

COMPARATIVE ADVANTAGES IN RUSSIA'S BILATERAL MERCHANDISE TRADE WITH SOUTH AFRICA*

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Abstract

Russia and South Africa are important regional powers and members of BRICS and G-20. Collaboration between the two countries contributes to the creation of the multipolar world order and strengthens Russia's position in global governance. However, Russia's trade partnership with South Africa is far below its potential. South Africa accounted for only 0.07% of Russia's total exports in 2016.

The paper provides a brief overview of Russia and South Africa's trade from 2001 to 2016. Using bilateral trade data for commodity groups at the level of two digits of the Harmonized Commodity Description and Coding System, this study examines the main patterns of comparative advantage in Russia's trade with South Africa in the early 21st century. Comparative analysis of Russia's export specialization with the main partners in terms of trade turnover indicates, that Russia has more diverse comparative advantages in trade with South Africa (17 product groups), than with European partners, such as Germany (9 product groups) and Netherlands (8 groups). The study's results suggest that an increase in trade flows is considered as one of the most important areas of Russian export diversification and strengthening cooperation between Russia and South Africa.

Keywords: Russia, South Africa, trade, export specialization, revealed comparative advantage index

JEL code: F100, F110, F140

Introduction

South Africa is the most industrialized country in Africa, the only one on the continent that is part of the G20, which has experienced colonial conflicts in its time, the burden of apartheid, ups and downs. There has been a gradual loss of positions achieved by the country and an ever-increasing slide into the periphery in recent years.

Trade for many years played an important role in the economy of South Africa. To date, the country is the largest African supplier of industrial products to foreign markets, but the basis of its exports is comprised of mineral raw materials and precious metals and stones.

Russia and the Republic of South Africa at first sight seem to be two dissimilar countries, having little in common, differing not only in the level of economic development, but also in the geographic location, the directions of foreign and domestic economic policies. “Decipimur specie recti”. These countries have a lot in common: from complex historical heritage, to the role of regional economic leaders, BRICS membership and market specialization. In February 2017, the

Russian Federation and the Republic of South Africa celebrated 25 years since the establishment of bilateral diplomatic relations. It is important to take stock of the progress made in bilateral relations over this period and to ponder the future of the two countries' relationship. Therefore, the analysis of economic interaction between the two countries today is a very urgent topic.

An analysis of changes in South Africa's export specialization and its relative comparative potential is of interest to Russian researchers both in terms of boosting bilateral cooperation, BRICS partnerships, and in view of intersection of cross-border economic interests of the two countries in markets where Russia and South Africa are competitors.

A number of recent publications by both Russian (see Arkhangelskaya, 2014, 2016; Mozias, 2015; Skubko, 2011) and foreign authors (see Qoboa, Dubeb, 2015; Sally, 2009; Mosala, Venter, Bain, 2017) have been devoted to the study of the changing role of South Africa in the global economy and its foreign economic strategy at the beginning of the current century. More specific, Arkhangelskaya (2014, 2016) examines main political, economic and social changes in South Africa since the first democratic elections, as well as the aspect of South Africa's integration into the world community, its participation in the BRICS and how it affects relations with the Russian Federation. Mozias (2015) focuses on the financial aspects of the development of South Africa, while Skubko (2011) studies the transition of South Africa to the knowledge economy and the development of scientific and technical progress. Meanwhile, Mosala et al. (2017) investigate the transformation of the South African economy by providing summary analysis of macroeconomic policies. Qoboa and Dubeb (2015) take a closer look at South Africa's gradual shift to a more pragmatic foreign policy, that is aligned with the new rising powers, and the country's role in multilateral economic processes such as the World Trade Organisation, the G20 and the BRICS. However, there are only a limited number of previous studies that focus on the bilateral trade of Russia and South Africa, and they lack the comparative dimension examination.

The aim of the study is to examine comparative advantages in Russia's bilateral merchandise trade with South Africa at the level of two digits of the Harmonized Commodity Description and Coding System in the early 21st century. The study covers the period from 2001 to 2016. The data for our analysis are primarily collected from the International Trade Centre (ITC) Trade statistics for international business development.

The rest of the paper is organized as follows. Methodology is described in the next section. Section 3 presents the highlights of Russia's and South Africa's foreign trade. Section 4 examines Russia's comparative advantages in trade cooperation with South Africa. Section 5 concludes.

Methodology

Comparative advantage developed by David Ricardo is one of the key concepts in the theory of international trade. One of the first attempts to measure comparative advantage was Balassa's revealed comparative advantage (RCA) index (see Balassa, 1965). Despite the fact that the index has been under critique for its alleged incomparability and inconsistency, it is so far the most widely used index in analyses of comparative advantage. RCA index measures the share of a given product in a country's total exports relative to the share of that product in total world exports:

$$RCA_{ik} = (X_{ik} : X_{it}) : (X_{wk} : X_{wt}),$$

where X_{ik} is country i 's exports of good k , X_{it} its total exports, X_{wk} world exports of good k and X_{wt} total world exports.

An index above the unity indicates that a country's share of exports in a particular sector exceeds the global export share of the same sector. If this is the case, we infer that the country has

a comparative advantage in that sector.

Several modifications of the RCA index were developed since it was created. One of them, a sectoral bilateral coefficient of revealed comparative advantages, is used for determination of comparative advantages of a country's trade with a particular partner. The sectoral bilateral RCA is defined as:

$$RCA_{ijk} = (x_{ijk} : X_{ij}) : (x_{wk} : X_{wj}),$$

where x is the value of exports of product k from country i to destination j , and X is total exports from i to j ; w indicates the world as origin.

A value of RCA_{ijk} between 0 and 1 indicates a comparative disadvantage, while above 1 it indicates comparative advantage of a country in bilateral trade.

Overview of Russia and South Africa's foreign trade

Both Russia and South Africa are important trading nations. As of 2016, Russia was on the 17th place among the largest exporting countries and on the 24th place among the importing ones; South Africa took the 38th and 34th position respectively (see World Trade Statistical Review, 2017).

The dynamics of Russia and South Africa's trade volumes at the beginning of the 21st century had similar features. There was a general upward trend until 2011 (with the main exception of 2009, when trade fell by almost a third following global financial crisis). After that, a short period of plateau was followed by a decline in trade volumes due to a slowdown in the economic growth rates of the countries and the world economy as a whole, a downtrend in commodity prices, weak indicators of global trade and capital flows (See Figure 1).

During the whole period under review Russia had a stable trade surplus, while the foreign trade of the Republic of South Africa in the early 21st century was characterized by a stable negative trade balance (2011 was the only exception).

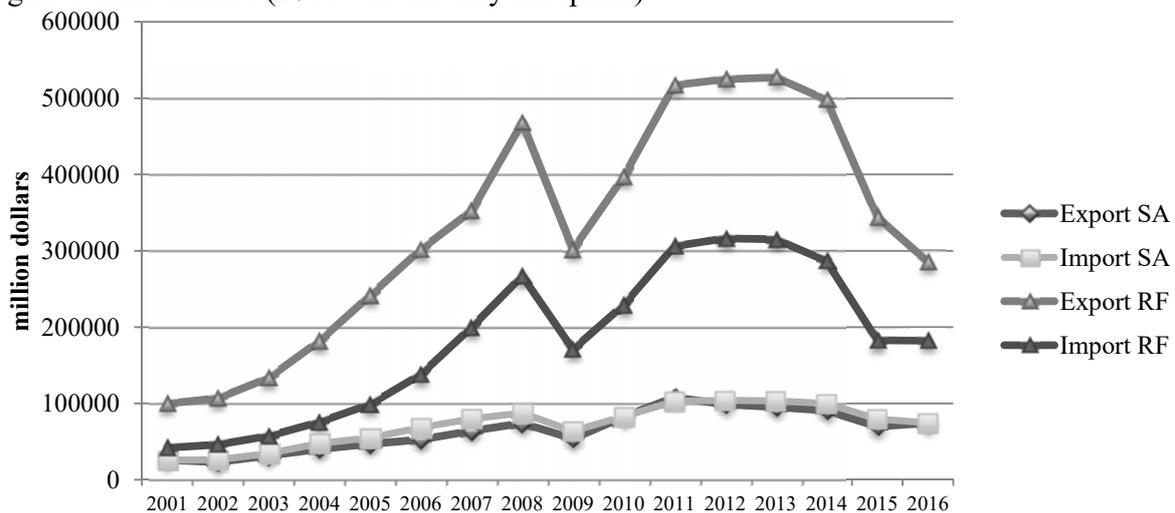


Figure 1 Russia and South Africa's foreign trade, 2001-2016

Source: International Trade Centre (ITC) Trade statistics for international business development. URL: <http://www.trademap.org>

South Africa's trade geography has seen a shift to Asia at the beginning of the 21st century. The United States and the European Union, and among its members, primarily Germany and the UK, have traditionally been the main trading partners of South Africa. However, in recent years, China has taken the lead (see Arkhangelskaya, 2016). Trade with China amounted to 13.7% of the total trade value of South Africa (exports plus imports) in 2016, Germany – 9.5%, USA – 7.0%, India – 4.2%, Japan – 4.0%, Great Britain – 3.6%, Botswana and Namibia – 2.8% and 2.7% respectively. At the same time, trade with Russia was equivalent to only 0.4% of the country's total trade.

South Africa's merchandise exports mostly comprise platinum, vehicles, coal, ores and iron concentrates, ferroalloys and gold. Imports are dependent on oil; machinery and equipment; cars and electronics.

Crude oil, natural gas, ferrous and non-ferrous metals and products thereof predominate in the commodity structure of Russian exports. The country's merchandise imports are mainly machinery, equipment and vehicles, food products and agricultural raw materials, chemicals.

Trade diversification remains a challenge for both Russia and South Africa. The concentration of exports in a few commodities and sectors limits trade potential of the two countries, increases the vulnerability to global economic shocks.

The main Russia's trading partner in terms of trade volume is China (14.1% in total foreign trade of Russia); Germany had a share of 8.7%, the Netherlands – 6.9% of the total turnover in 2016. Trade with Belarus occupied 5% of the total Russia's trade; 4.4% and 4.2% belonged to the United States and Italy respectively. The share of South Africa as of 2016 was only 0.15%.

Russia's trade cooperation with South Africa

Russia and South Africa have many similarities in trade patterns. In addition to possessing the status of regional powers, membership in the BRICS and G20, both Russia and South Africa have revealed comparative advantages in such groups as HS 27 "Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes", HS 72 "Iron and steel", HS 31 "Fertilisers" and others (See Table 1). Accordingly, in a number of international markets our countries act as competitors. For instance, South Africa accounted for 1.9% in world exports of HS 71 "Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewelery; coin" in 2016 (16th in the ranking of all countries), and Russia – 1.4% (18th place). The competition is high in group HS 27 "Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes", or rather in the subgroup 2701 – "Coal; briquettes, ovoids and similar solid fuels manufactured from coal": Russia's share in global exports is 12%, which corresponds to the third place in the overall ranking of countries, South Africa's share is 5.2% (6th place). The commercial interests of the two countries overlap in the supply of ferrous metals: Russia accounts for 4.7% of the world market (5th in the overall rating), and South Africa – 1.75% (20th place).

Table 1. Competition between Russia and South Africa in terms of RCA in some commodity groups

HS 2	Product label	RCA Russia	RCA South Africa
27	Mineral fuels, mineral oils and products of their distillation...	4.9	1.1
72	Iron and steel	2.6	3.3
31	Fertilisers	7.4	1.5
76	Aluminium and articles thereof	2.1	1.7
74	Copper and articles thereof	1.6	1.1

28	Inorganic chemicals; organic or inorganic compounds of precious metals...	1.3	1.8
75	Nickel and articles thereof	5.8	2.7
25	Salt; sulphur; earths and stone; plastering materials...	1.4	2.0

Source: Podoba Z.S., Smirnova M.M. (2017) Trends in export specialization of the Republic of South Africa at the beginning of the XXI century. *Russian Foreign Economic Journal*, vol. 11, p. 88

Bilateral merchandise trade between Russia and South Africa had a general upward trend until 2013 (See Figure 2). Over the next consecutive years it has been gradually decreasing by reason of various economic and political factors. Due to the fact that a significant part of trade is carried out with the mediation of companies of third countries, there is a significant difference between Russian customs statistics and the figures of South Africa.

Trade volumes between the two countries remained minimal in the early 21st century. In 2016, South Africa's total exports to Russia was equivalent to only 0.3% of total Russian imports, while Russia occupied 0.4% in exports of South Africa. It is noteworthy that Russia has stable trade deficit with South Africa.

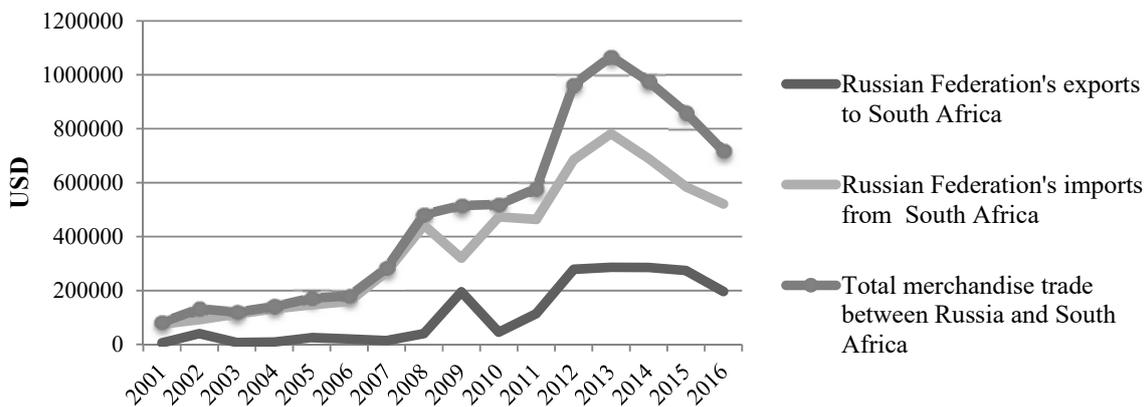


Figure 2 Bilateral merchandise trade between South Africa and Russia, 2001-2016

Source: International Trade Centre (ITC) Trade statistics for international business development. URL: <http://www.trademap.org>

Russia's imports from South Africa consisted mainly of agricultural products, base metals, and machinery. The group HS 08 "Edible fruit and nuts; peel of citrus fruit or melons" accounted for about 40% of South Africa's exports to Russia, HS 72 "Iron and steel" and HS 26 "Ores, slag and ash" each constituted 18%, HS 22 "Beverages, spirits and vinegar" occupied 7% in 2016.

Some positive shifts in bilateral trade relations during the beginning of the 21st century may be confirmed by the following data. During the entire period under review South Africa's exports to Russia grew more than six times (more than ten times in the peak year). This is also affirmed by South Africa's rating in the total imports of Russia. If in 2001 the Republic of South Africa ranked as Russia's 56th trading partner for imports among all countries, by 2016 it was shifted to the 48th position.

Considering Russia's exports, South Africa accounted for only 0.07% of Russia's total shipments abroad in 2016, with HS 10 "Cereals" making up 61% of all exported goods. The group HS 27 "Mineral fuels, mineral oils and products of their distillation; bituminous substances;

mineral waxes” was responsible for 6% of the export flows, HS 31 ”Fertilisers” and HS 76 “Aluminum and articles thereof” occupied 5% each.

Let us turn to the analysis of the results of sectoral bilateral RCA’s calculations for Russia as an exporter and South Africa as an importer. Table 2 reveals the product groups with Russia’s comparative advantages in bilateral trade with South Africa for the year 2016 in comparison with the coefficient of those groups in other years.

Table 2 Sectoral bilateral RCA Russia-South Africa, 2001-2016

HS 2	Product label	2001	2005	2010	2015	2016
10	Cereals	0	0	0	38.1	30.84
31	Fertilisers	11.61	10.59	11.57	5.52	2.3
76	Aluminium and articles thereof	1.03	1.36	2.57	1.14	2.46
90	Optical, photographic...instruments...	1.21	2.26	5.95	6.47	8.79
40	Rubber and articles thereof	2.46	1.00	11.3	4.61	4.09
85	Electrical machinery and equipment ...	8.15	1.85	10.83	0.96	1.46
48	Paper and paperboard...	0.02	0.17	1.38	3.33	2.42
28	Inorganic chemicals...	2.6	1.36	0.54	0.27	1.66
47	Pulp of wood or of other fibrous cellulosic material...	0	0	0	3.93	3.16
38	Miscellaneous chemical products	0	0	5.23	5.6	4.04
21	Miscellaneous edible preparations	1.43	12.57	0	1.94	2.49
56	Wadding, felt and nonwovens...	59.39	17.63	42.29	2.41	9.32
24	Tobacco and manufactured tobacco substitutes	0	3.01	0	1.03	1.2
82	Tools, implements, cutlery, spoons...	4.25	37.79	121.02	10.32	3.73
9	Coffee, tea, maté and spices	0	0	0	0.72	2.39
54	Man-made filaments; strip and the like of man-made textile materials	0	0	0	6.13	3.29
97	Works of art, collectors' pieces and antiques	0	0	0	0.28	7.1

Source: Authors’ calculations based on Trade statistics for international business development. URL: <http://www.trademap.org>

In 2016, the highest coefficient of Russia’s export specialization in bilateral trade with South Africa was observed for HS 10 “Cereals” and equaled 30.86. The group HS 56 “Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof” was on the second place with the RCA_{ijk} of 9.32. HS 90 “Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof” closed in on top three ranking with the coefficient of 8.79.

It is important to note, that in 2016 on the whole Russia obtained comparative advantages in South Africa in 17 commodity groups, which is equal to average annual number over the whole period under review. Although Russia's main export partners on the African continent are Algeria and Egypt, South Africa is in fact the main importer of Russia’s non-mineral products.

Let us look in more detail at the groups with stable export specialization rate from 2001 to 2016. First one is HS 82 “Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal”. The export specialization coefficient for HS 82 was revealed during the whole period under review with the greatest value of 166.73 in 2004 and the smallest one of 3.36 in 2002. The next group with one of the most stable export specialization rate is HS 90 “Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof”. Sectoral bilateral RCA coefficient for HS 90 was lower than unity only in 2002 and 2009, and over the past five years increased by 3.69 times. The other groups are HS 85 “Electrical machinery and equipment and parts thereof; sound recorders

and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles” and HS 56 “Wadding, felt and nonwovens; special yarns; twins, cordage, ropes and cables and articles thereof”. The coefficients for them were higher than unity in 13 out of the 16 considered years, as well as for HS 40 “Rubber and articles thereof”, HS 31 “Fertilisers”, HS 76 “Aluminum and articles thereof” and HS 64 “Footwear, gaiters and the like; parts of such articles”.

We also found out that the specialization of Russia in South Africa in some product groups, which had stable values in the past, has disappeared by 2016. Those groups involve HS 72 “Iron and steel”, the comparative advantages in which were revealed only in the period 2003-2007; HS 87 “Vehicles other than railway or tramway rolling stock, and parts and accessories thereof”, specialization in which has been observed since 2003 to 2006, and afterwards leveled off.

On the other hand, export specialization has emerged in some groups, following the development of trade and economic relations between Russia and South Africa at the beginning of the 21st century. For instance, export specialization ratio of HS 10 “Cereals” has risen above 0 in 2011 (sporadic appearance of specialization was also observed in 2003), and since then it has been consistently much more than 1 (in 2016 the coefficient was 30.84). Russia’s export specialization of HS 10 is mostly based on wheat supplies and was gained since the country became the world’s biggest wheat exporter. Another example is HS 47 “Pulp of wood or other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard”. Russia acquired comparative advantages in HS 47 in South Africa only in 2014, but since then the export specialization ratio has been consistently higher than unity.

Comparing the Russia’s specialization in South Africa with the main trading partners in terms of trade turnover (the Netherlands, China, Germany, Belarus), it turns out that as of 2016 in contrast to 17 commodity groups, in which Russia had comparative advantages in trade with South Africa, in the Netherlands Russia specialized only in 8 groups, in Germany only in 9 groups, but in China –19, Belarus – 70.

Product groups with Russia’s comparative advantages in the Netherlands are not only smaller in number and represented by raw materials, but also have lower rates of the coefficient. For example, HS 27 “Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes” had RCAijs of 1.72 in 2016; HS 74 “Copper and articles thereof” – 3.32; HS 75 “Nickel and articles thereof” 4.29.

In Germany, Russia had comparative advantages in only 9 groups as of 2016, while in 2015 the number of groups was 20, and in 2014 – 23. Russia managed to maintain comparative advantages in such groups as HS 46 “Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork” (RCAijs – 3.79), HS 63 “Other made-up textile articles; sets; worn clothing and worn textile articles; rags” (3.04), HS 81 “Other base metals; cermets, articles thereof”(2.77) and some others. Unfortunately, Russia has lost comparative advantages in quite significant groups such as HS 27 “Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes”, HS 84 “Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof”, HS 85 “Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles” and others.

In China, Russia specializes in 19 groups among which the largest export specialization ratio was observed in HS 47 “Pulp of wood or other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard” with the coefficient ratio of 6.65; HS 44 “Wood and articles of wood; wood charcoal” (4.05), as well as HS 26 “Ores, slag and ash” (3.89).

Absolute leader in the number of product groups in which Russia has a comparative advantage among the countries under consideration is Belarus. At the same time, the highest coefficient was detected in such groups as HS 50 “Silk” (11.90), HS 58 “Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery” (11.10), HS 67 “Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair” (10.72) and others, some of which most likely has not fully Russian origin.

Russia has diverse comparative advantages in trade with different countries. However, there are the same product groups with Russia’s specialization, which can be traced in trade with South Africa and the main countries-leaders in terms of turnover, as well as with the BRICS. Such groups include HS 90 “Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof”, HS 40 “Rubber and articles thereof”, as well as HS 31 “Fertilisers”.

As can be seen from the table 3, Russia's specialization in trade with South Africa is very similar to the specialization in India. In general, Russia has comparative advantages in India in 24 product groups, 10 of which coincide with the commodity groups of Russia's specialization in South Africa.

Table 3 Product groups with Russia’s comparative advantages in trade with South Africa and the rates of sectoral bilateral RCA with some trading partners in the same categories, 2016

HS 2	Product label	South Africa	China	Germany	Belarus	Brazil	India	The Netherlands
10	Cereals	30.84	-	-	-	-	-	-
31	Fertilisers	2.3	1.15	-	-	29.89	2.79	-
76	Aluminium and articles thereof	2.46	-	-	-	-	-	-
90	Optical, photographic...instruments...	8.79	1.69	1.47	1.26	-	6.41	-
40	Rubber and articles thereof	4.09	-	-	1.33	2.38	3.62	-
85	Electrical machinery and equipment...	1.46	-	-	2.92	-	4.07	-
48	Paper and paperboard...	2.42	-	-	2.1	-	5.02	-
28	Inorganic chemicals...	1.66	-	-	1.02	-	2.27	-
47	Pulp of wood or of other fibrous cellulosic material...	3.16	6.65	-	-	-	1.02	-
38	Miscellaneous chemical products	4.04	-	-	2.65	-	2.4	-
21	Miscellaneous edible preparations	2.49	-	-	4.34	-	-	-
56	Wadding, felt and nonwovens...	9.32	-	-	2.79	-	-	-
24	Tobacco and manufactured tobacco substitutes	1.2	-	-	1.09	-	-	-
82	Tools, implements, cutlery, spoons and forks...	3.73	-	-	3.34	-	1.19	-
9	Coffee, tea, maté and spices	2.39	-	-	5.51	-	6.08	-
54	Man-made filaments...	3.29	-	-	4.11	-	-	-
97	Works of art, collectors' pieces and antiques	7.1	2.07	-	-	-	-	-

Source: Authors’ calculations based on Trade statistics for international business development. URL: <http://www.trademap.org>

Concluding Remarks

By the beginning of 21st century Russia and South Africa had identified each other as important emerging economies and regional powers. The countries have grown closer within the BRICS. However, economic relations between Russia and South Africa are the least developed in comparison with the other participants of the bloc. The growth of economic cooperation between Russia and South Africa within the BRICS may bring many new opportunities.

Both Russia and South Africa are significant trading nations. They are key players in some international commodity markets. The two countries have similar revealed comparative advantages in such product groups as HS 27 “Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes”, HS 72 “Iron and steel”, HS 31 “Fertilisers” and others.

During the whole period under review Russia has been accumulating overall trade surpluses, while South Africa has been running total trade deficits (2011 was the only exception). However, in bilateral trade this pattern is reversed recording Russia a trade deficit and South Africa experiencing a surplus during the period.

The study of trade flows between Russia and South Africa clearly proves that the real trade volume remained much lower the potential in the early 21st century. The geographical distance between the two countries and high transportation costs make trade of many products, such as petroleum, cost-ineffective.

The analysis of sectoral bilateral revealed comparative advantage indexes for Russia’s trade with South Africa indicates that the highest coefficient by 2016 was observed for HS 10 “Cereals” and HS 90 “Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus”. Although Russia's main export partners on the African continent are Algeria and Egypt, South Africa is in fact the main importer of Russia’s non-mineral products.

Comparative analysis of Russia’s export specialization with the main partners in terms of trade turnover shows, that Russia has more diverse comparative advantages in trade with South Africa (17 product groups), than with European partners, such as Germany (9 product groups) and the Netherlands (8 groups).

Both Russia and South Africa consider export diversification as a vital part of economic development. It can be achieved by venturing into new sectors and products or by adding value to existing products. Commodity diversification and investment in goods with higher manufacturing intensity are mutually beneficial for the two countries.

South Africa can be considered as a source of political support and business opportunities for sanctions-hit Russia. In general, Russian goods complement South Africa’s import structure. The two countries benefit from mutual trade, especially in the groups which sectoral bilateral revealed comparative advantage indexes’ rates above unity.

Russian goods and technologies in such sectors as power generation and distribution, gas transportation infrastructure, railway facilities, nuclear energy, mining equipment, geological exploration technologies, cartography, and etc. have a potential to be in demand in the South African market.

The study’s results suggest that an increase in bilateral trade flows is considered as one of the most important areas of Russian export diversification and strengthening cooperation between Russia and South Africa.

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