



**South-South Trade and Investment Cooperation:
Exploring the IBSA Initiative**

National Consultation Meeting, South Africa

Thursday, 27th October 2005

**Venue: Business Unity South Africa Offices,
3rd Floor, South Block,
9 Fredman Drive
Sandton
Johannesburg**

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Please note: Space is limited, so please book your place early to avoid disappointment.

Background

On 10 March 2005 organised business from India (the Confederation of Indian Industry [CII], the Federation of Indian Chambers of Commerce and Industry [FICCI] and the Associated Chambers of Commerce and Industry of India [ASSOCHAM]), Brazil (the National Confederation of Industries [CNI]) and South Africa (Business Unity South Africa [BUSA]) on behalf of business in their respective countries, established an IBSA Business Council.

The purpose of the IBSA Business Council is to play an active and facilitating role in promoting trade and co-operation between the business communities in the three countries. Inherent to this is a need for research to ensure that informed decisions are taken.

As part of efforts to enhance IBSA's South-South trade initiative, The South African Institute of International Affairs (SAIIA) has joined forces with the Brazilian Institute for International Trade Negotiations (ICONE) and the Indian CUTS-Centre for International Trade, Economics and Environment (CUTS-CITEE) in a year-long transcontinental research project aimed at encouraging policymakers, the business sector and civil society organisations to work together to translate IBSA's broad action plan into tangible results.

The project's principal objective is to identify barriers to trade and investment co-operation among the IBSA countries, and to recommend ways in which these can be reduced or eliminated. Some concerns that require attention are high transaction costs, import regulations, transportation links, customs procedures, and financing issues.

The research undertaken has included questionnaire-based field surveys in each country, briefing papers and sector studies. The papers, among other things, have examined the present trade and investment patterns, government policies and prospects and obstacles to IBSA. And they have also explored ways in which industries can be aligned in order to foster complementarities among business sectors.

This meeting will showcase research findings from all three countries, with a view to refining and finalizing the studies before publishing them in each country. BUSA and SAIIA invite you to make input into the studies, and to learn more about the IBSA process and its implications for your business.

South-South Trade and Investment Cooperation: Exploring the IBSA Initiative meeting, on Thursday, 27 October 2005 at the BUSA office, 3rd Floor, South Block, 9 Fredman Drive, Sandton

Programme

10:00 – 10:10 Welcoming Remarks
Mr Bheki Sibiyi (Chief Executive Officer, BUSA)

Session One Chairperson: HE Mr Satyabrata Pal, High Commissioner of India

10:10 – 10:30 Country Presentation: India
Mr Parashar Kulkarni, CUTS

10:30 – 10:50 Questions and Discussion

10:50 – 11:05 Coffee / Tea Break

Session Two Chairperson: Mr Willem van der Spuy, Department of Trade and Industry, South Africa

11:05 – 11:25 Country Presentation: South Africa
Dr Mills Soko, SAIIA

11:25 – 11:45 Questions and Discussion

Session Three Chairperson: Mr Lucio Pires de Amorim, Ambassador of Brazil

11:45 – 12:05 Country Presentation: Brazil
Mr Mario Marconini, ICONE

12:05 – 12:25 Questions and Discussion

12:25 – 12:55 Summary and Way Forward
Mr Peter Draper, SAIIA
Mr Bheki Sibiyi, BUSA

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IBSA National Consultation Meeting Report

Business Unity South Africa Offices
Johannesburg, South Africa

27th October, 2005

1. India

HE Pal

The Indian Government's perspective on IBSA is that it remains a dialogue forum. Three perspectives informed its establishment:

- All three countries are developing country democracies;
- IBSA is targeted at international negotiating forums, especially the WTO;
- IBSA is a natural instrument for the furtherance of economic cooperation amongst the countries and therefore for reinforcing nascent political ties.

But its' ultimate success depends on the practitioners.

Parashar Kulkarni (India Report)

Freight costs are not responsible for the low volume of trade; rather the problem lies in low trade volumes not enticing operators to get involved in this trade thereby raising unit costs. As a result trade routes are skewed towards the north and consequently time taken to ship goods is a serious constraint. This is compounded by limited and expensive air links.

On the social level the lack of extensive cultural links, tied to Indian perceptions of crime and corruption in South Africa and Brazil are major barriers for Indian business people.

Notwithstanding these obstacles it might reasonably be asked why trade isn't increasing? Much depends on why particular companies export. For instance many Indian companies export to countries where there is an Indian Diaspora. Language is also a barrier for Indian companies. This is compounded by perceptions of risk in conducting business in unfamiliar developing country markets. Another potential hurdle is the predominance of multinational corporations (MNCs) in all three markets and market distribution arrangements (licensing) associated with this.

Yet some sub-sectors are showing substantial export growth in the IBSA context – pharmaceuticals is the obvious example. Another is products

targeted at corporate social responsibility. For instance European governments have passed legislation that bans the use of sand blasting techniques which are hazardous to workers, as a result exports of alternate minerals used in blasting have increased, for instance garnet.

Based on the foregoing, what kind of policy inputs are required to energise IBSAs business links?

- Equivalence (MRA) agreements around standards and certification;
- Promote cheaper and more accessible logistics;
- Support the role of business chambers in generating knowledge and nurturing SME expansion;
- Promote understanding of how current north-south trading relations could be redirected to within IBSA.

Some possible directions for the anticipated IBSA 2 project include:

- Identifying key enabling sectors for deeper study;
- Analysing key horizontal enablers such as logistics and services linkages supportive (or obstructive) of trade expansion;
- Practical activities (conferences; workshops) to support business to business engagements.

Q&A

- How do we reduce the cost of trade? The problem here is that IBSA is not a trade initiative per se, and currently has no trade arrangements associated with it. Furthermore, there is a vicious circle of high costs preventing trade, but lack of trade inhibiting attention to costs. One option might be to subsidise (in a WTO compliant way) blockage areas. Building key infrastructure services linkages could be an important component of this. Regarding shipping lines dominance of northern companies explains routing decisions. The question is what could be done about this? Should the emphasis rather lie in building air links?
- The problem of public perceptions – how do we create a positive image of each country, or “brand equity”? Why are we dazzled by Northern brands?
- Are ministries in each country taking these obstacles seriously? There are concerns in the Indian business community that government is not pushing actively enough to lower the barriers. The problem is that IBSA discussions remain at a high-level and are not percolating down to areas that matter with practical effect.

2. South Africa

Willem van der Spuy

The key issue within IBSA is to integrate disparate value chains. From this perspective DTI analysis shows that there quite a large number of opportunities for trade amongst IBSA countries. The challenge lies in creating awareness and in creating trade supporting institutions pursuant to building trade links. This meeting is important because it brings business and governments together to discuss these matters. Governments have noted some of these barriers and are starting to address them, so the political will is there. But it will require concerted effort to overcome historical and entrenched patterns and obstacles.

Dr Soko

Trade is one of the key components in IBSA, but not the only one. All three countries are linked via emerging free trade agreement (FTA) processes covering only a limited range of products. There are substantial complementarities in trade, although the levels of trade are currently very low.

The SA business community is not well-informed about IBSA so awareness-raising is required. But there is some keenness to gain access to both Brazil and India via FTA processes. Companies are attracted to the large and growing market sizes both countries represent. This is also mirrored in growing two-way trade and investment linkages particularly with India. Interviewees generally had plans to either establish a presence or expand present activities in both countries. And companies generally had a positive perception of their counterparts on each side.

However there are problems in doing business in Brazil especially, but also India. These are compounded by perceptions of high crime and a generally difficult business environment including corruption and deficient transport and logistics. These problems are compounded by government policies, including tariffs, red-tape etc. Country risk is also seen as problematic especially in Brazil; this is compounded by perceptions of economic instability. The sustainability of India's economic growth and deficient infrastructure are seen as major risks.

Can IBSA transcend these problems? There is suspicion about FTAs; the China dynamic complicates its trajectory; there is fear of competition from both India and Brazil. IBSA needs to address these specific concerns of SA business if it is to succeed.

Q&A

- Why is the SA business community not aware of IBSA? Partly this is because government and business don't communicate effectively, but also the business press is not sufficiently informed. Therefore advocacy is required.
- Can SMMEs really play a role? Government needs to support this layer of business and there are structures in place. Perhaps a post-trade mission support framework could be considered?
- What role could trade agreements really play given that SA business doesn't seem to utilise existing instruments? Business seems to be keen on this process so it should come up with ideas to energise trading links.
- How do you overcome traditional trading links with the US and EU and negative perceptions of emerging markets? Governments' foreign trade strategy is designed to diversify our trading links and reduce dependence on the north. SA's inferiority complex is another home-grown problem.
- To what extent does the cost of moving goods inland within the three countries constitute a barrier? These barriers can't be addressed within the IBSA context.

Brazil

HE Amorim

IBSA is a dialogue forum amongst countries that previously didn't have strong cultural and political links, and in that context it has been very successful and is being reinforced by a multitude of official contacts. The IBSA business forum is very timely and will feed into a Presidential level summit in Brazil in March next year. On trade three initiatives are in the pipeline:

- An air transport memorandum of understanding (MOU);
- A freight transport process leading to an MOU;
- Possible harmonization of intra-bloc FTAs to create an IBSA trade-bloc.

Mario Marconini

India and SA have a strong industrial focus for Brazil's exports. Yet relative to traditional markets both countries constitute very small markets. Trade participation and dynamism indices of Indian exports to Brazil indicate substantial complementarities and potential for growth in trade. Brazilian trade with SA is more concentrated but exhibits consistent growth, and Brazilian exports to SA show the most potential. This is reinforced by the perceptions survey.

In Brazil there is a big debate over whether all their FTAs should be conducted or not, particularly as they are generally driven by politics.

Economic analysis indicates that SA and India should be selected trading partners. Yet FDI links are very limited, although they show potential to expand. Brazilian entrepreneurs generally are afraid of India but favourably inclined towards SA. Companies are aware of PTA processes but not hugely concerned with tariff reductions. Most companies were either unaware of IBSA or didn't care much about it.

Barriers to advancing IBSA included: its geopolitical orientation; the "Brazil cost" ie the main barriers are internal and this permeates Brazilian business perceptions of FTAs; logistical and administrative costs.

Future research should identify key complementary products that don't revolve around MNCs (which may prevent the trade from taking place).

Q&A

- Why is the geopolitical element such a turn-off for Brazilian business? Because the private sector perceives government's spate of FTAs as being politically driven and not being about trade and economic benefits for business.
- Brazil's trade surplus with SA is a growing problem especially in light of the fact that SA business finds it very difficult to do business with Brazil. This is reinforced by perceptions that Brazil is a closed and protected economy.
- How might IBSA impact on Brazil's African footprint? Lusophone countries will remain important priorities, but SA will loom larger on the horizon owing to its regional leadership role.
- Is China a prospective IBSA member? There is an issue around Brazil's prospective Security Council membership, and issues around labour-intensive sectors. The private sector is particularly critical about government's handling of China.

Concluding discussion

The final round of discussions focussed on the key areas of engagement for future work on the IBSA economic relationship.

The key issues were:

- Will an IBSA PTA be useful? What are the criteria for assessing the benefits?
- How do business chambers in IBSA countries move the IBSA Business Council forward?
- How can IBSA countries cooperate on trade facilitation (TF) to lead the South in TF standards, and reduce bottlenecks and delays in trade?

Two practical suggestions included:

- A case-study of IBSA “champions”, where companies that are star performers in “IBSA trade and investment” could be studied and attempts to replicate best practises distilled.
- Case-studies of gains from substituting South-North-South trade routes to South-South trade routes, being sensitive to the role of MNCs in regulating intra-corporate trade.

Brazil’s President Luiz Inacio Lula da Silva has initiated a Presidential level meeting of IBSA countries in Brazil in March 2005, the highest level of engagement within the IBSA Dialogue Forum. With this degree of enthusiasm, it is time to ensure that political ambitions are further strengthened by economic rationale.