FRIDGE

TRADE AND INDUSTRY CHAMBER

STUDY TO PREPARE VARIOUS SOUTH AFRICAN MANUFACTURING SECTORS FOR EFFECTIVE TRADE NEGOTIATIONS FOR THE PROPOSED SACU/INDIA TRADE NEGOTIATIONS

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DEVELOPMENT POLICIES OF THE INDIAN CHEMICAL SECTOR

- **Strategy/development plan**
  - Increase exports and investment in high technology sectors
  - Deregulation – doing away with licensing
  - Increase level of foreign ownership
  - Lowering of import duties
  - Fiscal support for R & D
- **Incentives**
  - Duty drawback schemes
  - Tax-based incentives
  - Location benefits in EPZ
- **Trade discriminatory incentives**
  - Exist in the form of duty drawback schemes

OVERVIEW OF MARKETS IN THE INDIAN CHEMICAL SECTOR

- **Structure and size**
  - **Valued at R 220 billion in 2004**
  - **Accounts for 2% of global chemicals market by value**
  - **Twelve largest globally in volume terms**
- **Growth**
  - **Attained 9.3% p.a. for the previous five years, more than five times the global average**
  - **Expected to reach US$ 60 billion by 2010**
  - **Supported by:**
    - **Highly skilled and competitive scientific human resource**
    - **Abundant availability of feedstock for chlor-alkali and agrochemical industries**
    - **Large untapped domestic market and high growth neighbouring markets**
    - **Suitable policies and incentives**
    - **Robustly growing economy**

OVERVIEW OF MARKETS (continued)

- **International trade**
  - ➢ Exports of US$ 10 billion in 2004
  - ➢ Total exports almost doubled between 2000 and 2004
  - ➢ Plastic products, inorganic chemicals, rubber products, and pharmaceuticals were the fastest growing
  - ➢ Imports of US$ 10.4 billion in 2004
  - ➢ Imports increasing faster than exports; more than doubled between 2000 and 2004
  - ➢ Organic chemicals, plastic products, rubber products and specialities were above average
  - ➢ Organic chemicals and plastic products constitute more than 50% of total imports
- **Location**
  - ➢ Western states of Maharashtra and Gujarat together hosts about half of the entire chemical sector

FEATURES OF THE INDIAN CHEMICAL SECTOR

- **Production**
  - **Fertilizers account for 20% of production, followed by organic chemicals and pharmaceuticals at 17% each**
  - **Globally competitive in the manufacturing of chlor-alkali**
  - **Installed capacity of caustic soda is 3% of global market**
  - **Most manufacturing plants are not world scale**
- **Focus and type of products**
  - **Focus on the use of advanced technology in manufacturing and R & D**
  - **Also on backward and forward integration**
  - **Chlor-alkali and intermediates**
  - **Fertilizers and pesticides**
  - **Pharmaceuticals – the biggest in the developing world**
- **Cost structure and logistics**
  - **Energy is the highest input cost**
  - **Plants not energy efficient, obsolete manufacturing processes, energy tariffs too high**
  - **Poor logistics infrastructure**

PROTECTION AND ASSOCIATED ASPECTS

- **Tariff duties**
  - Relatively high for exports to India than imports into South Africa
- **Non Tariff Barriers**
  - **Additional duties and taxes can increase to over 39% of CIF price**
  - **Customs procedures and delays**
  - **Import restrictions and conditions**
  - **Licensing**
  - **Reference pricing and minimum import prices**
  - **Customs valuation**
- **Trade remedy measures**
  - **Anti-dumping measures a major trade policy instrument**
  - **The single biggest user of anti-dumping measures**

TRADE BETWEEN RSA AND INDIA

- **Trade relatively small**
  - South Africa contributes 2.3% of India's imports
  - South Africa is a market for 1.2% of India's exports
- **The trade balance is positive in favour of South Africa**
- **South Africa's major exports are organic and inorganic chemicals as well as explosives**
- **South Africa's exports to India grew 62% between 2000 and 2004**
- **India's exports to South Africa grew faster than average to the world**
- **Organic chemicals, pharmaceuticals, tanning extracts, plastics and rubber products account for 84% of South Africa's imports**

RECOMMENDATIONS

- **The defensive position**
  - The Indian chemical sector poses a threat to the South African chemical sector in the local and third markets
  - Be concerned in granting concessions to India
  - Indian exports enjoying some of the government incentives like the ALS should not be granted additional benefits of lower import duties
  - Export products enjoying WTO-noncompliant benefits should be targeted for countervailing duties
  - Products listed under Appendix 3 should be excluded from concessions

RECOMMENDATIONS

- **The offensive position**
  - The Indian chemical sector is on a growth path and should offer an increased number of export opportunities
  - Imports have being increasing faster than exports
  - South Africa's relative strength in upstream sub-sectors could fit in with India's demand for upstream intermediates
  - Ensure that concessions offered by India will result in reductions in the currently applied rates
  - South Africa should capitalize on opportunities in pharmaceuticals feedstock, polypropylene products and phosphoric acid
  - Concessions should be sought for products listed under Appendix 3