

Executive Summary

Field Survey Report (INDIA) of South-South Economic Cooperation: Exploring IBSA (India-Brazil-South Africa) Initiative

Introduction

South-South trade as a percent of world trade has increased from 6.5 percent in 1991 to 10.7 percent in 2001. South-South exports, as a percent of South-North exports has increased from 41 percent in 1990 to 60 percent in 2001 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. This is an evidence of a general consensus towards more open economies. Nevertheless, unilateral liberalisation is not a popular strategy. Since at multilateral level negotiations are slow, South-South trade cooperation is the second best option.

The belief that South-South trade involves primary goods is a misnomer. Trade in manufacturing products comprised nearly 66 percent of the total intra-developing country trade in 2001. Thus, South-South trade is not restricted to commodities, fuels and other raw materials but mainly, manufactured products. Also, 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). 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.

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 this has strengthened the case for pushing regional initiatives beyond the continent.

In June 2003, the Foreign Ministers of India, Brazil and South Africa met in Brasilia, Brazil to form the IBSA Dialogue Forum. This forum laid the foundation stone for convergence between preferential trade negotiations of the three countries and their regions and strengthening business-to-business links by increasing trade flows between the three countries. 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.

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. 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.

Methodology

A survey was conducted, of businesses in all the three countries. The field survey attempted to explore three important questions 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. In India, the field survey was conducted in Mumbai, New Delhi and Chennai and the 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.

The respondents were representatives of the export department of selected companies. 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.

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.

Findings

Trade and Investment

Exporters adopt different strategies for increasing exports and have different reasons for emphasising on select destinations. Smaller companies export based on their networks or contacts. While the Indian diaspora in South Africa is large, it is barely existent in Brazil simply because their awareness about the market was low, and they did not know anybody in Brazil. Some companies are very keen to expand in the domestic market before expanding overseas and feel that there is a lot of domestic demand that is not catered. Some companies revealed that both Brazil and South Africa are competitors and so selling certain products in these countries is more difficult and only using innovative designs can explore niche markets in South Africa. Some companies operate in a demand driven market, with supply side constraints and do not need to search for new markets. Volume and cost also played a major role in this. Some companies reveal that their products 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.

The current state of Indian investment in Brazil and South Africa has no clear direction and a sizeable volume is yet to be achieved. Investment relations between IBSA countries can be best described as adhoc. Some sectors have seen momentum, particularly pharmaceuticals. Indian pharmaceutical companies have made an increasing presence in Brazil. Indian pharmaceutical companies have also made inroads in South Africa. India occupies the 11th position in terms of sales, amongst the countries, which are present in the pharmaceutical sector in South Africa. 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.

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.

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. When we focus on the future business plans we see that many respondents were already involved in trading within these countries and were positive on their expansion plan but the same does not apply to investment.

Business Awareness

When we look at the awareness and attitude towards government's trade promotion policies, an interesting dichotomy is revealed. Some companies said that they kept track of governments trade policies. Newspapers came out to be the primary source of information and weekly news updates from business chambers were useful for reading on government policy. Sectoral approaches were considered useful in promoting trade within their sector. Organising fairs and exhibitions was quoted as the most common approach towards sectoral initiatives. 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.

Most companies were unaware of the IBSA Initiative. This clearly reveals a strong disconnect between the government's economic cooperation agreements and industry response. Also it was perceived that the state of information dissemination in non-metro cities and rural business centres is a matter of grave concern.

Regarding awareness of regional trade agreements, most companies did not keep track of any regional trade agreement. 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.

With regards to expectations from IBSA Initiative, most companies 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 obvious, promotion of trade.

Non-tariff Barriers and Key Concerns

There are significant barriers that hinder trade within IBSA countries. Biggest concerns while exporting/investing in Brazil and South Africa that impact all sectors alike are freight costs and logistics. Transport costs were narrated as the single largest factor impeding India's exports to Brazil and South Africa. Costs of business facilitation was also a concern, which includes courier charges, travel costs, telephone costs as it was revealed that day-to-day cost of doing business are clearly higher. Additional Costs like customs also increased the cost of exporting to Brazil. Access to information due to language was also proved a barrier. Risk perceptions like crime, corruption, and risk regarding payments and financial transactions have proved to be the significant barriers. The other hindrances include Visa and administrative hurdles and sectoral barriers.

Recommendations and Conclusions

Several recommendations and suggestions were built into the survey report.

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.

Enhanced role for embassies and business chambers

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

Geographically the sea route "India - South Africa – Brazil" is direct and would save a substantial amount of time. 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

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. On the other hand, South Africa and India share a close history, and hence Indians are more aware of South Africa. There is less awareness of the economy of the country.

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.