally designed for the transport of <10 persons, incl. station wagons and racing cars, with only diesel engine of a cylinder capacity <= 1.500 cm^3	37.3	0.4	49.7	0.03
300420	Medicaments containing antibiotics	36.7	0.4	113.5	0.03
870422	Motor vehicles for the transport of goods, with only compression-ignition internal combustion piston engine "diesel or semi-diesel", of a gross vehicle weight > 5 t but <= 20 t	32.8	0.4	81.9	0.02
690721	Ceramic flags and paving, hearth or wall tiles	32.8	0.4	71.9	0.02
851718	Telephone sets	30.3	0.3	19.1	0.02
330290	Mixtures of odoriferous substances and mixtures, incl. alcoholic solutions	29.8	0.3	108.0	0.02
392190	Plates, sheets, film, foil and strip of plastics	28.1	0.3	128.2	0.02
300410	Medicaments containing penicillins or derivatives	27.4	0.3	36.4	0.02
847290	Office machines	24.4	0.3	82.5	0.02
293499	Nucleic acids and their salts, whether or not chemically defined; heterocyclic compounds	21.0	0.2	70.6	0.02
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	20.9	0.2	198.4	0.02
870423	Motor vehicles for the transport of goods, with only compression-ignition internal combustion	17.9	0.2	31.8	0.01

Source: ITC Trade Map and India Exim Bank Research

This was followed by underachievers with 147 items, with India's exports worth US$ 1,063.3 million to SACU. These products constitute a share of 12% in India's total exports to SACU. These are the product items in which import demand in SACU market is rising, but exports from India are currently not competitive **(Table 6.4)**. SACU's imports of these products stood at US$ 38.8 billion in 2022, presenting significant opportunities for exporters. There is a need for capacity creation in these product categories, through an appropriate incentive framework for attracting investments in the country.

Table 6.4: List of Major Underachievers from India to SACU (HS 6-digit level)

HS Code	Product	India's Exports to SACU (US$ mn)	Share in India's Total Exports to SACU (%)	Global Imports of SACU (US$ mn)	Share in Global Imports of SACU (%)
271012	Light oils and preparations, of petroleum or bituminous minerals	591.4	6.7	21636.5	0.45
851713	Smartphones for wireless networks	138.4	1.6	2119.3	0.10
842952	Self-propelled mechanical shovels, excavators and shovel loaders	22.9	0.3	400.5	0.02
850440	Static converters	22.7	0.3	677.0	0.02
740811	Wire of refined copper, with a maximum cross-sectional dimension of > 6 mm	17.7	0.2	426.3	0.01
380893	Herbicides, anti-sprouting products and plant-growth regulators	16.5	0.2	373.3	0.01
710231	Non-industrial diamonds unworked or simply sawn, cleaved or bruted (excl. industrial diamonds)	12.4	0.1	2388.4	0.01
401180	New pneumatic tyres, of rubber, of a kind used on construction, mining or industrial handling	10.2	0.1	336.1	0.01
701090	Carboys, bottles, flasks, jars, pots, phials and other containers, of glass	8.2	0.1	171.2	0.01
300241	Vaccines for human medicine	7.4	0.1	292.8	0.01
841370	Centrifugal pumps, power-driven	6.8	0.1	130.0	0.01
850720	Lead acid accumulators	6.3	0.1	127.1	-
840820	Compression-ignition internal combustion piston engine "diesel or semi-diesel engine"	5.8	0.1	112.9	-
870431	Motor vehicles for the transport of goods, with only spark-ignition internal combustion piston engine, of a gross vehicle weight <= 5 t	4.9	0.1	137.4	-
841391	Parts of pumps for liquids	4.6	0.1	148.4	-

Note: "-" negligible

Source: ITC Trade Map and India Exim Bank Research

Exports from India to SACU under lagging in declining market category stood at US$ 291.6 million or 3.3% of India's total exports to SACU in 2022. The significant range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in SACU would result in further fall in their prices in the future. Thus, a significant shift needs to be made from the declining sectors to the product champions in the short run and underachievers in the medium to the long run, to make efficient utilization of resources and further enhance exports from India to SACU.

Tariff Analysis of India and SACU

This section elucidates upon the effectively applied tariff imposed by India and SACU bilaterally. Customs duties on merchandise imports are called tariffs. Tariffs give a price advantage to locally produced goods over similar goods which are imported and they raise revenues for governments. Effectively applied (AHS) tariff is the actual tariff imposed upon the country. WITS database of the World Bank uses the concept of effectively applied tariff which is defined as the lowest available tariff. If a preferential tariff exists, it will be used as the effectively applied tariff. Otherwise, the most favoured nation (MFN) tariff will be used. The importing country will apply the MFN tariff if the product fails to meet the country's rules that determine the product's country of origin.

India's Tariff on Imports from SACU

In the current analysis, the tariff on 6-digit HS code is taken into consideration, using Trade Analysis Information Systems (TRAINS) based WITS data. The year considered is 2021. Since there is no preferential agreement currently between India and SACU, the effectively applied tariff on SACU is the same as the MFN tariffs. As shown in **Table 6.5**, India's majority of imports from SACU have tariffs between 10.1%-15% (37.4% of total imports), followed by 0.1% to 5% (37.1%). 134 tariff lines are duty-free. Lesotho is a beneficiary under India's Duty-Free Tariff Preference (DFTP) Scheme for LDCs, which provides market access on 95.5% of the lines on which LDCs have made to exports to India over the last two financial years. In 2021, India's imports from Lesotho stood at US$ 95.4 thousand consisting of 6 tariff lines of inorganic oxygen compounds of non-metals (HS 281129)[2] at a duty-free rate.

Table 6.5: India's Effectively Applied Tariff on Imports from SACU in 2021

Effectively Applied Tariff Rates (%)	Total Number of Tariff Lines (at 6-digit HS Code)	Total Imports (US$ mn)	Share in Total Imports (%)
0.0	134	154.2	1.3
0.1-5.0	316	4,451.1	37.1
5.1-7.0	73	42.1	0.4
7.1-8.0	1,145	154.9	1.3
8.1-10.0	1,257	1,939.4	16.2
10.1-15.0	317	4,485.7	37.4
15.1-20.0	238	23.1	0.2

[2] WITS

Effectively Applied Tariff Rates (%)	Total Number of Tariff Lines (at 6-digit HS Code)	Total Imports (US$ mn)	Share in Total Imports (%)
20.1-30.0	111	43.2	0.4
30.1-50.0	48	9.1	0.1
50.1-150.0	65	0.8	0.01
Unspecified	91	701.0	5.8
Total	**3,795**	**12,004.3**	**100.0**

Source: WITS Database and India Exim Bank Research

The highest import tariffs imposed by India on SACU, ranging between 100%-150%, are on beverages and spirits (HS-22), among others. The imports in which case tariffs range between 10.1%-15% account for the highest share (37.4%) in India's imports from the SACU region. These are mainly gold (HS-710812) as South Africa was the third largest import source of gold for India in 2021. This was followed by other items such as machinery (HS-840734 and HS-842139), apples (HS-080810), silver (HS-710691), parts and accessories for tractors (HS-870899) and display modules used for television, camera or monitors (HS-852990), among others (imports with at least value of US$ 1 million).

SACU Common External Tariff

The five SACU countries actively participate in the WTO. Of the five SACU countries, only South Africa has been active in WTO dispute settlement, requesting consultations with the European Union on measures on citrus fruit imports in 2022. Under the SACU treaty, the members have harmonized almost all customs-related matters (including the external tariff) and excise duties. To ensure single entry and free circulation of merchandise products within the Union, revenues from harmonized duties and taxes are pooled in a common fund and distributed to the five SACU member countries on the basis of a formula. They constitute a major source of revenue for the four smaller economies while accounting for less than 3% of South Africa's tax revenue.

Overall, the simple average applied MFN tariff rate was 8.5% in 2023, slightly up from 8.3% in 2015, reflecting a nomenclature change from HS-2015 to HS-2022. More than half (53.8%) of total tariff lines is duty free. Tariffs higher than 50% apply mainly to some poultry meat, cheddar and gouda, pineapples and worn clothing. The highest ad valorem rate (95%) applies to some dairy products and the highest ad valorem equivalent (AVE) (532.3%) applies to some worn textile articles.

Under the WTO definition, agriculture remains the most tariff-protected sector (10.1%); tariff rates average 8.2% on non-agricultural products. Under International standard industrial classification (ISIC) definition, manufacturing is the most tariff-protected sector (8.9%), followed by agriculture (3.7%) and mining and quarrying (0.1%). In aggregate, tariff rates display positive escalation throughout the stages of production: from raw materials (with an average tariff rate of 4.9%) to semi-finished products (5.6%) and then to fully processed products (10.7%).

SACU's Tariff on Imports from India

The simple average effectively applied tariffs imposed by SACU on India's exports at 6-digit HS code level using TRAINS based WITS data are analyzed in **Table 6.6**. More than half of SACU's imports from India are duty

free. India faces high tariffs ranging from 30.1%-45% in sectors like articles of apparel and clothing, knitted or crocheted (HS-61), articles of apparel and clothing, not knitted or crocheted (HS-62), tobacco products (HS-24) and white chocolate (HS-170490), among others.

India faces tariffs ranging from 20.1% to 30% in motor cars and other motor vehicles principally designed for the transport of <10 persons (HS-870322, HS-870323 and HS-870332) and woven fabrics of cotton (various items under HS-5209 to HS-5212), among others. A major share of the unspecified AHS is accounted for refined petroleum (HS-271000), followed by groundnut (HS-200811) and cane or beet sugar and chemically pure sucrose, in solid form (HS-170199).

Table 6.6: SACU's Effectively Applied Tariffs on Imports from India in 2021

Effectively Applied Tariff Rates (%)	Total Number of Tariff Lines (at 6-digit HS Code)	Total Imports (US$ mn)	Share in Total Imports (%)
0.0	3,569	2,127.2	50.6
0.1-5.0	1149	205.1	4.9
5.1-7.0	490	70.8	1.7
7.1-8.0	616	42.4	1.0
8.1-10.0	1,255	261.8	6.2
10.1-15.0	1,371	137.2	3.3
15.1-20.0	1,045	88.2	2.1
20.1-30.0	1,088	448.2	10.7
30.1-45.0	652	65.2	1.6
Unspecified	162	757.9	18.0
Total	**11,397**	**4,204.0**	**100.0**

Source: WITS Database and India Exim Bank Research

Non-Tariff Measures in Goods Trade

According to the UNCTAD, non-tariff measures are generally defined as "policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both."[3] A large number of domestic regulations meant to protect the environment, consumers or workers are designed in such a way that they can potentially discriminate against foreign suppliers of goods or services. Indeed, there is some evidence that the reduction of tariffs has been accompanied by an increasingly discriminatory role of such regulations. The scope for these non-tariff trade measures (NTMs) is large, their nature is complex and constantly changing. This leads to challenges to ensure level playing fields between countries[4]. Based on the WTO classification, the different types of non-tariff measures include:

- **Sanitary and Phytosanitary Measures**

Sanitary and phytosanitary measures (SPS) are measures that are applied to protect human or animal life from risks arising from additives, contaminants, toxins or disease-causing organisms in their food; to protect

[3] https://unctad.org/system/files/official-document/ditctab2019d5_en.pdf
[4] World Trade Organization, 2012

human life from plant or animal-borne diseases; to protect animal or plant life from pests, diseases or disease-causing organisms; to prevent or limit other damage to a country from the entry, establishment or spread of pests and to protect biodiversity. These include measures taken to protect the health of fish, wild fauna, forests and wild flora.

- **Technical Barriers to Trade**

Technical barriers to trade (TBT) are measures referring to technical regulations and procedures of assessment of conformity with technical regulations, excluding measures covered by the chapter on sanitary and phytosanitary measures. A technical regulation is a document that sets out product characteristics or related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory.

- **Anti-Dumping Measures**

Anti-dumping measures (ADP) are unilateral remedies which may be applied by a WTO member after an investigation and determination by that member, in accordance with the provisions of the Anti-Dumping Agreement, that an imported product is "dumped" and that the dumped imports are causing material injury to a domestic industry producing the like product.

- **Countervailing Measures**

Countervailing measures (CV) are the actions taken by the importing country, usually in the form of increased duties to offset subsidies given to producers or exporters in the exporting country.

- **Safeguard**

Under Safeguard (SG), a WTO member restricts imports of a product temporarily to protect a specific domestic industry from an increase in imports of any product which is causing or which is threatening to cause, serious injury to the industry.

- **Quantitative Restrictions**

Quantitative restrictions (QR) are prohibitions or restrictions other than duties, taxes or other charges applied by the WTO members on imports or exports of goods, which can be made effective through quotas, import or export licences or other measures.

- **Tariff-Rate Quota**

Tariff-rate quota (TRQ) allows for quantities inside a quota to be charged lower import duty rates, than those outside (which can be high).

- **State-Trading Enterprises**

State trading enterprises (STE) are defined as governmental and non-governmental enterprises, including marketing boards, which deal with goods for export and/or import. The STE might be used to provide protection for the domestic market in a given product by setting resale prices of imports at very high levels, thus negating tariff concessions bound.

- **Export Subsidies**

Export subsidies (XS) are defined as "subsidies contingent on export performance, including the export subsidies listed in detail in Article 9 of Agreement on Agriculture".

Non-Tariff Measures Imposed by SACU

SACU members apply anti-dumping, countervailing or safeguard measures imposed by South Africa upon recommendation by International Trade Administration Commission (ITAC) and approval by the South African Minister of Trade and Industry. The Trade Remedies Unit of ITAC investigates applications for anti-dumping, countervailing and safeguard actions.

Non-Tariff Measures Imposed by Botswana

Table 6.7 shows NTMs imposed by Botswana on India and other WTO members. As of June 2023, SPS and TBT measures are among the mostly used NTMs, with 3 SPS (all 3 in initiation) and 133 TBT (44 in force and 89 initiated).

According to broad sector classification of WTO Integrated Trade Intelligence Portal (I-TIP), prepared foodstuff; beverages, spirits and tobacco have attracted the highest SPS, whereas highest number of TBTs are for machinery and electrical equipment. There are a total of 38 measures for which the HS classification is not available, which are in form of TBTs.

Table 6.7: Broad-Sector Classification of NTMs Imposed by Botswana

Broad Product Categories	SPS	TBT
Total	**3**	**133**
Measures without HS Code	-	38
Live animals and products	1	10
Vegetable products	-	1
Animal and vegetable fats, oils and waxes	-	1
Prepared foodstuff; beverages, spirits, vinegar; tobacco	2	4
Mineral products	-	1
Products of the chemical and allied industries	-	7
Resins, plastics and articles; rubber and articles	-	5
Hides, skins and articles; saddlery and travel goods	-	-
Wood, cork and articles; basketware	-	1
Paper, paperboard and articles	-	-
Textiles and articles	-	1
Footwear, headgear; feathers, artificial flowers, fans	-	-
Articles of stone, plaster; ceramic products; glass	-	6
Pearls, precious stones and metals; coin	-	-
Base metals and articles	-	19
Machinery and electrical equipment	-	59
Vehicles, aircraft and vessels	-	-
Instruments, clocks, recorders and reproducers	-	9
Arms and ammunition	-	-
Miscellaneous manufactured articles	-	17
Works of art and antiques	-	-

Note: Safeguards [SG], Sanitary and Phytosanitary [SPS] and Technical Barriers to Trade [TBT]; "-" signifies nil
Source: I-TIP, WTO and India Exim Bank Research

Non-Tariff Measures Imposed by Namibia

As of June 2023, Namibia has imposed 2 TBT (1 in force and 1 in initiation). According to broad sector classification of WTO I-TIP, the TBTs are imposed for protecting sectors like products of chemical and allied industries, mineral products and articles of stone and plaster **(Table 6.8)**.

Table 6.8: Broad-Sector Classification of NTMs Imposed by Namibia

Broad Product Categories	TBT
Total	**2**
Measures without HS Code	1
Live animals and products	-
Vegetable products	-
Animal and vegetable fats, oils and waxes	-
Prepared foodstuff; beverages, spirits, vinegar; tobacco	-
Mineral products	1
Products of the chemical and allied industries	1
Resins, plastics and articles; rubber and articles	-
Hides, skins and articles; saddlery and travel goods	-
Wood, cork and articles; basketware	-
Paper, paperboard and articles	-
Textiles and articles	-
Footwear, headgear; feathers, artificial flowers, fans	-
Articles of stone, plaster; ceramic products; glass	1
Pearls, precious stones and metals; coin	-
Base metals and articles	-
Machinery and electrical equipment	-
Vehicles, aircraft and vessels	-
Instruments, clocks, recorders and reproducers	-
Arms and ammunition	-
Miscellaneous manufactured articles	-
Works of art and antiques	-

Note: Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS] and Technical Barriers to Trade [TBT]; "-" signifies nil

Source: I-TIP, WTO and India Exim Bank Research

Non-Tariff Measures Imposed by Eswatini

As of June 2023, Eswatini has imposed 9 TBTs and 6 SPS **(Table 6.9)**. Out of the 9 TBTs, all have been initiated by Eswatini against all WTO members. Majority of TBTs are in case of part of vehicles, aircraft and vessels and machinery and electrical equipment. The second most imposed NTM is SPS with 6 initiated against all WTO members, mainly in products of the chemical and allied industries, prepared foodstuff, beverages and tobacco and live animals and products.

Table 6.9: Broad-Sector Classification of NTMs Imposed by Eswatini

Broad Product Categories	SPS	TBT
Total	**6**	**9**
Measures without HS Code	-	-
Live animals and products	3	2
Vegetable products	1	-
Animal and vegetable fats, oils and waxes	2	1
Prepared foodstuff; beverages, spirits, vinegar; tobacco	3	1
Mineral products	-	1
Products of the chemical and allied industries	4	2
Resins, plastics and articles; rubber and articles	-	-
Hides, skins and articles; saddlery and travel goods	-	-
Wood, cork and articles; basketware	-	-
Paper, paperboard and articles	-	1
Textiles and articles	-	-
Footwear, headgear; feathers, artificial flowers, fans	-	-
Articles of stone, plaster; ceramic products; glass	-	-
Pearls, precious stones and metals; coin	-	-
Base metals and articles	-	1
Machinery and electrical equipment	2	5
Vehicles, aircraft and vessels	-	6
Instruments, clocks, recorders and reproducers	-	3
Arms and ammunition	-	-
Miscellaneous manufactured articles	-	3
Works of art and antiques	-	-

Note: Safeguards [SG], Sanitary and Phytosanitary [SPS] and Technical Barriers to Trade [TBT]; "-" signifies nil

Source: I-TIP, WTO and India Exim Bank Research

Non-Tariff Measures Imposed by South Africa

As of June 2023, South Africa has imposed 293 TBTs and 69 SPS **(Table 6.10)**. Out of the 293 TBTs, 266 have been initiated, whereas 27 are in force against all WTO members. Majority of TBTs are in case of parts of machinery and electrical equipment and rest are broadly spread across sectors with prepared foodstuff, vegetable products, vehicles, aircraft and vessels and live animals and products, accounting for the highest number, among others. The SPS were the second most imposed NTMs with 65 initiated and 3 in force against all WTO members. South Africa also has 1 bilateral SPS initiated against India on fresh mango fruit (Mangifera indica; HS Code-080450). Among SPS against all members, live animals and products are the highest, followed by prepared foodstuff, beverages and tobacco. Besides SPS and TBTs, South Africa also imposes NTMs using tariff-rate quotas (TRQ; 53 in number), export subsidies (XS; 62 in number) and quantitative restrictions (QR; 2 in number), on all WTO members, with highest number of TRQs applying to vegetable products and prepared foodstuff; beverages and tobacco. In case of export subsidies, majority belongs to measures without HS Code, followed by vegetable products and prepared foodstuff, beverages and tobacco.

Table 6.10: Broad-Sector Classification of NTMs Imposed by South Africa

Broad Product Categories	SPS	TBT	ADP	SG	QR	TRQ	XS
Total	**69**	**293**	**6**	**5**	**2**	**53**	**62**
Measures without HS Code	23	19	-	4	2	-	26
Live animals and products	24	59	1	-	-	13	6
Vegetable products	11	72	2	-	-	27	12
Animal and vegetable fats, oils and waxes	-	28	-	-	-	1	4
Prepared foodstuff; beverages, spirits, vinegar; tobacco	21	80	-	-	-	13	10
Mineral products	-	8	-	-	-	-	-
Products of the chemical and allied industries	1	24	-	-	-	2	1
Resins, plastics and articles; rubber and articles	-	18	4	-	-	-	-
Hides, skins and articles; saddlery and travel goods	-	4	-	-	-	-	-
Wood, cork and articles; basketware	1	6	-	-	-	-	-
Paper, paperboard and articles	-	4	-	-	-	-	-
Textiles and articles	-	7	-	-	-	1	4
Footwear, headgear; feathers, artificial flowers, fans	-	7	-	-	-	-	-
Articles of stone, plaster; ceramic products; glass	-	15	2	-	-	-	-
Pearls, precious stones and metals; coin	-	-	-	-	-	-	-
Base metals and articles	-	22	1	1	-	-	-
Machinery and electrical equipment	-	100	1	-	-	-	-
Vehicles, aircraft and vessels	-	66	-	-	-	-	-
Instruments, clocks, recorders and reproducers	-	24	-	-	-	-	-
Arms and ammunition	-	7	-	-	-	-	-
Miscellaneous manufactured articles	-	25	-	-	-	-	-
Works of art and antiques	-	1	-	-	-	-	-

Note: Anti-dumping [ADP], Export Subsidies (XS), Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Technical Barriers to Trade [TBT] and Tariff-rate quotas [TRQ]; "-" signifies nil

Source: I-TIP, WTO and India Exim Bank Research

In September 2016, South Africa terminated its anti-dumping measures on paper-insulated lead-covered electric cable from India. The countervailing measures on the imports of ropes and cables of iron or steel, not electrically insulated, of a diameter exceeding 8 mm and standard wire of iron or steel not electrically insulated of a diameter exceeding 8 mm from India were terminated on April 14, 2014, at the request of the applicant. Botswana, Eswatini, Namibia and South Africa have reserved the right to take special safeguard (SSG) actions under Article 5 of the WTO Agreement on Agriculture.

Non-Tariff Measures Imposed by India on SACU

Based on the data retrieved from I-TIP, WTO, as of June 2023, India has imposed 611 NTMs towards all WTO members, including the SACU member countries. Out of 611 NTMs, 114 were put into force and 497 initiated[5]. SPS and TBT are among the most widely used NTMs, with 259 SPS (31 in force and 228 initiated)

[5] Initiation date is the date when the measure in preparation is made known to other WTO members; in SPS and TBT it is then the date when the measure is distributed to other members through DOL. In AD, CV and SG, the date of initiation of investigation is also the date when the affected member is notified of initiation. In agricultural NTMs, initiation is not applicable. In force is when the measure is put in force, in case of Antidumping, Countervailing and Safeguards measures; while it may or may not be notified for SPS and TBT.

and 273 TBT (7 in force and 266 initiated) in place. Quantitative restrictions have also been adopted by India, followed by protection through state trading enterprises, safeguard, tariff-rate quota and anti-dumping measures as of June 2023.

According to broad sector classification of I-TIP, WTO, prepared foodstuff; beverages, spirits, vinegar and tobacco sectors have the highest number of NTMs (112) imposed by India as of June 2023 **(Table 6.11)**. Majority of the NTMs are in form of SPS (76), followed by TBT (34) and QR and ADP (1 each). Live animals and products and vegetable products are substantially protected sectors combinedly consisting of 191 measures. Products of the chemical and allied industries and resins, plastics and articles and rubber and articles also have significant number of NTMs. There are a total of 174 measures for which the HS classification is not available, amongst these also, SPS (88) and TBT (82) are the majority NTMs.

Table 6.11: Broad-Sector Classification of NTMs Imposed by India

HS Product Description	SPS	TBT	ADP	SG	QR	TRQ
Total	259	273	13	4	59	3
Measures without HS code	88	82	-	4	-	-
Live animals and products	49	21	-	-	25	1
Vegetable products	69	24	-	-	1	1
Animal and vegetable fats, oils and waxes	13	26	-	-	25	1
Prepared foodstuff; beverages, spirits, vinegar; tobacco	76	34	1	-	1	-
Mineral products	6	13	1	-	1	-
Products of the chemical and allied industries	6	62	10	-	5	-
Resins, plastics and articles; rubber and articles	7	38	1	-	1	-
Hides, skins and articles; saddlery and travel goods	-	-	-	-	4	-
Wood, cork and articles; basketware	7	1	-	-	1	-
Paper, paperboard and articles	-	6	1	-	1	-
Textiles and articles	-	9	3	-	1	-
Footwear, headgear; feathers, artificial flowers, fans	-	1	-	-	-	-
Articles of stone, plaster; ceramic products; glass	-	11	2	-	-	-
Pearls, precious stones and metals; coin	1	1	-	-	1	-
Base metals and articles	-	25	3	-	1	-
Machinery and electrical equipment	-	61	-	-	2	-
Vehicles, aircraft and vessels	-	10	-	-	1	-
Instruments, clocks, recorders and reproducers	-	10	-	-	1	-
Arms and ammunition	-	-	-	-	1	-
Miscellaneous manufactured articles	-	13	-	-	2	-
Works of art and antiques	-	-	-	-	1	-

Note: Anti-dumping [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary Measures [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate quotas [TRQ] and Export Subsidies [XS]; "-" signifies nil

Source: I-TIP, WTO and India Exim Bank Research

Chapter

7 Way Forward and Recommendations

India and SACU share strong and deep ties of cooperation. India's engagement with SACU has been, in many areas, private sector driven resulting in greater integration with the domestic market. As new trade and investment partnerships are forming across the world, India and Southern African countries can forge mutually beneficial collaborations in the following areas.

Enhancing India-SACU Trade based on Identified Potential

India needs to expand its production and trade in products in which it has comparative advantage with SACU. This would help in expansion of trade and improve trade balance with SACU. The study has identified potential items of exports which could be targeted by Indian exporters. According to the analysis, in the short term, it is suggested to strengthen the existing products in the category of Product Champions to exploit the full potential for the products which are already showing a robust growth in SACU, where India's exports also hold a comparative advantage. In the medium to long run, efforts and investments are to be enhanced in Underachievers category products to develop capacities in these products, which will help in meeting the demands of SACU in a more competitive manner. The products in the respective categories have been elaborated in earlier chapters.

According to the EEPC India[6], South Africa was the largest market in Africa (14th largest globally) for India's engineering goods exports in 2022-23 which stood at US$ 2,484.7 million. The major engineering goods exported to South Africa are automobiles (motor vehicles/cars and two and three wheelers), accounting for a share of 62.3%. Southern African countries have a huge demand for affordable and reliable light-duty vehicles. Used cars from India are often more affordable than new vehicles and are considered as durable and suitable for the road conditions in these countries. Huge untapped demand and steady increase in consumer spending in Southern African countries are expected to offer increased opportunities to Indian exporters. Exporting high quality used cars with strict adherence to regulations in these African countries would pave for smooth flow of these vehicles from India to SACU.

Similarly, India is a major global player in two-wheelers and three-wheeler segments. About 20% of the world's registered motorcycles are known to be in Africa. African economies use two-wheelers and three-wheelers for commercial purpose, in addition to personal use. Opportunity also exists for exporting electric two-wheelers and three-wheelers, both lead-acid battery-powered and those powered by lithium-ion

[6] Engineering Export Import Monitor, March 2023, EEPC India

batteries. Supported by dominance of motorcycle taxis in these countries, there also exists opportunities for remodelling/electrification of two and three-wheelers, as conversion costs for motorcycles are much cheaper compared to conversion costs for a four-wheeler in Africa. There are several Indian companies involved in the production of 2-wheeler electric conversion kits. Signing a trade agreement can help lower import tariffs imposed by SACU on these products and result in higher exports by India to the SACU region.

Developing Manufacturing Value Chains

Despite having high level of commodity dependence, SACU countries have been steadily developing and expanding its manufacturing sector over the last decade. With post-pandemic economic recovery picking pace, Southern African countries are increasingly focusing on bolstering manufacturing and producing value-added goods. However, SACU's participation in global value chains remain modest, with the exceptions of apparel and in South Africa's case, automobiles.

Industrialisation remains an overarching objective to deepening regional economic integration in SACU, through the development of regional value chains. In this regard, the focus sectors identified are - agro processing (leather and leather products, meat and meat products, fruits and vegetables), textiles and clothing, pharmaceuticals, cosmetics and essential oils. Export and investment promotion is also one of the key strategic pillars of SACU[7] in the next 5 years. This strategic pillar seeks to strategically position the SACU member countries to take advantage of the opportunities that will be created by the AfCFTA, particularly the promotion and development of regional value chains.

Given the potential of economies in the region, the governments are working on initiatives to improve the manufacturing sector's global competitiveness and increase its participation in regional and global markets. Many SACU countries already have well-established manufacturing apparatus but are looking for latest technologies and finance to further move up the value chain. Increased FDI in the manufacturing sector by Indian companies could catalyse the development of value chains by providing foreign capital and technical know-how.

In order to achieve food security in the region, India could share its vast experience across the agro-value chain in enabling SACU countries to become a net exporter of agriculture products. Various ways of supporting the development of agricultural value chain of SACU include supply of tractors and agricultural equipment, investments in tractor manufacturing or agro-based implements, providing technology-based support for irrigation including solar operated pumps and joint creation of institutions focusing on marketing and finance that can help the sector to grow, amongst many others.

The SACU countries and Africa remain critically dependent on imported medicinal and pharmaceutical products. HIV Prevalence was the highest in the SACU countries like Eswatini, Lesotho, Botswana and South Africa, where more than 18% of the population within the age group 15-49 were affected in 2021; in case of Namibia, it was over 11%. Lesotho has the highest incidence of TB per 100,000 people at 661 in 2022 among African countries, whereas in case of South Africa it is 468, and Namibia-450[8]. India is the largest import source for SACU for its global imports of pharmaceutical products. Many Indian companies have already established local manufacturing units or joint ventures in Africa for supplying quality medicines

[7] SACU Strategic Plan Report 2022-2027
[8] World Development Indicators, World Bank

at concessional rates for major diseases like HIV/AIDS, TB, malaria and cardiovascular related diseases. Opportunities for Indian companies exist in setting up pharmaceutical manufacturing units with upgraded technology, where the growing number of hospitals and other healthcare facilities create higher demand for the supply of pharmaceuticals. The PPP model could be explored for the development of the pharmaceutical value chain (for research and development, production, procurement, storage and distribution). Large scale regional pharmaceutical or vaccine manufacturing plants and joint facilities could be established, which could also be utilised for research and cold storage.

South Africa, among SACU countries, is a major exporter of raw hides and skin (HS-41) and articles of leather (HS-42). For sectors like leather, the SACU countries, with their livestock resources, availability of manpower and land, offer significant opportunities to the Indian companies for co-operation in raw material development, marketing, investment, skill development, technology up-gradation and joint ventures, resulting in mutual benefits. Likewise, opportunities for collaboration and investment for Indian companies exist in the production of apparels and home textiles and textile engineering equipment.

Strategic Alliance for Sourcing Critical Minerals for EV Value Chain

Li-ion batteries are the future of automobiles owing to their unique properties — lightweight, high charge-holding capacity and steady output. The increasing use of EVs in India is expected to raise demand for Li-ion batteries. To attain the target of over 30% penetration for passenger cars, India will require approximately 800 GWh of batteries by 2030[9]. To meet this rising demand, India is accelerating plans to manufacture Li-ion cells within the country. Li-ion cell manufacturing is expected to evolve in stages, with a concentration on battery pack assembly in the initial phase and manufacturing becoming more localized eventually.

The growing demand for electric vehicle component will create demand for various electronics and battery-related items, including controllers and capacitors. Thus, component makers are recognizing the importance of investing in EV component technology and capacity. Demand for required minerals such as lithium, cobalt, copper and nickel will increase with changes in component requirements. A challenge here is the reliance on limited geographical areas for the extraction of such metals. To tackle this, India needs to form strategic alliances with countries where these critical minerals are produced.

Among the SACU countries, Namibia has 230 thousand tons of lithium resources[10]. Namibia has recently banned export of unprocessed lithium in order to encourage domestic value addition. Also, Namibia has signed Memorandum of Understanding (MoU) with Japan Bank for International Cooperation (JBIC) in December 2023 to support the development of environmental preservation projects in Namibia with the involvement of Japanese companies. This would be through exchanging information between JBIC and the Ministry of Finance and Public Enterprises of Namibia on the political and economic situations as well as on critical minerals-related and other potential projects committed toward environmental preservation, including the reduction of greenhouse gas emissions[11].

The European Union and Namibia signed an MoU establishing a strategic partnership between the EU and Namibia at the COP27 in Egypt. The partnership aims to ensure the development of a secure and sustainable supply of raw materials, refined materials and renewable hydrogen to support the green and digital

[9] ibid
[10] US Geological Survey
[11] JBIC Signs MOU with the Republic of Namibia, Press Release, December 2023.

transformation of the partners' economies. The partnership aims to promote local value addition in Namibia by supporting the development of the mining and renewable hydrogen value chains. It also aims to support sustainable raw material value chains and facilitate investment and funding opportunities to modernise the Namibian industries and drive economic and social development. Concomitantly, the European Investment Bank (EIB) and Namibia have signed a joint declaration to deepen their cooperation in support of renewable energy, including renewable hydrogen. The EIB and Namibia will work towards the implementation of a loan by EIB Global to the Government of Namibia of up to €500 million for financing long term, sustainable projects and investments[12].

The primary raw materials required for battery manufacturing are cobalt, nickel, lithium and graphite. India has limited reserves of these minerals except for graphite. India could set up joint exploration activities for securing critical mineral assets. Similar to EU and Japan, to secure the supply of critical minerals, the Khanij Bidesh India Ltd. (KABIL) could form joint ventures to secure critical mineral assets such as lithium and cobalt that could fuel India's plan for mass adoption of electric vehicles by 2030. Strategic investment funds or import credit lines could be set with Namibia by signing MoUs to ensure India's import requirements for lithium. As Namibia has banned export of unprocessed lithium, Indian companies could support projects involving value addition to the same through processing / refinement through sustainable mechanisms.

Leveraging Southern Africa's Minerals for Energy Transition of India and SACU Countries

Rare Earth Elements (REE)[13] have unique physical and chemical properties which make them indispensable in the manufacture of high-technology products and has prompted them to be classified as critical metals. Global production of REEs for 2021 was 280,000 Metric tons (MT), with an estimated global reserve of approximately 120 million MT. In the SACU region, countries like South Africa and Namibia have significant quantities of neodymium, praseodymium and dysprosium, with substantial reserves found in South Africa. Solar photovoltaic plants, wind farms and electric vehicles generally require more critical minerals to build than their fossil fuel-based counterparts. A typical electric car requires six times the mineral inputs of a conventional car and an offshore wind plant requires thirteen times more mineral resources than a similarly sized gas-fired plant[14]. Lithium, nickel, cobalt, manganese and graphite are crucial to battery performance. Rare earth elements are essential for permanent magnets that are used in wind turbines and EV motors.

The Steenkampskraal mine in the Western Cape province of South Africa has the highest grade of these REEs in the world. Therefore, South Africa is expected to become a significant supplier in the world market. While relatively abundant, these elements are less minable than common ores. They can have direct technical applications or can be used to facilitate the production and refinement of common high-technology products.

[12] COP27: European Union concludes a strategic partnership with Namibia on sustainable raw materials and renewable hydrogen, Press Release, November 8, 2022.

[13] Rare Earth Elements (REE) are a group of 17 metals typically occurring together in natural geological environment. The suite of rare earths is split into two distinct sub-categories, the light rare earth elements (LREE) including scandium (Sc) and the elements between lanthanum (La) and samarium (Sm) and the heavy rare earth elements (HREE) including yttrium (Y) and the elements between europium (Eu) and lutetium (Lu). Generally, the HREE fetch higher prices than the LREE due to higher market demand. The US further classified five REE as Critical Rare Earth Oxides (CREO in their oxide form) because of their importance to the US economy. These are yttrium, europium, neodymium, terbium and dysprosium. The main economic minerals are monazite, bastnaesite and xenotime.

[14] International Energy Agency

Access to a steady supply of rare earth elements is key to the national security and economic viability of many countries across the world.

Fourteen major REE deposits are currently undergoing exploration or mine development in Africa. As of 2019, the 14 deposits are estimated to have a combined mineral resource (mainly at inferred category) with potential for a contained Total Rare Earth Oxide (TREO)[15] content of more than four million tonnes. Africa has the potential mineral resources to compete in the global arena. However, the development of mineral resources must be supported by business models that enable maximum benefit to the country or region. For example, smaller deposits can be mined and beneficiated up to mineral concentrate as a business model before selling the concentrate for further processing; and large deposits can be mined and processed to the final product, metals or alloys as the commercial product.

The high-tech industry is the driver of rare earth industry's future growth, especially technologies linked to the manufacture of products used in green energy production and storage. The main technology is the use of magnets in wind and tidal turbines and other electronics equipment and batteries for electric energy storage in electric vehicles and solar energy storage facilities.

The current world REE reserve stands at 120 million MT, with China's reserves representing 44 MT, an equivalent of 37% of the world's total reserves. A total of 4 MT has been estimated for Africa. Africa also has some of the high-grade deposits in the world. This has attracted stock market-financed exploration by junior companies as the deposits demonstrate quality REE resource availability outside China. Two of the deposits, Lofdal in Namibia and SKK in South Africa have high CREO content, an upside potential for REE value chain development in Africa as the deposits can meet the right quality of REE on the market. **Table 7.1** shows a selection of some of the deposits discovered in the SACU region.

Table 7.1: Select REE Projects in SACU Region

Country	Company	Projects	Mineral Type
South Africa	SKK Holdings Ltd	SKK Mine	Monazite
South Africa	Frontier Rare Earth Ltd	Zandkopsdrift	Apatite, Monazite
Namibia	-	Lofdal	Carbonatite

Source: Rare Earth Elements (REE) - Value Chain Analysis for Mineral Based Industrialization in Africa, AfDB, 2021

The world's REE market is largely controlled by China, however, other major consumers are keen to establish alternative supply chains to ensure reliable and consistent supply at predictable prices. Whilst demand continues to increase, so does the risk of China forming a monopoly on the industry. In a bid to avoid this risk, major REE consumers like the US, the EU, Canada, Australia, Japan and South Korea are exploring options to develop alternative REE supply chains. Africa is one of the regions targeted as an alternative source of REE commodities, which presents African countries with the opportunity to develop their own REE value chains. Development finance institutions (DFIs) from India and the AfDB could work closely with governments in SACU countries to understand the needs of these commercial REE development attempts and support the companies to develop the value chain from end to end.

[15] Rare Earth Elements, Value Chain Analysis for Mineral Based Industrialisation in Africa 2021, Africa Natural Resources Centre, AfDB

Increasing Circularity in Southern Africa's Mining Sector

The mining industry is the second-largest consumer of water after agriculture in Southern Africa.[16] Effective management of clean water and wastewater is key to maintaining supplies of this resource. The use of water can be decreased if the mines' wastewater is recycled, reused, concentrated and reclaimed. Mining companies can improve wastewater management in three ways: lining waste and tailing dams to avoid water seepage, put wastewater in tanks to prevent evaporation and filtering water from slurry/sludge/tailings before storing the waste in dams. Other areas of the Circular Economy that fall into this category include recycling and reusing vehicle parts, repurposing waste rock, recycle and reprocess tailings, recycle and reuse construction materials, rehabilitate mines for economic development and recycle food waste for energy generation.

Mining uses a lot of energy as it is crucial throughout the lifecycle of a mine from exploration to processing the final product. Traditionally the sector has relied on diesel and electricity from the grid to meet these needs. This high energy use comes with an elevated level of carbon emissions. By switching to renewable energy resources such as solar and wind energy to power mining operations can help to regenerate natural systems. Mining remains an important sector in India. Indian mining companies have been increasingly using high technology for the automation of processes and has started integrating technologies across the value chain to reduce waste, increase resource efficiency and drive-up productivity, while promoting the harnessing of renewable energy sources. Indian companies investing in African mines could also help using water saving technologies or renewable energy solutions, thereby contributing to the economy.

Increasing Role of Development Finance Institutions in Infrastructure Investment

SACU member countries include developing countries with large as well as small, isolated economies, with a mix of low, middle and upper-middle-income countries. Regional infrastructure development creates a larger market and greater economic opportunities and the development of infrastructure is critical for promoting and sustaining regional economic development, trade and investment and contributes to poverty eradication and improved social conditions.

In the recent strategic plan, SACU places a lot of emphasis on improving regional infrastructure to solve various inefficiencies in their economies. On soft infrastructure, the focus is on employing digital technologies, supported by emerging technologies such as blockchain, artificial intelligence, big data and virtual reality, amongst others. On hard infrastructure, the focus is on enhancing infrastructure at selected commercial border posts. This also includes promoting the use of multi-modal transportation and enhancing hard infrastructure related to road, rail and air modes of transport to ease the movement of goods in and outside of the SACU region.

SACU has made significant progress in regional infrastructure development. However, the SACU region continues to face several challenges, including:

- Insufficient energy supply to serve increased production and to extend access to electricity
- Inadequate common regional systems
- Highly priced, unpredictable transport and logistics services, especially for landlocked states
- Inadequate services for efficient planning and management of water resources, energy production, transport services and other climate-sensitive sectors

[16] Investing in African Mining Indaba, May 2022

- Inadequate access to safe drinking water, inadequate sanitation and water for irrigation to improve systems for agricultural production which will contribute to food security
- Slow response to new tourism trends and opportunities
- Lack of performance measurement systems

Public-private partnerships (PPPs) offer an alternative approach to public investment and thereby help in increased private sector investments and higher levels of efficiency in the development and operation of infrastructure assets in Africa. The current African public debt scenario, widening infrastructure gap and limited fiscal space, due to the COVID-19 pandemic, among other factors, build a strong case for development finance institutions to scale up their support for public-private partnerships, to crowd in more private sector investment in both economic and social infrastructure. Scaling up private sector investment in the economic sector, including transport, energy and ICT, healthcare and education would also ensure better debt sustainability and management, innovation and efficiency and enhance the competitiveness of their economies.

Blended finance can particularly be useful in increasing the private participation in infrastructure projects in Africa, which is one of the lowest presently. PPP participation stood at US$ 6.8 billion in Africa in 2022. South Africa was the largest recipient of PPP investments in Africa as well as in SACU, with a cumulative investment of US$ 22 billion during 2011-2022 as compared to African cumulative investment of US$ 90.2 billion. The other countries in SACU have received much lower investments like Botswana at US$ 201 million, Eswatini at US$ 115 million, Lesotho at US$ 10 million and Namibia at US$ 128.4 million during the same period,[17] implying further scope for improving the region's infrastructure for facilitation of trade and address the above-mentioned challenges.

The infrastructure projects executed by India have a multiplier effect not only on the partner developing economy but also on Indian project exporters. Besides the hard infrastructure projects, India has also been instrumental in developing soft infrastructure in Africa. Indian companies have been active in African markets especially in sectors like energy, transport and water and sanitation projects funded by the Multilateral Development Banks (MDBs) like the World Bank and the AfDB. During 2018-2022, India accounted for US$ 707.4 million worth of the AfDB awarded contracts. The power sector accounted for the majority of the contracts in terms of value awarded to Indian companies in the AfDB funded projects, accounting for 77.8% of total value of contracts secured during 2018-2022, followed by transport (17.2%), agriculture (2.1%) and water and sanitation (1.6%). India was the 2nd largest in terms of securing AfDB contracts by value during 2018 to 2022, accounting for a share of 5.6% after China which accounted for 36.6%. In case of contracts secured in the World Bank funded projects during 2018 to 2022 in Africa, India accounted for a share of 4.5% after China (18.6%) and Nigeria (4.9%). In terms of value of contracts, India's presence in the World Bank funded projects has been mainly in the energy and extractive sector (73.8%), followed by education (5.2%), information and technology (4.7%) and transportation (4.5%), among others. This reflects further scope for enhancing the presence of Indian project exporters in Africa and specifically in the Southern African region.

[17] World Bank

Digital Infrastructure

Digital Public Infrastructure (DPI) can contribute to the realization of the full potential of the AfCFTA, especially for micro, small and medium sized enterprises (MSMEs) that account for the most registered businesses in Africa. Promoting digital trade aligns with India's strategic economic goals. For India, digital trade is promising in terms of growth and productivity, relative to trade in goods. Global trade patterns in the last decade indicate a rise in the services trade to GDP, contrary to an overall decline in the global trade to GDP. India has a strong position in services. Information technology and business process management (IT-BPM) have been major exports for the country, accounting for almost half of the total services exports. India ranked among the top ten largest exporters in digitally deliverable services in 2021. However, in the last decade the country's contribution to global share was largely stagnant and the compound annual growth rate of exports in this segment is close to 7%, well below other Asian competitors such as China and Singapore.

SACU lists low internet speed or poor connectivity as one of the key challenges that hampers its operational capabilities and aims to improve operational efficiency through the enhancement of superior IT systems. The development of digital infrastructure is expected to help SACU keep up with the evolving and advancement in technology and is seen as critical to having safe and secure online platforms. It is seen as a gateway to support advances in e-commerce in terms of providing opportunities for the development of e-markets and digitalising custom services. The implications of these are seamless transactions for trade across borders and the creation of new employment opportunities. Other implications are on logistics, where it will lead to greater trade in goods, both domestic and cross-border which in turn requires greater regional market integration for efficient operation.

The Indian government has supported and initiated various forms of digital public infrastructure. In 2009, it established the Unique Identification Authority of India, responsible for creating the Aadhaar digital identity system. Aadhaar gathers both biometric and demographic data, functioning as a crucial tool for strategic policies related to social and financial inclusion, public sector delivery reforms and fiscal budget management. This ID can be utilized for online or offline verification across various services, including the opening of bank accounts. Another noteworthy innovation spearheaded by the state is the Unified Payments Interface, introduced by the National Payments Council of India through collaboration between the Reserve Bank of India and the Indian Banks' Association. In essence, UPI ensures interoperability of digital wallets, preventing consumers from being restricted to a specific application. India aims to share these innovations with other countries, particularly those in emerging markets.

Countries including Bhutan, France, Mauritius, Nepal, Oman, Singapore, Sri Lanka and UAE are now accepting transactions through India's homegrown digital payments technology. This will ensure seamless, cost effective, swift and secure settlements between India's trading partners. Being development partners, India shares similar objectives with Africa and the SACU in areas including financial inclusion, development of fintech sector and supporting MSMEs, thereby boosting economic growth. The usage of cash is quite high in SACU countries. There is scope for working with SACU on the UPI technology, by collaborating with global payment system providers and regulators to ensure compliance with local regulations and standards. By building interoperability with India through creating opportunities for travellers from India to SACU countries to scan their UPI apps and make UPI payments would ensure lower cost of transferring funds. India can also partner with these countries to help them develop indigenous digital payment infrastructure (UPI-like ecosystems) and sign commercial partnerships with existing platforms in these countries.

Mutual Recognition Agreements

Mutual Recognition Agreements (MRAs) in the realm of Quality Standards offer a potential avenue for collaboration between India and SACU. MRAs serve as pacts between trading partners aimed at diminishing technical trade barriers, specifically through mutual acknowledgment of 'conformity assessment.' Conformity assessment encompasses diverse methods such as inspection, testing, certification and licensing, aligning with technical regulations and standards to mitigate safety, environmental and health risks.

To facilitate this, SACU could acknowledge that accredited testing bodies in India can conduct necessary testing based on SACU technical requirements and reciprocally, Indian testing bodies could fulfil SACU standards. This reciprocal recognition would enable products certified in one region to be exported to the other without undergoing redundant testing.

Implementation of such measures has the potential to alleviate non-tariff barriers to trade between India and SACU. Additionally, it is advisable to explore mutually acceptable trade documentation, including certificates of origin and the recognition of related standards. To further enhance collaboration, SACU countries could offer long-term multiple-entry visas for Indian travellers.

Encouraging student exchange programs between the regions can foster greater understanding and cooperation. Furthermore, initiatives promoting the exchange of art and culture between India and SACU countries are crucial.

Increasing Access to Trade Finance

Prior to the COVID-19 pandemic, the trade finance gap in Africa was estimated at US$ 82 billion. This is estimated to have increased between US$ 100 billion to US$ 120 billion in 2022 as a result of COVID-19, geopolitical uncertainty and resulting supply chain constraints[18]. The Southern African region accounts for the lowest default rate for trade finance assets at 1.1% among all the African regions against the African continental average of 4%[19]. According to the AfDB, most of the trade finance assets in Africa are trade loans as compared to documentary trade facilities like letter of credit[20]. As observed by the AfDB research, during 2011 to 2019, the major correspondent banks in Africa witnessed significant decline in their trade finance confirmation activities due to lower risk appetite. Regulatory restrictions and higher compliance costs have been the major constraints cited for the retreat of international confirming banks from Africa, resulting in reduced trade finance availability, especially for SMEs. This creates a need for emerging market DFIs which are acquainted with Africa to develop financial instruments in order to support non-traditional confirming banks in Africa.

To address the widening global trade finance gap, Export-Import Bank of India (India Exim Bank) developed a trade finance product - Trade Assistance Programme (TAP). Under the aegis of TAP, the Bank is providing support by way of credit enhancement to trade instrument(s), thereby enhancing the capacity of commercial banks to support cross-border trade transactions involving untapped markets where trade lines are constrained or where potential has not been harnessed and transactions may not materialise in absence of such support.

[18] African trade finance enters an exciting new phase, Trade Finance Global, Michelle Knowles, Absa Corporate Investment Banking, October 7, 2022.
[19] https://www.wto.org/english/thewto_e/coher_e/wkshop_mar15_e/gajigo26315_e.pdf
[20] Fostering Development Through Trade Finance, AfDB

This programme envisages to augment India's exports whilst also helping importers abroad to engage in international trade whilst mitigating the risks involved and expanding their market/buyers for their products which were hitherto not addressed. Thus, TAP is providing enabling environment for counterparties in settlement of trade transactions. Presently there are 30 focus countries in Africa, out of which all five SACU countries are covered under the programme for risk mitigation.

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As part of its endeavour in enriching the knowledge of Indian exporters and thereby to enhance their competitiveness, India Exim Bank periodically conducts research studies. These research studies are broadly categorized into three segments, viz. sector studies, country studies and macro-economic related analysis. These studies are published in the form of Occasional Papers, Working Papers and Special Publications. The research papers that are brought out in the form of Working Papers are done with swift analysis and data collation from various sources. The research papers under the series provide an analytical overview on various trade and investment related issues.

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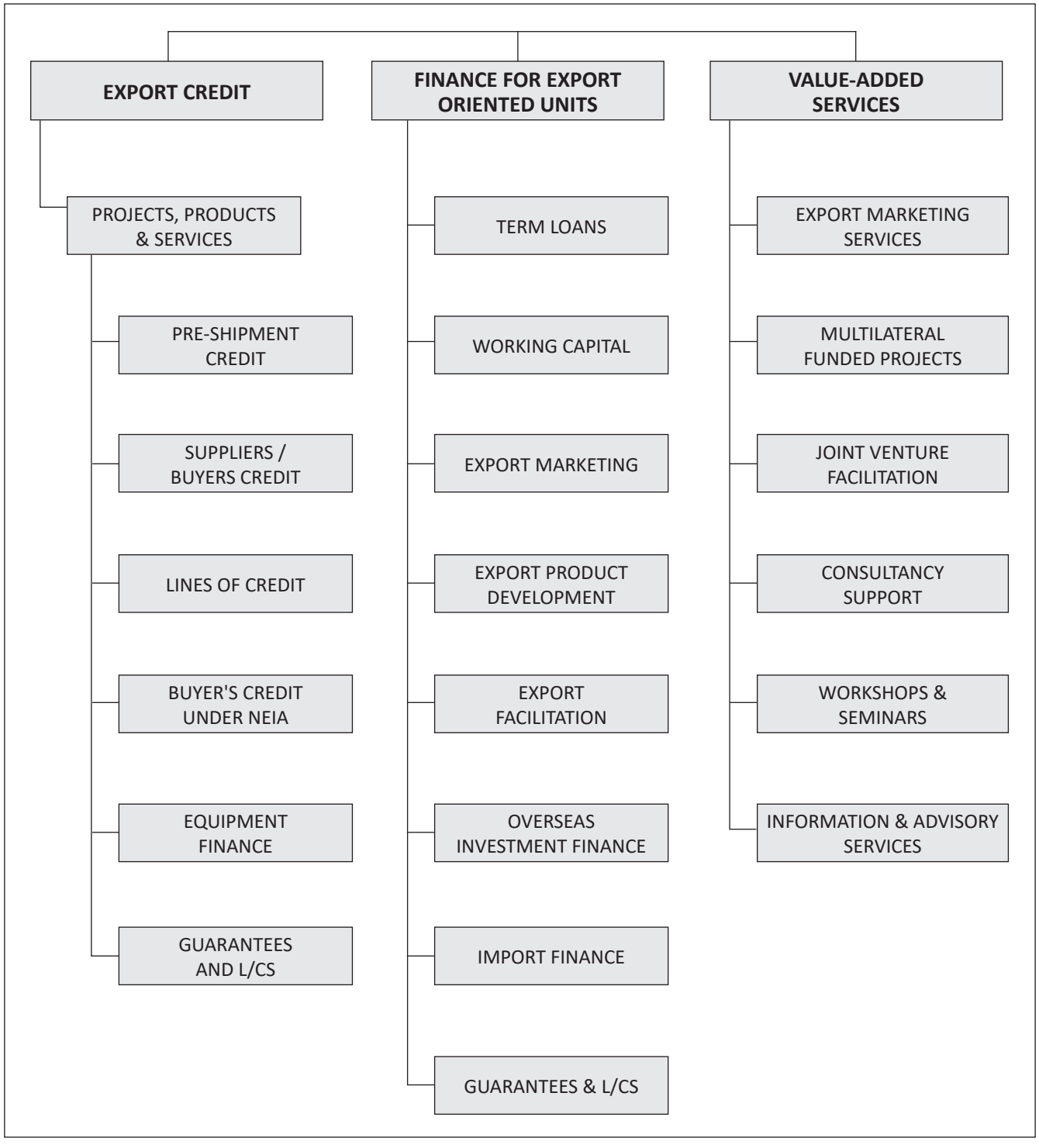

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