

**Report on the Field Survey for the South-South Trade and
Investment Cooperation Project: Exploring the IBSA
Initiative**

South Africa Chapter

Dr Mills Soko*

* Dr Soko is the founding director of Hluma Research and Business Services, and a research associate of the South African Institute of International Affairs. I am grateful to Peter Draper, Parashar Kulkarni, Alex Magaisa and Envoy Makam for useful comments on an earlier draft.

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1. Structure of the Report

This report consists of six sections. The first sets the tone for discussion by briefly highlighting the importance of expanding South-South trade in the global economy. The second part contextualises trade and investment relations among India, Brazil and South Africa. The third segment outlines the purpose of the collaborative research project – “South-South Trade and Investment Cooperation: Exploring the IBSA Initiative” – undertaken by the South African Institute of International Affairs (SAIIA) in conjunction with the Centre for International Trade, Economics and Environment (CUTS-CITEE) as well as the Brazilian Institute of International Trade Negotiations (ICONE).

Fourth, the methodology used to gather research data is explained. The fifth section details the central findings of a questionnaire (see Appendix E) survey conducted among South African companies and policymakers. Finally, the report sums up the key proposed recommendations to tackle impediments to trade and investment among the IBSA countries. The recommendations are directed at governments and the business sector respectively.

2. South-South Trade

The past few years have seen a steady growth in South-South trade. According to the United Nations Conference on Trade and Development, developing countries now account for 32% of total global trade, and 41% of developing countries’ total exports go to other developing countries.¹

The expansion of trade among developing countries can be attributed mainly to the growth of multinational corporation (MNC) commercial networks, especially in East Asia, associated with intra-regional preferential trade. In contrast to inter-regional trade – which has grown moderately through most-favoured-nation arrangements and the international regime of trade preferences – intra-regional liberalisation has been a key facilitator of deeper integration among developing countries.²

The operations of MNCs have been a vital feature of economic globalisation: they make up two-thirds of world trade, with a third of global trade taking place between subsidiaries of the same company (intra-firm). MNCs have played an important role in the globalisation of trade and finance, and in the international diffusion of technology – they account for 80% of world trade in technology.³

¹ UNCTAD, ‘Forum on regionalism and South-South cooperation: The case of India and Mercosur,’ 9th June 2004, Rio de Janeiro, p.1.

² Ibid.

³ Held D, McGrew A, Goldblatt D & Perraton J, *Global Transformations*. Cambridge: Polity Press, 1999, p236.

In particular, the emerging new geography of international investment flows in which developing countries – such as Brazil, Chile, Mexico, South Africa and China – have become key sources of investment outflows has brought into sharp focus the increasing role played by MNCs in powering trade between the developing countries.⁴

It is estimated that two-thirds of South-South trade takes place in Asia. Significant intra-Latin American trade has also been recorded in recent years, with intra-regional trade expanding faster than trade with countries outside the region in the 1990s. However, for several reasons Africa remains the only region that has not benefited meaningfully from the growth of trade among developing countries, with intra-African trade constituting less than 15% of the region's exports.⁵

Notwithstanding its gradual rise in recent decades South-South trade remains hampered by the dominance of North/South trade patterns: the dependence of most developing countries' trade on the industrialised countries. It is also impeded by the lack of or limited complementarities in the production structures of developing countries; many developing nations produce similar products and this results in them competing for access to developed country markets.

Enhanced trade and investment between developing countries – through a reduction of trade barriers – has a potential not only to generate employment and incomes gains, but also to reinforce political relationships between countries. It can also enable developing countries to decrease their dependence on industrialised countries, while also advancing their industrialisation policies.

3. Trade among IBSA countries

3.1. South Africa and India

Although trade between South Africa and India has grown by 1,334% in the last decade (it amounted to US\$700 million in 2002),⁶ it remains very low on both sides – just more than 1% of total trade. India's main exports to South Africa include cotton products, pharmaceuticals, rice, vegetable products, finished leather and spices. South African exports to India, on the other hand, encompass raw materials such as gold and silver, coal, iron, steel and non-ferrous metals, textiles, sugar, and mineral fuels and lubricants. Enhanced economic relations with India could benefit South Africa by providing access to affordable medicines, competitive prices for motor

⁴ UNCTAD, *World Investment Report 2004 – The Shift Towards Services*. Geneva: UNCTAD, 2004.

⁵ Bailey M, 'Oxfam background briefing on South-South trade and GSTP,'

⁶ Draper P, Mills G and White L, 'Much ado about nothing – Assessing the potential of the India-Brazil-South Africa forum,' *SAIIA Report No. 46*, 2004, p.6.

vehicles, and equipment for heavy industry. And they could also open new export markets for iron and steel, chemicals, aluminium and furniture.⁷

South Africa and India have been engaged in exploratory discussions that will culminate in the conclusion of a bilateral preferential trade agreement (PTA). The negotiations are geared towards achieving the goal of implementing tariff reductions on 2000 products, with products regarded as sensitive being excluded. It is hoped that the proposed PTA will expand trade between the two countries, widen the variety of goods and services being traded, promote investment, and encourage the formation of joint ventures and strategic partnerships.

3.2. South Africa and Brazil

South Africa and its Southern African Customs Union partners (Botswana, Lesotho, Namibia and Swaziland) signed a PTA agreement with Mercosur in December 2004. Described as a Fixed Tariff Preference (FTP) agreement, the trade deal provides for a sector-by-sector liberalisation approach: it includes carefully identified sectors, while excluding sensitive products and industries on the understanding that they may be included in future negotiations. Like the India-Mercosur agreement, the FTP has designated 2000 products for tariff liberalisation.

The FTP could catalyse a further growth of trade between South Africa and Brazil, which increased by 268% over the past decade and was valued at US\$660 million in 2002.⁸ Currently, three quarters of South African exports to Brazil consist of mineral products, chemicals and base metals. Major mining groups such as Anglo-American and BHP-Billiton have pioneered the investment drive in Latin America, investing heavily in a diverse portfolio of mining operations including copper, gold, nickel, industrial minerals, niobium and coal. In turn, South Africa largely imports from Brazil machinery, vehicles, vehicle components and chemicals.

4. Purpose of the Project

As part of efforts to enhance South-South trade and investment cooperation, SAIIA has embarked on a collaborative research project with CUTS-CITEE and (ICONE). The purpose of the research project is three-fold. First, it contextualises present economic relationships among the three IBSA countries. Second, it seeks to identify barriers that impede trade and investment flows between the IBSA countries, and to recommend practical ways in which these can be reduced or eliminated. The third aim is to encourage policymakers and the business sector to work together to translate the IBSA action plan into tangible results.

⁷ Sing S, 'SA looks to east in bid to reduce dependence on West,' *Financial Mail*, 25 March 2005.

⁸ Draper, Mills and White, *op. cit.*, p.6.

5. Methodology

The development of this report was shaped by information gleaned from in-depth perception mapping interviews conducted with representatives of 30 South African companies (see Appendix A) during the period March – June 2005 in the South African cities of Johannesburg, Pretoria, Cape Town, Durban and Witbank. The participating companies were made up of multinational firms and small and medium-sized export-orientated industries.

The company sample was configured to reflect the 10 diverse sectors identified for this study and in which the IBSA countries have a strong export interest. These are:

- Chemicals;
- Metals;
- Agro-based industries;
- Automobiles;
- Leather and leather products;
- Wood, pulp of wood and paper;
- Minerals;
- Capital goods and electronics;
- Food stuffs;
- Textiles.

The exclusion of financial and insurance services from the sector list was questioned by the business sector in South Africa. Regarded as the most advanced financial system in sub-Saharan Africa, and comparing favourably with the banking systems of the industrialised countries, South Africa's financial services sector plays an indispensable role in the South African economy and is arguably the country's most competitive sector.

The financial sector is well-capitalised and has grown exponentially over the past years, encompassing such services as commercial, retail and merchant banking, mortgage lending, insurance and investment. Indeed, as this report shows later, financial and insurance industries have been among the pioneering South African investments in India and Brazil – especially in India.

And there is considerable potential for further investment collaboration. According to the representative of Sanlam, one of South Africa's insurance

giants, insurance penetration in India, for example, is very low compared with other emerging country markets, with '80% of the insurable population not covered.' South Africa has, therefore, a strong interest in the inclusion of financial services.⁹

For these reasons the financial sector was added to the list of sectors surveyed, raising the number of sectors to 11. Including the financial services sector is crucial, not least because when firms expand abroad they invariably prefer that their financial services providers are directly represented in the markets into which they are spreading their wings. This is also important from a risk reduction perspective, given the (still) prevalent negative perceptions in South Africa about the risks of doing business in Brazil and India.

Based on a semi-structured, open-ended format, the interviews were intended to give expression to the perceptions of industry players regarding hurdles that hamper trade and investment cooperation among the IBSA countries, and to solicit their views about how these obstacles could be mitigated or removed.

In addition to industry representatives, interviews were held with relevant government officials in the Department of Trade and Industry and the Department of Foreign Affairs (Appendix B). These officials are concerned with matters relating to the IBSA Initiative as well as with South Africa's trade relations with Brazil and India respectively. The aim of these interviews was to clarify with policymakers concerns raised by the business sector in respect of the difficulties they had experienced while trading with Brazil and India, and to establish the role that government had played in helping South African commercial enterprises overcome these problems.

Furthermore, general discussions were held with one randomly selected port authority and four shipping companies operating routes from South Africa to Brazil and India and vice versa (Appendix C). The objective of the exchanges was to find out from these companies how they were dealing with logistical challenges posed by growing trade among the IBSA countries and to make comparisons between the sea freight charges levied by the respective shipping companies.

Once the interviews had been analysed and, in cases where additional clarity or information was required, subsequent communication with respondents was done telephonically or by electronic mail. Not only did these interviews inject a qualitative depth to the information gathered during the course of fieldwork, they also helped to shed a clearer understanding of the challenges faced by the respondents (South African businesses) in their quest to maximise trade and investment within the IBSA countries.

⁹ Interview with Mr Philip Rademeyer, Financial Director - Sanlam.

6. Field Survey Feedback

This section outlines the key findings of the research based on an analysis of the inputs provided by respondents.¹⁰

6.1. Section A - General Issues

6.1.1. Reasons for exporting/importing

South African investors and exporters have been attracted to Brazil by its huge, dynamic and diversified market. With a relatively liberal trade and investment regime, Brazil is seen as a promising market for South African exports and a growing source of imports. As Latin America's largest regional market, Brazil is also viewed as a springboard into neighbouring markets, such as Argentina, Paraguay, Uruguay, Chile and Colombia.

South African firms have been enticed to India by its immense domestic market, huge economies of scale in several sectors, prices, the quality of management and labour, low-cost manufacturing capacity, and a large and rapidly growing middle class. Though most of these companies want to do business in India, they also see the country as a gateway to other Asian markets such as Bangladesh, Nepal, Sri Lanka and Maldives. Another key factor in the evolution of bilateral economic ties has been the cultural affinity between the two countries. Labour costs in India, which were described as among the lowest in the world, were also mentioned as another attraction. Moreover, besides language, there is the added advantage of India's legal system: there are similarities between South African company law and the legislation (Companies Act) that regulates foreign companies in India – both pieces of legislation are based on British law.

The respondent from SABMiller said his company saw India, together with Russia and China, as 'a bet for the future.'¹¹ On the other hand, companies such as Eskom, Intertoll and Old Mutual pointed out that their companies had partly been attracted to India by the government's decision to automatically approve 100 percent of foreign direct investment (FDI) in sectors such as electricity generation and transmission, construction and maintenance of roads, venture capital funds and business electronic commerce.

¹⁰ The words respondent(s), interviewee(s) and representative(s) are used interchangeably in the text.

¹¹ Interview with Mr Andre Parker, MD for Africa and Asia - SABMiller.

6.1.2. Nature of trade and investment¹²

6.1.2.1. *South Africa and India*

Several South African firms have set up business in India. Among these are Shoprite, Anglo American, De Beers, Ceres, Old Mutual, South African Breweries (which bought a 76% stake in India's Mysore Breweries and is now the second largest brewer in the Indian domestic beer market), Interpark, Group 5 (which has a 75% stake in Intertoll, the company that built, among other things, the Noida bridge in India), LTA Grinaker, and Eskom.

Through its joint venture with Kotak Mahindra Finance Ltd (KMFL), Old Mutual plc has joined forces with OM Kotak Mahindra Life Insurance to operate a life insurance business in India. In terms of this deal, Old Mutual owns 26% of the share capital of the company and KMFL and its affiliates 74%. The total capitalisation of the company will be R1,500 million. According to the representative of Old Mutual this venture 'brings together the complementary skills of Old Mutual in developing and introducing innovative products and the strong distribution capability of KMFL.'¹³

The past few years have also seen a significant growth in the operations of Denel, South Africa's arms manufacturer, in India. According to the respondent from Denel, the Indian government is a 'very active buyer of armaments and other technologies from Denel.'¹⁴

By the end of 2004, 35 Indian companies – attracted by South Africa's sophisticated infrastructure, financial sector and consumer markets – had established a presence in South Africa, covering as diverse a spectrum of sectors as computer software, IT, banking, automotive and pharmaceuticals. Leading the Indian investment drive has been the Tata Group, which has already invested R300 million in South Africa and plans to invest R1,5 billion on new projects in the next two years.¹⁵

Included are other prominent names such as Mahindra, Sahara Computers, Dr Reddy's Lab, the State Bank of India, Ranbaxy, Cipla and Hetro. Though most of these companies want to do business in South Africa, they also see South Africa as a gateway to other African markets. ICICI, India's largest retail bank, commenced operations in South Africa in May 2005 and will focus

¹² Attempts by the author to obtain data on FDI stocks and flows from Brazil and India into South Africa since 1994 and vice versa proved unsuccessful. According to government officials from the three countries, there is a paucity of reliable data in this regard primarily because governments 'no longer monitor these flows consistently.' The central banks do collect information but this is not disaggregated and can mislead. Mr Suresh Goel, an official at the Indian High Commission in Johannesburg, suggested that the best way to procure such information was to approach the multinational firms (and their subsidiaries) undertaking the investments directly.

¹³ Interview with Mr Hasan Askari, Director Developing Markets - Old Mutual plc.

¹⁴ Interview with Mr Butcher Matutle, Head of Government-Industry Relations, Denel.

¹⁵ Merchant K, 'Tata takes to SA,' *Financial Mail*, 25 March 2005.

on trade finance for corporates and private banking as well as wealth management for Indian expatriates.¹⁶

SA Exports (Rand '000)

Country	Mar- 2005	2005	2004	2003	2002
India (SAARC)	420, 244	1, 694, 770	3, 713, 043	3, 350, 322	4, 037, 280

Source: Department of Trade and Industry

SA Imports (Rand '000)

Country	Mar-2005	2005	2004	2003	2002
India (SAARC)	445, 176	1, 347, 529	4, 547, 261	3, 126, 148	2, 943, 267

Source: Department of Trade and Industry

6.1.2.2. South Africa and Brazil

MNC licensing regimes have been an integral part of trade and investment cooperation between South Africa and Brazil, particularly in the automotive, IT and chemicals sectors. Such arrangements involve MNCs selling or licensing their technological or marketing advantages to foreign companies, thereby profiting indirectly from their advantages.

South African companies operating in Brazil include Sappi Trading do Brasil, Banco Standard de Investimentos SA, AngloGold, Safmarine Anglo American Brasil, Alexander Forbes Financial Services, Dex Brasil, Datacraft do Brasil, Barham Financial Services, Macsteel International, NOSA, Banco Standard de Investimentos SA, and Volcano Agrosience. There are export opportunities for South Africa to exploit in product areas such as aluminium, synthetic fibres and assorted chemical products, iron and steel, furniture, and fruit and vegetables.

Crucial gains could be derived from the SACU-Mercosur trade relationship¹⁷ by exploiting niches in which South Africa has an advantage, from integrating South African manufacturers into strong Mercosur sectors such as aircraft production, as well as from intra-industry specialisation in sectors such as automobile production. Possible benefits could also be derived from cooperation between SACU and Mercosur on the development of better technological capabilities in machinery and equipment, and in the area of aircraft and components.¹⁸

¹⁶ Bridge-David S, 'Indian bank gets going,' *Business Report*, 19 May 2005.

¹⁷ The two regions concluded a Preferential Trade Agreement in December 2004 providing for the liberalisation of 2000 products on a sector-by-sector basis.

¹⁸ Roberts S, 'Reflections on approaching an FTA negotiation with Mercosur: A review of key issues,' *SAIIA Trade Policy Report No.6*, November 2004/Post-Script 2005, p.10

SA Exports (Rand '000)

Country	Mar-2005	2005	2004	2003	2002
Brazil-Mercosur	168, 506	432, 857	1, 562, 499	1, 338, 188	1, 841, 146

Source: Department of Trade and Industry

SA Imports (Rand '000)

Country	Mar-2005	2005	2004	2003	2002
Brazil- Mercosur	718, 428	1, 677, 467	6, 413, 381	5, 343, 984	4, 918, 614

Source: Department of Trade and Industry

6.1.3. Future business plans

SABMiller intends to invest about \$125 million in capital projects and marketing in India over the next five years. They see the investment as part of their long-term strategy for and believe that in the next 10 years India, like China, could become a desirable market for SABMiller. There are plans to plough additional investment towards upgrading and expanding breweries as well as developing brands.

Recently Sanlam, another South African insurance giant, announced a joint venture agreement with the Shriram Group to establish a new life insurance business, the Shriram Life Insurance company in India. Sanlam will hold 26% of the stake and Shriram 74%. According to the Sanlam respondent, the company is keen to increase its stake in the business to 49% if the Indian legislation is changed to permit foreign ownership.¹⁹

Although they did not give specifics, 8% of respondents also expressed an interest in expanding their operations in India and Brazil and have been conducting market research in this regard. There is a great deal of interest in doing trade in diverse products and services including fruit juices, fruits, alcoholic beverages and wine, capital equipment such as mining machinery, coal washing technology, and economic infrastructure development.

Other areas in which South African exporters and businesses have identified potential for expanding trade and investment collaboration with Brazil and India are financial services, tourism, information and telecommunications technology, education and training, health, energy, mining, agro-processing, biotechnology, film-making and entertainment, fisheries, space satellites, infrastructure, and construction. Furthermore, there is potential for providing goods and services to newly-privatised enterprises.

In the case of India, there is also an interest in adding value to the Indian agricultural industry by way of micro-irrigation technology, and through the

¹⁹ Interview with Mr Philip Rademeyer, Financial Director - Sanlam.

provision of inputs such as fertilisers and quality seeds, to farmers at a reasonable price. A further interest is in investing in the consumer food sector in milk and milk products, deep sea fishing, and meat and poultry products.²⁰

In regard to Brazil, it is believed that benefits could accrue from integrating South African manufacturers into strong Brazilian sectors such as aircraft production, from intra-industry specialisation in sectors such as automobile production, and from greater cooperation on the development of better technological capabilities in machinery and equipment, and aircraft and components.

6.1.4. Investment decision

How quickly an investment decision is made depends on the firm concerned and the nature of the business it is involved in. But the majority of respondents stressed that the critical factors considered by a firm when choosing an investment location are: the size of the domestic market; the domestic growth rate; commercial gap; the nature of domestic competition; price/exchange rate; the independence of legal system; political/institutional stability; and economic infrastructure.

But business factors also play key role in influencing investment decisions. Investors are interested in considerations such as the requirements for starting a business, the ease or difficulties employers have in employing and dismissing workers, the ease with which businesses can secure property rights, measures governing credit information sharing, the legal rights of borrowers and lenders, the extent to which foreign governments protect investors, and the ease or difficulty of enforcing commercial contracts, and the time and cost involved in dealing with bankruptcies.

It bears mentioning that South Africa has not signed bilateral investment treaties (BITs) with Brazil and India. (The author was informed that these are currently being negotiated). BITs can contribute significantly towards reassuring foreign investors and allaying risk perceptions.

6.1.5. IBSA awareness

When asked if they knew what IBSA stood for and what the trilateral forum was all about, 20 of the 30 respondents answered in the negative. On the contrary, they stated that they were more informed and knowledgeable about other trade entities and trade arrangements such as SADC and AGOA. This underscores the need to adequately inform businesses about the vision and programmes of IBSA and to involve them in influencing IBSA processes.

²⁰ Interview with Mr Chris Nissen, Chief Executive - Umoya Fishing

6.1.6. IBSA and South-South trade

Most respondents (70%) expressed support for the IBSA objective to expand economic ties among Brazil, India and South Africa as a means to promote South-South trade and investment.

South African companies are eager to use multilateral as well as bilateral and regional preferential trade agreements to explore commercial opportunities. In the case of India and Brazil, they said they wanted to use preferential trade agreements with these countries not only to enter their markets, but also to gain access to the markets of neighbouring countries.

6.1.7. Threats to IBSA

The interviews highlighted a strong perception among certain companies (especially those familiar with the IBSA process) that the IBSA initiative is primarily a political not economic project. There is a belief that the preferential trade agreement signed by South Africa and Brazil in December 2004 – and the ongoing discussions aimed at concluding a similar deal between South Africa and India – has been driven by the imperatives of South-South political collaboration rather than clear economic gains.

A degree of suspicion and cynicism about free trade agreements permeated some interviews. This is especially so in light of the disappointment in some circles with the FTA South Africa concluded with the European Union (EU) in 2000: despite improving South Africa's access to the EU market, 38% of South Africa's agricultural exports are still denied access to the EU market in terms of this agreement.

The issue of China, and the announcement that South Africa intends to commence FTA negotiations with the country, also loomed large during the discussions. As the representative of the textile industry opined: 'China has struck real fear into the heart of South African business.'²¹ Competition from China is not the only concern: there is also fear of competition from Brazil and India in certain sectors – notably motor vehicles, textiles, steel, and agriculture and food products – in which these countries have a strong competitive advantage.

But there are also threats to South African sectors such as steel, motor vehicles, and agriculture and food products, in which Brazil has a strong competitive advantage. It is worth noting that SACU and Mercosur trade negotiators succumbed to pressure from South African and Brazilian steel producers to exclude steel products from the FTP.

A recurring question during the interviews was whether governments did have the necessary political will to translate this vision into reality. Put

²¹ Interview with Mr Peter Flowers, Operations Director - The Foschini Group.

differently, will IBSA become a successful example of economic cooperation among developing countries or is it doomed to fail like other previous South-South initiatives?

There were also doubts about the capacity of governments to implement trade agreements, given the limited resources governments have at their disposal. It was stressed that governments should not be trying to implement all the trade agreements themselves – they should try to involve the private sector.

All these concerns have fed into a rising skepticism about trade liberalisation among the South African business sector and reinforced the protectionist instincts of domestic sectors opposed to trade agreements between South Africa and India/the Mercosur bloc.

6.2. Section B- Cross-cutting Issues

6.2.1. Concerns

Although respondents recognised the substantial progress that has been made by Brazil and India in liberalising their trade and investment regimes during the past decade, frustration was vented about the array of barriers that still hamper trade with these countries.

In regard to Brazil, tariff peaks and tariff escalation on finished South African goods were identified as important constraints. Apart from imposing very high tariffs (for instance on information technology goods and motor vehicles), Brazil restricts the importation of a variety of products such as machinery and clothing.

Complaints were voiced about the negative effects of Brazil's 'non-transparent' and 'costly' customs regime, which is compounded by the levying of different charges and taxes on top of the duty paid value. The use by the Brazilian government of export subsidies – in the form of tax, tariff, and financing inducements – to promote production for export was raised as a concern.

It was noted that foreign investment was forbidden in certain key domestic industries such as public utilities and the media. There are also legal restrictions on foreign ownership of the land.

Red tape, government regulation, anti-dumping, high import costs, a lack of information about import regulations, and a complex commercial environment emerged as additional issues of concern. There was a frequent reference to the 'burdensome' import licensing system, which is used to restrict the importation of certain goods such as pharmaceuticals and textiles into the Brazilian market. Furthermore, some interviewees said they were confused

by and found it difficult to keep up with the battery of laws, provisional measures and decrees that regulate Brazilian foreign trade.

Moreover, reference was made to the communication difficulties that South African firms have had to contend with as a consequence of the language barrier and what one interviewee described as a 'completely alien and different' business culture.

20 respondents pointed out that while the opening of India's trade regime has reduced tariff levels, India's tariffs remain among the highest in the world.²² There were concerns that internal trade had not been satisfactorily liberalised. India continues to implement a wide variety of trade restrictions and there remains a pervasive use of import bans and import licencing. Additionally, complaints were aired about a 'non-transparent' tariff and import tax structure. India's customs procedures attracted criticism, with time-consuming documentation requirements and considerable and frequent delays being reported.

Respondents stated that India still has a restrictive foreign investment regime, notwithstanding the fact that that most sectors of the country's economy are now open to foreign investment.²³ A foreign firm planning to establish business operations in India has three options: it can start operations in India by incorporating a company (under the Companies Act of 1956) through joint ventures or wholly-owned subsidiaries; it can set up operations by forging strategic alliances with Indian partners; or it can set up a wholly-owned subsidiary in sectors where 100% foreign investment is permitted under the FDI policy.²⁴

Misgivings were conveyed about the transparency of regulations and procedures regulating shareholding in domestic companies. In particular, there were complaints about the continued maintenance of foreign equity ceiling in sectors such as pharmaceuticals and civil aviation. Also, inflexible foreign exchange control regulations were cited as one of the main problems for foreign investors in India. The representative of Shoprite indicated that the experience of the retail supermarket in India – Shoprite has been accused of practising 'predatory pricing' – had reinforced a perception that India 'was generally unreceptive to foreign investment.'²⁵

²² This view has been challenged by some Indian policymakers who have intimated that India has been given less credit than it deserves for implementing drastic tariff reductions – particularly applied tariffs – quicker than is generally recognised; see for example Narayan S, 'Trade policymaking in India,' a paper presented at a workshop on trade policymaking in developing countries,' London School of Economics, 25 May 2005.

²³ Interview with Dr Iqbal Surve: Chief Executive – Sekunjalo Investments.

²⁴ Interview with Mr R. Veeramani, Chairman of GEM Group of Companies and leader of a delegation of members of the Southern India Chamber of Commerce and Industry to South Africa, 4-9 July 2005.

²⁵ Interview with respondent from Shoprite, interviewed anonymously.

Red tape and disproportionate government regulation were identified as problems for foreign investors in India, with 1 respondent blaming the problem on 'the remnants of a statist mentality.' Arbitrary behaviour on the part of government institutions was rife, and South African companies felt that they had been discriminated against by India's procurement practices in the public and private sectors. Even so, some companies said they would remain in India in spite of these problems. As the SABMiller representative put it, 'we are there for the long haul.'²⁶

6.2.2. Non-tariff barriers

A third of respondents highlighted a range of non-tariff barriers (NTBs) to the Brazilian and Indian markets.

In the case of Brazil, NTBs persist in the form of a restrictive import licensing system, onerous and costly customs procedures; high transaction costs; protection of geographical indications; unusual and non-transparent standards; restrictions on import payments; imposition of minimum price; frequent port delays; corruption; insufficient protection of intellectual property rights; and language problems.²⁷ Furthermore, South African companies reported that they had found the Brazilian business environment – characterised by a complex set of interlocking relationships among the government, suppliers and competitors – very difficult to navigate.

In respect of India, exporters expressed frustration with the cumbersome and time-consuming procedures they had to meet in order to obtain a visa. There was also unhappiness about excessive use of anti-dumping measures against trade partners by India; restrictions imposed by state monopolies; arbitrary decisions on the part of government officials; corruption; non-transparent standards; misclassification and inaccurate valuation of goods for the purposes of duty assessment; non-transparent certification requirements; port delays resulting from insufficient and poorly streamlined ports and inland custom posts; inadequate protection of intellectual property rights.

Some respondents raised concerns that state-owned and private Indian companies had 'too often' been allowed to engage in anti-competitive practices, with little reproach or sanction from regulatory institutions. Moreover, there are problems associated with the inter-provincial movement of goods, especially the imposition of internal taxes across states.

6.2.3. Business costs

High import costs emerged as a key concern for South African companies operating in Brazil, including clearing and port costs, import duty, marine tax,

²⁶ Interview with Mr Andre Parker, MD for Africa and Asia - SABMiller.

²⁷ This sentiment was corroborated in a telephonic discussion with Mr Mark Rabbitts, Marketing Officer – South African Consulate, Sao Paolo.

freight and insurance costs, excise tax, VAT, commission, and PIS/PASEP. Other costs pertained to security against crime, insufficient banking and insurance facilities, as well as costs associated with complying with the complex web of laws, provisional measures, decrees, and resolutions that regulate Brazilian foreign trade.

Respondents blamed rising business costs in India on high power costs, high interest rates, deficient economic infrastructure, delays in the granting of work visas for foreigners, inadequate banking and insurance facilities, corruption, bribery of government agencies, and the 'discriminatory' awarding of government contracts.

The issue of logistical costs was raised as a matter of pressing concern. (See Appendix D for a comparison of sea freight costs from South Africa to India/Brazil). The respondent from the South African Port Operations (SAPO) said at present transport costs constitute 14.6% of gross domestic product (GDP). He believes that this figure should be reduced to between 4% and 6% in order to 'drive growth, promote trade and remove waste in the supply chain.'²⁸ SAPO has initiated a 15-25 year strategy to minimise port delays, encourage better cooperation between shipping lines, cargo owners and marine operations, and ensure that the supply chain has adequate capacity ahead of demand.

In general, respondents stressed the need to have access to adequate information about the costs of doing business in Brazil and India. In particular, they wanted enough information to be made available about the requirements for starting and closing a business, labour costs, insurance costs, market intelligence costs, business travel, rentals, transport costs, credit availability, payment facilities, productivity levels, tax regime and government tax incentives, exchange rates, transport costs, and the enforcement of commercial contracts.

6.2.4. Access to information

South African companies use diverse sources to acquire information about Brazil and India, including: chambers of commerce; relevant government departments (notably the Department of Trade and Industry, and the Department of Foreign Affairs); embassy and consular offices; and the National Economic and Labour Development Council.

The interviews underlined the need to distinguish between the experiences of South African multinational firms vis-à-vis those of medium-size companies in this regard. Gaining access to foreign market intelligence is relatively easier for most multinational companies as they have the requisite infrastructure and capabilities (finance, technology, human resources etc.) to undertake strategic and other kinds of research for the purpose of making investment or

²⁸ Interview with Mr Mervin Chetty, Executive Manager - South African Port Operations.

trade decisions. This is not the case with small and medium-size exporters: although they had no difficulties securing basic political and economic data about Brazil and India, they pointed out that the kind of strategic data required for investment or trade purposes was not always sufficiently and readily available.

6.2.5. Company perception

23 out of 30 respondents viewed Brazilian and Indian companies in a positive light – not different from European or North American companies. This assessment was based on both a direct experience of working with Brazilian and Indian firms as well as on information obtained through word of mouth. A general point was made that the character of a country's firms ought to be assessed on a case-by-case basis rather than treat them as a monolithic entity.

6.2.6. Business culture

40% of South African company representatives doing business in Brazil noted that they had been overwhelmed by the 'completely alien and different' Brazilian business culture, compounded by the wide linguistic divide.

Less daunting, but still complicated, business customs were reported in India. There was a general willingness, though, to learn and master the conventions of operating businesses in these countries. Respondents stressed that if South African investors and exporters were to succeed in Brazil they had to immerse themselves in the business cultural milieus of these countries. In order to bridge the cultural gap, some companies had sent their executives and staff on short courses covering a gamut of subjects such as: business etiquette and protocol; understanding body language; business entertainment; gift-giving; negotiating tactics; and decision-making process.

Potential investors and exporters were advised to interact with and draw on the experiences South African firms with histories of running businesses in Brazil and India. It was stated that an indispensable part of conducting business in India and Brazil was cultivating personal contacts with local partners/agents. It was also worth realising that Brazil and India were federal countries made up states and regions, each of which had its own rules and regulations.

6.2.7. Country risk

Notwithstanding the generally positive disposition towards Brazil and India, perceptions of risk about doing business in these countries abound. 3 well-informed respondents raised questions about the long-term stability of the Brazilian economy in light of the currency crisis experienced by the country in 1999. Although it was accepted that the Brazilian government had made progress in reducing its deficits, there were concerns that public debt (as a

percentage of GDP) was still too high. Given previous debt defaults, there was an interest in how the Brazilian government would finance public debt and whether this would make Brazil vulnerable to interest rate and exchange rate volatility. These interviewees alluded to high levels of crime in parts of Brazil, and the significant costs these impose on business operations.

Similarly, it was felt that the sustainability of India's economic growth was being threatened by the country's high fiscal deficits, insufficient domestic capital formation and widespread infrastructure deficiencies. Also, the issue of income inequality and poverty in India, and their ramifications for long-term social and political stability, cropped up.²⁹ Another concern related to uncertainty for investors induced by the sometimes 'unpredictable' behaviour of Indian state officials and bureaucrats.³⁰

6.2.8. Trade facilitation problems

South African exporters reported an array of trade facilitation problems while trading with Brazil and India, but the majority of complaints revolved around infrastructure bottlenecks such as congested roads, inefficient railways and delays in the ports; documentation problems; time-consuming customs procedures; and insufficient cooperation between shipping lines, cargo owners and marine operations.

7. Recommendations for IBSA countries

Several general recommendations were suggested for reducing or eliminating trade and investment barriers among the IBSA countries, including:

- Reducing customs duties and doing away with non-tariff barriers to ensure a level playing field for the importers.
- Urging governments to remove address visa problems and concerns related to the cross-border movement of businesspeople.
- Encouraging the use of public-private partnerships in dealing with infrastructure bottlenecks, including the improvement of rail and sea links as well as port capacity and operations.
- Lowering the costs of doing business to sustain competitiveness. This includes reducing telecommunication costs, insurance costs, market intelligence costs, business travel costs, rentals, and transport costs. Furthermore, provide sufficient banking and insurance facilities, economic infrastructure, credit and payment facilities, and tax incentives.

²⁹ Interview with Mr Crispin Sonn, General Manager: Financial Services - Old Mutual.

³⁰ Interview with respondent from Shoprite, interviewed anonymously.

- Ensuring adequate enforcement of intellectual property rights.
- Involving the business sector in the formulation and implementation of trade agreements.
- Fostering competition in the domestic economies in order to reduce prices.
- Facilitating trade and investment missions (aimed at exploring business opportunities) for business leaders and government officials among the IBSA countries.
- Using diplomatic missions to promote economic cooperation among the IBSA countries. This could be accomplished by, among other things, organising trade fairs in order to enable exporters to market their products and services.
- Using the IBSA Business Council to facilitate interaction among businesses, foster the creation of private-public partnerships, expand mutual knowledge, and promote a sharing of experiences.
- Providing potential investors with adequate, up-to-date market intelligence and other relevant data on which they can base investment decisions.
- Accentuating the economic value of trade agreements to the business sector.
- Harmonising standards as well as trade and investment processes among the IBSA countries.
- Facilitating interaction between potential exporters and investors with the relevant government and private sector institutions.
- Informing businesses about the vision and programmes of IBSA and involve them in shaping IBSA processes.
- Weeding out corruption in the public and private sectors.

In conclusion, a broad impression formed by the author during the course of the research was that the South African firms who participated in the field survey were by and large more positively disposed towards the Indian commercial environment than the Brazilian one. Factors such as historical

bonds, cultural affinity and, perhaps, similar legal systems seem to have a potent currency and did struck a resonance with some interviewees, especially South African company executives of Indian descent. Of course this does not imply that South African companies are not interested in Brazil. Nor does it suggest deficiencies in bilateral relations between South Africa and Brazil; on the contrary, political and economic ties have grown very strong over the past few years. What it reveals is very limited exposure of South Africans to Brazil and Brazilian political economy and culture – indeed this can be said of other Latin American countries. This underscores the urgency of the three IBSA countries working harder to deepen mutual understanding and cooperation, and to improve awareness of each country.

Appendix A: List of Participating Companies

Company	Sector
SABMiller	Beverages
Penny Howson Design	Leather & leather products
AngloGold	Minerals
Bell Equipment	Capital goods
BHP-Billiton	Minerals
Shoprite	Retail
Foschini Group	Textiles
Sappi	Wood, pulp & paper
Umoya	Seafood, fish
New Clicks Holdings	Retail
Sanlam	Financial Services
J & J Group	Pharmaceuticals
Umoya	Seafood, fish
Metair Investments	Metals
Altron	Electronics
Kairos Industrial Holdings	Capital goods
De Beers	Minerals
Anglo Platinum	Metals
Afgri Ltd	Agro-based products
Ceres	Beverages
Metair Investments	Motor vehicle components & accessories
The House of Busby	Leather & leather products
Adcock Ingram	Pharmaceuticals
Barry Cline	Textiles
Yorkcor	Wood, pulp & paper
Sekunjalo Investments	Pharmaceuticals
Kuona Industries	Motor vehicle components & accessories
Highveld Steel	Metals
Old Mutual	Financial Services
KWV Investments	Beverages

Appendix B: List of Government and Embassy Officials

Name	Designation	Department
Ms Noncedo Dyani	Director, Brazil Desk	Trade and Industry
Ms Pumla Ncaphai	Director, India	Foreign Affairs
Mr Mark Rabbitts	SA Marketing Officer	Consulate, Sao Paolo
Mr S.C. Pradhan	SA Marketing Officer	High Commission, Delhi

Appendix C: List of Port and Shipping Companies

Companies
Mediterranean Shipping Company
Mitsui OSK Lines
Green Africa
South African Port Operations
Safmarine

Appendix D: Sea Freight Charges – A Comparison

*** Safmarine: South Africa – Bombay**

Fresh foods cargo

20-foot cargo = US\$ 3400.00

40-foot cargo = US\$ 4400.00

Frozen foods cargo

20-foot cargo = US\$ 3750.00

40-foot cargo = US\$ 4700.00

Bunker adjustment costs (exchange rate, inflation, fuel etc.)

20-foot cargo = US\$ 240.00

40-foot cargo = US\$ 480.00

International port security charge

Per freight = US\$ 6.00

*** Safmarine: South Africa - Mumbai**

General sea freight charges

20-foot cargo = US\$ 1000.00

40-foot cargo = US\$ 2000.00

Bunker adjustment costs = US\$ 250.00

International port security charge = US\$ 6.00

***Mitsui OSK Lines: South Africa – Santos/Sao Francisco do Sul/Rio Grenade/Rio de Janeiro/Paranagua**

Cargo

6-metre container = US\$ 1050.00

Bunker adjustment costs = US\$ 115.00

12-metre container = US\$ 1700.00

Bunker adjustment costs = US\$ 230.00

International port security charge

Per freight = US\$ 6.00

Appendix E: IBSA Questionnaire

Basic Statistical Information

	2003-04	2004-05
Number of employees		
Sales		
Imports		
Exports		
Primary Export Destinations		
Primary Sources of Import		

Qualitative Information

1. What are the countries that you import from/export to? (Brazil/India)

2. Why are you importing/exporting from these countries? (Costs, market access, product availability, product quality)

3. If there are trade relations with Brazil/India, describe the characteristics of your trade? If no, why?

4. What are the countries that your company has invested in or received investment from? (Brazil/India)

5. If there are investment relations with Brazil/India, describe the nature of investment? If no, why? (For example similar time zones, similar business culture, compatible financial systems)

6. How important are Brazil/India in your future business plans (trade/investment plans)? Why?

7. Are you aware of investments going to or coming from Brazil and India?

8. Are you able to take independent decisions on investing/trading with countries? (Interviewer to seek information on operational independence)
 - 8.1 Are primary decisions taken from head office? Are there unwritten rules that govern your entry into countries?

 - 8.2 What are the procedures/processes that ought to be followed before an investment decision can be made? Do they first have to formulate a detailed business case for consideration by the company board? Do they make decisions on the basis of the findings of research commissioned by the company? Or are they guided by reports filed by 'scouts' who had been sent by the company to a foreign country to 'map out' the environment; political, economic, legal, business etc)

8.3 How quickly can an investment decision be made?

9. What are your biggest concerns/problems while exporting/investing in Brazil/India?

9.1 According to you, what are the major non-tariff barriers in Brazil/India?

9.2 Is it more expensive to conduct business with Brazil/India (Transaction Costs, Transport Costs, accounting costs due to differences in methods, Informal Costs)?

9.3 Do you have easy access to information about these countries (through Chambers of Commerce, Country Investment/Trade Desks etc)?

9.4 How does an Indian/Brazilian company present itself in comparison to a European, American company (trustworthy, time bound, professional)?

9.5 What is your opinion on the business culture in Brazil/India?

9.6 Are banks/financial institutions willing to fund investment/trade with Brazil/India compared to US/Europe?

9.7 What is your perception of country risk (legal, political, institutional) while conducting business with Brazil/India?

10. If you were given the responsibility of improving trade and investment within IBSA countries, what measures would you take? Please categorise as

i. Sectoral

ii. General (Macroeconomic)

11. Which do you consider best to integrate your firm/sector/activity into the world economy? By which negotiations will your sector/enterprise expect to gain most, or lose most? (market access/competition)

i. The WTO

ii. Regional Agreements (Initiatives with neighboring, regional countries)

iii. Bilateral Agreements with Europe, US

iv. IBSA

12. Are you aware of government initiatives to boost economic, political and development cooperation within IBSA countries?

13. Can the IBSA Initiative increase South-South trade? For example will it create entry points to SACU and Mercosur? Will you benefit from an FTA with SACU/Mercosur?

(Note: SACU i.e. The Southern African Customs Union is a Customs Union between South Africa, Botswana, Lesotho, Namibia and Swaziland, while MERCOSUR is Customs Union between Brazil, Argentina, Uruguay and Paraguay)

14. What are the threats to the IBSA Initiative, which may result in lack of meaningful outcomes?

15. What should be the main objective of the IBSA Initiative?