Executive Summary

Field Survey Report for the South-South Trade and Investment Cooperation Project (South Africa)

The past few years have seen a steady expansion of trade and investment cooperation among India, South Africa and Brazil. Although trade between South Africa and India has grown exponentially, it remains very low on both sides – just more than 1% of total trade. South Africa and India have been engaged in ongoing 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. The proposed PTA, it is hoped, will increase 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.

South Africa and its Southern African Customs Union partners (Botswana, Lesotho, Namibia and Swaziland) signed a PTA agreement with Mercosur in December 2004. 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 PTA has designated 2000 products for tariff liberalisation. The PTA could catalyse a further growth of trade between South Africa and Brazil, which increased by 268% over the past decade.

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. Similarly, they have been attracted to Brazil by its huge, dynamic and diversified market. As Latin America's largest regional market, Brazil is also viewed as a springboard into neighbouring markets.

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, information technology (IT), banking, automotive and pharmaceuticals. Multinational company (MNC) licensing regimes have been an integral part of trade and investment collaboration between South Africa and Brazil, particularly in the automotive, IT and chemicals sectors.

South African companies have expressed an interest in either establishing or expanding trade in Brazil and India 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 businesses have identified potential for increasing trade and investment are financial services, tourism, IT, education and training, health, energy, mining, agro-processing, biotechnology, film-making and entertainment, fisheries, space satellites, infrastructure, and construction.

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 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. 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, as well as aircraft and components.

Critical factors considered by South African firms when choosing an investment location include 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.

There is very little or no knowledge of the IBSA initiative among South African companies. This underscores the need to adequately inform businesses about the vision and programmes of IBSA and to involve them in influencing IBSA processes.

South African firms are keen to use preferential trade agreements with India and Brazil to explore commercial opportunities in these countries. Yet not only there is still a perception among some businesses that the IBSA initiative is primarily a political not economic project, there is also a degree of suspicion and cynicism about free trade agreements (FTAs). This is especially so in light of the disappointment in some circles with the FTA South Africa concluded with the European Union in 2000, apprehension about China, and fears of a competitive threat posed by India and Brazil in sectors such as textiles, steel and motor vehicles.

Notwithstanding the considerable progress that has been made by Brazil and India in liberalising their trade and investment regimes during the past decade, South African companies have made references to tariff and non-tariff barriers (NTBs) that still hamper trade with these countries. In the case of Brazil, concerns were raised about, among other things, tariff peaks and tariff escalation, high tariffs on information technology goods and motor vehicles, import restrictions on products such as machinery and clothing, and the prohibition of foreign investment in certain key domestic industries such as public utilities and the media, red tape, and a challenging commercial environment compounded by a linguistic divide.

Although the opening of India's trade regime has reduced tariff levels, India's tariffs are still perceived as among the highest in the world.

Misgivings have been voiced that internal trade has not been adequately liberalised. Other problems have revolved around a restrictive foreign investment regime (notwithstanding the fact that that most sectors of the country's economy are now open to foreign investment), red tape, customs procedures, use of import bans and import licensing, transparency of regulations and procedures regulating shareholding in domestic companies, and procurement practices.

Several NTBs to the Brazilian and Indian markets were highlighted. In regard to Brazil, attention was drawn to a restrictive import licensing system, onerous customs procedures, high transaction costs, protection of geographical indications, restrictions on import payments, imposition of minimum price, frequent port delays, corruption and language problems. With respect to India, frustration was expressed with cumbersome visa procedures, frequent use of anti-dumping measures against trade partners, restrictions imposed by state monopolies, corruption, non-transparent certification requirements, and port delays.

As far as business costs are concerned, high import costs have been identified as a key problem for South African companies operating in Brazil, including clearing and port costs, import duty, marine tax, freight and insurance costs, excise tax, VAT, commission, and PIS/PASEP. In India rising business costs have been attributed to, among other things, high power costs, high interest rates, deficient economic infrastructure, delays in the granting of work visas for foreigners, and corruption.

The issue of high logistical costs has been singled out as arguably the most pressing concern for South African exporters. It is imperative that transport costs are reduced in order to raise economic growth and enhance trade and investment among the IBSA countries.

Several general solutions have been 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.

- 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.

- Weed out corruption in the public and private domains.