

TRADE AND INVESTMENT

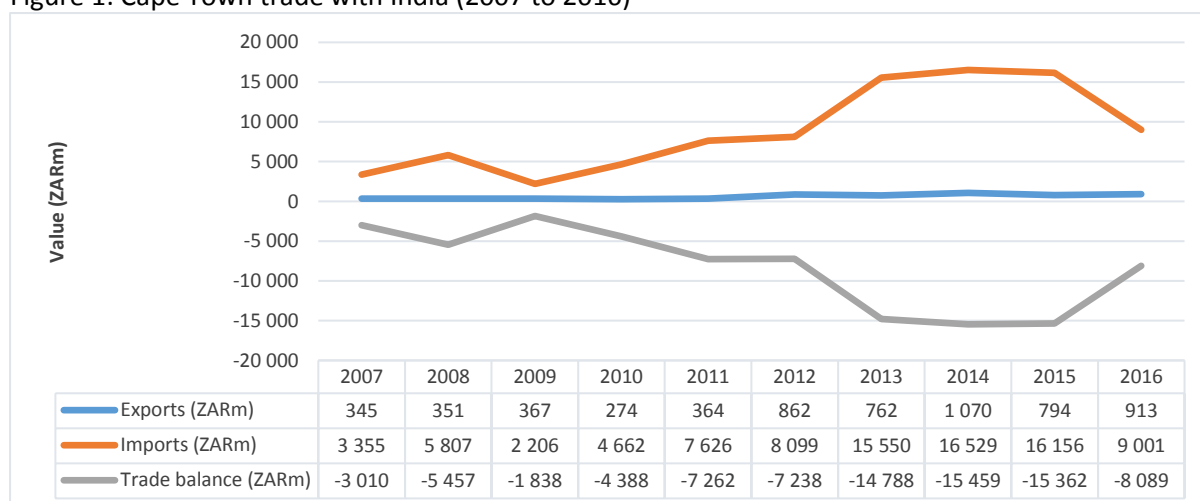
Cape Town trade with India

India's global imports grew by 5,5% in 2016, owing to a series of economic reforms undertaken by the government and an increase in domestic demand, to reach R5,2 trillion. South Africa was ranked the 20th largest global export market to India in 2016 and the 2nd largest from Africa after Nigeria. South Africa's exports to India grew by 15% in 2016 to reach R47 billion.

The City of Cape Town's exports to India grew by 15% to reach R913 million in 2016, driven mainly by aluminium waste and scrap (increased by 38%) and bituminous coal. Over the period 2012 to 2016 the City's exports to India grew by an average annual growth rate of 15,2% driven by increased robust domestic demand, high government spending and increased GDP growth of 6,9% p.a. between 2012 and 2016.

The City of Cape Town's imports from India decreased by 44,28% in 2016 to reach R9 billion. The decrease in imports was mainly driven by refined petroleum and bituminous mineral oil that decreased by 56,4% in 2016.

Figure 1: Cape Town trade with India (2007 to 2016)



Source: Quantec, April 2017

Iron and steel waste and scrap products was the City of Cape Town's largest export to India, valued at R298 million in 2016 and accounting for 32,7%, followed by aluminium waste accounting for 18.0% and valued at R164 million. Given that 51% of the City of Cape Town's exports to India are iron, steel and aluminium waste and scrap, it highlights an opportunity for the City to produce value added consumer products. The top 10 products in the table below account for 88,3% of all exports to India from the City of Cape Town.

Notable growth¹ in exports from City of Cape Town to India from 2015 to 2016 was demonstrated by products such as diamonds (2,753% growth); insecticides, rodenticides, fungicides (994% growth); waste and scrap paper (257% growth); beauty or make up preparations (78% growth); fresh apples, pears and quinces (57% growth) and aluminium waste and scrap (38% growth rate).

¹ Growth is ranked for products that are exported to India with a value greater than R10 million

Table 1: Top 10 export and import products for the City of Cape Town with India (2016)

Top 10 City of Cape Town exports to India, 2016				Top 10 City of Cape Town imports from India , 2016			
Rank	Product	Value 2016 (R m)	% growth 2015-2016	Rank	Product	Value 2016 (R m)	% growth 2015-2016
1	Ferrous waste and scrap; remelting scrap ingots of iron or steel.	298,1	-7,8%	1	Petroleum oils and oils obtained from bituminous minerals, other than crude, containing by weight 70 % or more of petroleum oils or of oils obtained from bituminous minerals.	5 245,7	-44,28%
2	Aluminium waste and scrap.	164,2	37,6%	2	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses.	846,4	-56,36%
3	Coal; briquettes, ovoids and similar solid fuels manufactured from coal.	144,9	-	3	Crustaceans (live, fresh, chilled, frozen, dried, salted or in brine or smoked).	296,3	-33,11%
4	Recovered (waste and scrap) paper or paperboard.	57,7	256,8%	4	Footwear with outer soles of rubber, plastics, leather.	144,0	14,86%
5	Fresh apples, pears and quinces.	45,6	57,5%	5	Unmanufactured tobacco; tobacco refuse.	102,0	24.56%
6	Citrus fruit, fresh or dried.	24,5	-14,6%	6	Bed linen, table linen, toilet linen and kitchen linen.	101,7	-14.15%
7	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more.	21,2	-12,2%	7	Other woven fabrics of synthetic staple fibres.	85,1	-3.39%
8	Diamonds, whether or not worked, but not mounted or set.	20,6	2753,3%	8	Machines and mechanical appliances having individual functions.	84,1	19.36%
9	Beauty or make-up preparations and preparations for the care of the skin, including sunscreen or sun tan; manicure or pedicure.	16,1	77,7%	9	New pneumatic tyres (of rubber).	83,4	13581.86%
10	Organic composite solvents and thinners; prepared paint or varnish removers.	13,5	-63,7%	10	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts.	79,4	-33.04%
TOTAL		912,9	15,0%	TOTAL		9 001,4	-44.28%

Source: Quantec, April 2017

The Indian market offers a number of export opportunities for the City of Cape Town. According to Business Monitor International BMI (2017), the consumption of high-value agricultural goods in India is likely to benefit from a burgeoning urban population with high levels of disposable income. Although non-essential consumer goods are barely established at the mass-market level, premiumisation is already becoming a viable growth option, particularly among younger consumers in major urban centres. Targeting first-time consumers through smaller formats will provide strong potential for soft drinks manufacturers.

India's ICT market also offers export opportunities for Cape Town companies. This is driven by a large and youthful population that will form the basis of a large retail hardware market as incomes rise. In addition India's proactive government procurement policy is spurring e-government and cloud computing growth (BMI, 2017).

In order to identify specific export opportunities for Cape Town companies², we have used the Western Cape **Decision Support Model (DSM)**.

Objective:

To establish realistic export opportunities (REO’s) for Western Cape based exports to India.

Disclaimer re Model Results and Findings

While the Decision Support Model (DSM) can offer varying degrees of input for identifying, prioritising, designing, planning and executing export promotion activities, the results of the DSM are inescapably based on statistical data which are at least two years old. Accordingly, it would be unwise to rest all export promotion decisions upon the DSM results alone, and there is an additional need to have the realistic export opportunities identified assessed by experts ‘in the field’ such as panels of exporters, representatives of sector organisations and commercial attaches at diplomatic missions abroad. Diplomatic and political issues also need to be taken into consideration.

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Results

At the highest level, the results of the DSM model indicate that there are 178 realistic export opportunities for Western Cape exports to India. Within this REO grouping of 178 products, varying tiers exist, ranging from groupings where Western Cape exports have a small market share, to an intermediate small market share, intermediate large market share, and finally to a large market share i.e. where Western Cape exports have an existing and large presence in the market.

Conventionally, where one already has a significant presence in a market i.e. intermediary large to large market share, the generally accepted approach from an export promotion strategy (EPS) is to maintain and sustain these markets. In contrast, a small i.e. low market share requires an offensive market exploration EPS, while for products with an intermediate small market share, an offensive market expansion is appropriate.

It is important to note here that the purpose of the DSM model is not to provide a ranking of export opportunities, but rather to provide a list of choices of interesting markets, grouped into categories reflecting market size, market growth and market importance.

Perhaps of more interest are the REO’s presented in the *small market share* (i.e. column 1) and *intermediate small market share* (column 2) in terms of potential realistic exporting opportunities to India i.e. **new opportunities**.

As per the REO map above, 15 possible REO opportunities exist in the *intermediate small market share tier* (column 2). These product categories include; coke and refined petroleum products; basic chemicals; other chemicals & man-made fibres; basic iron and steel; and basic non-ferrous metals.

Product Categories (SICRev5)	Product Description (SIC 27)	Description (SICRev5)	No. REO's
			15
S3320	Coke & refined petroleum products (331-333)	Petroleum refineries/synthesisers	1
S3341	Basic chemicals (334)	Manufacture of basic chemicals, except fertilizers and nitrogen compounds	6
S3359	Other chemicals & man-made fibres (335-336)	Manufacture of other chemical products nec	1
S3510	Basic iron & steel (351)	Manufacture of basic iron and steel	6

² Please note Western Cape companies are used as a proxy for Cape Town companies.

S3520	Basic non-ferrous metals (352)	Manufacture of basic precious and non-ferrous metals	1
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Source: DSM, Trade Advisory

In turn, potential REOs in the *small market share* tier are extensive at 152 opportunities thereby accounting for 85% of total REO's identified between the Western Cape and India. The product categories within this tier are extensive, the most prominent and select of which include other industries; other mining; basic chemicals, basic non-ferrous metals; coke and refined petroleum products; leather and leather products; metal products excluding machinery; machinery and equipment; agriculture, forestry and fishing; and food, amongst others. While Western Cape exporters currently only have a small presence in these said categories, REO potential certainly exists across a broad variety of product categories, which are indicated in the table below.

Item	Description (2 digit SIC)	No. REO's
		152
S01	Agriculture, forestry & fishing (11-13)	5
S05	Food (301-304)	7
S06	Beverages (305)	1
S08	Textiles (311-312)	6
S09	Wearing apparel (313-315)	4
S10	Leather & leather products (316)	7
S13	Paper & paper products (323)	7
S14	Printing, publishing & recorded media (324-326)	1
S15	Coke & refined petroleum products (331-333)	2
S16	Basic chemicals (334)	23
S17	Other chemicals & man-made fibres (335-336)	10
S18	Rubber products (337)	3
S19	Plastic products (338)	3
S20	Glass & glass products (341)	1
S21	Non-metallic minerals (342)	8
S22	Basic iron & steel (351)	21
S23	Basic non-ferrous metals (352)	11
S24	Metal products excluding machinery (353-355)	16
S25	Machinery & equipment (356-359)	13
S32	Other industries (392)	3

Source: DSM, Trade Advisory

When taking these strategic sector priorities into account and when paralleling these to potential REO's in both the *small market share* (i.e. column 1) and *intermediate small market share* (column 2) columns i.e. those that present potentially **new trade opportunities**, REO's identified in the small market share (i.e. column 1) tier are seemingly more in alignment with the Western Cape's strategic priority sectors. Accordingly, potential REO's identified in this tier (small market share) have been selected as potential opportunities for enhancing trade with India.

The below table presents the DSM findings of the top 29 product category export opportunities for Western Cape exports to India. These 29 product categories in turn include 128 potential REO's opportunities for Western Cape exports to India.

Top 30 Product Categories (SICRev5)	Product Description (SIC 27)	Description (SICRev5)	No. REO's
			128

S3921	Other industries (392)	Manufacture of jewellery and related articles	3
S3520	Basic non-ferrous metals (352)	Manufacture of basic precious and non-ferrous metals	11
S3343	Basic chemicals (334)	Manufacture of plastics in primary form and of synthetic rubber	3
S3510	Basic iron & steel (351)	Manufacture of basic iron and steel	21
S3341	Basic chemicals (334)	Manufacture of basic chemicals, except fertilizers and nitrogen compounds	14
S2531	Other mining (22, 24, 25, 29, 39)	Mining of chemical and fertilizer minerals	1
S3320	Coke & refined petroleum products (331-333)	Petroleum refineries/synthesisers	2
S3161	Leather & leather products (316)	Tanning and dressing of leather	7
S1110,1120,1130	Agriculture, forestry & fishing (11-13)	Growing of crops; market gardening; horticulture' farming of animals' growing of crops combined with farming of animals	5
S3541	Metal products excluding machinery (353-355)	Manufacture of structural metal products	2
S3011	Food (301-304)	Production, processing and preserving of meat and meat products	4
S3051	Beverages (305)	Distilling, rectifying and blending of spirits; ethyl alcohol production from fermented materials; manufacture of wine	1
S3342	Basic chemicals (334)	Manufacture of fertilisers and nitrogen compounds	5
S3422	Non-metallic minerals (342)	Manufacture of refractory ceramic products	1
S3590	Machinery & equipment (356-359)	Manufacture of office, accounting and computing machinery	2
S3359	Other chemicals & man-made fibres (335-336)	Manufacture of other chemical products nec	3
S3572	Machinery & equipment (356-359)	Manufacture of machine tools	2
S2510	Other mining (22, 24, 25, 29, 39)	Stone quarrying, clay and sand-pits	5
S3354	Other chemicals & man-made fibres (335-336)	Manufacture of soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations	4
S3231	Paper & paper products (323)	Manufacture of pulp, paper and paperboard	6
S3559	Metal products excluding machinery (353-355)	Manufacture of other fabricated metal products nec	9
S3111	Textiles (311-312)	Preparation and spinning of textile fibres; weaving of textiles	2
S3561	Machinery & equipment (356-359)	Manufacture of engines and turbines, except aircraft, vehicle and motorcycle engines	1
S3380	Plastic products (338)	Manufacture of plastic products	3
S3351	Basic chemicals (334)	Manufacture of pesticides and other agro-chemical products	1
S3579	Machinery & equipment (356-359)	Manufacture of other special purpose machinery	3
S3576	Machinery & equipment (356-359)	Manufacture of machinery for textile, apparel and leather production	1
S3553	Metal products excluding machinery (353-355)	Manufacture of cutlery, hand tools and general hardware	5
S3562	Machinery & equipment (356-359)	Manufacture of pumps, compressors, taps and valves	1

Source: DSM, Trade Advisory

Investment³

Cape Town foreign direct investment with India

Between 2003 and 2016, India was ranked as the 13th largest global source market for FDI projects and 14th in terms of capex. During this period a total of 4,142 FDI projects were recorded from India into the global market, representing a total capital investment of R2,832 billion.

Mumbai is India's largest source city both in terms of FDI projects (39.40% share) and capex (42.13% share). Globally Mumbai is the 12th largest source city for FDI projects and 17th in terms of capex.

Software and IT sector received the largest share of FDI from India in terms of projects accounting for 21,32%, followed by financial services and business services accounting for 13,64% and 12,19% respectively. Other sectors included metals (4,20% share); pharmaceuticals (3,94% share); consumer products (3,89% share) and communications (3,28% share). In terms of capex coal, oil and natural gas received the highest percentage of total capex, accounting for 26,11%, followed by metals and chemicals accounting for 9,06% and 8,54%.

Between 2003 and 2016 a total of 7 FDI projects were recorded from India to Cape Town, representing a total capital investment of R1,81 billion. Cape Town's a hotels and tourism sector attracted the largest FDI from India, accounting for 71,15%, followed by software and IT services (15,05%), financial services (7,13%) and pharmaceuticals (6,67%).

A total of 6 FDI projects were recorded from Cape Town to India between 2003 and 2016. These projects represent a total capital investment of ZAR2,58bn. India's financial services sector attracted the largest FDI from Cape Town, accounting for 87,62%, followed by food and beverages accounting for 12,38%.

A brief descriptions of India's investments into Cape Town are provided below.

- In 2015, Cipla Medpro, a subsidiary of India-based pharmaceutical company Cipla, opened a new distribution centre in Parklands Cape Town valued at R120,57 million. The facility encompasses 16,000m² and will serve the South African market.

Paul Miller, chief executive officer of Cipla Medpro mentioned that the "Cipla Distribution Gateway will bring us closer to reaching the estimated 44 million patients in need of healthcare and not just the 8 million patients who are privately insured."

- In 2015, the India-based RateGain, a hospitality technology company, opened a new office in Cape Town in the software and IT services sector valued at R67.96 million. The new location will help the firm meet growing local demand.

Bhanu Chopra chief executive officer of RateGain said that, "There is a growing demand for local knowledge of our technology solutions from potential hotels as well as OTAs based here and a physical presence will bring us closer to them and establish our brand equity."

³ Investment in this section is defined as crossborder greenfield investments in a new physical project or expansion of an existing investment which creates new jobs and capital investment. Joint ventures are only included where they lead to a new physical operation. Mergers & acquisitions (M&A) and other equity investments are not tracked (FDI markets, 2017).

- In 2013, India-based Zomato.com, an online restaurant guide, has opened a new office in Cape Town valued at R67.96 million. The expansion is part of a wider growth strategy which has seen the company invest USD2.5m opening additional offices in New Zealand and the UK.
- In 2009 Systime, a subsidiary of CMS Computers Ltd (Mumbai, India) opened an office in Cape Town valued at R67.96 million. The company provides end-to-end IT solutions ranging from JD Edwards to BI to application development.
- In 2006, Indian Hotels Company, a subsidiary India-based Tata, announced the opening of a hotel in Cape Town valued at R1,285 million. The property was developed through a 25-50-25 joint venture with Eurocape and Tata Africa and employs 280 staff.
- In 2003, State Bank of India (SBI) (Mumbai, India) invested in the city of Cape Town in the financial services sector in a business services project valued at R128.89 million.

The table below shows the top 20 global FDI destination sectors by India between 2003 and 2016. It shows potential sectors for Cape Town's inward FDI from India. India's largest global outward FDI sectors that have shown high growth rate and have the potential to create a large number of average jobs per project (orange highlights) are consumer products; textiles; plastics and real estate. Large sectors that don't create a large number of average jobs per projects but have shown strong growth rates (green highlights) are software and IT services; business services; communications; industrial machinery, equipment and tools; healthcare and transportation.

Top 20 India Destination Sectors For FDI, 2003-2016								
Rank	Industry Sector	Projects (2003-2016)	Industry Sector	Avg Growth (2003-2016)	Industry Sector	Avg Jobs Per Project (2003-2016)	Sector by Capex	Capex (2003-2016) (ZARbn)
1	Software & IT services	883	Alternative/Renewable energy	30.37%	Automotive OEM	523	Coal, Oil and Natural Gas	739 400
2	Financial Services	565	Space & Defence	23.18%	Real Estate	473	Metals	256 646
3	Business Services	505	Real Estate	14.67%	Non-Automotive Transport OEM	438	Chemicals	241 983
4	Metals	174	Textiles	12.16%	Consumer Electronics	311	Automotive OEM	184 586
5	Pharmaceuticals	163	Engines & Turbines	11.57%	Wood Products	288	Software & IT services	179 538
6	Consumer Products	161	Healthcare	11.29%	Aerospace	281	Financial Services	177 826
7	Communications	136	Business Services	10.84%	Metals	278	Real Estate	173 088
8	Automotive OEM	129	Aerospace	10.18%	Textiles	239	Alternative/Renewable energy	137 261
9	Industrial Machinery, Equipment & Tools	129	Transportation	9.44%	Beverages	239	Communications	81 265
10	Chemicals	112	Non-Automotive Transport OEM	9.35%	Automotive Components	227	Business Services	68 165
11	Textiles	111	Consumer Products	7.98%	Warehousing & Storage	218	Automotive Components	50 203
12	Coal, Oil and Natural Gas	110	Industrial Machinery, Equipment & Tools	7.73%	Building & Construction Materials	214	Plastics	48 765
13	Automotive Components	100	Biotechnology	7.42%	Plastics	202	Pharmaceuticals	48 145
14	Plastics	94	Communications	7.21%	Rubber	200	Hotels & Tourism	47 517
15	Real Estate	81	Software & IT services	7.21%	Minerals	190	Food & Tobacco	46 367
16	Food & Tobacco	80	Medical Devices	5.84%	Food & Tobacco	188	Consumer Products	37 509

Top 20 India Destination Sectors For FDI, 2003-2016								
Rank	Industry Sector	Projects (2003-2016)	Industry Sector	Avg Growth (2003-2016)	Industry Sector	Avg Jobs Per Project (2003-2016)	Sector by Capex	Capex (2003-2016) (ZARbn)
17	Healthcare	78	Electronic Components	5.84%	Business Services	176	Transportation	35 364
18	Hotels & Tourism	73	Building & Construction Materials	4.43%	Consumer Products	163	Leisure & Entertainment	33 820
19	Transportation	73	Plastics	4.08%	Chemicals	159	Rubber	31 689
20	Leisure & Entertainment	49	Minerals	4.04%	Ceramics & Glass	158	Textiles	29 729

Source: *Financial Times*, April 2017

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