

IBSA NATIONAL CONSULTATION REPORT, BRAZIL

FEDERATION OF INDUSTRIES OF THE STATE OF SÃO PAULO (FIESP)
SÃO PAULO, BRAZIL
31 OCTOBER 2005

BRAZIL

Roberto Gianetti da Fonseca
Mário Marconini (Brazil Report)

INDIA

Yogeshwar Varma
Parashar Kulkarni (India report)

CONCLUSION AND RECOMMENDATIONS

Brazil

Roberto Gianetti da Fonseca

Director of the Department of Trade and Foreign Relations at FIESP, former Executive Secretary of the Board of Foreign Trade at the Federal Government

IBSA is an important initiative given the importance of the partners involved and the strategic, trade and investment potential implied by a strengthened relationship amongst them. Very little is known regarding the initiative in Brazil and there is considerable confusion as to its aims and objectives, particularly since Brazil, through Mercosur, has already negotiated agreements with both the South African Customs Union (SACU) and India. Many in Brazil's private sector either cannot understand what IBSA is intended to contribute to the already existing relationship among the three countries or are not informed about the initiative at all. All these are good reasons for IBSA to exist and prosper: the three countries still know and care very little about each other even in the presence of important official initiatives. It is imperative on the respective private sectors to seek a greater involvement. Likewise, governments need to seek out advice and support for the furtherance of IBSA's aims and objectives.

Mário Marconini (Brazil Report)

IBSA is taking place at a very important time in Brazil's trade and policy history. The country has reestablished a bullish trade balance since 2001 and the level of market openness has increased significantly and to unprecedented levels, having reached roughly 30% currently. Paradoxically, Brazil's trade continues to correspond to hardly 1% of world trade as opposed to historical highs in the 50's when exports accounted for 2.5% of the world total.

Brazil's trade is much diversified, with the U.S. accounting for 20%, the E.U. for 24%, Mercosur for 10%, the rest of Latin America for 9% and Asia for 17% of the country's flow. While India accounts for 4% of Brazil's total trade flow with Asia (China accounting for 34%), South Africa accounts for 13% of the country's trade flow with Africa (Nigeria accounting for 38%). India accounts for 1.9% of Brazilian total exports

while South Africa accounts for around 3%. As to the nature of trade, data show that Brazilian exports to IBSA countries have a relatively high industrial content, thus resembling more closely Brazil's trade with the U.S. than, for example, China or the E.U. South African imports from Brazil are 73% in manufactured and 6% in semi-manufactured goods while for India the figures are 40% and 44%, respectively.

While trade with India has exhibited a fairly erratic pattern in relation to both direction and composition of trade, trade with South Africa has accompanied the main trends in Brazilian overall trade, with Brazilian deficits during the second half of the nineties being replaced by bullish Brazilian surpluses as from the beginning of the present decade - for what is predominantly a manufacture-led trade flow. Although in both cases participation, representativeness and dynamism indices tend to be positive for only a few items, recent studies have shown that both India and South Africa should figure amongst priority countries with which to deepen trade relations, as related exports have grown more than 100% in the last six years and the two countries have both significant import markets (between US\$ 20 and 100 billion annually).

Investment figures also indicate how small relations still are amongst the three countries. As far as FDI stock, Brazil had a total of US\$ 103 billion by the year 2000 while available figures by then indicated that India accounted for only 0.04% of that total while the corresponding figure for South Africa stood at 0.02%. As to FDI flows, while India has seen a significant increase in annual levels since 2001 (318%) to reach US\$ 14.14 million in 2004, South African FDI to Brazil has had a much more erratic behavior, having actually decreased in the period (-41%).

The Brazil survey has shown that there is a greater export interest on the part of the private sector with regard to South Africa than with regard to India (30 vs. 10% wishing to export). The survey has also shown that an overwhelming majority has either never heard of the initiative (75%) or has no interest in it whatsoever (60%). Most of the commercial focus for the Brazilian private sector is on the immediate region: the Andean Community, the U.S. and the Caribbean. The initiative is seen as essentially geopolitical for those reasons, something which is clearly distant from the day-to-day realities of Brazil's trade and investment.

As to barriers, they are both internal as well as external insofar as IBSA or other initiatives are concerned. "Brazil Cost", a set of widely renowned barriers that span from high interest rates to a heavy tax burden, is seen as the main barrier. As to barriers in IBSA countries, freight rates, bureaucracy, politics and even culture have been identified as important factors. As to opportunities, there seems to be an overall awareness that India's market is huge and somewhat open, holding great potential for Brazilian interests in the medium and long-term. Cooperation with India is already engaged in pharmaceuticals and software and could easily be expanded. As to South Africa, advantages include the "hub" effect of the country with respect to the rest of Africa, its geographical proximity, a similar culture, a comparable business climate, reasonable transport costs and the potential complementarities of both markets. Cooperation with South Africa, in addition to medical equipment and disease treatment, could also extend to the sensitive automotive sector.

India

Yogeshwar Varma

Consul-General of India in São Paulo

India's economy is currently the fourth in the world in purchasing power parity (PPP) terms after the U.S., China and Japan, with a GDP of approximately US\$ 677 billion in 2004. Growth has been a major highlight in Indian economic news, having attained the fortunate mark of 8.1% in the 2003-2004 period. India has US\$ 140 billion in reserves and an inflation rate of only 5.5%.

India's trade has been recently reformulated with customs tariffs having been reduced to the an average level of 32% and falling. The majority of products are freely imported and quantitative restrictions have been removed completely since April 2001. There are some export restrictions that remain. Indian firms with infrastructure projects benefit from a favorable tariff structure to import machines and equipment. Exports have jumped from US\$ 18.5 billion in 1992-1993 to US\$ 76 billion in 2004-2005 while imports have increased by almost five-fold in the same period, going from US\$ 22 billion to US\$ 102 billion. Eighty percent of exports are manufactured goods. New and dynamic export sectors include software, electronics and machines (US\$ 10 billion) while traditional export sectors (another US\$ 10 billion) include textiles, clothing, jewels and precious stones, leather and agricultural products.

There have been 28 joint-ventures and other forms of partnerships between Brazilian and Indian firms, including in the sectors of software and information technology (6 firms), pharmaceuticals (12 firms), engineering (7 firms) and chemical (3 firms). As items that have a promising future in India-Brazil relations, the following ten stand out: pharmaceuticals, medicine and healthcare; aviation; engineering products, auto-parts and vehicles; ethanol from India with Brazilian technology and Brazilian ethanol exports; chemical products, agro-chemicals and pesticides; Indian motorcycles that could be produced in Brazil; collaboration in software and IT; collaboration in the financial and banking sectors with the opening of new credit lines; urban infrastructure; processed food products and consumer goods.

Parashar Kulkarni (India report)

The IBSA countries have a combined population of 1,35 billion. All three have more than 50% of their GDP in services while in agriculture differences are important: while in India the sector accounts for 24% of GDP, in Brazil it accounts only for 10% and in South Africa even less, 3.8%. Until the nineties, most of the growth in India could be attributed to the industrial sector but since then services have taken over, having grown an average of 7.5% in the last decade as opposed to 5.8% for industry and only 3.1% for agriculture in the same period.

India's growth model is highly indigenous with the top 10 companies being all Indian. Eight out of 10 firms in the automotive sector are national; 7 out of 8 in consumer durables. Since 1991, the country has been down the liberalization path, having

emerged, alongside Brazil, Russia and China as one of the great promises of the next 40 years. With respect to China, India has a clearly favorable dividend in comparative terms since it is a strong and traditional democracy.

On FDI, policies have incrementally freed investment since 1991 when FDI was still capped at 40% and changed to 51% for 34 sectors. Nowadays, since 2000, there is a short negative list of sectors where FDI is *not* fully (100%) permitted. The current budget already has foreseen significant increases in caps: telecoms from 49% to 74%, civil aviation from 40% to 49%, insurance from 26% to 49%. Currently, 5 states (out of 28) are responsible for 80% of the inward FDI while outward FDI in 2004-05 reached the mark of US\$ 2.5 billion. Between 2001 and 2003, Indian companies acquired 120 firms, corresponding to a value of US\$ 1.6 billion.

On the trade front, growth in merchandise exports has averaged 20% in the last three years while software exports averaged even higher at 30%. The share of India in world trade, however, continues to be fairly small, at only 0.8%. As Brazil, India has North America and the E.U. as two important export destinations (19% vs. 23%) but contrary to Brazil its main export destination is Asia and Oceania which accounts for almost half of all Indian exports. As to imports, the importance of North America is much lesser than for exports with only around 6%.

India has a number of current international engagements: 2 free trade agreements (Sri Lanka and Thailand), 2 frameworks for comprehensive economic agreements (ASEAN and Singapore), 2 framework agreements for FTA's (BIMSTEC, SAFTA), two preferential trade agreements (SACU, Mercosur) and 6 joint study groups (GCC, China, Korea, Japan, Mauritius and Egypt). With IBSA countries, there are important complementarities to be explored further involving airplanes and paper from Brazil, space technology and IT with India and gold and selected metals with South Africa. Some sectors are very competitive across the three countries such as the automotive or the leather products. In some cases, competition could clearly breed complementarities such as India's demand for Brazilian footwear equipment or the Brazilian demand for Indian auto-parts.

The India survey indicated similar results to Brazil's with regard to perceptions on excessive bureaucracy, crime and corruption, for example. The cost of doing business was also mentioned as a prominent element. It is clear that transport costs, particularly when one considers high oil prices and low competition on relevant transport routes, can be prohibitive for much of existing and/or potential trade.

Conclusion and recommendations

Discussions pointed both to the importance of deepening relations as well as to the existing difficulties in trade and investment amongst IBSA countries. There was also a wide recognition that trilateral relations can be crucial in the future, even if there remains a lot of work to be done in order to see that through. Ten recommendations put forward during the Brazil national consultation, including by the speakers, were the following:

1. To study the international productive chains in various relevant sectors in order to ascertain the relevance of IBSA trade and investment flows in the middle and long run;
2. To survey, analyze and produce recommendations about multinational trade and investment and their relevance for IBSA countries;
3. To promote equivalence/harmonisation/mutual recognition agreements among IBSA countries as a means to pave the way for increased trade and investment flows;
4. To survey, analyze and produce recommendations regarding transport and logistics among IBSA countries with a view to making their trade feasible and attractive; joint policies and projects in this area might be a means to improve the current situation considerably;
5. To promote the involvement of embassies, consulates and business chambers in trilateral trade and investment; this involvement could touch on transparency initially as that is the first challenge at hand;
6. To establish a common work agenda that focuses on real problems faced by entrepreneurs in the three countries; a free trade agreement, for example, may not be an effective means of advancing cooperation amongst the three countries in the absence of joint initiatives on day-to-day matters such as investment and export financing through access to international sources; differentiated tax burdens, transport and logistics, doing business issues, etc.;
7. To study success stories within the trilateral trade and investment world with a view to extract experiences and lessons that may help IBSA countries to establish a realistic and feasible common work agenda – as mentioned in the previous item;
8. To create permanent working groups on specific matters of direct relevance to the three countries' private sector with a view to putting forward recommendations at regular times along the process;
9. To create a "Champions" Group where the most successful firms would get together and exchange ideas as to how to deepen trade and investment relations amongst IBSA countries; this groups should be empowered to bring IBSA issues and deeds closer to the three societies;
10. To promote private sector meetings so as to seek solutions to perceived problems in trade and investment amongst IBSA countries in specific sectors; the automotive sector, for example, may be a good candidate for private-to-private sector meetings with executives from the three countries.



SOUTH-SOUTH TRADE AND INVESTMENT COOPERATION:

EXPLORING THE IBSA INITIATIVE

NATIONAL CONSULTATION MEETING, BRAZIL

Date: 31st October 2005

Time: 9:30 – 12:30

Local: Salão Nobre – 15th floor

PROGRAM

09:30 – 10:00 Registration

10:00 – 10:20 Introductory Remarks

Roberto Giannetti da Fonseca

Director of the Department of Trade and Foreign Relations at FIESP, former Executive Secretary of the Board of Foreign Trade at the Federal Government

Session on Brazil: Roberto Giannetti da Fonseca, FIESP

10:20 – 10:50 Country Presentation: Brazil
Mr. Mario Marconini

10:50 – 11:10 Questions and Discussion

11:10 – 11:30 Coffee / Tea Break

Session on India: Mr. Yogeshwar Varma, Indian Consul-General in S.Paulo

11:30 – 11:50 Country Presentation: India
Mr. Parashar Kulkarni, CUTS

11:50 – 12:10 Questions and Discussion

12:10 – 12:30 Concluding Remarks