

# **Field Survey Report: INDIA<sup>1</sup>**

## **South-South Economic Cooperation: Exploring IBSA (India-Brazil-South Africa) Initiative**

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## 1. Introduction

### *1.1 South-South Cooperation: An Imperative*

South-South trade as a percent of world trade has increased from 6.5 percent in 1991 to 10.7 percent in 2001. In 1990, South-South exports, as a percent of South-North exports was 41 percent. In 2001, this increased to 60 percent, emphasising the growing importance of South-South trade. Average Southern tariff rates have also reduced from 25 percent in 1985 to less than 15 percent in 2000.<sup>2</sup> This is an evidence of a general consensus towards more open economies. Nevertheless, unilateral liberalisation is not a popular strategy. Since at a multilateral level negotiations are slow, South-South trade cooperation is the second best option.

It is widely believed that South-South trade involves primary goods. This is a misnomer. Trade in manufacturing products comprised nearly 66 percent of the total intra-developing country trade in 2001.<sup>3</sup> Thus, South-South trade is not restricted to commodities, fuels and other raw materials but mainly, manufactured products.

At another level, the imperative for South-South trade cooperation can be gauged by the bargaining strength in multilateral trade negotiations. This was manifested in the Cancun Ministerial Conference of the World Trade Organisation (WTO). Many have argued that Cancun was indeed not a failure, but was the beginning of a new era of multilateralism. Cancun did not result in any progress on the multilateral agenda, but it is likely that the trading system will undergo a paradigm shift. India, Brazil and South Africa played the leading role in developing the G20 coalition, responsible for centralising development in WTO negotiations, and the resultant launch of a development round.

Power equations in global politics and economics are changing. In less than 40 years, it is expected that India, China, Brazil and Russia (the BRICs countries) together will be larger than the G-6 economies. They would be amongst the six largest economies of the world. India will be the only country that will retain a growth rate of more than five percent after 2050. South Africa

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2 WTO, World Trade Report 2003

3 *ibid*

would remain the largest economy in Africa. In addition it would have a per capita income higher than India, Brazil and China.<sup>4</sup>

There is increasing evidence that regional initiatives are too narrow in scope to result in desired industrial and economic development in developing and least developed countries. Further, similar geographic locations of regional partners, is leading to similarity in natural advantages, leading to competition amidst cooperation. This has strengthened the case for pushing regional initiatives beyond the continent. Developing countries have realised that cooperation via regionalism is not the only way to growth. In 2001, the share of developing countries in intra-regional trade hovered around 20 percent. Thus, regional trade agreements have not contributed significantly to South-South trade and countries have realised that they need to engage beyond regional boundaries to more expansive South-South trade cooperation.

### *1.2 The IBSA Initiative*

In June 2003, the Foreign Ministers of India, Brazil and South Africa met in Brasilia, Brazil to form the IBSA Dialogue Forum. Two meetings of the IBSA Forum, one in New Delhi in March 2004 and the second in Cape Town in March 2005, followed this. This forum laid the foundation stone for convergence between preferential trade negotiations of the three countries and their regions. The forum also undertook to increase trade flows between the three countries from US\$ 4.6 billion presently to US\$ 10 billion by 2007 and strengthen business-to-business links. In addition, the IBSA Forum undertook to continue holding IBSA business summits and conduct studies on how to increase trade and investment by establishing a Trilateral Business Council.

In March, 2005 the leading chambers of commerce in all three countries, namely Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI), Associated Chambers of Commerce and Industry of India (ASSOCHAM) from India, National Confederation of Industries from Brazil and Business Unity from South Africa formed the IBSA Business Council to facilitate business.

### *1.3 Basis of the Study*

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<sup>4</sup> Wilson, Dominic & Purushothaman (2003) "Dreaming with BRICS: The Path to 2050" Goldman Sachs

The IBSA regional cooperation wasn't simply linking the three countries, but envisaged to link the three regions, namely India, Southern African Customs Union (SACU) and MERCOSUR. India's trade turnover with the SACU comprising of South Africa, Botswana, Lesotho, Swaziland and Namibia, increased from US\$900 million in 1997-98 to US\$ 2.5 billion in 2003-04. In the same period India's deficit increased from US\$ 99.7 million to US\$ 1.3 billion.

India's trade turnover with MERCOSUR comprising of Argentina, Brazil, Uruguay and Paraguay, increased from US\$ 317.60 million in 1999-2000 to US\$ 1416.65 million in 2003-04. Indian exports to MERCOSUR were approximately US\$ 566.96 million during 2003-2004 and imports from MERCOSUR were around US\$ 849.69 million.

Brazil is India's largest trading partner in MERCOSUR accounting for trade of US\$ 466 million in 1999-2000, which increased to US\$ 765 million in 2003-04. This is more than 50 percent of India's trade with MERCOSUR.

Within SACU, South Africa is India's biggest trading partner accounting for 98 percent of the total trade. However, it is important to note that gold comprises 80 percent of the total imports from South Africa and South Africa is the only SACU country, which has a positive trade balance with India. On the other hand, India clearly has a robust and diverse export base in South Africa. Readymade garments accounts for the highest share of India's exports, and this is just 9 percent of India's total exports to South Africa.

However the aggregate trade picture is not very encouraging. Intra-IBSA trade as a percent of total trade of IBSA countries is not even two percent. Further no IBSA country occupies the top ten trading partner status in the other two IBSA countries.

This led us to ask

1. Why is trade and investment amongst IBSA countries, low?
2. What are the problems that businesses in one IBSA country say India, face in the other two, i.e. Brazil and South Africa?
3. What are the key concerns that need to be addressed to increase trade?

With the above three questions in mind, a survey was conducted, of businesses in all the three countries. This is the report of the Indian field survey.

## **2. Methodology**

### *2.1 Purpose of the field survey*

The field survey attempted to explore three important questions enumerated above, namely understanding the reason for low trade amongst IBSA countries, understanding the problems that businesses face while engaging with other IBSA countries and policy options to address those problems. In addition this survey tries to understand the concerns of businesses regarding government initiatives to boost trade and investment and serve as a model for governments to understand business perceptions while engaging in regional and multilateral trade policy.

### *2.2 Sample*

This survey was based on a sample of 30 respondents in ten diversified business sectors, which included automobiles and auto ancillaries, chemicals, agro-based products, machinery and minerals. Though requests were sent to over 200 companies, interviews could be sought from 30 respondents. However, since this report is a perception analysis, an attempt is made to validate the responses, with actual data.

In India, the field survey was conducted in Mumbai, New Delhi and Chennai. The universe comprised of the list of exporters registered as members with FICCI and the list of 500 leading companies in India, as listed in Economic Times 500. The respondents were representatives of the export department of selected companies. They were subjected to a questionnaire-based interview, which required an average of 40 minutes for completion. In addition follow up queries were raised to fill select gaps in information and for seeking additional information.

A purposive sampling approach was used to select companies, particularly because of size and time constraints.

The percent of export ranged from ten percent to 100 percent of the total sales. The 30 companies involved a mix of small companies, medium sized companies, and large conglomerates. Companies who were exporting below Rs. ten million were defined as small companies, companies exporting below Rs. 100 million, but above Rs. ten million were defined as medium

sized companies and companies, which were exporting more than Rs. 100 million, were defined as large companies.

The destination of exports ranged a diverse set across the globe. Amongst 30 companies, 17 companies were exporting to Brazil, South Africa or both. This study targeted the manufacturing sector and did not target the services sector. Amongst all companies interviewed, one company invested in South Africa and Brazil, each.

The following represents the classification of companies as per size.

Figure 1. Classification of Sample as per Size

Sales (x) in million rupees	X < 10	10 < X < 100	X > 100
Number of companies	12	10	8

In addition, midway through the survey, companies were also selected based on whether they were exporting or importing from Brazil and South Africa. This was essential since in the earlier methodology, the number of companies dealing with these two countries were quite low.

The following represents the classification of companies as per their trade with Brazil and South Africa

Figure 2. Classification of Sample as per Trade Relationship

Trade Relationship (Y = Yes, N = No)	Brazil (Y)	Brazil (N)	Brazil (Y)	Brazil (N)
	South Africa (N)	South Africa (Y)	South Africa (Y)	South Africa (N)
Number of companies	4	8	5	13

### 2.3 Questionnaire

The questionnaire of the survey was jointly developed by the three project partners and was circulated to the three business chambers and the project advisory committee.

The questionnaire starts with basic statistical information comprising of exports, imports, number of employees, total sales etc. Subsequently the questionnaire is divided into two sections. The first section deals with general issues of trade and investment within IBSA countries and the general level of awareness amongst business representatives. The second section deals with crosscutting concerns of businesses while conducting business amongst IBSA countries such as non-tariff barriers (NTBs), access to information and cultural problems.

### **3. Findings**

#### *3.1 Trade and Investment*

##### *3.1.1 Current trade patterns: Are Brazil and South Africa important?*

In 2003-04 the major destination of India's exports were Asia (44 percent), West Europe (24 percent), Americas (23 percent) and Africa (six percent), while the major sources of imports were Asia (32 percent), West Europe (24 percent), Americas (nine percent) and Africa (six percent).

In this survey, we asked respondents regarding their primary export/import destinations and the reasons why these countries formed their primary destinations? The primary destinations of exports were diverse, representing Europe, US, South-east Asia and Africa. Only three companies amongst 30 said that destinations in South America were their primary destination for exports, which speaks of the low penetration in South America. On the other hand seven companies included Africa as their primary export destination.

India accounts for less than one percent of Latin American exports, while Latin America accounts for 2.8 percent of India's exports. On the other hand, India accounts for less than one percent of Latin American imports while Latin America accounts for 1.5 percent of India's imports.

Africa's share in India's total exports is a healthy six percent in 2003-04 and Africa accounted for 4.2 percent of India's imports during the same period.

Subsequent to understanding destination markets, we asked respondents the reason why select markets were more important than others. It is interesting to note the heterogeneity of reasons for businesses to export or not export. Anecdotal evidence revealed that exporters adopt different strategies for increasing exports and have different reasons for emphasising on select destinations.

Some respondents, particularly smaller companies export on the basis of their networks or contacts. This can be termed as diaspora supported business. While the Indian diaspora in South Africa is large, it is barely existent in Brazil. A paper exporting company<sup>5</sup> in Chennai explained

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5 Mr. V Vijararaghavan, Chennai Micro Print Pvt Ltd, Chennai (Respondent)

that they never study markets, but export on the basis of networks. They were first prompted to export by an employee who went to Singapore and he assumed the role of a collection and marketing agent. They were able to diversify in South-east Asia. They tried the same in South Africa, but did not find a collection agent. They have not identified Brazil as a market simply because their awareness about the market was low, and they did not know anybody in Brazil.

Secondly some companies are not interested in expanding their business in these markets. A tea producing company said that they were very keen to expand in the domestic market before expanding overseas. According to the respondent “There is a lot of domestic demand that is not catered. Since we are trying to consolidate our position in India, we do not want to adopt an export led growth. As we are historically exporting to the U.S. with the help of an agent, the same will continue.”<sup>6</sup>

An interaction with India’s leather and leather products exports promotion body<sup>7</sup> revealed that both Brazil and South Africa are competitors and so selling leather products in these countries is more difficult. However some exporters have explored niche markets in South Africa by using innovative designs. South Africa imposed anti-dumping duties on Indian footwear, which they were later forced to remove since they were WTO non-compliant.

A leading minerals exporting company,<sup>8</sup> a world leader in its segment, said that they operate in a demand driven market and could only extract enough to cater to the three major markets. Hence due to supply side constraints it was impossible to diversify into new markets though they were quite lucrative. In addition, minerals were a volume-based business, hence secured clients that ordered large volumes were a better bet than small volumes from new clients.

A company catering to an eco-friendly and worker-friendly rock blasting technique said that their product was nearly twice as expensive as the second best alternative and had selective buyers who were focussed on corporate social responsibility (CSR). In addition regulatory regimes in select European countries, prompted companies to use this technique. Brazilian and South African companies are not effective practitioners of CSR hence they were not important markets.

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6 Ms. Sabina Dsouza, Sapat Ltd, Mumbai (Respondent)

7 Mr. Sattar Khan, Council of Leather Exports, Chennai (Respondent)

8 Mr. Veera R K Arunachalam, Beach Minerals Company India Ltd, Chennai (Respondent)

An ethanol importer said that Brazil was the world's largest and cheapest producer of industrial alcohol (ethanol) and hence they had no better source.

A representative<sup>9</sup> of an automobile ancillary, supplying parts to the world's leading auto companies said that it competed with Brazilian and South African manufacturers in this market. In addition its demand was completely based on the location of Original Equipment Manufacturers (OEMs), which were primarily in the US, EU and Japan. Hence their most important markets were US, EU and Japan.

Such evidences speak volumes of the heterogeneous nature of trade transactions. Where macroeconomic models simply capture supply and demand drivers, they are unable to capture the diversity of perceptions and social interactions that govern how much, why and with whom a person trades.

### 3.1.2 Current State of Indian investment in Brazil and South Africa

In the financial year 2003-04, USA attracted the highest approvals of Indian direct investments at US\$ 81.41 million followed by Mauritius with US\$ 80.75 million and Kazakhstan with US\$ 74.95 million. In the financial year 2002-03, Sudan accounted for the largest approvals for Indian direct investments by value at US\$ 750 million. India's outward FDI is a new episode post liberalisation. Hence there is no clear direction and a sizeable volume is yet to be achieved.

Figure 3. Country-Wise Approved Investments (Amount in US\$ million)

Name of the country	1996 to 2000	2000-01	2001-02	2002-03	2003-04(April 03-July 03)	Total
Brazil	2.54	5.38	5.06	5.17	0.870	19.020
South Africa	20.2	1.03	0.33	0.07	0.127	21.757
USA	378.53	734.24	428.06	185.27	81.410	1807.510
U.K	269.80	55.30	85.52	34.53	26.952	472.102

Source: Ministry of External Affairs, India

<sup>9</sup> Mr. K.P. Mohandas, Sundram Fasteners Ltd, Chennai (Respondent)

Investment relations between IBSA countries can be best described as adhoc, with no clear direction. Some sectors have seen momentum, particularly pharmaceuticals. Since this study targeted the manufacturing sector, the faster pace of the services namely IT was largely un-chartered. Nevertheless, in this survey, the biggest source of optimism was undoubtedly the pharmaceutical sector.

It is interesting to study how Indian pharmaceutical companies have made an increasing presence in Brazil. The US was pushing for a TRIPS + Agreement with Latin American countries for the past ten years. Brazil, which lacks a strong indigenous manufacturing model, was also pressured by US pharmaceutical giants to adopt a stricter regime. In the mid 1990s, Brazil started looking at other Southern economies for drugs, India being a natural contender. Brazil attracted Indian companies for exports and FDI. Hence, today, in Brazil, there are a large number of Indian pharmaceutical companies.

Indian pharmaceutical companies have also made inroads in South Africa. India occupies the 11<sup>th</sup> position in terms of sales, amongst the countries, which are present in the pharmaceutical sector in South Africa.

Ranbaxy has been the torchbearer of the internationalisation of Indian pharmaceutical companies, including their presence in Brazil and South Africa. Ranbaxy initiated operations in Brazil in November 2000 and recorded sales of over US\$ 32 million by 2002. Ranbaxy was the first Indian company to get its plant approved by the Brazilian National Health Surveillance Agency (ANVISA). Currently it is the fifth largest generics drug manufacturer in Brazil and enjoys nine percent share of the Brazilian market with 80 drugs in its portfolio. In South Africa, Ranbaxy's sales increased from US\$ 5.7 million in 2002 to US\$ 10.7 million in 2003, making it one of the fastest-growing companies in South Africa in 2003. Ranking within the local pharmaceutical market improved from 40 in December 2002 to 32 in December 2003.

Several leading Indian companies namely the Tata Group, Mahindra & Mahindra and United Breweries have a strong presence in South Africa. India's investment in South Africa in 2003-04

was 0.22 percent of its total investment abroad. Yet, as a stock, it is estimated at \$ 100 million as per figures released by the Department of Foreign Affairs, South Africa.<sup>10</sup>

On the other hand, there is very little information available on the number of South African and Brazilian companies in India; the number too, is negligible. South Africa has invested in diamonds and jewellery (De Beers), alcoholic beverages (SAB Miller) and financial services (Old Mutual etc) On the other hand there is no serious Brazilian investment in India according to the Indo-Brazilian Chamber of Commerce.

Respondents quoted several reasons for not investing in Brazil and South Africa. 24 out of 30 companies were exporters and did not have any form of investment in any country. A leading footwear company mentioned that investing in Brazil is not lucrative since Brazil is a large producer of leather footwear and it would result in unnecessary competition. “We have a manufacturing company in Uruguay and they cater to the Brazilian market,”<sup>11</sup> said a representative from a pharmaceutical company in New Delhi.

The survey revealed that Indian businesses lacked a clear investment led expansion policy. Except pharmaceuticals, and IT (IT is outside the scope of the project since it is a service sector), investing abroad is the next big step that the Indian businesses are yet to gear up to.

### *3.1.3 Future Business Plans: Where do Brazil and South Africa factor in?*

22 out of 30 respondents expressed interest in exporting to Brazil and South Africa. Of these, 13 were already involved in trading within these countries and were positive on their expansion plan. However they mentioned several deterrents that posed as non-tariff barriers.

On the investment spectrum, there were only one respondent who intended to invest in Brazil and one in South Africa.

Respondents were also asked regarding the approach they adopt for deciding whether to trade or invest in a country. The standard procedure followed by most companies was to send their

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<sup>10</sup> Investment and Trade Promotion Division, Ministry of External Affairs, India

<sup>11</sup> Mr. Raghupati, Biotech International Ltd, New Delhi (Respondent)

representative to the host country. The representative would conduct a preliminary survey of the market and prepare a report. Some companies fixed appointments with prospective clients and suppliers and after understanding the market dynamics considered a deeper investigation.

Some companies said that they receive enquiries by mail and telephone and they followed on the same.

On being prompted regarding the use of fairs, there was clear consensus that fairs help in networking with prospective partners. However participating in fairs and exhibitions was quite expensive and hence was a deterrent. This report shall focus on the problems in greater detail in the subsequent sections.

### *3.2 Business Awareness*

#### *3.2.1 Awareness and Attitude towards Government's Trade Promotion Policies*

All respondents were asked whether they tracked the government's regional policy initiatives. An interesting dichotomy was revealed. Some pharmaceutical majors, automobile majors and electronic goods companies said that they kept track of governments regional trade policies. Two leading tyre companies also said that they were making use of the India – Sri Lanka FTA and the India – Thailand FTA. On the other hand 20 respondents said that they did not keep track of the government's regional agreements.

The respondents were also asked regarding their primary source of information. Nearly all companies said that newspapers were the primary source of information. Some reflected that weekly news updates from business chambers were also useful for reading on government policy.

When enquired regarding their opinions on ways of improving trade and investment with other countries, i.e. either sectoral approach or general macroeconomic approach, there was a clear tilt towards sectoral approaches. 14 respondents said that sectoral approaches are useful in promoting trade within their sector. Organising fairs and exhibitions was quoted as the most common approach towards sectoral initiatives.

Some respondents in the electronics sector were emphatic in stating that sector specific export promotion boards were more relevant than broad based business chambers. This gives a useful cue to business chambers to promote sectoral initiatives instead of broad general measures of trade promotion. E.g. IBSA Electronics Fair may be more useful than a general IBSA Trade Fair to promote trade amongst IBSA countries.<sup>12</sup>

Respondents were also asked regarding which form of trade initiatives were better for increasing trade i.e. regional agreements, WTO or IBSA type open ended cooperation. Most companies said that there was no one approach and all three needed to be adopted together. A chemicals exporter responded that IBSA Initiatives are useful if they are able to tackle practical issues on the ground, such as ease certification requirements, or simplify visa procedures. "Open-ended cooperation

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<sup>12</sup> Mr. Dhananjay Sharma, Sukam Communication Systems Ltd, New Delhi (Respondent)

helps only if countries are able to work together on practical problems, instead of signing politically correct but practically irrelevant cooperation agreements,” he said.

Subsequently respondents were asked whether agreements similar to the IBSA Agreement were useful. Since most companies were unaware of the IBSA Initiative, they required a small briefing. Most companies were of the opinion that such initiatives with a broad agenda often dilute the trade component. Secondly since the government of India has entered into many such initiatives it is difficult to keep track of them. “Sometimes it is mere protocol to sign an agreement if a Senior Minister visits another country. The agreement is often not worth the paper it is written on” expressed a footwear exporter.

### *3.2.2 Awareness of IBSA Initiative*

27 of the 30 respondents were not aware of what IBSA meant. In addition only one respondent knew about the IBSA Initiative of the Government of India. We asked exporters whether they were aware of other Indian government initiatives to increase exports to South Africa and Brazil. Most of the exporters were unable to recall any initiative, including “Focus LAC Program” and “Focus Africa Program”. This clearly reveals a strong disconnect between the government’s economic cooperation agreements and industry response. The government’s industry interaction policy has no clear direction and the use of multi-sector business chambers for information dissemination seems to create a perception of intent-deficit within the industry. During this survey, we found that businesses in Delhi were more aware of policy initiatives than business in Mumbai or Chennai. A logical link can be developed. All government policy initiatives arise from New Delhi. In addition the head offices of all leading chambers of business i.e. FICCI, ASSOCHAM and CII, are in New Delhi. Businesses are located in diverse locations. Business chamber activities are much more concentrated in New Delhi than in any other location, leading to concentration in information access. This may lead us to conclude that the state of information dissemination in non-metro cities and rural business centres is a matter of grave concern.

Subsequently we asked them whether they are aware of regional trade agreements. Amongst 30 companies, 15 companies said that they did not keep track of any regional trade agreement. The rest of the companies were aware of some or the other RTA. The most commonly quoted RTA was the Indo-Lanka and the Indo-Thailand FTA, since it received wide attention in the newspapers.

In addition the difference between economic cooperation agreements and trade agreements was slightly visible. While companies were looking at RTAs with curiosity, they were indifferent to political initiatives such as IBSA.

### *3.2.3 Expectations from IBSA Initiative*

One of the biggest concerns of the industry regarding such initiatives was that they are seldom consulted regarding the model of these initiatives. “In most occasions the business chambers hold meetings subsequent to the event, where we simply listen” said a respondent. In addition the government representatives speak different things at different fora. Nearly half the number of companies interviewed thought that these initiatives were generally more political and had very little of trade component.

The main interest of companies in the IBSA initiative was quite obvious, promotion of trade. The argument that businesses gave is that any kind of linkage between countries is based on very strong economic links. Without strong economic links, cultural ties cannot be formed. This is probably what is happening to India-Russia relationship, which without the backing of defence contracts, would be relegated to be a baggage of the cold war days.

A leading automobile company<sup>13</sup> said that freight and logistics should be the primary focus of the IBSA Initiative, since transport costs are very high.

We asked respondents what threat they perceived on furthering the IBSA Initiative. Most were unable to provide any answer. However three companies mentioned China as a big threat to developing countries since China was capturing huge markets within these countries

Subsequent to the general issues above, we delved deeper into the problems faced by Indian businesses while conducting business with Brazil and South Africa.

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13 Mr. Sandeep Gulati, CEAT Ltd, Mumbai (Respondent)

### *3.3 Non-tariff Barriers and Key Concerns*

Developing countries have realised that regional agreements alone may not increase trade and there is need to address the nitty-gritty of trade practises to expand South-South trade. In addition there is increasing evidence showing that Southern countries face greater barriers in other Southern countries than in Northern countries.

This study reveals that there are significant barriers that hinder trade within IBSA countries.

In this section we focussed on the following questions

- What are the trade and investment barriers that Indian businesses face in South Africa and Brazil?
- What perceptions do businesses carry, that hinder trade and investment prospects.

Thus it incorporates an element of real issues and also perceptions that may be non-factual.

The crosscutting issues pertain to concerns that are not sector specific but impact all trade engagements. On the other hand sectoral issues pertain to issues that are sector specific. In this study we shall concentrate on crosscutting issues and simply narrate a few sectoral concerns.

#### *3.3.1 Crosscutting Barriers*

In this section we asked the respondents regarding their biggest concerns while exporting/investing in Brazil and South Africa that impact all sectors alike.

#### ***Freight Costs and Logistics***

Transport costs were narrated as the single largest factor impeding India's exports to Brazil. There is no devoted cargo vessel that caters to business on this route. Cargo is sent via Europe and involves more than one operator. In addition valuable days are lost in loading and unloading at transshipment ports. In addition freight costs were also expressed as a hindrance for exporting to South Africa.

Exporters gave diverse information on freight rates. A paper exporting company<sup>14</sup> said that freight rates made it prohibitive to export to South Africa and Brazil. Similarly a minerals exporter<sup>15</sup> said that it is twice as expensive to export a container to South Africa or Brazil as compared to the Gulf. Freight rates account for 25 percent of the costs for exporting to US and Europe, and the same will account for atleast 40 percent if they export to South Africa and Brazil, he added. An electronics exporter said that it costs 20 percent more to export goods to South Africa and freight comprises of ten percent of their total cost.<sup>16</sup> When prompted, 12 companies said that transport cost were a major deterrent.

However, prompted responses lead us to think whether exporters have even tried to explore these markets. The higher freight and higher costs may be a perception, and not realistic. We delved deeper and enquired with leading freight and logistics companies. The following were few of the findings.

Figure 4. Freight Rates between IBSA Countries (in US\$ in 2005 for a 20 ft container)

India - Brazil		India - South Africa		India - U.S.	
Lowest	Highest	Lowest	Highest	Lowest	Highest
1600	2000	1200	1400	1000	3600

Source: Various freight agents

Figure 5. Time Required for Delivery of Goods within IBSA Countries

	Number of days required for delivery by shortest route	Waiting time at transhipment port	Possibility of direct delivery from India
India - Brazil	28 days	6 days (Oman)	No
India - South Africa	14 days	4 days (Spain)	No (Not with leading providers)
India - U.S.	22 days	0 (no stopover)	Yes

Source: Various freight agents

14 Mr. V Vijararaghavan, Chennai Micro Print Pvt Ltd, Chennai (Respondent)

15 Mr. Veera R K Arunachalam, Beach Minerals Company India Ltd, Chennai (Respondent)

16 Mr. R.K Chhajjer, Elin Electronics Ltd, New Delhi

The freight providers were asked the reason for such a high degree of divergence in freight rates across different industries.

Broadly there are several factors responsible for determining freight rates. Some of them are

- distance, where shorter distances in general are cheaper than longer distances
- volume of goods, where higher volumes will result in lower costs/unit
- long term arrangements/annual contracts, which, according to freight providers, is the most influencing factor in freight rates
- other surcharges as peak season surcharges (PSS), bunker adjustment factor (BAF) and destination charges of the port authorities.

A representative from a leading container service provider explained that service contracts influence freight rates substantially. In their direct shipping services to the U.S., they ship products from Wal-Mart suppliers at US\$ 1000 per container, while they charge US\$ 3600 to a single order client. High volume and regularity of shipment can help companies to easily reduce their shipment costs by sixty percent. However this view appears lopsided. If all companies end up sending higher volumes, freight rates are bound to rise on account of higher demand. Freight rates from India to US went up from US\$ 1600 in April 2004 to US\$ 2300 in April 2005, primarily on account of a 20 percent rise in shipments.<sup>17</sup>

In May 2005, CII listed average freight rates from South Indian ports to the U.S. at US\$ 2500 for a 20 feet container, half of US\$ 1200 for European ports. Above we also identify that freight rates to South Africa are also nearly half of U.S. freight rates and nearly equal to that of Europe. Average freight rates to Brazil are US\$ 400 more than Europe and nearly US\$ 700 less than U.S.<sup>18</sup> This makes it difficult to conclude that freight rates are responsible for the low trade relations between India and Brazil.

A logical deduction then could link irregular shipments and low volumes as reasons for higher freight costs to Brazil, while freight costs to South Africa may do not appear to be highly instrumental in hindering trade.

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17 Confederation of Indian Industry, CII Logistics and Freight News, June 2005

18 [www.ciilogistics.com](http://www.ciilogistics.com) (Visited on 12 August 2005)

In addition, freight costs are also based on the number of transshipment points and speed of delivery. Premium services, which run vessels directly from port of loading to the destination port, often charge higher compared to vessels that travel from multiple transshipment points.

Thirdly, competition on sea routes is also an important factor. Routes, which are less dense, and volume of shipment is inadequate, end up being more expensive, since bigger vessels cannot be filled to capacity.

As trade increases and Indian, Brazilian and South African companies forge long-term contracts freight costs per unit are likely to reduce. In addition a logistics route that links India, Brazil and South Africa will surely halve the time required for shipment.

### ***Costs of Business Facilitation***

In this section we compare the various costs of conducting business, amongst the three countries. These include courier charges, travel costs, telephone costs, all of which provide a certain direction, when compared with the costs of doing business with India's leading trading partners. Day-to day cost of doing business are clearly higher.

#### *Courier and Extemporised (Unplanned) Freight*

The following were the freight rates charged by a leading logistics company in India.

*Figure 6. FedEx Rates for Goods from India to Select Destination Markets in Rupees*

	U.S.A	Brazil	South Africa
0.5 kg Envelope	1330	1757	1757
50 kgs Air Box	23083	31640	31650
1000 kgs Sea Shipment (per kg)	402	515	515

Source: [www.fedex.com](http://www.fedex.com) (Visited on 12 August 2005)

#### *Telephone Charges*

The following are rates of India's cheapest international calling system (MPLS Technology using an Internet Service Provider (Voice Over Internet Protocol: VOIP).

*Figure 7. Internet Telephony Charges from India to IBSA and Other Countries*

Country	Rate as Rs./minute	
	Landline Charge	Cell Phone Charge
U.S.A	1.99	1.99
U.K.	1.99	8.99
Singapore	2.99	2.99
Brazil	9.99	11.99
South Africa	9.99	11.99

Source: [www.way2talk.sify.com](http://www.way2talk.sify.com) (Visited on 18 August 2005)

#### *Landline Charges applicable from May 2005*

The following are rates charged by India's leading telecom service provider.

Figure 8. Landline Telephone Charges from India to Other Countries

Country	Per minute call rates in rupees
U.S., Canada and UK	7.2
Europe (other than UK)	9.6
South-east Asia	9.6
Brazil, South Africa and rest of the world	12

Source: [www.bsnl.in](http://www.bsnl.in) (Visited on 22 July 2005)

#### *Travel Costs (Information from travel agents)*

The following are the freight rates charged by different airlines within IBSA countries.

Figure 9. Airfare Within IBSA Countries (in rupees)

Route	Maximum Ticket fare	Minimum ticket fare	Direct flight
India-South Africa	50000	45000	Yes
India- Brazil	95000	85000	No
India-US	60000	50000	Yes

Source: Various travel agents

### *Additional Costs*

According to some respondents, customs in Brazil was less transparent and resulted in higher costs. Importers were charged the following additional taxes during clearance. This increased the cost of exporting to Brazil. On the other hand, South Africa charged a uniform rate of tax.

Figure 10. Additional Charges at Brazilian Customs

IPI (Industrialization Tax)	from 0 to 20% on CIF + import duty
ICMS (State Sales Tax)	generally 18% on CIF price + import duty +IPI could be lower in some States.
Foreign Exchange Tax	1.2% of FOB
Freight Tax	25% of the cost of freight
Port charges, handling and clearance	20 % of total taxable amount

Source: Ministry of External Affairs, India

### *Access to Information*

Access to reliable information is a pre-requisite to engaging in business activities. We asked respondents whether access to information was a concern in Brazil and South Africa. Nearly 70 percent of the respondents said that the current level of reliable sectoral information available was very poor in both Brazil and South Africa. In general it was very difficult for them to procure information regarding the markets in Africa and South America compared to EU and US.

A leading exporter of consumer goods said that the Indian missions in these countries have not assisted them in their trade promotion engagements. In addition business chambers also have not been useful. This problem, however, was more pronounced in Brazil than in South Africa.

The survey surely raised an alarm. What is the role of Indian missions in their respective countries? Has the Indian Ministry promoted a trade desk in their embassies or are they meant for protocol? Should Indian representations abroad be made more accountable? One suggestion could be to measure their performance on the basis of business they have facilitated in the region. In addition they should be expected to address the queries of Indian businesses that are trying to make inroads into the respective market.

One leading pharmaceutical company mentioned, “There is a crisis of data on Brazilian and South African markets. We want the respective governments to publish market data on their websites and magazines. In select European countries, for instance Germany, the Indian embassies have published list of companies that are dealing with India. However this has not been replicated.

Approximately 60 percent respondents agreed that fairs, meetings and exhibitions, organised by business chambers are useful in networking. They added that a sustained effort to ensure business facilitation in respective countries was needed.

Most companies sent representatives to conduct market surveys or appointed domestic representatives to conduct sectoral surveys. Both these methods are expensive and time-consuming. In addition work is replicated since most companies do not have access to the reports prepared by other companies.

A leading exporter of industrial equipment said that they gather information by participating exhibitions and through personal contacts. “If the embassy assists this process, it will surely increase legitimacy, though the embassy may not be responsible for any breaches”.<sup>19</sup>

Bigger companies, namely those exporting over Rs.1 billion have said that they do not face any information related problems and they are able to access information adequately. A leading tyre exporting company said that it is necessary to know the right means of gathering information and exporters should be willing to invest time and money in the process. This may lead us to argue that smaller exporters are usually strung on time and money, and attempt to adopt shorter and cheaper techniques to gather information. This results in inadequacy of information. Thus SMEs appear to be at a disadvantaged position and need additional assistance.

### *Language*

Language was clearly the biggest problem faced by Indian business aiming to increase exports to Brazil. Respondents expressed that it is simpler for doing business with other South American countries since it was easier to interact in Spanish, particularly as Spanish language expertise was

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<sup>19</sup> Export Manager of a leading company in Mumbai

easily available. Interpreters in Brazil charge approximately US\$ 50 per day. Also, it was more expensive to translate documents in Portuguese vis-à-vis Spanish.

### ***Risk Perceptions***

#### *Crime and Safety*

Businesses perceive risks while dealing with countries. Perceptions are built on random interactions. Often random events that have occurred with other companies in the industry give rise to business perceptions. These range from the risk of being mugged in South Africa to a macroeconomic risk of depression in Brazil.

Perceptions are also generated by negative publicity from the media and the domestic government. The first entry point to conducting business in another country, is to visit the website of your country’s mission in that country. Several consulates provide an unbiased and often a cautious view of the safety concerns in the country. This is to ensure that their citizens are careful and do not venture in risky behaviour. This also results in elevated risk perceptions. For example several country missions have cautioned their citizens on safety concerns in South Africa and Brazil. This is particularly common on websites of developed countries, which are then replicated by developing countries. Such warnings include those regarding crime, mugging, residential and commercial break-ins, hostages and financial scams.

The UNDP Human Development Report 2004, reports on prevalence of crime based on field surveys, as below.

Figure 11. Crime Rates Within IBSA Countries

City, Country	Percent of Population victimised by crime
New Delhi, India	30.5
Rio de Janeiro, Brazil	44
Johannesburg, South Africa	38
Different cities, US	21

Source: UNDP Human Development Report 2004

One respondent said that South Africa is a riskier destination for investment, since HIV is widespread and companies need to cover medical expenses of its employees. An electronic components exporter said that the South African partner discouraged single long visits of people from India, since security is a big concern in Johannesburg. An employee working in an exporting house mentioned that during his one year stay in Johannesburg he was mugged thrice. The employer had made it mandatory particularly for expatriates to keep US\$ 100 in the pocket for such incidents. In addition social life was disturbed since expatriates were in constant fear of being assaulted. Another respondent humorously exclaimed “Even if one wears a simple bracelet on the beaches of Rio, you could be rest assured that you will return without it”.

### *Corruption*

Three exporters mentioned that corruption levels in South Africa were high. They added that custom officials asked money to clear goods. For example in South Africa, custom officials use the term “Coca Cola” for asking small bribes and gifts for clearing products. The following table represents country rankings in the Transparency International Corruption Index in 2004.

Figure 12. Ranking of IBSA Countries in Corruption Index

Country	Rank	Score
India	90	2.8
Brazil	59	3.9
South Africa	44	4.6
US	17	7.5
Finland	1	9.7

Source: Transparency International, 2004

### *Payments and financial transactions*

Amongst the 30 interviewed, six companies were of the opinion that it was difficult to find trustworthy partners in both the countries. All these six companies were small companies with exports amounting to less than Rs. 500 million. Three additional exporters said that South Africa posed a high risk regarding payments and sellers needed to be cautious.

When asked to comment on risk perceptions, an industrial good exporter said that it is difficult to find trustworthy people in South Africa. He narrated an incident wherein subsequent to a purchase order, the company asked the importer to send an advance. When the demand draft was submitted in the bank, it turned out to be false. In South Africa, payment procedures are slightly complicated.

An inverter exporting company found it difficult to recover money from a South African importer, and had to appoint a local collection agent, an expensive proposition.

An exporter suggested that the Indian consulate should be active in legitimising business dealings and conducting verifications if requested.

### *Professionalism*

A chemical exporting company said that Brazilian businesses in general were not time bound and had a habit of procrastinating work. In addition time delays were common and businesses were laid back. On the other hand six exporters commented that South Africans were professional in their conduct, particularly when a meaningful relationship was established.

### *Visa and administrative hurdles*

Visa restrictions were enumerated as a hurdle in Brazil. Grant of work and residence permits are particularly strict, said a leading export promotion body. All importers are required to register with the Secretariat of Foreign Trade (SECEX). Registration requirements are tedious and include a minimum capital requirement.

### *3.3.2 Sectoral barriers*

Within the manufactured goods spectrum, pharmaceuticals and auto-components and ancillaries occupy a very special position in India's export basket to Brazil and South Africa. The Indian embassies in both these countries emphasise on these two sectors, apart from others. Export Import Bank of India has also done a study on these sectors and its publications have emphasised on these two sectors.

### *Pharmaceuticals*

According to a leading pharmaceutical company, with a presence in Brazil and South Africa, registration procedure was very cumbersome in Brazil. It took a long time to complete registration formalities, which made entry into the Brazilian market very difficult. The correspondence with the ANVISA, Brazil, was very slow and delayed entry. In addition registration fees for pharmaceutical products have risen significantly. According to the International Trade Administration, US Department of Commerce, prior to 2002, the price of registering one drug was US\$ 1000 per year. Since 2002, the price has increased to US\$ 47058 per drug. The operating charges have risen from US\$ 138 per year, to US\$ 11765 per year with compulsory annual renewal.

A leading drug exporter to South Africa said that inspection processes were very time consuming. Unless the Inspection Board does not clear the drug, imports are not permitted. The Inspection Board personally visits the facility to certify the same. Unfortunately the visits are scheduled every three years and after the visit in 2003, in which recommendations were made, a company had to wait until 2006 for the next inspection. The same inspection process applies for Brazil. After the visit of the ANVISA representative, it takes less than four months for a company to comply with the additional requirements. However the representatives returned after two years, making the process very cumbersome.

### *Auto and Auto Ancillaries*

In the auto and auto-ancillaries sector, tyre companies were particularly concerned about non-tariff barriers in both South Africa and Brazil. The homologation test of the South African Bureau of Standards (SABS) and the Brazilian National Institute of Metrology, Standardisation and Industrial Quality (INMETRO) test, subsequent to receiving the world's leading certification Conformité Européene (CE Marking) were time consuming and merely cost escalating.

In the interest of road safety, the Minister of Trade and Industry, South Africa introduced compulsory specifications for tyres. The homologation of tyres, introduced on 1 January 1996 is a time consuming process. "We follow international best practises and have a DOT Certification (Department of Transport, US) and E-Mark Certification for Europe. The INMETRO Certification in Brazil and SABS Certification in South Africa do not differ in substance from

DOT and E-Mark however they are not willing to accept these certifications for imports. These require an extensive procedure which is merely cost increasing and time consuming.”<sup>20</sup>

According to a leading tyre company,<sup>21</sup> the annual certification cost of INMETRO is very high. “INMETRO consultants have to be called and five-star lodging has to be provided. They simply stamp the product since all documentation is completed already. Self-certification is a suitable idea, particularly for companies with a good track record. This annual certification, he said, costs us over US\$ 10,000. The Brazilian counterpart is unwilling to accept the Indian test results, though we use the best testing equipment in the world.”<sup>22</sup>

### *Others*

In South Africa all electronic products require a new certification namely an Electromagnetic Compatibility (EMC) and Electromagnetic Interference (EMI). In the first year of certification this takes six months and is very expensive, since international certification agencies like TÜV Rheinland Group (TUV) and Société Générale de Surveillance (SGS) have to be used. “We have approximately 40 products and the expenditure is approximately Rs 50,000 per product,” said an electronics exporter.<sup>23</sup>

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20 Mr. Sandeep Gulati, CEAT Ltd, Mumbai (Respondent)

21 Mr. P.S.S Prasad, Apollo International Ltd, Gurgaon (Respondent)

22 *ibid*

23 Mr. Dhananjay Sharma, Sukam Communication Systems Ltd, New Delhi (Respondent)

#### ***4. Recommendations and Conclusions***

In this study, we started with a brief understanding of South-South cooperation and IBSA cooperation. The next section explained the contours of the field survey; objectives, sample size and the questionnaire, followed by a discussion on the findings of the field survey. This section covered current patterns of trade and investment, plans, awareness amongst businesses, non-tariff barriers, and key concerns. Several recommendations and suggestions were built into the survey report. Some important recommendations are distilled below.

##### **Tackling standards: Equivalence agreements/harmonisation**

An equivalence agreement can pave way for reducing transaction costs of exporters within IBSA countries. This is particularly useful for non-agricultural products such as tyres and pharmaceuticals.

##### **Reducing air travel costs**

Air travel costs are low between India and South Africa. However, the same does not apply for Brazil. The air distance between India and Brazil is shorter than that between India and U.S. while ticket costs to Brazil are twice as high. Increasing flow of persons will reduce travel costs, but this appears to be a chicken and egg situation.

##### **Enhanced role for embassies and business chambers**

Availability of information and ensuring reliability of businesses is a formidable task, particularly for smaller businesses. Indian representations and business chambers can add value by providing information as requested. A small fee can be charged to cover expenses. This will also ensure that missions are able to operate as independent sustainable centres.

##### **Incentives for IBSA logistics route**

Ocean liners operate on routes where clear economies of scale are evident. The standard route taken by an Indian consignment to South Africa, involves travelling to Europe, and being re-exported to South Africa. This requires twice the amount of travel time and more than 4-5 days of waiting time. For a consignment to Brazil, the waiting time is much longer. Geographically the sea route “India - South Africa – Brazil” is direct and would save a substantial amount of time. A representative of a leading freight and logistics company explains, “If this route was

economically feasible, we would have adopted it a long time ago. The IBSA route does not provide the kind of regularity and volume required for blocking a 50000 ton cargo vessel”

A possible approach could be to study the prospect of investing in a South-South trade route that connects China, India, South Africa and Brazil. According to the Indian government, the India-Sri Lanka Sea Canal Project, (Sethusamudram Ship Canal Project) which connects the Gulf of Mannar and the Palk Bay, will save about 400 nautical miles and up to 36 hours of sailing time for ships between the East and West coasts. This Canal along with the Cape of Good Hope could emerge as the Suez Canal of the South, and lay an effective foundation stone for a South-South logistics route.

#### Image building

This survey revealed that some Indian businesses have developed certain perceptions regarding South Africa and Brazil. Some of these perceptions deter economic relationship. For instance, most educated Indians consider Brazil to be a land of the Amazon forests and Samba. There is less awareness of the economy of the country. Recently the Indian government purchased Embraer airplanes from Brazil, a news that occupied headlines. On the other hand, South Africa and India share a close history, and hence Indians are more aware of South Africa. Nevertheless, international media publicity has results in Johannesburg being projected as a city of hoodlums and gangsters, where all youths carry weapons. Television programs and documentaries show more of Hilbrow, a crime-ridden part of Johannesburg than Rosebank, a leading business district.

In conclusion, deeper political cohesion is a necessary but not a sufficient condition for greater economic relationship. IBSA countries have displayed high political proximity. However, economic proximity requires tackling practical concerns. This paper grapples with practical issues. Ground level implementation can pave way for the IBSA relationship to be based on sound economic rationale.