

Investigating the relationship between income distribution-household budget allocation and economic relations between countries. The case of Romania and South Africa

**EDU Tudor, NEGRICEA Iliuta Costel, DUFFETT Rodney,
HAYDAM Norbert**



Abstract

- The paper aims to present a comparison between Romania and South Africa covering population income distribution and household budget allocation for the purpose of delineating similarities and differences.
- Then, once this perspective is detailed, the current situation and the dynamics of the economic relations are presented by assessing the balance of trade since the beginning of the official relations in 1992 up to 2017, by probing into the most traded product categories, and by evaluating the Foreign Direct Investments (FDI) in order to conclude whether these relations had a positive or negative trend and whether complementarity or substitutability would be prompted in the traded products and between trade and FDI.
- By overlapping the findings from these research streams, conclusions are drawn whether economic relations between countries can be explained based on population income distribution (i.e. inequality) and household budget allocation from each country.

Income distribution and household budget allocation- a comparison between Romania and South Africa

- Romania and South Africa are marked by income distribution disparities. These disparities in both countries have a common denominator in the fact that they are to a certain extent the outcome of a transition, namely an economic one regarding Romania and a political and social one concerning South Africa
- In Romania, two important contributors to income inequality were identified, the regional employment specialisation and subsistence households [4]
- The first contributor refers to geographic areas specialised in manufacturing of different consumer or industrial goods and services, such as IT, which attracted highly skilled performers and led to the creation of high income venues.
- The second contributor refers to the households, especially small farms, which produce only for their needs and, as a consequence, they do not report any revenues.

Income distribution and household budget allocation- a comparison between Romania and South Africa

- South Africa, on the other hand, encountered income inequality prior to the first free elections in 1994, but these disparities deepened even more up to 2008 [7], especially because of the wage inequality [8] and Government Grants [9].
- Income inequality in South Africa has a negative effect on availability of employment opportunities, educational perspectives, quality health care and basic services, such as electricity, water and sanitation [10]
- Social security grants reduced poverty by 45% for individuals in the lower poverty bracket between 1993 and 2013 [13], while the food poverty measure led to a decline in poverty levels in South Africa from 33% in 1993 to 25% in 2013 [14].

Income distribution and household budget allocation- a comparison between Romania and South Africa

- Probing further, there are significant differences in the household consumption expenditure between Romania and South Africa with regard to the weight of the different expenditure groups in the total.
- The table below presents a comparative situation of the main expenditure groups for Romania (QIV 2017) and South Africa (Dec. 2016).

Income distribution and household budget allocation- a comparison between Romania and South Africa

Table no. 1- Main expenditure **categories**- Romania versus South Africa

Main expenditure categories (C)	Percentage contribution	
	Romania	South Africa
(C1) Food and non-alcoholic beverages	33.5	18.8
(C2) Alcoholic beverages and tobacco	8.2	4.4
(C3) Clothing and footwear	8.1	5.2
(C4) Housing, water, electricity, gas and other fuels	17.3	14.8
(C5) Furnishing, household equipment and routine maintenance of the dwelling	5.8	7.7
(C6) Health	4.7	7.6
(C7) Transport	6.4	15.2
(C8) Communication	4.9	3.8
(C9) Recreation and culture	3.5	5.1
(C10) Education	0.4	3
(C11) Restaurants and hotels	2.2	2.5
(C12) Miscellaneous goods and services	5	11.9

Sources: Household income and expenditure in Quarter IV 2017, [17], [18]

Income distribution and household budget allocation- a comparison between Romania and South Africa

- In the referenced period the Romanians spent a considerable part of their income on food products and liquid refreshments (C1), household amenities (C4), alcohol and tobacco (C2) and apparel and footwear (C3),
- The South Africans spent a considerable part of their income on food products and liquid refreshments (C1), transportation (C7), household amenities (C4), other goods and services (C12) and household endowment and maintenance (C5).

Income distribution and household budget allocation- a comparison between Romania and South Africa

- In conclusion, there are significant differences between the two countries regarding income distribution amongst various population groups, as well as household budget prioritisation on expenditure types.
- However, comparisons on more focused population groups, such as Generation Y individuals between Romania and South Africa on income allocation and cost control, displayed many similarities, with similar importance given by this generation to amounts spent on holidays, health care, gifts and clothes, or savings made on entertainment or telecommunication purchases [20].

Romania-South Africa- an analysis of the bilateral economic relations

- According to the South African Department of Trade and Industry, between 1992 and 2004, the trade balance was in favour of South Africa with the exception of two years, 1995 and 2003.
- Also, a South African favourable balance was recorded in 2007 and 2008, while in 2005 and 2006 the trade balance was favourable to Romania. Beginning with 2009, the balance has been favourable to Romania [21].
- In 2017, South Africa exported to Romania goods in value of 434,488,330 ZAR, while Romania exported to South Africa goods totalling 4,275,681,288 ZAR (1 EUR = 14.8362 ZAR- 27.12.2017, [16]).

Romania-South Africa- an analysis of the bilateral economic relations

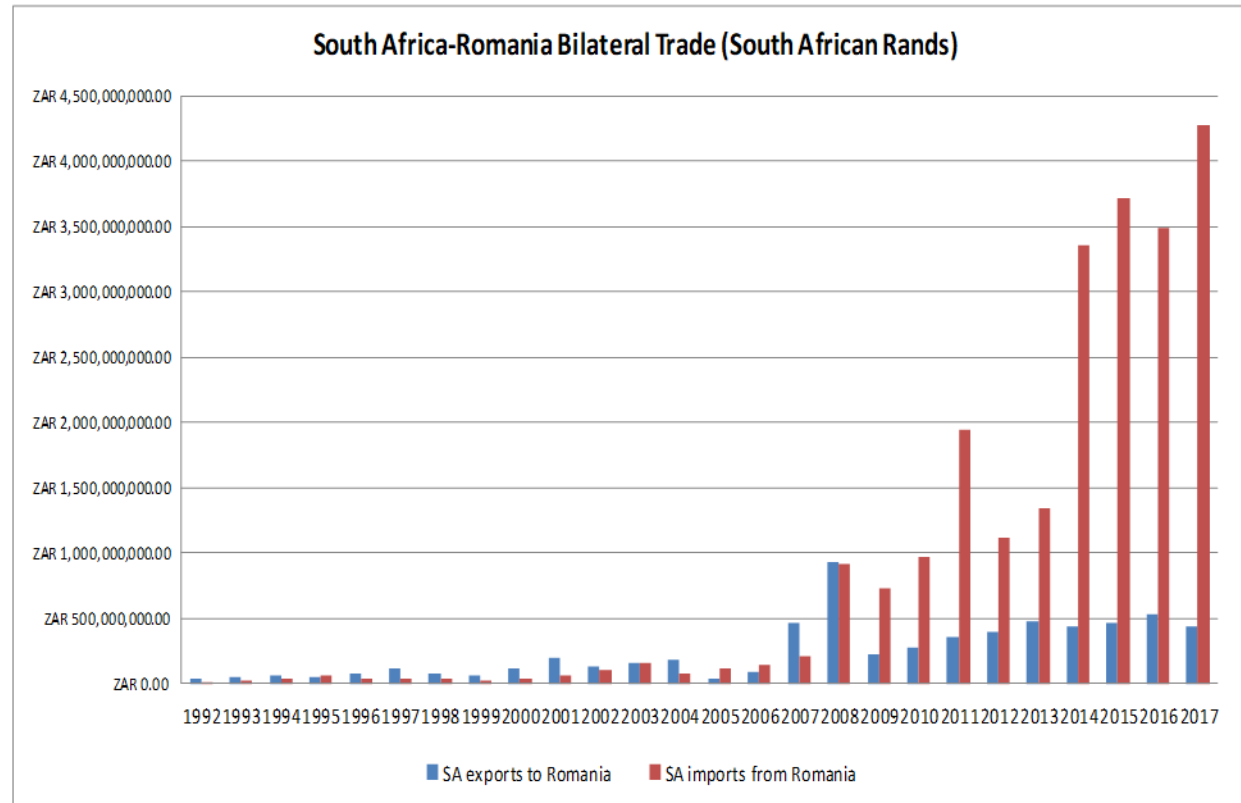


Fig. 1- Bilateral trade: Romania-South Africa; Source: own research (based on [21])

Romania-South Africa- an analysis of the bilateral economic relations

- According to the International Trade Centre [22], the most important products exported in 2016 by Romania were *Vehicles other than railway or tramway rolling stock, and parts and accessories thereof (G1), Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television (G2), Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical (G3), Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof (G4) and Commodities not elsewhere specified (G5).*
- Analysing the evolution of these top 5 categories between 2012 and 2016, (G1) increased by 111%, (G2) by 12%, (G3) by 127%, (G4) dropped by 21%, while (G5) increased by 14% [22].

Romania-South Africa- an analysis of the bilateral economic relations

- The most important product groups exported in 2016 by South Africa to Romania were *Vehicles other than railway or tramway rolling stock, and parts and accessories thereof (G1)*, *Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings (G2)*, *Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral (G3)*, *Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles (G4)* and *Edible fruit and nuts; peel of citrus fruit or melons (G5)*.
- Between 2012 and 2016 (G1) recorded an increase of 6%, (G2) an increase of 458%, (G3) a decrease of 34%, (G4) an increase of 255% and (G5) an increase of 50% [22].

Romania-South Africa- an analysis of the bilateral economic relations

- Analysing the top five product categories traded by the two countries, only one category (*Vehicles other than railway or tramway rolling stock, and parts and accessories thereof*) is common, meaning that there is a significant degree of complementarity in the foreign trade between the two countries. This view is reinforced by the dynamic of the most traded product groups between 2012 and 2016.
- The Foreign Direct Investments (FDI) between South Africa and Romania are characterised by a one-way direction, with significant South African investments in Romania and just a few attempts from Romanian companies. At present, there are significant South African investments in Romania, totalling over 1 billion USD in various fields (value for 2016; [23], such as consumer goods, real estate, online and offline retail, batteries, industrial project or cosmetics.

Conclusion



- Are income inequality and different household expenditure supporting factors in boosting bilateral economic relations?
- The findings lead us to the conclusion that income inequality and different household expenditure could be prerequisites for boosting economic relations and, of course, mutual development.
- However, a possible relationship between income inequality and household expenditure and economic relations between two countries should be assessed in a broader context, by including other variables, such as country industry structure, investment incentives, occupation and employment opportunities or education and access to education, just to mention a few.

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