South-South Economic Cooperation

Exploring the IBSA Initiative

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Preface

One of healthiest developments in recent past has been that the South-South trade as a percentage of world trade has increased. In fact, it has increased not only in agriculture commodities, fuels and other raw materials but also in manufactured products. This is optimistic. Given the modalities of the WTO negotiations, cooperation among Southern countries has assumed immense strategic value for multilateral negotiations. For shaping the respective role of the countries in the multilateral trade negotiations, South-South cooperation has become all the more important.

With an agenda of exploring the possibilities of enhancing South-South cooperation further, in 2003, the foreign ministries of India, Brazil and South Africa (IBSA) established the 'IBSA Dialogue Forum'. The IBSA Dialogue Forum aims to promote South-South partnership, cooperation and common positions on issues of international importance, and also to promote trade and investment opportunities between the three regions of which they are a part. Other objectives, *inter alia*, included poverty elimination and information exchange among these countries for greater cooperation.

Trilateral working groups have been formed among the IBSA countries to examine strategic cooperation in the areas of agriculture, culture, defence, education, energy, health, information society, trade and investment, social issues, science and technology, tourism and transportation.

Over the past few years, IBSA countries have also cooperated within the framework of the G-20 of developing countries at the Cancun Ministerial Conference of the WTO and subsequent negotiations in a fruitful manner. Later, in the negotiation of the July Framework, India and Brazil represented G-20 in the five interested parties that hammered out the agreement. Given the fact that the G-20 was led by Brazil, India and South Africa, the trilateral IBSA framework has also facilitated coalition building on WTO issues.

It has been found that there has been quantum increase in the intra IBSA trade in the recent years, with the export and import figures reaching new heights after the launch of the IBSA initiative. However, several factors like the prevalent non-tariff barriers (NTBs), rules, regulations and legislative problems, information lag etc., have acted as impediments in expanding the initiative further.

It is in this context, the research project entitled, *'South-South Economic Cooperation: Exploring the IBSA Initiative'* analyses the trade and economic relations among the three IBSA countries. The purpose of the project is to explore the future trade scenario of the IBSA countries by analysing the present volume and composition of trade, and examining the perceptions of stakeholders on trade and economic cooperation.

This research report lays out the contours of the country positions of India, Brazil and South Africa on intra IBSA trade and investment to identify how a greater cooperation can be realised by bringing together countries of the three continents of the world.

Further, it covers a case study on the aerospace sector of the IBSA country to highlight how strategic trilateral cooperation can be built to foster closer ties between these countries in this sector.

The focus of the discussion is on what needs to be done to enhance the economic ties among the IBSA countries. Demand and supply factors which can enhance (or are hindering at present) trade and investment between IBSA countries present how trade is looked at. Commitments made by these countries to further strengthen this innovative initiative are also analysed.

The countries need to decide on the priorities to achieve further progress in the IBSA Dialogue Forum and other trade and cooperation fora, while at the same time building on the work of previous Ministerial meetings of the Trilateral Commission and the Working Groups. It has been widely recognised that trade and investment advocacy can play a major role in achieving better economic and political coherence among the IBSA countries.

The study unravels the paths as to how the IBSA initiative can be metamorphosed into a trilateral Free Trade Agreement (FTA), given the fact that Brazil and South Africa are members of regional customs unions, viz. MERCOSUR and SACU respectively and hence are bound to maintain common external tariffs (CET) with other partners.

What has been presented in this study is that the overall success of the trilateral cooperation depends on how the IBSA countries utilise their synergies for collective benefit and development of the South in general. A positive trend emerges that IBSA countries can reinforce the economic strengths of each other by harmonising their complementarities in areas of industry, services, trade and technology, which, in turn, could create a market and increase the growth rate of the IBSA countries.

In sum, the report is an attempt to analyse and present the fundamental issues pertaining to the IBSA initiative in order to facilitate increased trade and investment among the countries through enhance contact between business and industry bodies, high political proximity and removal of all types of procedural barriers. It also aims to catalyze discussions among the international trade community and draw a future road map for South-South trade partnerships.

This research report would help a whole range of stakeholders, including policy makers, experts, academics, trade community and scholars of IBSA countries, who have been looking for feasible ways to facilitate greater cooperation in trade and investment, with the overall goal of an ever-increasing South-South trade.

Jaipur
December, 2006

Pradeep S. Mehta
Secretary General

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Abbreviations & Acronyms

ABI	:	Argentina, Brazil and India
AISI	:	Aerospace Industry Support Initiative
AU	:	The African Union
BAF	:	Bunker Adjustment Factor
BEE	:	Black Economic Empowerment
BITs	:	Bilateral Investment Treaties
BRIC	:	Brazil, Russia, India and China
BUSA	:	Buisness Unity South Africa
CACEX	:	Carteira de Comércio Exterior
CAMEX	:	Brazil's Chamber of External Trade
CBD	:	Convention on Biological Diversity
CET	:	Common External Tariff
CSOs	:	Civil Society Organisations
DTI	:	Department of Trade and Industry
EMC	:	Electromagnetic Compatibility
EMI	:	Electromagnetic Interference
EU	:	European Union
FDI	:	Foreign Direct Investment
FICCI	:	Federation of Indian Chambers of Commerce & Industry
FTA	:	Free Trade Agreement
FTAA	:	Free Trade Area of the Americas
FTP	:	Fixed Tariff Preference
GDP	:	Gross Domestic Product
GEO	:	Group on Earth Observation
GEOSS	:	Global Earth Observation System of Systems
GHG	:	Greenhouse Gases
GNI	:	Gross National Income
IBSA	:	India, Brazil and South Africa
ICONE:		The Institute for International Trade Negotiations
IIFT	:	Indian Institute of Foreign Trade
INMETRO	:	National Institute of Metrology, Standardisation and Industrial Quality
IPRs	:	Intellectual Property Rights
IT	:	Information Technology
JAC	:	Joint Administration Committee
LAC	:	Latin American Countries
M&As	:	Mergers and Acquisitions

MDGs	:	Millennium Development Goals
MERCOSUR	:	Southern Common Market
MFN	:	Most Favoured Nation
MNCs	:	Multinational Corporations
MTAs	:	Multilateral Trade Agreements
NAMA	:	Non-Agriculture Market Access
NEDLAC	:	National Economic Development and Labour Council
NEPAD	:	The New Partnership for Africa's Development
NTBs	:	Non-Tariff Barriers
OECD	:	Organisation for Economic Cooperation and Development
OEMs	:	Original Equipment Manufacturers
PIS/PASEP	:	Social Integration Programme/Civil Servant's Asset Programme
PSS	:	Peak Session Surcharges
PTA	:	Preferential Trade Agreement
R & D	:	Research and Development
RMGs	:	Readymade Garments
RoO	:	Rules of Origin
RTA	:	Regional Trade Agreement
SAA	:	South African Airways
SAARC	:	South Asian Association for Regional Cooperation
SABS	:	South African Bureau of Standards
SACU	:	Southern African Customs Union
SAFTA	:	South Asia Free Trade Agreement
SAIIA	:	South African Institute of International Affairs
SANDF's	:	South African National Defence Force
SGS	:	*Société Générale de Surveillance*
SMMEs	:	Small, Medium and Micro Enterprises
SMEs	:	Small and Medium-sized Enterprises
SSC	:	South-South Cooperation
T&C	:	Textiles and Clothing
TBT	:	Technical Barriers to Trade
TCDC	:	Technical Cooperation amongst Developing Countries
TMC	:	Technical Monitoring Committee
TNCs	:	Transnational Corporations
T-FTA	:	Trilateral Free Trade Agreement
TIPS	:	Trade and Industrial Policy Secretariat
TRIPs	:	Trade Related Aspects of Intellectual Property Rights
UNCTAD	:	United Nations Conference on Trade and Development
UNDP	:	United Nations Development Programme
US	:	United States
VAT	:	Value Added Tax
VoIP	:	Voice over Internet Protocol
WHO	:	World Health Organisation
WSIS	:	World Summit on the Information Society
WSSD	:	World Summit on Sustainable Development
WTO	:	World Trade Organisation

Executive Summary

1. Background and Introduction

South-South preferential trade cooperation has acted as a very good avenue to increase trade of the Southern countries, as the progress of the trade negotiations at the multilateral level has been very slow. South-South trade as a percentage of world trade has almost increased from 6.5 percent in 1991, to 10.7 percent in 2001. It, as a percentage of North-South exports has also increased from 41 percent in 1990, to 60 percent in 2001.

To carry the South-South trade initiative forward to reap the benefit of increased trade, the foreign ministers of India, Brazil and South Africa (IBSA) met in Brasilia, Brazil in 2003, to form the 'IBSA Dialogue Forum'. South Africa belongs to the Southern African Customs Union (SACU) comprising five countries, namely, South Africa, Botswana, Lesotho, Swaziland and Namabia. Brazil is a member of the Southern Common Market (MERCOSUR) comprising Argentina, Brazil, Paraguay and Uruguay. The IBSA initiative envisages the linking and integrating of the three regions, namely India, the SACU and MERCOSUR, and thereby forming a trade bloc of the South-South countries. So far intra IBSA trade, as a percentage of total trade of IBSA countries is less than two percent. Further, any of the IBSA country is yet to occupy the top 10 trading partner status in the other two IBSA countries.

The IBSA forum laid to the foundation for convergence among the preferential trade negotiations of the three countries and their regions. The forum undertook to increase trade flows between the IBSA countries from US$ 4.6bn presently to estimated US$10bn by 2007, and strengthen the business linkage among the countries. In addition, the forum undertook to continue holding IBSA business summits and conduct studies on how to increase trade and investment by initiating trilateral business councils of the leading Chamber of Commerce of the IBSA countries. Two more meetings of the forums was in New Delhi and Cape Town, respectively in 2004 and 2005, to furtherance the IBSA trade initiative.

The IBSA Countries under WTO

Under the Doha Round of negotiations of the World Trade Organisation (WTO), the IBSA countries have moved towards a common position, particularly in agriculture with the creation of the G-20 and in non-agriculture market access (NAMA). In agriculture, the three countries had important export interests in products like meat, soya, sugar, coffee and cotton for Brazil, cotton, sugar and cereals in the case of India and sugar and oils for South Africa. The mix of offensive and defensive interests across the IBSA countries is, however, complex than is usually assumed and has continuously been tested in the Doha Round of negotiations.

In NAMA under the WTO Doha Round, important coordinated steps has been taken like the formation of the Argentina, Brazil and India (ABI) tariff reduction formula, where India and Brazil alongside Argentina presented a proposal on the non-linear approach, taking into consideration the average bound tariffs and links related to the coefficients to the overall level of ambition in the Doha Round.

2. The IBSA Initiative

2.1 Intra Trade Performances of the IBSA Countries

a. India-Brazil Trade

Brazil is the India's largest trading partner in MERCOSUR. The bilateral trade between Brazil and India has been fairly erratic since mid-90s with surpluses and deficits in alternating from year to year. However, the trade volume picked up from 1999-2000, increasing from US$466mn between the countries in 1999-2000, to US$1.2bn in 2004. This has accounted for more than 50 percent of India's trade with MERCOSUR. India's trade with Brazil is mostly a diaspora-supported business with smaller Indian companies export to Brazil on the basis of their networks.

Since 1985, manufactured and semi-manufactured goods were predominant exports of Brazil to India. Primary products took over as the lead export to India from 2002. However, it was for some time as semi-manufactured and manufactures came back and restored their predominance. Total India's export to Brazil accounted for 0.54 percent of all Brazilian imports and 0.43 percent of Indian exports. Products such as organic chemicals, pharmaceutical, other chemicals, artificial filaments, extracts, rubber, glasses, perfumery, tools, gums, vegetables oils, vegetable fibers, special fibers are the main export of India to Brazil. These Indian exports are important both for Brazil as an origin of imports as well as for India as a destination of exports. Sectors such as apparel, crocheted products are very important as a Brazilian import but are of little relevance as Indian export. Products like raw sugar, organic chemicals, rubber, non-metal soil and minerals, beverages, silk, crude soya bean oil, ethyl alcohol and crude petroleum accounts for almost 70 percent of the total export of Brazil to India. These Brazilian exports are important both for India as an origin of imports as well as for Brazil as a destination of exports in these sectors.

b. Brazil-South Africa Trade

Brazil's trade with South Africa increased significantly from around US$410mn to US$1.3bn in the period 1999-2004, following the devaluation of the Real by almost 220 percent. Compared to India, trade flow of Brazil with South Africa was slightly larger in 2004 (around US$410mn), 80 percent of this flow is accounted for by Brazilian exporters. Brazil has had a high surplus of almost US$770mn with South Africa, compared to surplus of US$95mn with India. In 2004, 22 percent of all exports were primary products, 4.85 percent were semi-manufactured and 73 percent were manufactured products. The export of automotive sector contributed to about 30 percent of all Brazilian export to South Africa. The top ten exports products contributed to 37 percent of the total export, of which five of the products were automotive in nature.

Brazil's primary product exports were mostly directed towards South Africa. Major export items of Brazil to South Africa include iron and steel, aluminium, organic chemicals, minerals, paper, railway materials are sectors where South African exports are more important as Brazilian imports than as South African exports *per se*. Sectors of organic chemicals, fertilisers, tools, other metals and impregnated fabrics are more important as South African exports than as Brazilian imports. Sectors such as glasses, vegetables oils, tobacco, paper pulp, vehicles and ceramics are considered as the major export items of Brazil to South Africa. These products are important both for South Africa as an origin of import as well as for Brazil as a destination of exports in those sectors.

c. India-South Africa Trade

Within SACU, South Africa is India's largest trading partner accounting for 98 percent of the total trade. Trade between South Africa and India has grown by 1,334 percent in the last decade (amounting to US$700mn in 2002). The export of the Indian companies is based on the networks or contacts in South Africa. However, it remained very low on both sides with just more than one percent of total trade. India's main exports to South Africa include cotton products, pharmaceuticals, rice, vegetables products, finished leather and spices. Readymade Garments (RMGs) accounts for the highest share of India's export to South Africa, and this is just nine percent of the total export of South Africa. As on 2004, India's foreign direct investment (FDI) stock in Brazil has reached over US$70mn.

South African exports to India, on the other hand, encompasses raw materials such as gold and silver, coal, iron, steel and non-ferrous metals, textiles, sugar, mineral fuels and lubricants. Enhanced economic relations with India are expected to benefit South Africa by providing access to affordable medicines, competitive price for motor vehicles and equipments for heavy industry. This could also open new export markets for iron and steel, chemicals, aluminium and furniture.

2.2 Investment-Intra IBSA Countries

India's investment direction with IBSA countries is mostly *ad-hoc* with no clear direction. However, sector like pharmaceutical in Brazil has attracted a huge amount of FDI from India. Major Indian pharmaceutical company, Ranbaxy is the fifth largest generics drug manufacturer in Brazil and enjoys 9 percent share of the Brazilian market. According to the Central Bank of Brazil, the FDI stock from India and South Africa has increased significantly in the 1995-2000 period, a trend that has continued ever since. As to India, there are no recorded relevant Brazilian direct investments.

India's investment in South Africa was 0.22 percent of its total investment abroad. Indian pharmaceutical companies have also made inroads in South Africa and India presently occupies the 11th position in terms of sales there. Major investors of India's in South Africa include Tata group, Mahindra & Mahindra, and United Breweries etc. South Africa has mostly invested in India, in diamond and jewellery, alcohol beverages and financial services. Some investment of Brazil relate primarily to South Africa with a particular focus on the transportation and mining sectors. One example of Brazilian Greenfield investment is in the manufacturing of the bus 'Marcopolo' that has an established factory in South Africa.

Huge, dynamic and diversified market of Brazil and *vis-à-vis* Latin America, relatively liberal trade and investment regime of the countries has attracted South African's investors and exporters to invest in Brazil. South Africa's FDI stock in Brazil has grown remarkable to US$26.1mn by 2000. While India's immense domestic market, huge economies of scale in several sectors, prices, the quality of management and low-cost labour, low cost manufacturing capacity and rapidly growing middle class among many other factors has contributed to the increase in South investment in India. The major sectors where South African exporters and businesses have identified potential for expanding trade and investment collaboration with Brazil and India includes financial services, tourism, information technology, education and training health energy and others.

3. Existing Trade Relationships

3.1 SACU and India

The governments of the SACU – comprising South Africa, Botswana, Lesotho, Swaziland and Namibia – and India have proclaimed a mutual interest to conclude a Preferential Trade Agreement (PTA) before the end of the year 2006. The agreement is aimed at cementing and expanding the burgeoning trade relations between SACU (predominantly South Africa) and India. The PTA is expected to benefit both SACU and India through reduction of tariff and access to the markets of each other.

Over the past decade there has been a considerable rise in trade between India and South Africa (average annual growth in total trade is exceeding 31 percent). SACU's imports from India include textiles and clothing (T&C), food products and animals, beverages and tobacco, machinery and transport equipment, cotton products, pharmaceuticals, rice, vegetable products, vehicle parts and spices. SACU exports to India raw materials such as gold and silver, coal, iron, steel and ferrous metals, mineral fuels and lubricants, chemical wood pulp, sugar, vegetable products, as well as ammunitions.

3.2 India and MERCOSUR

In early 2004, India and the MERCOSUR countries signed a PTA, which created the first step toward the creation of a free trade agreement (FTA) between the two regions. India's trade with MERCOSUR accounted only for 0.9 percent of its total trade, whereas the equivalent figure for MERCOSUR was about 1.2 percent. Primarily, Brazil and Argentina make up virtually all of MERCOSUR's trade flow with India.

The main product categories exported to India are edible oils (primarily soya), metalliferous ores, metal scrap and non-electrical machinery, with soyabean oils being the largest, which stands around two-thirds of all exports. India's major exports to MERCOSUR are drugs, pharmaceuticals and fine chemicals. Boosting trade and investment between the two regions and enabling them to tap into each other's huge markets might have provided the Indian and MERCOSUR governments with an obvious incentive to engage in regional trade agreements (RTAs).

3.3 MERCOSUR-SACU FTA

In December 2000, South Africa and MERCOSUR signed a "Framework Agreement" with the objective of forming an FTA. The agreement was partly the result of a growing South African interest in the newly formed trading bloc across the South Atlantic.

Trade between South Africa and MERCOSUR had more than doubled by 2004 and now accounts for 2.1 percent of the former's total trade. MERCOSUR's trade with South Africa conversely made up around 0.8 percent of the trading bloc' extra regional trade. The figure has also risen over the past few years. In 2004, total trade between South Africa and MERCOSUR amounted to US$1.83bn. South African exports totalled US$304.2mn, whereas its imports from MERCOSUR stood at US$1.5bn. Main trading partners in MERCOSUR-SACU trade are South Africa and Brazil. South Africa's export to MERCOSUR includes iron and steel products, mineral products, including coal, organic chemicals, miscellaneous chemicals, paper and paper products. The main import items include vehicles and their components, chemicals, residues and waste from food industries, animal or vegetable fats and oils, meat and edible meat offal and machinery.

4. The Aerospace Industry: Prospects for Strategic Cooperation among the IBSA Countries

Strategic cooperation in the aerospace sector has been championed at the highest political level of the IBSA countries. So far there has been none or very little form of aerospace collaboration between these countries, however there is immense scope in these areas of the IBSA countries. Trilateral cooperation in the aerospace sector by utilising the capabilities, technologies and expertise of these countries is expected to develop a high tech industry in the IBSA countries, which will help to compete with the market leaders in aerospace sector like Boeing and Airbus, and also helps to generate skilled employment in these countries while making tailor made products at reasonable prices. Further, it will also help to develop the aerospace supply chain and also lead to collaboration around aerospace systems in support of strategic defence needs of these countries.

The initiative will also lead to collaboration around small and micro satellites, as Brazil and India possess strong competencies in small and micro satellites, including launching capabilities, while South Africa has a small but reputable small and micro satellite industry and full fledged ground support infrastructure. The cooperation of the aerospace sector will help to exploit the competitive niche areas in the aerospace sector to integrate South African manufacturers into Brazilian and Indian aircraft production through, for example risk-sharing development and government supported marketing efforts at the electronic product level.

IBSA nations are expected to gain from a more coordinated and integrated approach in these fields, particularly in exchanging expertise and technology platforms and in fostering closer working relationships between public and private sectors in the three countries. However, the governments of the IBSA countries needs to play a central role by working together to form a policy framework and incentives and demonstrate a proactive approach to developing the aerospace sector and furthering international cooperation. At the same time, it is important for the IBSA countries to analyse how they can add value to aircraft production.

5. Findings Lessons and Recommendations

5.1 Findings

IBSA, in general, is perceived as more of a political rather than an economic initiative. Intra IBSA trade is also negligible as compared to the volume of trade between IBSA's constituent's countries and the rest of the world. IBSA are regional powers that are under the sphere of influence of the neighbouring countries. Economic and geopolitical interests are yet to be duly considered while forging ahead with any such initiative.

The trade and investment policy followed by the IBSA countries; in many times act as the main hindrance in fostering the trade and investments policies of these countries. Firstly the IBSA countries lack a clear investment led expansion policy in the countries. There was also no consensus on the approach i.e. whether a sectoral approach or a general macro economic approach that would be taken for increasing trade within the IBSA countries. Lack of general information and knowledge on the investment opportunities in the different sectors of the countries also act as an impediment for increasing investment among the IBSA countries. Bureaucratic complicacies, complicated business procedures and lack of regulatory transparency add to make the trade and investment scenario more complicated in the IBSA countries.

Major tariff and non-tariff barriers (NTBs), which cuts across all the IBSA countries in various sectors (e.g. in pharmaceutical sector, auto and auto ancillaries in Brazil) acts as a major hindrance to intra IBSA trade includes the cumbersome visa procedure, high tariffs and non-transparent tariff, excessive use of anti-dumping measures, inadequate infrastructure and high infrastructural service cost (e.g. high interest rates, power costs, and telephone charges, inadequate banking and insurance facilities), cumbersome and costly customs procedure, import restriction, onerous and costly licensing procedure, high registration fees, legal restriction on ownership of land, complicated inspection process, non transparent and stringent quality standards etc. Inadequate logistical facilities and present freight conditions in the IBSA countries also create a major deterrent for trade among them.

There is also very little awareness about the IBSA initiative in the IBSA countries. Huge information gap exists and it becomes incumbent upon the promoters of the IBSA initiative to inform the stakeholders about the same. There is also string disconnect between the government's economic cooperation agreements and industry response. The government's industry interaction policy also has no such clear direction.

5.2 Lessons

- There is huge potential to increase trade and investment relations among the three IBSA countries, in part due to their large markets and the currently low flows among them.
- There are also considerable challenges facing the trilateral alliance that relate to, among others, tariff and non-tariff barriers (NTBs), high transport costs, and cultural and linguistic differences.
- An initiative such as IBSA must at some point focus on investment by Multinational Corporations (MNCs). All three countries at some level compete for FDI from the

same sources and the same MNCs also compete among themselves for attractive investment regimes across countries such as the three IBSA members.

- Notwithstanding the trade and investment barriers among the IBSA countries, addressing stakeholders' lack of information and knowledge about the respective partners would go a considerable way to spur greater economic relations.
- There might be a case for setting up sector specific export promotion boards rather than broad based business chambers in order to get access to detailed market information.

5.3 Recommendations

Along with addressing the basic export and import related issues like reducing the customs duty, making tariff structures transparent in the IBSA countries tackling the NTBs and visa problems, other major issues which needs to be addressed for developing the IBSA initiative includes:

- reducing the cost of doing business by developing and providing infrastructural services like telecommunications, banking, insurance, transport, rentals, freight and logistical services and charges etc;
- ensuring adequate enforcement of Intellectual Property Rights (IPRs) issues;
- involvement of the business association, industry leaders and government officials in the trade process and making availability of information on the IBSA initiative to foster closer economic ties among the IBSA countries;
- engaging high level dialogue among the MNCs and the three governments to ascertain whether and how the IBSA initiative might have a favourable impact on trade and FDI, particularly in industries that operate in some or all of the IBSA countries;
- using diplomatic missions, business chambers, and the like to provide exporters and investors with adequate, up-to-date market intelligence and other relevant data and more broadly, to promote economic cooperation among IBSA countries;
- using the IBSA Buisness Council to facilitate interaction among businesses, foster the creation of private-public partnerships (PPPs), expand mutual knowledge and promote sharing of experiences.

Introduction

Background

South-South trade as a percentage of world trade has increased from 6.5 percent in 1991 to 10.7 percent in 2001. South-South exports, as a percentage of South-North exports have 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 considerably over the last two decades. This provides evidence of a general consensus towards more open economies.

Trade in manufacturing products comprised nearly two-thirds of 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 of the South in multilateral trade negotiations, manifested in the WTO Cancun Ministerial conference of where IBSA countries played key roles in developing the G-20 coalition.

Given its experience in researching trade and development issues, CUTS Centre for International Trade, Economics & Environment (CUTS CITEE), Jaipur, India, took up the task of exploring the possibilities of enhancing South-South trade, investment and other forms of economic cooperation among IBSA countries.

IBSA

In June 2003, the Foreign Ministers of IBSA countries met in Brasilia, Brazil, to form the 'IBSA Dialogue Forum'. This Forum laid the foundation stone for convergence among preferential trade negotiations of the three countries and their respective regions and strengthening business-to-business links by increasing trade flows among the three countries. In addition, the 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, leading chambers of commerce in all the three countries formed the IBSA Business Council to facilitate growth of business relations.

The IBSA regional cooperation initiative was envisaged as a way of linking the three countries as well as the regions in which they are situated, namely, India, the SACU comprising South Africa, Botswana, Lesotho, Swaziland and Namibia and the MERCOSUR comprising Argentina, Brazil, Uruguay and Paraguay and Venezuela[1]. However, the aggregate trade picture is not very encouraging. Intra-IBSA trade as a percentage of the total trade of IBSA countries is not even two percent. Further, no

IBSA country occupies a position among the top ten trading partners in the other two IBSA countries.

About the Project

The project is meant to explore and analyse how IBSA countries could foster better economic cooperation. The project explores the recent efforts to forge closer trade and investment links among the IBSA countries as well as future scenarios by analysing current trends in the volume and composition of trade and investment flows among them. It also delineates the perceptions of diverse stakeholders, including representatives of the business community and the civil society.

Objective

The three-fold objectives of the project aims to:

- contextualise present economic relationships among the three IBSA countries;
- identify barriers that impede trade and investment flows among IBSA countries; and
- recommend practical ways in which these barriers can be reduced or eliminated.

Methodology

A field survey was conducted in all the three countries 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 sought 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.

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

The Policy Advocacy Document

This document seeks to advocate initiatives on development-oriented trade policy, by taking into account the interests and priorities of trade and economic relationship among IBSA countries and the regions thereof. This policy advocacy document is also aimed at becoming a tool to disseminate information and sensitise the public at large about the need and importance of fostering closer economic ties among the IBSA countries.

Moreover, this document also highlights the perceptions and attempts to project future trade scenarios among these countries while recommending measures aimed at enhancing trade and economic cooperation.

This document is presented in two sections.

Section one lists all the impediments that may deter IBSA countries from forging ahead with the proposed initiative. It then goes on to recommend the steps that may be taken to enhance interaction between business enterprises located in the IBSA countries. It further suggests amendments in governmental trade and investment policies and procedures to foster and facilitate trade among the countries. This section also contains excerpts from the text of the communiqué issued at the conclusion of the IBSA Dialogue Forum (concluded at Rio de Janeiro, on March 30, 2006).

Section two analyses past and current trade and investment patterns among the IBSA countries, including the gaps in economic cooperation among them and the main reasons for these gaps or lacunae. This section also identifies areas of cooperation among the countries concerned or sectors where trade and investment flows may be enhanced. It concludes with identifying the aerospace sector as an area in which there is considerable scope for cooperation among the IBSA countries.

Chapter 1: The Advocacy Document

This section advocates trade and investment policy initiatives, which, if undertaken by the stakeholders, that is, governments, business communities and non-governmental organisations (NGOs) in the IBSA countries, could foster enhanced economic cooperation among these countries.

1.1 Constraints and Limitations

Before such recommendations are taken up comprehensively, it would be prudent to consider the constraints and limitations under which the IBSA initiative operates:

- IBSA is often perceived as more of a political rather than an economic initiative.
- Intra-IBSA trade, as it stands today, is negligible as compared to the volume of trade between IBSA's constituent countries and the rest of the world.
- IBSA are regional powers that have under their sphere of influence neighbouring countries whose economic and geo-strategic interests would have to be duly considered while forging ahead with any such initiative.
- Issues related to customs duties, NTBs, issuance of visas and harmonisation of standards, trade and investment procedures still needs to be addressed. In fact, bilateral customs cooperation agreements should be put firmly in place before the IBSA countries enter into preferential and FTAs.
- The governments of IBSA countries are plagued by red tapism and nepotism that result in unnecessary bureaucratic hurdles.
- Investment relations between the three countries are at best *ad hoc*, with governments resorting to the use of tax havens to attract investment.
- IBSA countries continue to be dogged by expensive air travel, prohibitively high freight costs, imbalances in flow of trade and in its composition.
- There is an acute lack of awareness about the initiative among the stakeholders.

1.2 Recommendations

Among the several recommendations, which, if implemented, might lead to the reduction or elimination of trade and investment barriers among the IBSA countries are:

- customs duties could be reduced and NTBs may be completely done away with to ensure a level playing field for importers;
- governments should be urged to address visa problems and concerns related to cross-border movement of business persons;
- PPPs should be encouraged while tackling infrastructure bottlenecks, including the improvement of rail and sea links as well as enhancing port capacity and operations;
- lowering the costs of doing business to sustain competitiveness – this includes reducing costs of telecommunications, insurance, gathering market intelligence,

business travel, rentals and transport; (Air travel costs are low between India and South Africa. However, the same is not true for travel between India and Brazil. The air distance between India and Brazil is shorter than that between India and US while ticket costs to Brazil are twice as high).

- providing sufficient banking and insurance facilities, economic infrastructure, credit and payment facilities and tax incentives;
- ensuring adequate enforcement of IPRs;
- involving business associations in the formulation and implementation of trade agreements;
- fostering competition in domestic economies in order to reduce prices;
- facilitating trade and investment missions (aimed at exploring business opportunities) for industry leaders and government officials in IBSA countries;
- using diplomatic missions to promote economic cooperation among IBSA countries. This may be accomplished by, among other things, organising trade fairs in a bid to enable exporters to market their products and services;
- using the IBSA Business Council to facilitate interaction among businesses, foster the creation of PPPs, expand mutual knowledge and promote sharing of experiences;
- providing potential investors with adequate, up-to-date market intelligence and other relevant data on which they can base investment decisions;
- sustained efforts to ensure business facilitation are needed;
- accentuating the economic value of trade agreements to business organisations;
- harmonising standards as well as trade and investment processes among the IBSA countries;
- facilitating interaction between potential exporters and investors with relevant government and private sector institutions;
- informing businesses about the vision and programmes of IBSA and involve them in shaping IBSA processes; (availability of reliable and quality information is a formidable task, particularly for smaller businesses. Business chambers of IBSA countries could 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).
- ensuring implementation of efforts aimed at weeding out corruption in public and private organisations;
- freight and logistics should be the primary focus of the IBSA initiative, since transport costs are very high;
- an equivalence agreement can pave way for reducing transaction costs of exporters within IBSA countries – this would be particularly useful for non-agricultural products such as tyres and pharmaceuticals; and
- development of new trade routes; (ocean liners operate on routes where clear economies of scale are evident. Consider the IBSA trade route – the standard route taken by an Indian consignment to South Africa, involves travelling to Europe, and being re-exported to South Africa. This requires twice the amount of travel time and more than 4-5 days of waiting time. For a consignment to Brazil, the waiting time is much longer. Geographically the sea route "India-South Africa-Brazil" is direct and would save a substantial amount of time. An alternate 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 of India. The completion of this Canal along with the Cape of Good Hope route becoming a "Suez Canal of the South" could lay effective foundation stones for a South-South logistics route.)

1.3 The Way Forward

The fact remains that IBSA countries are competitors in various sectors and this hinders cooperation in these. However, cooperation in the aerospace sector appears extremely promising. This is one area where the individual competencies of IBSA countries complement one another perfectly well. Some areas for cooperation may thus be identified:

- There is scope for expansion of aerospace supply chains. This is premised on the commercial opportunities offered by the diverse aerospace capabilities of the IBSA countries.
- Collaboration around aerospace systems to augment strategic defence needs is a definitive possibility.
- The IBSA countries may collaborate in the development of small and micro satellites. Brazil and India have strong competencies in this sector while South Africa has a small but reputed small and micro satellite industry with full-fledged ground support infrastructure.
- South African aerospace industry could exploit its competitive niche areas to integrate its manufacturers into Brazilian and Indian aircraft production sectors.
- IBSA nations have the necessary infrastructure to develop a vibrant aerospace sector and cultivate complementary niches.

1.4 The IBSA Dialogue Forum[2]

Ministers from IBSA countries discussed a wide range of critical global issues at the recently concluded IBSA Dialogue Forum at Rio de Janeiro. They reaffirmed the Forum as an important mechanism for political consultation and co-ordination as well as for strengthening cooperation in sectoral areas and to improve economic relations among IBSA countries. Some of the important points emerging from the ministerial communiqué issued on March 30, 2006, follow:

1.4.1 South-South Cooperation

The Ministers reaffirmed that South-South cooperation is an essential and fundamental component of international cooperation for development, and stressed their support for mainstreaming of South-South cooperation and of the pursuit of the development of Technical Cooperation amongst Developing Countries (TCDC) to its full potential. In this regard, they recommitted themselves to work together for the enhancement of South-South cooperation and emphasised the establishment of the IBSA Fund as an example of cooperation among three developing countries for the benefit of the most needy nations of the South.

1.4.2 IBSA Facility Fund for Alleviation of Poverty and Hunger:

The Ministers reiterated the fundamental character of the IBSA Fund as a means to disseminate the best practices in the alleviation of poverty and hunger. They emphasised the importance of the participation of institutions of IBSA countries (governmental and non-governmental) in the projects financed by the Fund and recommended that the United Nations Development Programme (UNDP), as administrator of the Fund, find means to make that participation possible. The Ministers also reiterated their commitment to move forward with other projects in the scope of the fund. IBSA countries recommitted themselves to allocate at least US$1mn a year to the Fund.

1.4.3 IBSA Sectoral Cooperation

The Ministers welcomed the agreement reached by the Working Group on the Information Society, on the content of the 'IBSA Framework for Cooperation on Information Society', setting up the basis and defining modes of cooperation in the fields of Information Society and Communication Technologies, and took note with satisfaction of the Joint Action Programme for 2006-2007, prescribing specific initiatives in all fields of cooperation covered by the Framework. The Ministers also welcomed the development of the IBSA website: www.ibsa-trilateral.org and invited the various working groups of the IBSA Forum to provide content and make full use of this channel of communication.

- The Ministers recognised with pleasure the high level of coordination between the three delegations during the second phase of the World Summit on the Information Society (WSIS), held in Tunis, in November 2005, and its preparatory works. In this regard, the three countries reiterated their commitment to keep working together during the WSIS follow-up process, as well as in other international fora related to the issue; to promote the use of Information and Communication Technologies (ICT) as a tool for development and to build multilateral, democratic and transparent global Internet governance mechanisms.
- The Ministers decided to formalise the establishment of an additional sectoral working group on Social Issues, as a follow-up to the International Seminar on Economic Development and Social Equity, held in Rio de Janeiro, during August 03-04, 2005. They also expressed their intention of establishing a working group on Public Administration as soon as possible.
- The IBSA countries reiterated their commitment to further promote the production and use of bio-fuels as environmentally friendly and sustainable fuels, which promote socio-economic development, taking into consideration their global importance. Progress is being made, on exchange of information on Renewable Energy and the bio-fuels value chain.
- More emphasis will be placed on the exchange of information into the areas of energy efficiency and conservation, and hydrogen energy. India will host the second technical meeting of the Energy Working Group, to which other stakeholders including private sector players may be invited for the enhancement of implementation of IBSA initiatives.
- The Ministers agreed on the importance of new initiatives aimed at strengthening economic and trade relations among developing countries, as a means to generate business opportunities and contribute to an international trade scenario more suitable to their development projects. In that regard, they took note with great satisfaction that MERCOSUR will be proposing to SACU and India the creation of a Working Group to explore the modalities of a Trilateral Free Trade Agreement (T-FTA) among them. They underlined the significance of this exercise and expressed their full support to the initiative.

- Further, the Ministers supported the initiative of a renewable source of energy seminar and the proposals to assist Small, Medium and Micro Enterprises (SMMEs) through the proposed study on how to make business in the IBSA countries, and the proposals on sharing of experiences and training opportunities. The Ministers also laid emphasis on the need to conclude the bilateral customs cooperation agreements expeditiously.
- The IBSA countries decided that, in taking forward the renewed approach to IBSA deliverables, South Africa should host a meeting on civil aviation and maritime transport. This meeting would focus on the finalisation of the trilateral on maritime transport agreement and also review implementation of the air transport agreement. It should be noted, in addition, that during the present meeting of the working group in Rio, which also included the presence of representatives of Air India, VARIG and SAA, tremendous progress has been made and concrete projects have been identified for cooperation. To this end, cooperation will be fostered in areas of air link expansions, training and knowledge sharing in airports and airspace management, port management, operational and infrastructural systems, including capacity building in shipbuilding, environmental management and navigational systems.
- The development of trans-shipment facilities will also be made a priority in order to support the IBSA trade strategy which advocates for the creation of South-South shipping highways that integrate sub-regional connection between the MERCOSUR, SACU and Indian regions.
- The Ministers noted progress on the establishment of a framework to strengthen cooperation in the field of agriculture. Specific areas of cooperation that have been identified are: research and capacity building, agricultural trade, rural development and poverty alleviation, and other allied areas as may be agreed.
- Following the successful meeting of the health working group held in Brazil, from February 06-10, 2006, in which broad areas of cooperation were discussed, the South African Minister of Health invited her counterparts for a meeting in March 2006. However, this meeting took place on the margins of the World Health Organisation (WHO) meeting in Geneva, in May 2006.

1.4.4 IBSA Trade and Investment Forum

The Ministers noted with satisfaction the results of the Trade and Investment Forum. The Forum was divided into four panels:

a) Trilateral trade analysis;
b) Implementation of the PTAs between MERCOSUR, India and SACU;
c) Challenges to the growth of the trilateral trade (barriers, logistics and financing); and
d) Organisation of the trilateral business meeting on the occasion of the IBSA Meeting of heads of government and state in September 2006.

- It was presented an evaluation of the current aspects of the negotiations involving MERCOSUR, SACU and India. All delegations concluded that there must be an expansion on acting positions to fit the ever-growing market of the three countries. The importance of solid links between the three countries and also the necessity of a stronger South-South union were recognised. The possible substitution of imports from northern countries by imports from southern countries was considered a possible solution to enforce this new commercial agreement.

- Brazilian businessmen pointed out the main barriers to be eliminated to foster trilateral trade are:
  a) Logistics: This problem was sought to be tackled by the suggestion of a study to further address the issue. The private sector also emphasised the necessity of creating flights uniting Brazil-South Africa-India. The measure would help to narrow the distances – both physical and cultural – between IBSA partners.
  b) Customs Procedures: It was suggested that more cooperation should take place in this area by the specific government institutions, in order to simplify many of the regulations and turn the customs process into a more unified process.
  c) Lack of information: In order to help ease the gap of information, the study suggested formation of a working group of trade and investment and creation of a separate IBSA website. At present, the magazine "Brazil Brand of Excellence", and the Brazilian website "Brazil Trade Net" provide good information on Brazil.

Quite a few possible solutions were suggested to help strengthen the IBSA economic area: more aggressive FTAs, closer relations between businesses and industries from the three countries, enhancing contact between the automobile industries of IBSA. Some sectors like the renewable energy sector and ethanol industry were given special attention. The working group on trade and investment decided to organise a seminar that will be hosted by South Africa before the Summit, in September 2006.

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. Ground level implementation can pave the way for the IBSA relationship to be based on sound economic rationale.

At a meeting in Pretoria, South Africa, on June 28, 2006, organised by the South African Institute of International Affairs (SAIIA), CUTS International, Business Unity South Africa (BUSA) and the Institute for International Trade Negotiations (ICONE), Brazil, it was resolved that a conference of experts on aerospace and aviation from India, Brazil and South Africa be convened to take the process of cooperation in the aerospace sector forward.

South-South Cooperation: An Imperative

South-South trade as a percent of world trade has increased from 6.5 percent in 1991 to 10.7 percent in 2001. In 1990, South-South exports, as a percent of South-North exports was 41 percent. In 2001, this increased to 60 percent, emphasising the growing importance of South-South trade. Average Southern tariff rates have also reduced from 25 percent in 1985 to less than 15 percent in 2000.[3] This is evidence of a general trend towards more open economies.

Nevertheless, unilateral liberalisation is not a popular strategy. Since at a multilateral level negotiations are slow, South-South trade cooperation is the second best option. While it is widely believed that South-South trade involves primary goods, trade in manufacturing products actually comprised nearly two-thirds of the total intra-developing country trade in 2001.[4]

At another level, the imperative for South-South trade cooperation can be gauged by the bargaining strength in multilateral trade negotiations. The WTO Cancun Ministerial saw the beginning of a new era of multilateralism. True, this achieved little by way of progress on the multilateral agenda; it did, however, ensure that the trading system would undergo a paradigm shift.

IBSA countries played the leading role in developing the G-20 coalition, responsible for centralising development in WTO negotiations, and the resultant launch of a development round.

Power equations in global politics and economics are changing with Brazil, Russia India, and China (the BRIC countries) together expected to be larger than the G-6 economies in less than 40 years. They would be amongst the six largest economies of the world and India will be the only country to retain a growth rate of more than five percent after 2050. South Africa would remain the largest economy in Africa and would have a per capita income higher than India, Brazil and China.[5]

There is increasing evidence that regional initiatives are too narrow in scope and at times lead to competition amidst cooperation. In 2001, the share of developing countries in intra-regional trade hovered around 20 percent. Thus, regional trade agreements have not contributed significantly to South-South trade and countries have realised that they need to engage beyond regional boundaries to pursue more expansive South-South trade cooperation.

Chapter 2: The IBSA Initiative

In June 2003, the Foreign Ministers of IBSA countries met in Brasilia, Brazil, to form the 'IBSA Dialogue Forum'. Two meetings of the IBSA Forum were held: in New Delhi, in March 2004 and in Cape Town, in March 2005. This Forum laid the foundation stone for convergence among preferential trade negotiations of the three countries and their regions. The Forum also undertook to increase trade flows between the three countries from US$4.6bn presently to US$10bn by 2007 strengthening business-to-business (B2B) links. In addition, the Forum continues 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 formed the IBSA Business Council to facilitate business. The IBSA regional cooperation was not simply linking the three countries, but envisaged to link the three regions, namely India, SACU comprising South Africa, Botswana, Lesotho, Swaziland and Namibia and MERCOSUR comprising Argentina, Brazil, Uruguay, Paraguay and Venezuela.

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

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

2.1 India

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

India accounts for less than one percent of Latin American exports, while Latin America accounts for 2.8 percent of India's exports. On the other hand, India accounts for less than one percent of Latin American imports while Latin America accounts for 1.5 percent of India's imports. Africa's share in India's total exports was six percent in 2003-04 and Africa accounted for 4.2 percent of India's imports during the same period.

India's trade turnover with the SACU has increased from US$900mn in 1997-98 to US$2.5bn in 2003-04. In the same period, India's deficit increased from US$99.7mn to US$1.3bn. India's trade turnover with MERCOSUR increased from US$317.60mn in 1999-2000 to US$1416.65mn in 2003-04. Indian exports to MERCOSUR were approximately US$566.96mn during 2003-04 and imports from MERCOSUR were around US$849.69mn.

Brazil is India's largest trading partner in MERCOSUR accounting for trade of US$466mn in 1999-2000, which increased to US$765mn 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 it 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. RMGs accounts for the highest share of India's exports, and this is just nine percent of India's total exports to South Africa.

Smaller Indian companies export on the basis of their networks or contacts, which can be termed as diaspora supported business. While the Indian diaspora in South Africa is large, it is barely existent in Brazil. Many have not identified Brazil as a market simply because their awareness about the market is low, and they do not know anybody in Brazil.

Secondly, some companies are not interested in expanding their business in these markets as they are trying to consolidate their domestic position before venturing overseas.

When it comes to industries like leather, both Brazil and South Africa are competitors, which makes selling products in these countries more difficult. However, some exporters have explored niche markets in South Africa through innovative design. Moreover, South Africa imposed anti-dumping duties on Indian footwear, which were forced to remove later since they were WTO non-compliant.

Other industries like minerals operate in a demand driven market but can only extract enough to cater to the three major markets. Due to supply-side constraints, it is impossible to diversify into newer markets though they are quite lucrative.

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

2.1.2 Current State of Indian Investment in Brazil and South Africa

During 2003-04, the US attracted the highest approvals of Indian direct investments at US$81.41mn followed by Mauritius with US$80.75mn and Kazakhstan with

Table 1: Country-Wise Approved Investments (Amount in US$ million)						
Name of the country	**1996 to 2000**	**2000-01**	**2001-02**	**2002-03**	**(April 03-July 03)**	**Total**
Brazil	2.54	5.38	5.06	5.17	0.870	19.020
South Africa	20.20	1.03	0.33	0.07	0.127	21.757
USA	378.53	734.24	428.06	185.27	81.410	1807.510
UK	269.80	55.30	85.52	34.53	26.952	472.102
Source: Ministry of External Affairs, India						

US$74.95mn. In 2002-03, the Sudan had accounted for the largest approvals for Indian direct investments at US$750mn. India's outward FDI is a new episode post liberalisation.

Investment relations between IBSA countries can be best described as *ad-hoc*, with no clear direction. Some sectors have seen momentum, particularly pharmaceuticals. It is interesting to study how Indian pharmaceutical companies have made an increasing presence in Brazil. The US was pushing for a Trade Related Aspects of Intellectual Property Rights (TRIPs)+ Agreement with Latin American countries for the past ten years. Brazil, which lacks a strong indigenous manufacturing model, was also pressured by US pharmaceutical giants to adopt a stricter regime.

In the mid 1990s, Brazil started looking at other Southern economies for pharmaceutical products, India being a natural contender. Brazil attracted Indian companies for exports and FDI. Hence, today, in Brazil, there are a large number of Indian pharmaceutical companies.

The major Indian pharmaceutical company, Ranbaxy initiated operations in Brazil, in November 2000. Presently, it is the fifth largest generics drug manufacturer in Brazil and enjoys nine percent share of the Brazilian market.

Indian pharmaceutical companies have also made inroads in South Africa and India presently occupies the 11th position in terms of sales there. Ranbaxy here has seen stupendous growth in sales, increasing from US$5.7mn in 2002 to US$10.7mn in 2003.

Several leading Indian companies namely the Tata Group, Mahindra & Mahindra and United Breweries have a strong presence in South Africa. India's investment in South Africa in 2003-04 was 0.22 percent of its total investment abroad. Yet, as a stock, it is estimated at US$100mn as per figures released by the Department of Foreign Affairs, South Africa.[6]

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

Indian businesses lack a clear investment led expansion policy. Except pharmaceuticals, and IT (which 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.

2.1.3 Business Awareness

The field survey revealed an interesting dichotomy. It was found that some pharmaceutical majors, automobile majors and electronic goods companies kept track of the government's regional trade policies. At least two tyre companies are making use of the India-Sri Lanka FTA and the India-Thailand FTA. However, a majority of the companies surveyed did not keep a track of the government's regional agreements.

The media is the primary source of information for most companies. Weekly updates from business chambers are also an important source.

The survey indicated that companies concerned were in favour of either a sectoral approach or a general macroeconomic approach as a way of improving trade and investment with other countries. Organising fairs and exhibitions was quoted as the most common approach towards sectoral initiatives.

Some respondents in the electronics sector were emphatic about setting up sector specific export promotion boards rather than broad based business chambers. This gives a useful cue to business chambers to promote sectoral initiatives instead of broad general measures of trade promotion, e.g. IBSA Electronics Fair may be more useful than a general IBSA Trade Fair to promote trade amongst IBSA countries.[7]

There was no consensus on the approach that could be taken for increasing trade and it was felt that the regional agreements, WTO and IBSA type open ended cooperation should be adopted in consonance with each other.

The study also revealed that while most companies were unaware of the IBSA initiative, they did, however, feel that IBSA like initiatives, which have a broad based agenda often dilute the trade component.

2.1.4 Awareness of IBSA Initiative

More than 90 percent of the companies surveyed were not aware of what IBSA meant. This indicated that there was a huge information gap and it was incumbent upon the promoters of the IBSA initiative to inform the stakeholders in India about the same. A strong disconnect between the government's economic cooperation agreements and industry response also came to the fore. The government's industry interaction policy has no clear direction and the use of multi-sector business chambers for information dissemination seems to create a perception of intent-deficit within the industry. The survey found that there was a regional bias in the dissemination of information regarding the government's trade and investment related policy initiatives. The most commonly quoted RTAs were the Indo-Lanka and the Indo-Thailand FTA, since they received wide coverage in the media.

Nearly 70 percent of the companies surveyed felt that the current level of reliable sectoral information available was very poor in both Brazil and South Africa. In general, it was very difficult for them to procure information regarding the markets in Africa and South America compared to the EU and the US.

A charge leveled against the Indian missions in these countries was that they had not assisted Indian companies there in their trade promotion engagements. In addition business chambers had not been useful. This problem, however, was more pronounced in Brazil than in South Africa.

The survey raised a few questions:
- What is the role of Indian missions in their respective countries?
- Has the Indian Ministry promoted a trade desk in their embassies or are they meant for protocol?
- Should Indian representations abroad be made more accountable?

Currently, most companies send representatives to conduct market surveys or appoint domestic representatives to conduct sectoral surveys. Both these methods are expensive and time-consuming. In addition work is replicated since most companies do not have access to the reports prepared by other companies. This problem is essentially limited to companies with low export volumes.

Companies with an annual export of more than US$20mn do not face any information-related problems and they are able to access information adequately. According to them, it is necessary to know the right means of gathering information and exporters should be willing to invest time and money in the process. Thus, one may safely argue that smaller exporters are usually strung on time and money, and attempt to adopt shorter and cheaper techniques to gather information. This results in inadequacy of information. Thus small and medium-sized enterprises (SMEs) appear to be at a disadvantaged position and need additional assistance.

Language is clearly the biggest problem faced by Indian business aiming to increase exports to Brazil. Those surveyed felt that it is simpler to do business with other South American countries since it was easier to interact in Spanish, particularly as Spanish language expertise was easily available. Moreover, it was expensive to translate documents in Portuguese *vis-à-vis* Spanish.

2.1.5 Expectations from IBSA Initiative
One of the biggest concerns of the Indian industry regarding such initiatives as IBSA was that they are seldom consulted regarding the model of these initiatives. Nearly half the number of companies interviewed thought that these initiatives were generally more political and had very little of trade component.

Most companies were unable to suggest a roadmap for furthering the IBSA Initiative. It must, however, be mentioned that China is widely perceived in the annals of Indian history as a counterweight to developing countries such as IBSA as it is “capturing” huge markets within these countries.

2.1.6 Non-tariff Barriers and Key Concerns

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

In this section, we focused on the following questions:

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

2.1.6.1 Crosscutting Barriers

Freight Costs and Logistics

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

Freight rates account for 25 percent of the costs for exporting to the US and Europe, and the same will account for at least 40 percent if they export to South Africa and Brazil. It must, however, be pointed out that higher freight and higher costs may only be a perception, and may not represent reality. The data collected from leading freight and logistics companies is presented below:

Table 2: Freight Rates between IBSA Countries (in US$ in 2005 for a 20 ft container)

India–Brazil		**India–South Africa**		**India–US**	
Lowest	Highest	Lowest	Highest	Lowest	Highest
1600	2000	1200	1400	1000	3600

Source: Various freight agents

Table 3: Time Required for Delivery of Goods within IBSA Countries

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

Source: Various freight agents

The factors responsible for determining freight rates are:

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

Service contracts influence freight rates substantially. While Wal-Mart suppliers ship products at US$1000 per container, single order clients are charged more than three-and-a-half times that much. High volume and regularity of shipment can help companies to easily reduce their shipment costs by sixty percent. However, freight rates also rise on account of higher demand. Freight rates from India to US went up from US$1600 in April 2004 to US$2300 in April 2005, primarily on account of a 20 percent rise in shipments.[8]

In addition, freight costs are also based on the number of transshipment points and speed of delivery. Premium services, which run vessels directly from port of loading to the destination port, often charge higher compared to vessels that travel from multiple transshipment points. Moreover, routes that are less dense, and volume of shipment is inadequate, end up being more expensive, since bigger vessels cannot be filled to capacity.

Costs of Business Facilitation

Given below are the costs of conducting business in Brazil and South Africa *vis-à-vis* India's leading trading partners:

Courier and Extemporised (Unplanned) Freight

Table 4: FedEx Rates for Goods from India to Select Destination Markets in US$

	US	**Brazil**	**South Africa**
0.5 kg Envelope	29.55	39.04	39.04
50 kg Air Box	512.95	703.11	703.33
1000 kg Sea Shipment (per kg)	8.93	11.44	11.44

Source: www.fedex.com (Visited on 12 August 2005)

Telephone Charges

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

Table 5: Internet Telephony Charges from India to IBSA and Other Countries		
Country	**Rate as US$/minute**	
	Landline Charge	**Cell Phone Charge**
USA	0.04	0.04
UK	0.04	0.19
Singapore	0.06	0.06
Brazil	0.22	0.26
South Africa	0.22	0.26
Source: www.way2talk.sify.com (Visited on August 18, 2005)		

Landline Charges applicable from May 2005

Table 6: Landline Telephone Charges from India to Other Countries by India's leading service telecom provider	
Country	**Per minute call rates in US$**
US, Canada and UK	0.16
Europe (other than UK)	0.21
South-east Asia	0.21
Brazil, South Africa and rest of the world	0.26
Source: www.bsnl.in (Visited on July 22, 2005)	

Travel Costs (Information from travel agents)
The following are the freight rates charged by different airlines within IBSA countries.

Table 7: Airfare within IBSA Countries (in US$)			
Route	**Maximum Ticket fare**	**Minimum ticket fare**	**Direct flight**
India-South Africa	1111.11	1000	Yes
India-Brazil	2111.11	1888.88	No
India-US	1330.33	1111.11	Yes
Source: Various travel agents			

2.1.6.2 Sectoral Barriers

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

Pharmaceuticals

The registration procedure in Brazil is very cumbersome. It takes a long time to complete registration formalities, which makes entry into the Brazilian market very difficult. Moreover, registration fees for pharmaceutical products have risen significantly.

According to the International Trade Administration, US Department of Commerce (DoC), prior to 2002, the price of registering one drug was US$1000 per year. Since 2002, the price has increased to US$47058 per drug. The operating charges have risen from US$138 per year, to US$11765 per year with compulsory annual renewal.

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

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

Others
In South Africa, all electronic products require a new certification namely an Electromagnetic Compatibility (EMC) and Electromagnetic Interference (EMI). In the first year of certification, this takes six months and is very expensive, since international certification agencies like TÜV Rheinland Group (TUV) and *Société Générale de Surveillance* (SGS) have to be used. "We have approximately 40 products and the expenditure is approximately Rs 50,000 per product", said an electronics exporter.[9]

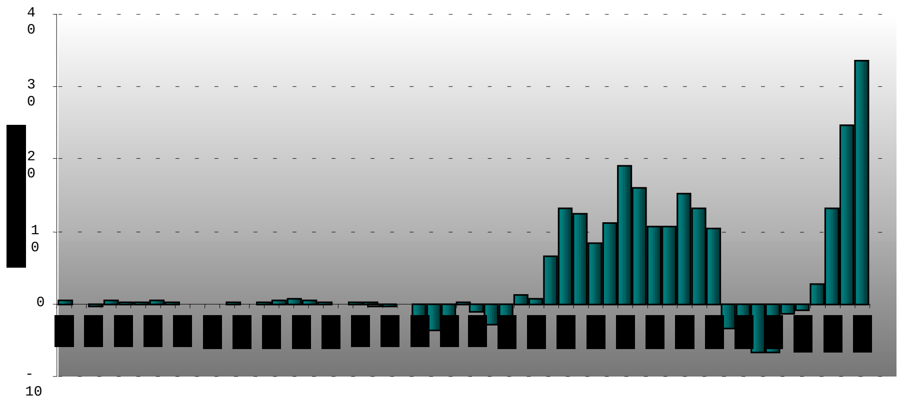
2.2 Brazil

2.2.1 Trade and Investment

2.2.1.1 Current Trade Patterns
Brazil's foreign trade has been on a very bullish trend for the last few years. Surpluses have occurred repeatedly since 2001 but the consistent positive tendency cannot, however, be attributed solely to the devaluation in the year 1999 – highly praised as one of the main reasons for export success ever since. The fact is that world markets have been especially 'friendly' to Brazilian products, particularly commodities, and that China has played an important role in that context. In addition, world economic growth and consequent demand have also been important in keeping Brazil's external balances more positive than they would otherwise be.

2.2.1.2 Overall Trade
Graph 1 indicates the evolution of Brazil's trade balance since 1950. The small balances of the 50's and 60's alongside the deficits of the 70's and the surpluses of the 80's

Graph 1: Trade Balance - 1950-2004



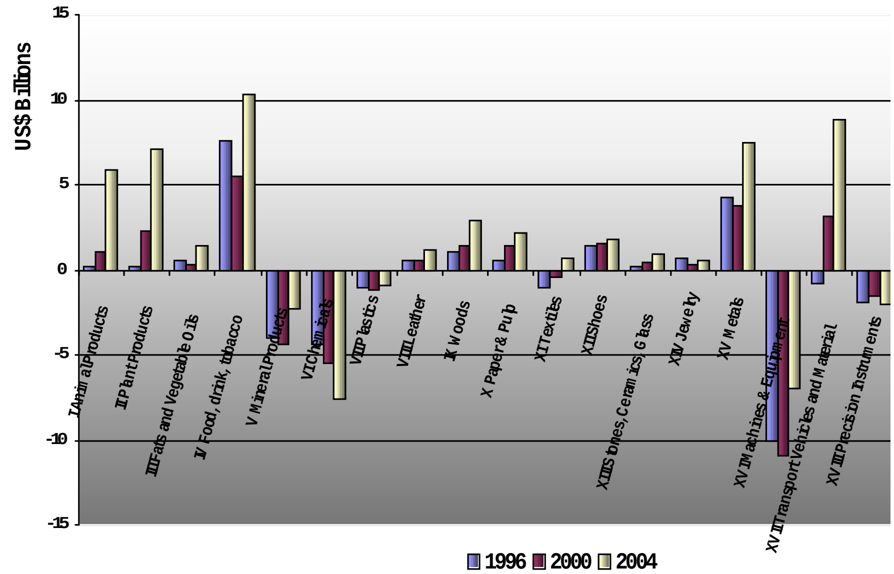
indicate the period of Brazil's import substitution policies, punctuated by the oil crises of the 70's and the need to generate export surpluses to pay the foreign debt in the 80's. The deficits of the second half of the 90's track broadly with the stabilisation plan instituted in 1994 and a currency widely perceived as overvalued for the period. Things began to change, therefore, as from the beginning of the new millennium. The surpluses since 2003 have been the highest in the country's history.

The move from a deficit of over US$8bn in 1997 to a surplus of almost US$34bn in 2004 can also be attributed to a significant increase in productivity during the 90's – particularly in the context of the modernisation that the economy underwent in the period. Even though Brazil has one of the world's highest interest rates, tax burden and logistical costs, a few industrial sectors have fared extremely well, having reached increases in productivity to the tune of 115 percent in the decade. In the period between the highest deficit (1997) and the highest surplus (2004), Brazilian exports grew more than the world average.

The devaluation of both 1999 and 2002 had a significant restraining effect, particularly given that overall growth and domestic demand were relatively low at those junctures. As a result of both 'hick-ups', private financing dried up while the government started in 2002 a monetary tightening cycle which would only end by the first semester of 2005. Another drag on growth that should be mentioned is the power shortage and subsequent rationing that took place in 2001. Imports had significant declines in the sectors of machinery, electronics, organic chemicals and autos while in plastics, optical/ medical precision instruments, cereals and pharmaceuticals there were increases but small ones. Import levels were superior to world import levels only in fertilisers – a crucial input for the agribusiness industry.

Graph 2 gives an indication of the sectoral trade balances for three crucial years in recent Brazilian economic history: 1996, when the country had the worst trade deficit in its history up until then; 2000, when the country had its smallest trade deficit during the "Stabilisation Era", already geared to the turn-around that would begin to occur in the

Graph 2: Trade Sectoral Balances, Brazil 1996, 2000, 2004

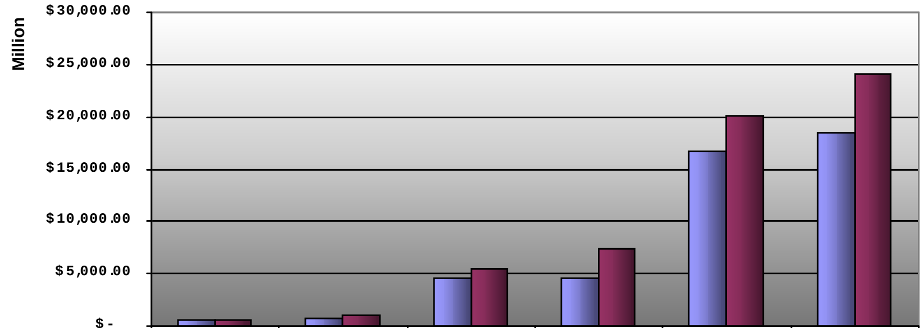


subsequent year; 2004, when the country had its highest ever trade surplus. Graph 2 demonstrates how only a few sectors did not improve their trade positions since 1996. Also, it becomes clear that there are salient cases – both upwards and downwards. The following should be noted:

- Of the sectors with a deficit in 1996, only two – chemicals and precision instruments – had worse deficits in 2004.
- Of the sectors with a deficit in 1996, two – textiles and transport vehicles and materials (autos and auto ancillaries) – transformed their deficits into surpluses by 2004; the automotive sector stands out in this context, having produced a turn-around of over US$10bn in the period.
- The chemical sector stands out for the worsening of its deficit in the period; the machinery and equipment sector, the second highest deficit in 2004, at least appears to be reacting positively to a more competitive currency, having decreased significantly its deficit in relative terms over time.
- The mineral sector also has had an important but decreasing deficit over time, mostly due to fuel imports; the sector actually has had a surplus over the period (almost US$5bn in 2004).
- The agribusiness sector is by far the most competitive, with a significant increase in surpluses over the period.
- In addition to agribusiness, transport material and equipment, leather, wood, pulp of wood and paper, and shoes, have had increasing surpluses as well.

Close to 50 percent of all Brazilian trade flows are with the US and the EU. MERCOSUR accounts for 10 percent, the rest of Latin America for another 9 percent, Asia for 17 percent and Africa for a mere 7 percent of the total flows. The distance between the major trading partners and the second-placed ones – Argentina and China – to Brazil's IBSA partners is significant. While Brazil's exports to Argentina were almost 3 times

Graph 3: Brazilian Exports in US$, 2003-2004



	India	South Africa	China	Argentina	U.S.	E.U.
2003	553,145,978	733,178,084	4,532,559,799	4,561,146,276	16,692,354,261	18,461,012,700
2004	651,513,457	1,035,865,511	5,439,956,312	7,373,217,826	20,038,419,925	24,160,225,116

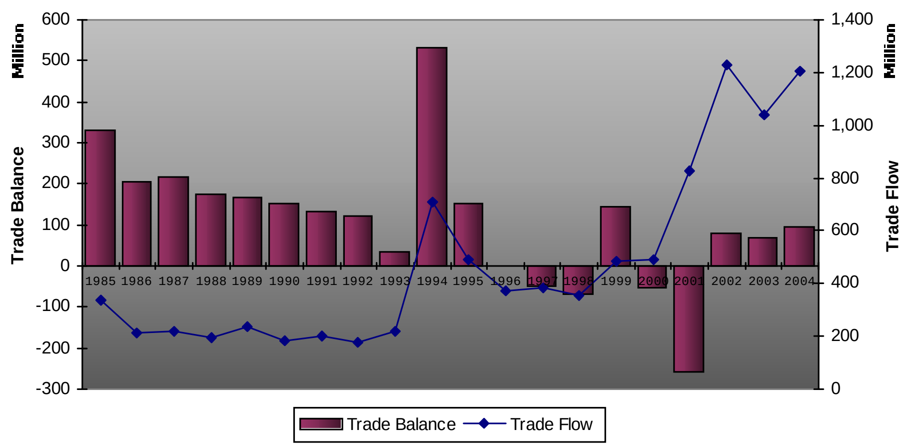
smaller than the US, they were 11 times and 7 times bigger than the value to India and to South Africa, respectively, in 2004.

2.2.2 IBSA Intra-block Trade

Brazil-India Trade

Trade with India increased from US$484mn in 1999 to a little over US$1.2bn in 2004 – an increase of close to 150 percent in the period and growing. The values are, of course, relatively small, accounting for only 0.76 percent of Brazil's overall trade flow. The bilateral trade, unlike the patterns for most bilateral trades and for the overall trade balance with the world over time, has been fairly erratic since the mid-90's with surpluses and deficits alternating from year to year – a reflection perhaps of the importance of particular products in particular years or of oscillating regulatory, logistical or market conditions impinging upon that trade. Thus, the bilateral trade does not point to Brazilian

Graph 4: Brazil-India, Trade Balance and Flow, 1985-2004



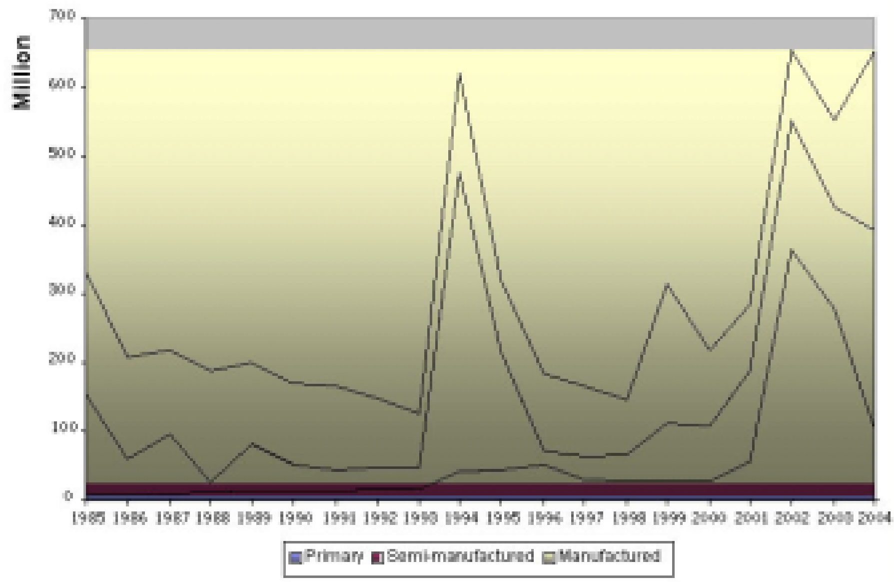
CUTS International

deficits during the pre-devaluation stabilisation period (1994-1999) and Brazilian surplus increases ever since as in most other bilateral trades. In fact, it was in 2001 that Brazil had its worst historical deficit with India, to the tune of almost US$260mn.

Since 1985, manufactured and semi-manufactured goods were predominant exports to India, having peaked significantly in 1994. In 2002, however, primary products took over the lead but only for some time as semi-manufactures and manufactures came back and restored their predominance.

Four main export items from Brazil to India accounted for roughly 70 percent of the total in the first semester of 2005: raw sugar cane, crude soya bean oil, ethyl alcohol and crude petroleum oils. These items have been the biggest growth items in Brazil's exports to India with raw sugar cane reaching more than 560 percent and ethyl alcohol more than 460 percent growth in the first semester of 2005.

Graph 5: Brazilian Exports to India, 1985-2004

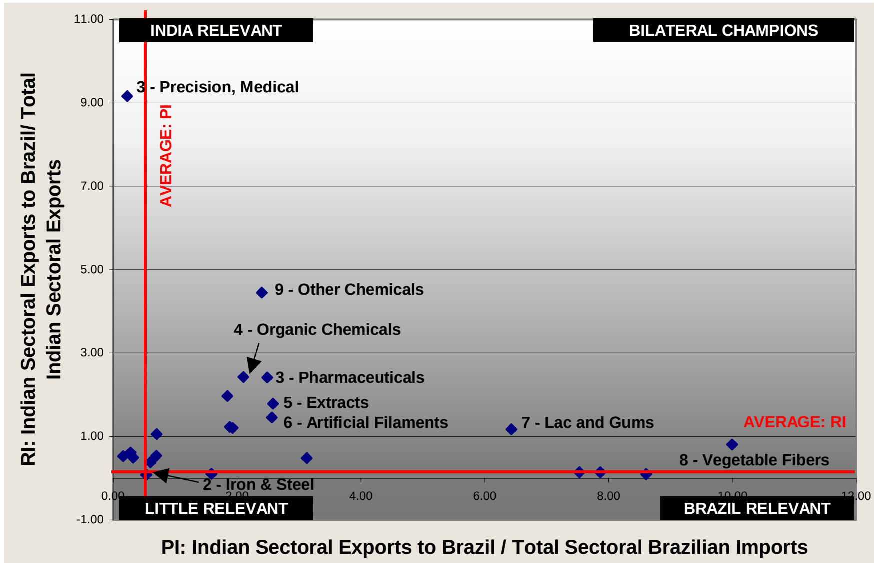


In 2004, 84 percent of Brazil's exports to India were manufactures (40 percent) and semi-manufactures (44 percent). In relative terms, Brazil sells more primary products to India (16 percent) than to the US (8 percent). Total Indian exports to Brazil accounted for 0.54 percent of all Brazilian imports and 0.43 percent of total Indian exports.

Table 8: Indian Exports to Brazil, Participation and Representativeness			
Sectors	**US$ (Thousands)**	**PI**	**RI**
Total	**272188**	**0.54**	**0.43**
Organic Chemicals	67607	2.10	2.42
Pharmaceuticals	38609	2.49	2.41
Other Chemicals	25283	2.40	4.45
Fuels	22501	0.28	0.61
Machinery	13091	0.16	0.53
Artificial Filaments	12502	2.56	1.46
Extracts	11956	2.58	1.79
Vehicles	8465	0.32	0.49
Rubber	6967	0.70	1.06
Apparel, Not Knitted or Crocheted	4872	7.53	0.14
Precision, Medical, Surgical instruments	4226	0.23	9.16
Glasses	4082	1.84	1.97
Oils and Perfumery	3771	1.93	1.20
Tools	3607	1.88	1.23
Lac and gums	2799	6.43	1.17
Cotton	2509	1.59	0.10
Iron and Steel	2135	0.53	0.08
Oleaginous	1682	0.60	0.38
Clothing articles	1503	8.61	0.09
Vegetable oils	1137	0.70	0.54
Vegetable fibers	1081	9.99	0.81
Rugs and Carpets	1027	7.86	0.14
Source: International Trade Centre (ITC) Comtrade, 2005			

Sectors such as organic chemicals, pharmaceuticals, other chemicals, artificial filaments, extracts, rubber, glasses, perfumery, tools, gums, vegetable oils, vegetable fibers, special fabrics are considered the 'bilateral champions' in Indian exports to Brazil. In other words, they are Indian exports that are important both for Brazil as an origin of imports as well as for India as a destination of exports in those sectors.

Graph 6: Indian Exports to Brazil - Sectors Participation and Representativeness



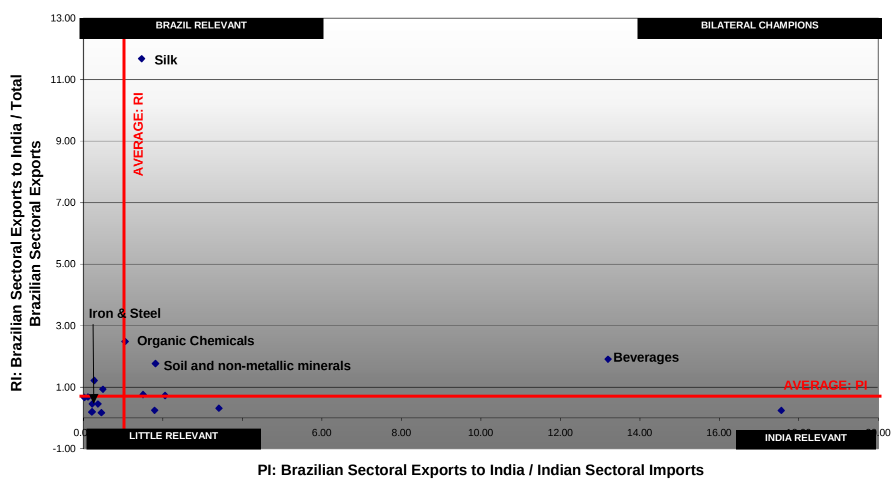
The tendency, however, is not for all sectors to be that way. Some are more important as Brazilian imports than as Indian exports. For example, sectors such as apparel, not knitted or crocheted, are very important as a Brazilian import item but of little relevance as an Indian export. For these sectors, Brazil has India as an important source of imports but for India, in these sectors, Brazil is not an important client relative to all its other clients in the world.

Table 9: Indian Exports to Brazil, Dynamism 1999-2003			
Products	**Value US$ (Thousand)**	**Variation %**	**DI**
All	**272188**	**24**	
Glasses	4082	62	2.6
Artificial Filaments	12502	53	2.2
Precision, Medical, Surgical	4226	40	1.7
Steel articles	1422	40	1.7
Pharmaceuticals	38609	33	1.4
Rubber	6967	21	0.9
Machinery	13091	17	0.7
Source: ITC, Comtrade, 2005			

Variation refers to growth in percent of exports from India to Brazil in the 1999/2003 period.

Table 10: Brazilian Exports to India, Participation and Representativeness			
Sectors	**US$ (Thousands)**	**PI**	**RI**
Todos	**553.131**	**0,72**	**0,76**
Organic Chemicals	32.436	1,05	2,49
Fuels	25.717	0,11	0,68
Machinery	25.237	0,37	0,45
Vehicles	19.023	3,41	0,31
Electro-electronics	14.458	0,22	0,45
Vegetable Oils	12.469	0,49	0,93
Minerals	8.964	1,79	0,25
Iron & Steel	7.937	0,45	0,17
Rubber	7.263	1,50	0,76
Soil and Non-Metallic Minerals	7.221	1,82	1,77
Sugar and Confectionary	5.494	17,56	0,24
Precision, Medical, Surgical	4.243	0,28	1,21
Beverages	3.909	13,20	1,91
Precious Stones and Metals	3.742	0,03	0,67
Silk	3.696	1,47	11,69
Perfumery and Oils	2.014	2,06	0,73
Iron and Steel Articles	1.419	0,22	0,20
Cotton	1.017	0,21	0,19

Graph 7: Brazilian Exports to India, Participation and Representativeness, 1999-2003



Sectors such as organic chemicals, rubber, non-metal soil and minerals, beverages and silk are considered the "bilateral champions" in Brazilian exports to India. They are Brazilian exports that are important both for India as an origin of imports as well as for Brazil as a destination of exports in those sectors.

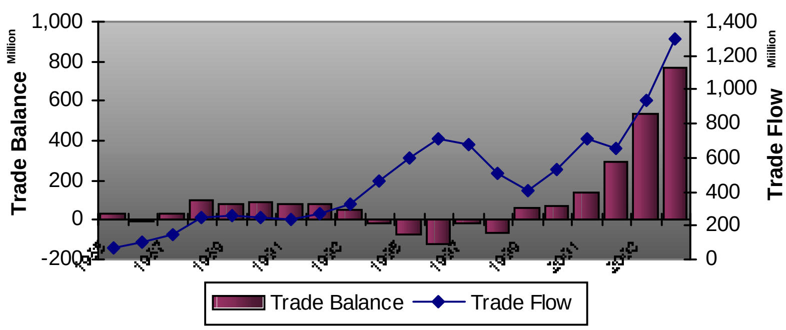
Table 11: Brazilian Exports to India, Dynamism 1999-2003			
Products	**Value**	**Variation**	**DI**
	US$ (Thousand)	**%**	
All	**553,131**	**25**	
Organic Chemicals	32,436	42	1.7
Machinery	25,237	12	0.5
Vehicles	19,023	18	0.7
Electro-electronics	14,458	58	2.3
Vegetable Oils	12,469	4	0.2
Iron and Steel	7,937	-2	-0.1
Rubber	7,263	33	1.3
Precision, Medical and Surgical	4,243	24	1.0
Metals and Precious Stones	3,742	14	0.6
Silk	3,696	12	0.5
Perfumery	2,014	56	2.2
Source: ITC, Comtrade, 2005			

Variation refers to growth in percent of exports from Brazil to India in the 1999/2003 period.

Brazil-South Africa Trade

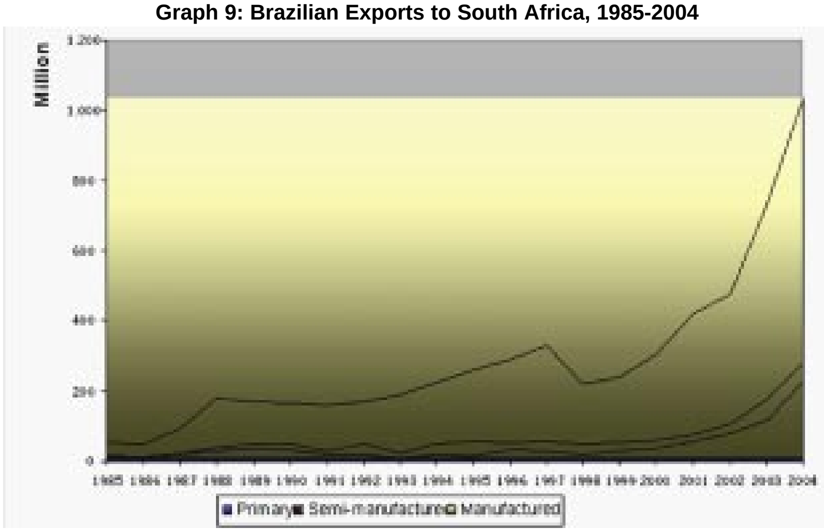
Brazil's trade with South Africa increased significantly in the period following the devaluation of the Real – almost 220 percent, from around US$410mn to US$1.3bn in the 1999-2004 period. As compared with India, the trade flow with South Africa was slightly larger in 2004 (around US$100mn) but 80 percent of that flow is accounted for by Brazilian exports. Brazil has had a high and growing surplus with South Africa: almost US$770mn, as compared to a surplus of US$95mn with India. The pattern of trade, unlike India, does correlate highly with the main phases of recent economic history – the pre-devaluation stabilisation (1994-1999) and the post-devaluation periods (1999-present) – with Brazilian deficits during the former and surpluses during the latter.

Graph 8: Brazil-South Africa, Trade Balance and Flow, 1985-2004



Unlike India that has had times when it imported mostly semi-manufactured goods or primary goods, trade with South Africa has been characterised by a predominance of manufactured exports (almost 75 percent of the total in 2004) for the full course of the bilateral trade's history. Exports have a much lesser sectoral concentration with the ten top products being responsible for only 37 percent of the total half of the ten main export items are automotive in nature, accounting for 18 percent of total exports. Overall, the automotive sector accounted for almost 30 percent of all Brazilian exports to South Africa in 2004.

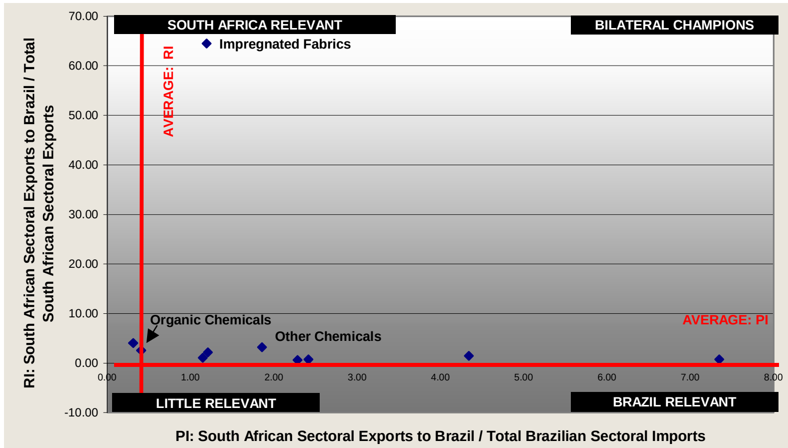
Graph 9: Brazilian Exports to South Africa, 1985-2004



In 2004, 22 percent of all exports were primary products, 4.85 percent were semi-manufactures, and 73 percent were manufactures. South Africa is a more important destination for Brazilian primary products than both India and the US while it rivals the US and is almost twice as important as India as a destination for manufactures.

Table 12: S. African Exports to Brazil, Participation and Representativeness			
Sectors	**US$ (Thousands)**	**PI**	**RI**
Total	**177,063**	**0.35**	**0.56**
Iron and Steel	29,395	7.35	0.77
Aluminum	15,608	4.34	1.51
Organic Chemicals	13,133	0.41	2.58
Minerals	7,525	2.29	0.62
Fertilizers	5,854	0.31	4.03
Paper	5,145	1.15	1.08
Tools	2,322	1.21	2.20
Other Metals	1,472	1.86	3.24
Impregnated Fabrics	1,349	1.19	64.48
Railway Material	1,075	2.41	0.71
Source: International Trade Centre (ITC) Comtrade, 2005			

Graph 10: South African Sectoral Exports to Brazil, Participation and Representativeness, 1999-2003



Sectors such as iron and steel, aluminium, organic chemicals, minerals, paper, tools, other metals, impregnated fabrics and railway material are considered the 'bilateral champions' in South African exports to Brazil. They are South African exports that are important both for Brazil as an origin of imports as well as for South Africa as a destination of exports in those sectors. In contrast to Indian exports to Brazil, South African exports to Brazil in almost all sectors (9 out of 10) are 'mutually important' in the bilateral trade.

There are, of course, differences as to which sectoral South African exports to Brazil are more or less important to each side of the bilateral trade. Thus, iron and steel, aluminium, minerals, paper and railway material, are sectors where South African exports are more important as Brazilian imports than as South African exports *per se*. Conversely, the sectors of organic chemicals, fertilisers, tools, other metals and impregnated fabrics are more important as South African exports than as Brazilian imports.

Table 13: South African Exports to Brazil, Dynamism 1999-2003

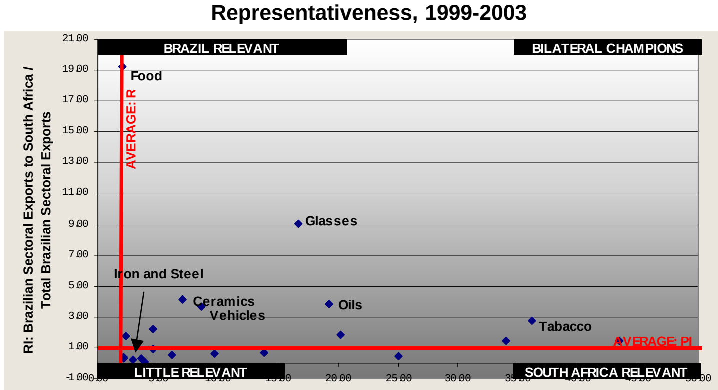
Products	Value	Variation	DI
	US$ (Thousand)	%	
Total	**177.063**	**-8**	
Iron and Steel	29.395	-2	-0.3
Aluminum	15.608	-2	-0.3
Organic Chemicals	13.133	28	3.5
Minerals	7.525	-2	-0.3
Fertilizers	5.854	-3	-0.4
Tools	2.322	-12	-1.5
Other Metals	1.472	62	7.8
Impregnated Fabrics	1.349	-6	-0.8
Railway Material	1.075	-9	-1.1

Source: ITC, Comtrade, 2005

Variation refers to growth in percent of exports from South Africa to Brazil in the 1999/2003 period.

Table 14: Brazilian Exports to South Africa, Participation and Representativeness			
Sectors	**US$ (Thousands)**	**PI**	**RI**
All	**733,146**	**2.12**	1.00
Vehicles	221,332	8.60	3.66
Meat	52,043	43.43	1.43
Vegetable Oils	50,977	19.30	3.81
Tabacco	30,408	36.11	2.79
Mineral	25,958	13.87	0.71
Glasses	22,911	16.67	9.08
Plastics	20,885	2.40	1.78
Leathers and Skins	19,607	20.25	1.85
Paper	15,631	34.03	1.44
Ceramics	14,919	7.11	4.13
Iron and Steel	9,598	2.92	0.20
Aluminum	9,526	9.71	0.63
Paper Pulp	7,811	25.04	0.45
Wood and wooden works	6,647	3.63	0.32
Shoes	5,911	2.17	0.36
Stone works	4,267	4.62	0.94
Foods	1,896	2.06	19.26
Sugar and Confitery	1,786	3.92	0.08
Special Fabrics	1,738	4.65	2.24
Tools	1,216	6.23	0.51
Chocolates	1,009	2.20	0.31

Graph 11: Brazilian Sectoral Exports to South Africa, Participation and Representativeness, 1999-2003



Sectors such as glasses, vegetable oils, tobacco, paper pulp, vehicles and ceramics are considered the 'bilateral champions' in Brazilian exports to South Africa. They are important both for South Africa as an origin of imports as well as for Brazil as a destination of exports in those sectors.

There are, again, differences as to which sectoral Brazilian exports to South Africa are more or less important to each side of the bilateral trade. Thus, with the exception of the food sector, for all other sectors with more than US$1mn in annual exports to South Africa, Brazilian exports are more important as South African imports than as Brazilian exports per se. Brazil, therefore, seems to be an important supplier for South Africa, relative to other world suppliers, in the sectors where it exports more than US$1mn while South Africa is a relatively less important buyer for Brazilian exports than other world buyers.

Table 15: Brazilian Exports to South Africa, Dynamism 1999-2003

Products	**Value**	**Variation**	**DI**
US$ Thousand	**%**		
All	**733,146**	**10**	
Vehicles	221,332	11	1.1
Meat	52,043	26	2.6
Vegetable Oils	50,977	18	1.8
Plastics	20,885	10	1.0
Iron and Steel	9,598	10	1.0
Wood and wood works	6,647	10	1.0
Stone work	4,267	11	1.1
Chocolates	1,009	18	1.8

Source: ITC, Comtrade, 2005

Variation refers to growth in percent of exports from South Africa to Brazil in the 1999/2003 period.

2.2.3 IBSA and FDI

Alongside trade, investment constitutes a crucial aspect of global economic relations and could not be absent from an IBSA purview. In an ideal world, agreements such as the ones pursued by IBSA partners should result not only in increased exports and imports but also in greater and better investment flows across the three countries. In fact, trade is nothing but an important element in the broad spectrum of investment relations: 'good' trade should facilitate investment by permitting investors to invest, produce and sell products and services where they have a competitive edge and in the most efficient way possible. IBSA's success should clearly be measured against the effect it may have on spurring greenfield and other investments where that has only occurred sparsely for a number of reasons.

The case of intra-IBSA investment is indeed incipient. It is, therefore, interesting to probe into whether the reasons for such a state of affairs have to do mostly with distances, culture or the policies of major multinationals, or whether there are 'indigenous' reasons that scare away investment or at least do not contribute to attracting it. The table below elaborated by the WB gives a good idea of some comparative elements relating to the investment climate in the three IBSA countries.

Table 16: Business Environment Indicators, 2004

Indicators	**Brazil**	**India**	**South Africa**	**OECD Average**
Starting a Business				
Number of procedures	17	11	9	6
Time (days)	152	89	38	25
Cost (% of income *per capita*)	11.7	49.5	9.1	8.0
Min. capital (% of income *per capita*)	0.0	0.0	0.0	44.1
Hiring and Firing Workers				
Difficulty of Hiring Index	67	33	56	26.2
Rigidity to hours Index	80	20	40	50.0
Difficulty to Firing Index	70	90	60	26.8
Employment Rigidity Index	72	48	52	34.4
Firing Costs (weeks of wages)	165	79	38	40.4

Source: The World Bank, 2005

The challenges of launching a business in IBSA countries are apparent from the table, albeit to different degrees across countries. In all but three of the indices listed in the table does at least one IBSA country fare better than their Organisation for Economic Cooperation and Development (OECD) counterparts. The best result in that context relates to the requirement for a minimum deposit to obtain a business registration, something which is at 44.1 percent of gross national income (GNI) in OECD countries but does not even exist in their IBSA counterparts. OECD countries have a higher rigidity in their regulations on working hours than India and South Africa while firing costs tend to be higher in the OECD than in South Africa.

For all other business environment indicators, IBSA countries fare significantly worse than the OECD. Of nine indicators listed in the table, Brazil has the worst numbers in six of them, while South Africa has the best numbers in six indicators. The most striking numbers are the 152 days on average to start a business and the 165 days of wages when firing employees that entrepreneurs may expect to go through in Brazil. In India, the high number relates to the difficulty to dismiss a redundant worker, which stands at 90 (as opposed to 26.8 in OECD countries). As can be seen, even though the three countries can differ on specific indicators and indices, the overall picture is not quite an "investment-friendly" one for the IBSA "region". An important corollary is that for IBSA countries that are relative "newcomers" in the FDI universe and do not have the same capacity and structure to back their investments as OECD countries do, the IBSA business environment makes it all the more difficult for "intra-zone" investment to occur.

According to Brazil's Central Bank, direct investment undertaken by Brazilians overseas totaled US$44.7bn in 2003, of which 13 percent referred to portfolio investment. There have been no recordings of Brazilian investments in either India or South Africa, the last entry referring to a value of US$8mn in South Africa in 2001. The table below demonstrates the importance of tax havens such as the Cayman and Virgin Islands or the Bahamas as destinations to Brazilian investments, most of which ultimately find their way back to the country via new investment opportunities.

Table 17: Brazilian Investment Overseas - US$ Million

Country of Destination	**2001**	**2003**
Cayman/Virgin/Bahamas	27,053	28,770
MERCOSUR	4.874	4.359
United States	1.401	2.100
Spain	1.657	1.775
South África	8	-
India		-
Total	42.584	44.769

Source: Central Bank of Brazil, 2005

Brazil's investments in IBSA partners relate primarily to South Africa and with a particular focus on the transport and mining sectors. In some cases, investments reflect strong relations between Brazilian and South African firms, whether local or multinational. One example of a Brazilian Greenfield investment is the bus manufacturer Marcopolo that has established a factory in South Africa and produces 700 units per year – the highest level of bus production in Africa as a whole. A general tendency for Brazilian investments in South Africa and vice-versa is for investors to resort to local funding.

In the financial markets, there is a general lack of knowledge regarding investment opportunities so that short-term investments also tend to go by the wayside in Brazil-South African relations. The lack of market information accounts for the almost non-existent presence of Brazilian financial institutions in South Africa, including investors in the Johannesburg stock market.

There are both structural and localised problems that undermine investor appetite in South Africa. The lack of information and knowledge, the lack of confidence in the market, the lack of appreciation for business opportunities, have been identified as the reasons for no interest on the part of Brazilian investors in South Africa. More specifically, there is a perceived lack of information on joint ventures and the participation of the State in strategic projects in energy, transports and telecommunications. Trade relations between these two nations have also been hampered due to great bureaucratic difficulties, too many procedures to start a business, rigidity regarding labour relations and a complex tax regime as notorious barriers to business development in South Africa.

As to India, there are no recorded relevant Brazilian direct investments. Entry costs, insecure procedures, excessive bureaucracy and lack of regulatory transparency are the major obstacles for doing business with India. Lack of copyright and other intellectual property protection in India has also acted as a major disincentive to investment. Brazil has been a major recipient of FDI, having been second only to China in the developing world. India and South Africa have not, of course, been amongst the biggest investors in Brazil – a trend which obtains the world over as most of the FDI that actually sees the light of day is by and among OECD countries.

Table 18: FDI Champions, 2003

Ranking	**Value (US$ bn)**
1-Luxembourg	87
2-China	53
3-France	47
4-United States	30
5-Belgium	29
6-Spain	26
7-Ireland	25
8-The Netherlands	20
9-Italy	16
10-United Kingdom	14
16-Brazil	12

Source: UNCTAD, World Investment Report, 2004

According to the Central Bank of Brazil, the FDI stock from India and South Africa has increased significantly in the 1995-2000 period, a trend which has continued ever since. As the table below indicates, India has a stock almost twice as big as South Africa, having gone from 0 in 1995 to US$45.9mn in 2000, and its FDI flows have been growing consistently in the years 2000 – from an annual flow of US$3.38mn to US$14.14mn or an increase of almost 320 percent in annual values. With that increase, India's FDI stock in Brazil is reaching over US$70mn. South Africa's FDI stock in Brazil has also grown remarkably, from US$2.07mn to US$26.1mn or an increase of almost 1,200 percent in the 1995-2000 period. Its flows peaked at US$8.27mn in 2003 and declined last year to US$3.59mn, still contributing another US$22mn to the country's FDI stock (almost doubling it in four years). While most of the South African investment relates to mining, the most important sector for Indian FDI in Brazil is pharmaceutical.

Table 19: FDI in Brazil - US$ Million			
Origin	**India**	**South Africa**	**Total**
Stock			
1995	0	2.07	41,695
2000	45.9	26.1	103,014
Flows			
2001	3.38	5.71	21,041
2002	4	5.57	18,778
2003	7.43	8.27	12,902
2004	14.14	3.59	20,265
Source: Central Bank of Brazil, FIRCE, Foreign Capital Flows, 2005			

2.2.4 Future Business Plans: Where do India and South Africa Factor in?

There already exist common projects in the areas of environment and biotechnology applied to mining, as exemplified by the gold purification and environmental sustainability processes. Ethanol is also the object of study in both markets. Future partnerships in the pharmaceutical sector with a view to producing medicine in Brazil with Indian raw materials as well as joint production of drugs intensive in natural products original to Brazil are entirely possible.

Market conditions – as opposed to government policies or bureaucratic barriers – act as deterrents for trade and investment with IBSA countries. In South Africa, for example, ready-to-drink juices are the object of much competition with the presence of many local and imported brands, making it difficult for companies from Brazil that have to face transport and other costs to enter the market successfully.

In India, the main problem is the relatively low cost of living and the rupee's effective purchasing power, which make certain products expensive and thus restricted to a small share of the population. In both cases, a crucial matter is to find a local partner that has both the financial capacity and the distribution channels necessary to allow a reasonable coverage of the market.

2.2.5 The Multinational Perspective

Another aspect to be considered when addressing IBSA trade and investment is the place of MNCs in that context. In Brazil, MNCs play a crucial role in the economy, contributing significantly to growth and job creation. MNCs often effectively become technological hubs within economies, bringing to national markets technological state-of-the-art developments and management techniques. MNCs often invest in countries like Brazil with a view to focusing on exports, thus contributing also significantly to the expansion of export platforms in emerging markets. Much of the success in that context will have to do therefore with the overall policy environment - particularly insofar as the trade and investment divide is concerned – that host countries manage to muster. Large emerging countries like Brazil and India tend to be favoured by investment even in the absence of a clear, transparent, open market, and an investment-friendly regulatory regime. This is, however, bound to continue to change so that even large internal market countries may need to worry a little more about attracting investment.

MNCs are leaders in the following sectors: automobiles and auto ancillaries, chemicals (especially pharmaceuticals), agro-based products (fruit juices, soya etc.), machinery (capital goods and electronics) and metals. In sectors such as automotive or electronics, foreign firms virtually dominate the whole national market.

It is also widely known that the organisational philosophy and structure of MNCs is fully different than local firms. Decision-making, particularly, is normally undertaken at headquarters, by executives or boards that are not located in host countries. Subsidiaries and affiliates, therefore, tend to have only limited autonomy to decide and act, in most cases having to accede to recommendations or outright instructions from overseas. Market segmentation of the global market is therefore undertaken at headquarters and not locally. This, as many mentioned, is particularly relevant for IBSA countries since they tend to host many of the same MNCs in a variety of sectors.

An initiative such as IBSA however, must at some point focus on multinational investment. All three countries at some level compete for FDI from the same sources and the same MNCs also compete among themselves for attractive investment regimes across countries such as the three IBSA members. In fact, a high-level dialogue amongst MNCs and the three governments might not be a bad idea since only then might one be able to ascertain whether IBSA as an initiative might have a favourable impact on FDI – particularly in industries that operate in some or all of the IBSA countries.

2.2.6 Awareness and Attitude towards Government's Trade Promotion Policies

Trade policy as such has gone through a major qualitative change during the 90's in Brazil. Up until then, much of the trade regime was centralised in a single agency, the *Carteira de Comércio Exterior* (CACEX), which was responsible for all aspects of trade policy, including trade operations, remedies, promotion and negotiations. CACEX's existence tracked broadly with the most intensive period of import substitution in Brazil (post-WWII until the end of the 1980s) that made it easier for a country the size of Brazil to have it all centralised in one place. Import substitution required mostly the administration of trade and not much elaboration or effective policymaking took place: it was the 'reign' of CACEX and the centralised trade regime. Import substitution dictated the maintenance of a high tariff barrier alongside the subsidisation of 'infant industries' or industries that for one reason or another, including political influence, would manage to be favoured by the visible hand of government.

Things would begin to change during the 1990's when the Brazilian economy underwent a couple of major liberalisation bouts and Brazil's approach to the world began to incorporate a much more sophisticated trade and integration strategy. MERCOSUR would be created in 1991 and the government would decentralise its trade apparatus, something that would be deepened with the advent of the Free Trade Area of the Americas (FTAA) negotiations and the inauguration of President Fernando Henrique Cardoso in 1995. MERCOSUR, the FTAA negotiations and the implementation of the WTO Agreements would prove enough for the system to continue its reform during the second half of the 90's. Trade promotion would be one of the most important by-products, including the creation of a specialised agency fully devoted to the matter – APEX.

Although it is very common for the private sector to complain about the lack of a clear, transparent and forward-looking trade policy on the part of the government, it is undeniable that a few important measures regarding Brazil's trade and trade regime have been put into practice in the last few years such as the "Export Promotion Programme – PROEX" (made famous by the Embraer case against Bombardier of Canada), the elimination of value-added tax (VAT) on exports of semi-manufactures and a continuous revamping and overhauling of the trade regime alongside capacitation and awareness programmes vis-à-vis the private sector. Today the dissemination of trade "intelligence" is perhaps the best it has ever been, particularly in relation to the small and medium newcomers into the trade scene who have only now understood the strategic importance of foreign trade for their own sustainability in the market.

Most of the current complaints from the private sector regarding the government's trade policy focus on lack of a few important elements: information, transparency in policy, consultations with those interested (the private sector itself) and, finally, a clear strategic planning regarding measures taken or even the negotiations of trade agreements. Trade policy is still perceived as excessively random given its overall importance for the national economy.

2.2.7 Awareness of the IBSA Initiative

It makes sense that the Brazilian, Indian and South African governments seek to improve their commercial relations. IBSA could be an important vehicle in that respect but one is not yet too certain whether the initiative could be as fruitful on promoting trilateral trade as it obviously can in bringing the three countries together on strategic issues in the international arena. The most strategic "game in town" in that context is the WTO Doha negotiations and there the three countries have indeed moved some distance toward common positions and an impressive leadership role, particularly in the agricultural negotiations with the creation of the G 20. One of IBSA's implicit challenges, therefore, is to prove to the world that cooperation and coordination can effectively extend to trade and investment among themselves, and not just in respect of the rest of the world.

In agriculture, the three countries tend to have important export interests, as exemplified by meat products, soya, sugar, coffee and cotton in the case of Brazil, cotton, sugar and cereals in the case of India and sugar and oils for South Africa. Yet, the mix of offensive and defensive interests across the three countries is more complex than is usually assumed and continues to be tested in the Doha negotiations.

In industrial products, or the NAMA negotiations under the WTO Doha Round, there have been important coordinated steps taken, as was the case with the Argentina, Brazil and India (ABI) tariff-reduction formula where Brazil and India, alongside Argentina, presented a joint proposal on a non-linear approach that takes into account average bound tariffs and links related coefficients to the overall level of ambition in the Round – in other words, to real movement in agriculture. This has been a major cooperative effort on the part of two IBSA countries that differ considerably as to their tariff structure, levels of bindings, number of bindings, etc.

On trilateral trade, however, very little has effectively taken place. Since December 2004 and with the final Ministerial signing in March, the MERCOSUR-India PTA has been concluded – albeit still in the ratification process in both parliaments. Also in December MERCOSUR and South Africa concluded a PTA. In both cases, the level of ambition was relatively low given that the agreements aim solely at the exchange of tariff preferences for a very limited number of items: 450 in the case of MERCOSUR-India, around 1,000 in the case of MERCOSUR-South Africa. Yet, there has been renewed talk regarding the deepening of the current understandings with a view to shifting the focus to the conformation of a free trade area in both cases.

There is very little awareness of the IBSA initiative in Brazil. When entrepreneurs know about it, they often confuse it with the MERCOSUR+1 agreements with the two IBSA partners, as if MERCOSUR and IBSA were in effect but one initiative. It should be noted that the private sector, for the most part, does not feel as if they were properly consulted regarding the MERCOSUR agreements and now see with great suspicion any related initiative – as IBSA is at best perceived. In the case of India, particularly, an automatic correlation is often made with China, both countries being perceived as highly efficient competitors in world markets and, therefore, an extremely powerful force to contend with in the national market – particularly in the context of any further preferential openings via MERCOSUR or IBSA itself.

One could certainly generalise on the basis of the interviews as well as the media coverage and just plain hearsay that the current perception in Brazil regarding IBSA and trade with countries that, like Brazil, have only recently come out of import substitution policies and currently compete for access to the world's most important markets (US, EU, especially), is something to be monitored and studied but not yet necessarily "promoted", "deepened" or "facilitated". The fact is that IBSA partners tend to be competitors and not clients in relation to each other. The real clients sit in the Northern Hemisphere still and the private sector is particularly sensitive to bouts of diplomatic enthusiasm that may result in fiercer adjustment costs than they already have to withstand routinely in their own market due to "self-imposed" bureaucratic, regulatory, tax and logistical deficiencies.

2.2.8 Expectations from IBSA Initiative

There is a visible preference for further deepening of the commercial relationship with South Africa as opposed to India. Only two pharmaceutical firms expressed an interest in tariff reduction exercises between Brazil and India. Six firms, including one in the mechanics sector, went as far as to characterise trade with India as highly risky by virtue of perceived triangulation possibilities and dumping practices – particularly given an equally powerful perception that India may be much more lax in the application and enforcement of minimal labour and environmental standards – something which is widely regarded as an unfair competitive edge for Indian products in the Brazilian markets.

Twenty percent of those interviewed were in favour of moving forward toward freer trade with South Africa as long as it is on the basis of clear trade rules that avoid triangulation. Another 20 percent also mentioned the WTO negotiations, particularly with respect to trade rules, as a priority, including for coordination among IBSA countries.

Around 70 percent of those interviewed mentioned the United States and Latin America as priority markets, pointing to the physical proximity, the competitiveness of the national products *vis-à-vis* those markets and relevant operational facilities. Half of the firms interviewed mentioned explicitly the MERCOSUR-Andean Community agreement as a pact that needs to be deepened[10] while a little over one third of the firms made references to the need to seek an agreement with the US and the countries of Central America and the Caribbean. Around 20 percent of those interviewed are in favour of a MERCOSUR-EU agreement.

Regarding IBSA specifically, around one third of the firms mentioned that a lowering of South African tariffs would by itself be a good deal. Overall, only 10 percent were in favour of the government's IBSA push. Even then, the emphasis of this 10 percent of the sample seems to be on the value of cooperating and forging alliances with important countries such as India and South Africa as an instrument to gain market access around the world – and not just in IBSA countries themselves.

Competition in the American and European markets' tends to be intense as competitors often have access to better technology, easier financing conditions, and lesser administrative, tax and logistical burdens. IBSA can be very interesting in that context, particularly if and when it becomes a priority for federations and chambers of commerce in the three countries.

The existing dichotomy between geopolitical versus trade objectives is becoming a serious national issue in Brazil. The private sector objects intensely to commercial agreements that do not generate commerce or, worse yet, that may produce an unbalanced quid-pro-quo between increased competition in the national market and increased access to international markets.

2.2.9 Barriers and Key Concerns

Trade with India and South Africa is first and foremost perceived as a challenge – and not one against the background of good commercial opportunities. The barriers, the difficulties and the obstacles to trade with IBSA partners were mentioned as if to justify the generalised lack of knowledge, interest or both in the initiative.

2.2.9.a Government Strategies

It was clearly demonstrated that the private sector is sensitive to government initiatives where trade and investment are just a part of a much broader foreign policy strategy. IBSA looms large in that horizon, as it is perceived as a crucial element in the current government's strategy to forge political alliances with major developing and emerging countries.

For many entrepreneurs, there is a lack of clarity of purpose in the government's approach to trade agreements. For the private sector, trade agreements are supposed to achieve greater access to markets of interest alongside a friendly and secure environment for investments. Any other element may be perceived as secondary or plain irrelevant as may be the case with the distant universe of geopolitical strategies.

In the case of small and medium enterprises, the high priority continues to be the internal market and, at most, the closest external market. Thus, one can hardly imagine that entrepreneurs that can be successful in South America will be much concerned with expanding to India or South Africa unless there is an effective momentary opportunity or it fits somehow in the medium to long term plans of the firm (such as seems to be the case with the pharmaceutical sector). A firm that has supplied services in India in the metals sector admitted that it only took on the job because, in addition to the financial interest, there were no travelling or marketing costs involved (particularity to some services).

In the case of large enterprises, trade and investment decisions may be directed towards servicing certain specific markets, including via production facilities present in a foreign, and not the Brazilian, market. Larger firms may also decide on the basis of horizontal or vertical strategies that may be influenced by factors such as the easiness of sub-contracting, supplying and assembling or the need to avoid competition in certain segments or sectors. Much of the decision-making may actually be influenced by the overall approach adopted right at the top of the firm – often in the case of larger, multinational firms at the international headquarters. Trading with India or South Africa, for example, may not be in the plans of a multinational firm that, albeit present in Brazil, has as a "global" strategy buying from Asian sources for its subsidiaries in India or South Africa.

On what should be done to improve trade and investment amongst IBSA countries, a preferential agreement was identified as an important objective so as to achieve the reduction of tariffs in India and/or South Africa (firms in the textile, pharmaceuticals, juice and cosmetics segments).

2.2.9.b "Brazil Cost"

The term "Brazil Cost" has been a very common expression used in Brazil to refer to a host of doing-business, making-investments obstacles of an indigenous nature such as: logistics, transport, communications, energy, tax policy, labour and social cost, etc. It is widely recognised that a big part of the problem with exporting or investing overseas is internal since firms cannot become sufficiently competitive in the presence of so many "additional" costs to their production and distribution as those present in the Brazilian market itself.

Thirty percent of the interviewees were of the view that the current exchange rate is enough to prevent them from considering any forays into Indian or South African markets. Some others considered logistical costs to be prohibitive while 50 percent of those interviewed mentioned also the Brazilian tax burden as a major deterrent for trade and investment with India and/or South Africa. There is also a general perception that competition with Indian or South African products may be "uneven" as the costs in India and South Africa may be much lesser than is the case in Brazil, including, for example, access to trade and investment financing.

2.3.9.c Tariffs

High import tariffs were mentioned by 15 percent of those interviewed as major barriers to increased economic relations with India and South Africa. This may be a good sign since IBSA and the MERCOSUR+1agreements may indeed address such barriers through systematic tariff-reduction negotiations. If tariffs are perceived as obstacles to increased trade, then trade may indeed be generated if IBSA-related agreements do achieve a major reduction in their levels.

The table below illustrates the case of South Africa.

Table 20: South African Tariffs

Sectors	Code	South African rates
Food, prepared, bovine meat	1601	40%
Pharmaceuticals	3004	Free
Leather, leather products	4202	30%
Textile, cotton	5208	22% / 27% » 100cents per kg
Apparel - underwear	6108	40 % 54% » 5810 cents per kg
Shoes	6404	30% 500 cents per pair
Steel – rolling bridges	7308	15%
Machinery, eletrical transformers	8504	10%
Transport, cars, other vehicles	8703	20% to 43,5%
Wooden furniture	9403	20%

2.2.9.d Culture

Cultural difference was also identified as an important element when considering trade and investment with India and South Africa. In relation to South Africa, 15 percent of the firms admit to difficulties relating to culture but another 20 percent said that they operate very effectively in the South African market, that South African firms are very professional, that banking services are more than satisfactory and that they never had problems that could be somehow attributed to cultural differences between Brazil and South Africa.

As to India, 80 percent of the firms did indeed mention culture as a potential obstacle, pointing to the following elements, among others:

- style differences;
- little familiarity with Indian customs;
- lack of affinities that may help in signaling business possibilities;
- lack of knowledge regarding proximity and intimacy; and
- general lack of trust and a very high degree of ignorance regarding Indian culture as a whole.

2.2.9.e Freight

Freight conditions were also pointed out as a major deterrent for trade with India and South Africa. Freight costs are allegedly high for primarily two major reasons. Firstly, there is no regular traffic with India, which is not included in the overall Asian routes from Brazil that tend to favour China, Japan and Korea. Secondly, many combined cargo ships (bulk and containers), even when they go by India do not stop at Indian ports given the scale of orders to that destination.

If there is traffic with other countries along the way, freight rates could fall since the chances of a to- and from-cargo increase proportionately. Nevertheless, in the Brazil-India routes the possibility of real freight rate reduction continues to be dim. One firm said that insurance values can also be prohibitive given safety levels in certain parts of the route.

Table 21: Freight Conditions, Brazil/South Africa/India

Routes	Transport in days	Days at the port	Type of Cargo	Approximate Cost
Santos-Cape Town	10	2 to 3 days	Bulk and container	US$ 1,500
São Paulo-Johannesburg	Hours	2 to 3 days	Direct flight	Not informed
Santos- Mombay	30 days	4 to 6 days	Bulk and container; refrigerated ship	US$ 2,300 US$ 2,800

Source: Own research and elaboration

2.2.9.f Entry Costs

Entry costs into the Indian and South African markets tend to be the most important barrier identified by those interviewed. They occur at three different levels, namely:

1) costs relating to exporting to Indian and South Africa;
2) costs relating to the registration of products, the conclusion of technology transfers or production licenses; and
3) costs relating to direct investments.

Table 22: Entry Costs, South Africa/India

Material	EU	South África	Índia
Documentation	R$ 3.25 to 6.75	R$ 3.25 to R$ 6.75	3.25 to R$ 67.00
Samples- 1 kg	R$ 50.00 to R$ 60.00	R$ 60.00 to R$ 75.00	R$ 60.00 to R$ 132.00
Merchandise- 20 kg	R$ 400.00	R$ 400.00	R$ 400.00 to R$ 1,000.00
Travel	US$ 1,000 to US$1,500		
Hotel- 4-3 star	US$ 90.00 to US$150 /day	US$ 120.00 to US$ 200.00	US$ 200 to US$ 300
Average time	5 days	5 days	9 days
Stand	US$ 400/m2	n.a.	n.a.

Source: The Post Office. "Exporta 2005"

2.2.9.g Risks

Trade and investment with India and South Africa are widely perceived as high-risk propositions. Too many things are unknown, too many stereotypes prevail, and too little market research has taken place. Among the risks mentioned, the following stood out:

- Security levels in South African cities is cited as a problem, while acknowledging that those levels tend to be similar in major Brazilian cities; there is no information regarding security levels in India;
- Too much bureaucracy in India and South Africa, particularly at customs, product registration and legal documentation;
- Political instability was not mentioned in the context of South Africa but India is perceived to be in a delicate region, ridden with religious and political conflicts. Even natural disasters have been mentioned as a deterrent for India and its region. Health hazards in Indian cities have also been pointed; and
- Economic instability was also mentioned as a risk. For the most part, however, neither South Africa nor India are perceived as countries prone to economic turmoils. However, distrust regarding the respect of IPRs, including counterfeiting, was mentioned.

2.2.10 Facilities and Key Prospects

In spite of all the perceived and actual barriers, most of those interviewed could see the enormous potential of both South Africa and India. For 15 percent of the firms, the Indian market is very competitive and the beginning of operations in that market would be too difficult. For some 60 percent of the interviewed, there is no future interest in doing business with India. Among the reasons given as to optimism in trade and investment relations with India, the following should be mentioned:

1) big market;
2) relatively open market;
3) small Brazilian presence; and
4) potential in some products such as fruit concentrates.

In the case of South Africa, the positive aspects mentioned are the following:

1) geographical proximity;
2) similar culture;
3) compatible business environment;
4) manageable transportation costs;
5) market potential; and
6) contact 'easiness'.

A generalised perception that applies to South Africa is that it is an important "hub" for a number of other African countries – clearly in its part of the African continent. There is a wide expectation that African markets can only expand and that Brazilian products and investment can have a high acceptance in them, including, in some cases, for cultural reasons, as is the case with neighbouring Angola and Mozambique. Another widespread perception is that a new phase in Brazil-African relations is underway, now that the region is no longer plagued with civil wars.

There are areas often mentioned as potential areas of cooperation. The pharmaceutical sector, for example, should be a good candidate for integration and cooperation between India and Brazil, as inputs from India are very competitive and can be imported by Brazil while natural products from Brazil can also be of great interest to the Indian industry. As mentioned before, the software sector is also an important candidate for further India-Brazil cooperation.

In relation to South Africa, in addition to medical equipment and disease treatment, cooperation may also make sense in the automotive and transport material sector with a view to greater integration and optimisation of production processes. As the two markets have a great deal of similarity, there may be great room for common projects and an increased trade and investment outlook for auto parts and components.

2.3 South Africa

2.3.1 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 (UNCTAD), developing countries now account for 32 percent of total global trade, and 41 percent of developing countries' total exports go to other developing countries. The expansion of trade among developing countries can be attributed mainly to the growth of 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 (MFN) arrangements and the international regime of trade preferences – intra-regional liberalisation has been a key facilitator of deeper integration among developing countries.[11]

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 percent of the region's exports.

Notwithstanding its gradual rise in recent decades South-South trade has been hampered due the following reasons:

- Dominance of North/South trade patterns and 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.

2.3.1.a South Africa and India

Although trade between South Africa and India has grown by 1,334 percent in the last decade (it amounted to US$700mn in 2002),[12] it remains very low on both sides – just more than one percent 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 vehicles, and equipment for heavy industry. They could also open new export markets for iron and steel, chemicals, aluminium and furniture.[13]

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

By the end of 2004, 35 Indian companies – attracted by South Africa's sophisticated infrastructure, financial sector and consumer markets – had established a presence there, 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. Other prominent names include Mahindra, Sahara Computers, Dr Reddy's Lab, 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.

Table 23: South Africa Exports (US$ '000)

Country	**2002**	**2003**	**2004**
India	659686.27	547438.23	606706.37
Source: Department of Trade and Industry			

Table 24: South Africa Imports (US$ '000)

Country	**2002**	**2003**	**2004**
India	480925.98	510808.49	743016.50
Source: Department of Trade and Industry			

2.3.1.b South Africa and Brazil

South Africa and its SACU 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 percent over the past decade and was valued at US$660mn in 2002.

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. South Africa's imports from Brazil largely consist of machinery, vehicles, vehicle components and chemicals.

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

Crucial gains could be derived from the SACU-MERCOSUR trade relationship[14] 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.[15]

Section A - General Issues

South African investors and exporters have been attracted to Brazil for the following reasons:

- Huge, dynamic and diversified market.
- A relatively liberal trade and investment regime.
- As Latin America's largest regional market, Brazil is a springboard into neighbouring markets, such as Argentina, Paraguay, Uruguay, Chile and Colombia.

South African firms have been enticed to India due to the following reasons:

- India's immense domestic market, huge economies of scale in several sectors, prices, the quality of management and low-cost labour, low-cost manufacturing capacity, and a large and rapidly growing middle class.
- India is seen as a gateway to other Asian markets such as Bangladesh, Nepal, Sri Lanka and Maldives.
- Bilateral economic ties between India and South Africa have been built on the cultural affinity between the two countries.
- Similarities between Indian and South African legal systems – South African company law and the Companies Act that regulates foreign companies in India are both based on British law.
- South African businesses see India as 'a bet for the future.'[16]
- The Government of India's decision to automatically approve 100 percent of FDI in sectors such as electricity generation and transmission, construction and maintenance of roads, venture capital funds and business electronic commerce.

Table 25: South Africa Exports (US$ '000)

Country	**Mar-2005**	**2005**	**2004**	**2003**	**2002**
Brazil	27533.66	70728.26	255310.29	22579.73	300840.85

Source: Department of Trade and Industry

Table 26: South Africa Imports (US$ '000)					
Country	**Mar-2005**	**2005**	**2004**	**2003**	**2002**
Brazil	117390.2	274095.92	1047938.1	87415.68	803695.1
Source: Department of Trade and Industry					

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; and
- Infrastructure, and construction.

In India's case, companies are also interested in micro-irrigation technology and providing fertilisers and quality seeds at a reasonable price. Other areas of investment are the consumer food sector in milk and milk products, deep sea fishing, and meat and poultry products.[17]

With regard to Brazil, benefits could accrue from the following:

- Integrating South African manufacturers into strong Brazilian sectors such as aircraft production;
- Intra-industry specialisation in sectors such as automobile production; and
- Greater cooperation for the development of better technological capabilities in machinery and equipment, and aircraft and components.

The critical factors considered by a firm when choosing an investment location are:

- Size of the domestic market;
- Domestic growth rate;
- Commercial gap;
- Nature of domestic competition;
- Price/exchange rate;
- Independence of legal system;
- Political/institutional stability; and
- Economic infrastructure.

Business factors too play a key role in influencing investment decisions. Investors are interested in the following:

- 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;
- The ease or difficulty of enforcing commercial contracts; and
- The time and cost involved in dealing with bankruptcies

It must be noted here that South Africa has not signed bilateral investment treaties (BITs) with Brazil and India. BITs can contribute significantly towards reassuring foreign investors and allaying risk perceptions.

About 70 percent of the companies surveyed expressed support for the IBSA objective and were eager to use multilateral as well as bilateral and regional preferential trade agreements to explore commercial opportunities. They wanted to use PTAs with India and Brazil to not only enter their markets, but also to gain access to the markets of neighbouring countries.

A strong perception among certain companies is that the IBSA initiative is primarily a political and not an economic project. There is a belief that the PTA 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 has permeated, especially so in light of the disappointment in some circles with the FTA South Africa concluded with the European Union (EU) in 2000. The FTA despite improving South Africa's access to the EU market has seen 38 percent of South Africa's agricultural exports still being denied access to that 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. 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. 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.

Companies surveyed also doubted the capacity of governments to implement trade agreements, given the limited resources governments have at their disposal and stressed that governments should involve the private sector in the implementation process.

Some barriers that still hamper trade with Brazil are as follows:
- Tariff peaks and tariff escalation on finished South African goods.
- Restriction on imports of a variety of products such as machinery and clothing.
- 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.
- Foreign investment forbidden in certain key domestic industries such as public utilities and the media.
- Legal restrictions on foreign ownership of land.

Moreover, South African firms have had to contend with communication difficulties as a consequence of the language barrier and an alien business culture.

Barriers hampering trade with India are as follows:
- Tariffs in India remain among the highest in the world.[18]
- Internal trade has not been satisfactorily liberalised.
- Implementation of a wide variety of trade restrictions.
- Pervasive use of import bans and import licensing.
- 'Non-transparent' tariff and import tax structure.

Additionally, India's customs procedures attracted criticism, with time-consuming documentation requirements and considerable and frequent delays.

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.
- It can set up a wholly owned subsidiary in sectors where 100 percent foreign investment is permitted under the FDI policy.[19]

However, 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. Some South African companies felt that they had been discriminated against by India's procurement practices in the public and private sectors.

2.3.1.c Non-tariff barriers

Following are the NTBs to the Brazilian market:
- 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.[20]

Furthermore, South African companies often find the Brazilian business environment – characterised by a complex set of interlocking relationships among the government, suppliers and competitors – very difficult to navigate.

NTBs to the Indian market include:
- Cumbersome and time-consuming procedures for obtaining visa.
- Excessive use of anti-dumping measures against trade partners.
- Restrictions imposed by state monopolies.
- Arbitrary decisions on the part of government officials.
- Corruption and 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 IPRs.

Concerns were also raised about state-owned and private Indian companies being 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.

Business costs
High import costs are a key concern 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.

Other costs are:
- Security against crime;
- Insufficient banking and insurance facilities; and
- Costs associated with complying with the complex web of laws, provisional measures, decrees, and resolutions that regulate Brazilian foreign trade.

Rising business costs in India pertain to:
- 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.

Businesses stressed on 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 following:

- Requirements for starting and closing a business
- Labour costs
- Insurance costs
- Market intelligence costs
- Business travel, rentals and transport costs
- Credit availability and payment facilities
- Productivity levels
- Tax regime and government tax incentives
- Exchange rates
- Enforcement of commercial contracts.

2.3.1.d 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.

There is a need to distinguish between the experiences of South African multinational firms *vis-à-vis* those of medium-size companies in this regard. This is so because it is easier for most multinational companies to gain access to foreign market intelligence because of their requisite infrastructure and capabilities. This is not the case with small and medium-size exporters. Also what was really difficult to source was the kind of strategic data required for investment or trade purposes.

A majority of the companies surveyed view Brazilian and Indian companies in a positive light. 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.

Business culture

About 40 percent of South African companies doing business in Brazil note 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.

Country risk

Notwithstanding the generally positive disposition towards Brazil and India, perceptions of risk about doing business in these countries abound. Questions with regard to Brazil were raised about:

- Long-term stability of the Brazilian economy in light of the currency crisis experienced by the country in 1999.
- Concerns that public debt (as a percentage of GDP) was still too high.
- Given previous debt defaults, how would the Brazilian government finance public debt and whether this would make the country vulnerable to interest rate and exchange rate volatility.
- High levels of crime
- The significant costs these risks impose on business operations.

Questions raised about India included:

- Sustainability of India's economic growth being threatened by the country's high fiscal deficits
- Insufficient domestic capital formation
- 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.[21]

Trade facilitation problems

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, further hamper trade with India.

Chapter 3: Existing Trade Relationships

3.1 SACU and India: Towards a PTA

The governments of the SACU – comprising South Africa, Botswana, Lesotho, Swaziland and Namibia – and India have proclaimed a mutual interest to conclude a PTA before the end of 2006. The mooted agreement is aimed at cementing and expanding the burgeoning trade relations between SACU (predominantly South Africa) and India.

The key questions facing the SACU-India relationship are as follows:

- What is the rationale for the proposed SACU-India PTA?
- How will negotiation modalities be determined?
- What are likely to be the respective SACU and Indian negotiating interests?
- What are the potential challenges and constraints, and how might these impinge on the negotiation process?
- How will the outcome of the negotiations dovetail with the touted plan to create a trilateral FTA including the other IBSA partner, Brazil?

3.1.1 Background to PTA Negotiations

The impetus for negotiating a bilateral PTA between SACU and India grew out of a meeting between India's Commerce and Industry Minister and his counterpart in South Africa's Trade and Industry Ministry in January 2000. The two countries enjoy a strong political rapport, and have been bound by very close historical and cultural ties. In 2002, they agreed to initiate negotiations to conclude a PTA, designed to strengthen bilateral trade and investment

An understanding was subsequently reached that such a trade deal would include four SACU partners. A Framework Agreement was worked out providing for the implementation of limited tariff liberalisation in the initial stage with a view to broadening the scope and coverage of the agreement into a full-blown FTA later (Ministry of Commerce and Industry, '*India's current engagement in RTAs*').

Rationale for negotiations

Several factors explain the two trade partners' desire to conclude a PTA. From the SACU perspective, it can benefit from India's rapidly expanding economy and consumer market. In particular, South Africa is eager to exploit a trade deal with India to reduce protectionist barriers that have hampered its potential exports to the Indian market.

Research conducted by the Indian Institute of Foreign Trade (IIFT), New Delhi, found that more than 50 percent of India's exports faced a tariff of less than 10 percent in South Africa, while only 33 percent were subjected to a tariff rate of over 20 percent. Conversely, 55 percent of imports from South Africa faced tariffs of over 20 percent in India, with merely 34 percent of imports from South Africa attracting a tariff rate of 10 percent and less.

Table 27: Tariff comparisons between South Africa and India

	Exports to	
Tariffs	**South Africa**	**India**
Less than 10 percent	50 percent products	34 percent products
More than 20 percent	33 percent products	55 percent products
Weighted average	16.36 percent	22.89 percent

Source: IIFT, New Delhi

Negotiating a PTA with India not only forms part of South Africa's broader global economic strategy of forging trade relationships with new and growing markets in Africa, Asia and Latin America but is also a calculated move to reconfigure its position in the global economy by decreasing its reliance on developed country markets, especially the EU. The ultimate goal is to promote the progress of South Africa as a vibrant, export-oriented manufacturing economy.

Three pillars underpin South Africa's trade policy: multilateralism; regionalism; and bilateralism. Multilateral engagement is aimed at facilitating South Africa's re-integration into the global economy and pushing for a greater role for developing countries in moulding international economic governance. Regionally, South Africa's foreign economic policy has striven to consolidate RTAs as stepping-stones towards the incorporation of the Southern African region into the world economy. At a bilateral level, South Africa has sought to forge strategic collaboration with designated developing nations (principally India and Brazil but also China and Nigeria) in order to maximise trade and investment among them as part of South-South Cooperation (SSC).

India's intention to forge a PTA with South Africa is an element of the country's policy to continue the reforms initiated in 1991 to liberalise the Indian economy. India's trade policy, like South Africa's, is predicated on multilateral, regional and bilateral fronts. At a multilateral level, India has collaborated with like-minded developing nations to challenge the structural inequities of the multilateral trading regime and to push for a successful completion of the multilateral Doha Round trade negotiations. Bilateral and regional FTAs are pivotal to India's strategy to bolster its exports and increase its share of global trade, which currently stands at one percent.

Furthermore, FTAs have provided an avenue for Indian firms to transform themselves into global players and full-fledged transnational corporations (TNCs). In the context of SACU, these TNCs perceive South Africa as a springboard into other African markets.

Bilateral trade relations

Over the past decade there has been a considerable rise in trade between India and South Africa, the most economically advanced and dominant SACU partner: the average annual growth in total trade exceeding 31percent. This can be ascribed to the expansion of Indian gold imports from South Africa. In 2002, total bilateral trade amounted to US$2.3bn, up from US$271mn in 1994. During 1998-1999 to 2002-2003, India's imports from South Africa increased by more than 54 percent, while exports increased by more than 22 percent.

Even so, trade remains very low on both sides – just more than one percent of total trade. This is partly due to the fact that their external trade is still dominated by the OECD and East Asian states. Moreover, a key problem is the persistence of obstacles for the promotion of trade and investment between the two countries, including tariffs and NTBs. The proposed PTA is expected to ease these hurdles.

SACU's imports from India include T&C, food products and live animals, beverages and tobacco, machinery and transport equipment, cotton products, pharmaceuticals, rice, vegetable products, vehicle parts, and spices. SACU exports to India raw materials such as gold and silver, coal, iron, steel and non-ferrous metals, mineral fuels and lubricants, chemical wood pulp, sugar, vegetable products, as well as ammunitions.

A detailed trade/tariff analysis carried out in 2000 by the Trade and Industrial Policy Secretariat (TIPS), South Africa, revealed principal areas in which trade could be stimulated between SACU and India through liberalisation. It identified a list of under-traded products for which market access barriers were 'sufficiently high' in order to hamper imports from SACU and India respectively.

Table 28: Under-traded Indian exports facing tariff barriers in SACU

Product Description
Fish, frozen exports fillets
Crustaceans, frozen
Edible nuts fresh, dried
Oil-cake, oilseed residue
Tobacco, not stripped
Cotton, not carded, combed
Tyres, pneumatic, new, bus
Cotton yarn, excl. thread
Cotton fabric, woven, unbleached
Curtains, other furnishings
Passenger transport vehicles
Source: Stern and Stevens (2000)

Table 29: Under-traded SACU exports facing tariff barriers in India
Product Description
Other ferrous waste, scrap
Other inorganic bases, oxides
Nitrogenous chemical fertilizers
Fertilisers
Silver
Machines, appliances, special industrial
Parts, data processing etc. machines
Parts, telecommunication equipment
Gold, non-monetary excl. ores
Source: Stern and Stevens (2000)

From the SACU viewpoint, it has also been contended that trade liberalisation could benefit SACU by providing access to affordable medicines, competitive prices for motor vehicles, and equipment for heavy industry. Moreover, it could create fresh export markets for iron and steel, chemicals, aluminium and furniture. Considerable potential has also been recognised for increased trade in intra-industry trade in basic fabricated metals, precious stones and jewellery, and non-metallic minerals.

Modalities

Preliminary negotiations between SACU and India were scheduled to commence in August 2005, but were postponed at the request of India following a change of government. The first round of negotiations will now begin 'soon' and is expected to finalise broad negotiating modalities with a view to agreeing on product lines that will be covered under the PTA. The general PTA talks are poised to terminate before the end of 2006.

Like the India-MERCOSUR and the SACU-MERCOSUR negotiations, these discussions are expected to adopt a 'positive list' approach: only those sectors listed in the agreement will be liberalised. The India-MERCOSUR agreement contained more than 600 products in the agricultural, chemical, automobile and pharmaceutical sectors, while the SACU-MERCOSUR trade deal designated 2,000 products for tariff liberalisation.

Within SACU, the process of compiling product lists will take place at two levels:
- Among the SACU member states
- And in the National Economic Development and Labour Council (Nedlac), a statutory tripartite body set up to promote social and economic dialogue among the government, business and labour.

Some commentators have voiced a concern that formulating negotiating modalities in Nedlac could allow protectionist interests to hold the negotiations to ransom.

However, this anxiety has been dispelled on the following two grounds:

- Erstwhile experience had demonstrated that drawing up product lists for a PTA was relatively easier than doing it for a comprehensive FTA.
- There had been no 'significant' resistance within Nedlac and SACU, to the planned SACU-India PTA.

Challenges

Several challenges and possible constraints ought to be tackled if the SACU-India PTA is to yield optimal economic gains:

- The 'perception gap' between SACU and Indian business sectors must be bridged. This means changing the mindsets of businesses about the importance of South-South trade by creating awareness not only of opportunities in the respective commercial environments, but also of competitive advantages and trade complementarities among exporters.
- Greater co-ordination and synchronisation between the various PTAs forged by the IBSA countries must be encouraged. International research has shown that multi-level negotiations, if not carried out in an integrated and coherent fashion by developing countries, could jeopardise the economic development. Although the PTAs are distinct, there is a need to maximise synergies among them.
- It is necessary to accord attention to both the domestic (Nedlac) and SACU dynamics, which could impinge adversely on the negotiations. Striking a balance between domestic/regional pressures and external opportunities is a crucial imperative.
- Perceptions that the mooted SACU-India PTA is a political rather an economic project ought to be allayed. Doubts have been expressed at the economic import of the mooted bilateral trade pact. For instance, it has been suggested that India's interest in FTAs is motivated less by a desire for market access than it is by political calculations.
- Engagement in bilateral or regional FTAs should not detract SACU-India PTA negotiations from the overriding goal of multilateral liberalisation. Understandably, the penchant for FTAs has been fuelled by disaffection with the pace of liberalisation in the WTO. Moreover, some countries find bilateral liberalisation politically appealing, as it has lesser adjustment costs. Still, in the absence of multilateral liberalisation, countries will not be in a position to negotiate significant tariff reductions against the more shielded economic sectors.

3.1.2 The way ahead: a trilateral FTA?

There have also been 'talk' of forging a trilateral FTA among the IBSA countries in order to intensify economic co-operation. Although attaining such a result is not impossible, it raises a number of questions:

- How would such a FTA be conceptualised?
- What would be the scope of its product and sectoral coverage?
- Would the negotiations follow a negative or a positive list approach?
- Would the FTA be a by-product of the three IBSA PTAs or would it be constructed as a separate arrangement?
- How would synchronisation and coherence be fostered between the trilateral FTA, the PTAs and multilateral trade agreements (MTAs)?

3.2 India and MERCOSUR: Boosting Trade through Regionalism

3.2.1 Background

In early 2004, India and the MERCOSUR countries signed a PTA. This marked the first step toward the creation of a FTA between the two regions. Although it is too early to draw any firm conclusions, several questions arise:

- What the possible impact and outcomes of the PTA and a FTA might be on trade between India and MERCOSUR?
- What are the constraints that the parties face in developing a FTA?
- How does the India-MERCOSUR RTA engagement fit into the trading system?
- How have stakeholders responded to the initiative.

As one of the world's major emerging economic powers, India had an annual average gross domestic product (GDP) growth rate of 5.9 percent during 1980-2003. Formed in 1991, MERCOSUR has a combined population of some 220 million. Hovering around two percent, its annual average GDP growth in the past decade has been more modest than that of India. Nevertheless, it makes up one of the largest integrated markets in the world. Just the sheer sizes of the Indian and MERCOSUR economies, therefore, indicate that they have a lot to offer each other. Moreover, despite their immense markets, trade and investment between the two regions is small and the potential for developing their economic relations is therefore immense.

Table 30: India: Trade with MERCOSUR and Rest of the World (RoW), 2003 (US$ million)

	Exports	**Imports**	**Total**
MERCOSUR	388.1	838.2	1,226.3
- Argentina	86.2	517.7	603.9
- Brazil	272.2	309.7	581.9
- Paraguay	10.4	0.7	11.2
- Uruguay	19.2	10.1	29.3
RoW	62,640.7	76,363.1	139,003.8

Source: UN Comtrade Database

In 2003, for instance, India's trade with MERCOSUR only accounted for 0.9 percent of its total trade, whereas the equivalent figure for MERCOSUR was about 1.2 percent. The limited trade also explains to an extent the volatility of the trade flows between the two regions, as illustrated in Figure 1.

Reasons often mentioned to explain these low levels are:

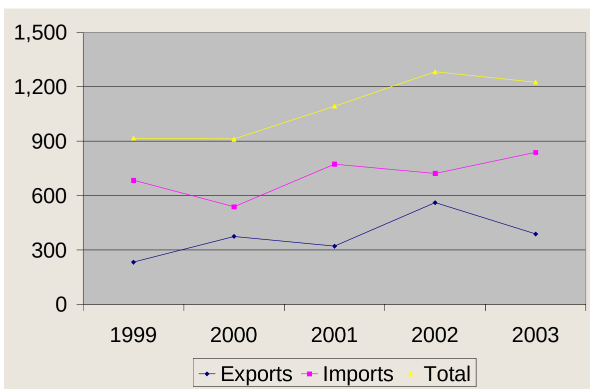
- A lack of information and knowledge in the regions about one another;
- Geographic distance coupled with poor air and shipping connections; and
- Cultural differences, including language.

Primarily, Brazil and Argentina make up virtually all of MERCOSUR's trade flow with India. The main product categories exported to India are edible oils (primarily soya-bean), metalliferous ores, metal scrap and non-electrical machinery, with soya-bean oils being the largest; around two-thirds of all exports. Some three-quarters of the soya-bean oils are from Argentina, while most of the other major items primarily come from Brazil (although soya-bean oils make up its largest export).

India's major exports to MERCOSUR are drugs, pharmaceuticals and fine chemicals, transport equipment, inorganic/organic/agro chemicals, cotton yarn and cotton and man made fabrics, made-ups, readymade garments, dyes, intermediates and coal tar. Brazil is the main trading partner in most commodities, with transport equipment exported to Argentina being one of the few exceptions. However, Argentina's main import is chemicals.

Based on the foregoing, it is clear that boosting trade and investment between the two regions and enabling them to tap into each other's huge markets would have provided the Indian and MERCOSUR governments with an obvious incentive to engage in a RTA. However, other factors would play a role as well. There has been a push to increase South-South Cooperation (SSC), with momentum increasing especially as a result of the Cancún debacle and the formation of the G-20. However, the Framework Agreement between India and MERCOSUR to strengthen relations (see next paragraph) was signed before the Cancún Ministerial. There has also been a surge of new RTAs in the past decade, in part due to the slow progress of the Doha Round, and the India-MERCOSUR FTA is only one of many like initiatives. Whereas MERCOSUR is a RTA by definition, it is only in the past few years that India has jumped on to the RTA bandwagon and it is currently engaged in some 14 RTA negotiations.

Graph 12: India: Trade with MERCOSUR, 1999-2003 (inUS$mn)



Source: UN Comtrade Database

Furthermore, from India's perspective, developing economic relations with MERCOSUR can also be seen as part of India's "Focus: LAC" (Latin American Countries) programme. Launched in November 1997, this programme aims to further the commercial linkages with the Latin American region.

In all, there were therefore several factors – economic as well as political – that prompted India and MERCOSUR to forge closer ties. This resulted in the "Framework Agreement", which was signed on June 17, 2003 with the following aims:

- to strengthen relations between the Contracting Parties, to promote the expansion of trade; and
- to provide the conditions and mechanisms to negotiate a Free Trade Area in conformity with the rules and disciplines of the WTO (Art. 2).

It was also agreed that the parties would, as a first step, conclude “a limited scope Fixed Preference Agreement”.

3.2.2 India-MERCOSUR PTA

On January 25, 2004, India and the MERCOSUR countries signed a PTA “as a first step towards the creation of a Free Trade Area” (Art. 2). The Agreement grants preferential market access for certain product categories and contains provisions on trade measures such as trade remedies and technical barriers to trade (TBT), generally referring them to the relevant WTO agreements. The parties also agreed to create a Joint Administration Committee that would, amongst others, evaluate the process of trade liberalisation established, study the development of trade between the Parties and recommend further steps to create a FTA.

3.2.3 Possible Impact and Outcomes

There are a few indicators that hint at the likely impact and outcomes of the Agreement.

Table 31: India: Five largest exports to MERCOSUR, 2003

	Value (US$mn)	% of total exports
Organic chemicals	109.9	28.3
Pharmaceuticals	43.7	11.3
Chemical products	40.1	10.3
Mineral fuels and oils	22.5	5.8
Tanning or dyeing extracts	16.4	4.2
Other	155.6	40.1

Source: UN Comtrade Database

Note: Products are at the two digit-level of the HS2002 classification system.

Table 32: India: Five largest imports from MERCOSUR, 2003

	Value (US$mn)	% of total imports
Animal or vegetable fats and oils	575.3	68.6
Ores, slag and ash	35.9	4.3
Organic chemicals	35.8	4.3
Machinery and mech. Appliances	34.3	4.1
Raw hides and skins and leather	23.7	2.8
Other	133.3	15.9

Source: UN Comtrade Database

Note: Products are at the two digit-level of the HS2002 classification system.

A cursory look at the respective offer lists shows that more than half (250) of the products included by MERCOSUR fall under the category of organic chemicals. As this is India's main export to the South American trading bloc, its inclusion definitely plays to India's advantage. Moreover, India's export share in organic chemicals in the region is sizeable, but there should be scope for expanding it. On the other hand, the majority of the sub-categories of organic chemicals have a common external tariff (CET) of two percent, to which India has often been granted a 10 percent concession. This suggests that the potential for gaining market share is still limited.

The product categories on India's offer list are less concentrated than that of MERCOSUR. The main categories are machinery and mechanical appliances and parts thereof (95 products included) and tanning or dyeing extracts (74 products). As opposed to MERCOSUR's India's list does not feature much of MERCOSUR's main export, soya-bean oils (one product, only for Paraguay). However, MERCOSUR already holds an aggregate market share of some 90 percent, which suggests that the scope for expansion is limited. By contrast, the trading bloc should have the prospect of increasing its market share in machinery and mechanical appliances as well as tanning or dyeing extracts.

Of India's exports to MERCOSUR, the main complementary products that have potential to grow are preparations of petroleum products; pharmaceuticals; antibiotics; motor vehicle parts; parts and accessories for data processing; and new pneumatic and rubber tyres used for buses and lorries. All of these categories feature on MERCOSUR's offer list to a lesser or greater extent, apart from pneumatic and rubber tyres.

As for MERCOSUR's exports to India in terms of complementary products, petroleum oils; transmission apparatus for radio telephony; gold in semi-manufactured form; copper ores; soya-bean oils; cotton, not carded or combed; and motor vehicle parts may be mentioned.

Based on the above, it seems as if the India-MERCOSUR PTA will on the whole have a fairly limited direct impact on trade flows between the parties. The indications suggest that Indian exports of organic chemicals and parts and accessories for data processing in particular might rise as a result of the Agreement. Conversely, MERCOSUR might see a growth in its exports of primarily machinery and mechanical appliances, tanning or dyeing extracts, and organic chemicals, including antibiotics.

While the direct result of the Agreement on trade flows is likely to be modest, it is less clear what indirect effects it might have. This would depend on the following:

- The consequences it would have on the underlying constraints in the regions' economic linkages – particularly their knowledge of one another;
- The groundwork it will have laid for an India-MERCOSUR FTA; and
- The contribution it would make for relations between the regions overall.

3.2.4 Constraints and Potential of a FTA

To begin with, the PTA is, as stipulated in the Framework Agreement, limited in scope. The two offer lists cover some 450 product categories each; out of more than 5,000 categories. Although there are many products that are not applicable to the trade between

India and MERCOSUR, there are some sensitive ones that are relevant and that will prove difficult to negotiate. On the part of MERCOSUR, these include tyres and textiles; while in India the same thing goes for, *inter alia*, vegetable oil and certain food products (e.g. mangoes and maize).

Nevertheless, an India-MERCOSUR FTA offers great potentials, as already discussed above. In concrete terms the "indicative trade potential" of exports from MERCOSUR would be up to US$13.6bn and would be up to US$12.7bn for exports from India.

Whereas the PTA covers goods, there is not a single mention in the Agreement of either services or investment. To be sure, services and investment were not within the purview of the PTA, but that only means that work has yet to begin on these issues. Moreover, services and investment are often more difficult to negotiate than goods and there is no reason why this would be otherwise for India and MERCOSUR.

It should be mentioned, however, that the Framework Agreement is vague about services and investment and it is not clear that either would in fact be included in a FTA. With regards to services, it stipulates that the parties "shall promote the expansion and diversification of trade in services between them" as decided by a negotiating committee (Art. 8). As for investment, it merely says that trade promotion activities shall be stimulated by the parties "in order to broaden reciprocal knowledge about trade and investment opportunities" (Art. 6).

In the end, it seems questionable whether a FTA in itself would provide a great boost for trade flows between India and MERCOSUR. Impediments such as a lack of knowledge about each other, poor transport connections and cultural differences are possibly far greater constraints for higher levels of trade than tariffs and other trade policy instruments. On the other hand, this does not preclude that a FTA could make a contribution in reducing these impediments.

3.2.5 India-MERCOSUR in the Trading System

As mentioned above, the Framework Agreement stipulates that an India-MERCOSUR FTA is to be compatible with the rules and disciplines of the WTO. Even so, there is always the issue about whether the FTA would help or hinder the world trading system, which feeds into the debate on regionalism and multilateralism.[22] Without getting into that debate, it seems reasonable to infer that an India-MERCOSUR FTA would not by itself have any wider implications on the world trading system – at least not for quite some time. The main reason for this is that it is neither as comprehensive nor as temporally advanced as other RTAs, such as the MERCOSUR agreements with the Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) or the South Asia Free Trade Agreement (SAFTA) between the South Asian Association for Regional Cooperation (SAARC) members (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka).

This gives rise to another issue, i.e. if the other RTAs in which India and MERCOSUR are involved could trivialise the benefits of an India-MERCOSUR FTA. The negative response is that the relations between, say, MERCOSUR and other Latin American countries on the one hand and India and South, Southeast and East Asia on the other, are stronger and more important than that between India and MERCOSUR. The consequence is that neither India nor MERCOSUR would give their relation with one another a particularly high priority. The positive response is that closer ties between India and MERCOSUR are highly prioritised by both parties – as indicated by the mere existence of the recent negotiations and agreements between them – and that their relation should be seen as a part in strengthening SSC. The suggestion of a trade alliance between India, MERCOSUR and the SACU at a meeting between India, Brazil and South Africa in March 2005 is one manifestation of that. Also, with India and the MERCOSUR countries all being members of G-20, closer relations between India and MERCOSUR could further strengthen that alliance and its negotiating position on the multilateral level.

3.2.6 Involvement of Stakeholders

In the end, the success of an India-MERCOSUR FTA depends on what various stakeholders make of it. Without the interest and support of businesses, CSOs and the like, a political agreement will remain just that. In addition, constraints such as a lack of knowledge of one another, poor transport connections and cultural differences make the involvement of stakeholders in a deal between India and MERCOSUR particularly pertinent.

Whether the governments of India and MERCOSUR will have managed to successfully involve their respective stakeholders will become clearer a few years down the road. For now, though, the signs are that there is ample room for improvement. In India, for instance, vegetable and oil food industries have voiced concern over granting market access in products such as oilseeds, edible oils, *vanaspati*, refined sugar, mangoes and tobacco leaves. Another example is found in one of the studies in the UNCTAD India paper,[23] which reaches the conclusion that, overall, Argentine private sector involvement in the negotiations of the India-MERCOSUR PTA had at that stage (mid-2004) been limited to responding to the requirements of the talks. Although the positions of businesses were heterogeneous, the more general feature was that a lack of knowledge on India translated into a defensive position and relatively less openness.

To be sure, there has also been encouragement from stakeholders, including the Federation of Indian Chambers of Commerce and Industry (FICCI) and Brazil's Chamber of External Trade (CAMEX). Nevertheless, greater involvement from stakeholders in order to increase mutual understanding and knowledge of one another and bridge cultural differences as well as to gain support for an India-MERCOSUR FTA would be highly desirable.

3.3 MERCOSUR and SACU FTA: Strengthening Relations across the South Atlantic

Although trade between MERCOSUR and SACU has picked up pace somewhat in recent years, it remains at a low level. In a bid to boost trade flows as well as to strengthen economic cooperation, MERCOSUR and SACU signed a PTA at the end of 2004. This is seen as the first step toward the creation of an FTA between the two groups.

3.3.1 MERCOSUR-SACU Framework agreement

In December 2000, South Africa and MERCOSUR signed a 'Framework Agreement' with the objective of forming an FTA. The Agreement was partly the result of a growing South African interest in the newly formed trading bloc across the South Atlantic. This is not surprising, as MERCOSUR has emerged as one of the largest integrated markets in the world. Yet at the time of signing, the South American trading bloc only constituted 1.5 percent of South Africa's total trade.

Trade between South Africa and MERCOSUR ercosur had more than doubled by 2004 and now accounts for 2.1 percent of the former's total trade. It should be noted here that recent trade data on SACU is scarce, but because South Africa is such a dominant power in SACU – accounting for roughly nine-tenths of the group's combined population and GDP – its trade flows will frequently be used as a proxy for the whole group in what follows.

MERCOSUR's trade with South Africa, conversely, made up around 0.8 percent of the trading block's extra-regional trade – a figure that also had risen in the past few years.

In 2004, total trade between South Africa and MERCOSUR amounted to US$1.83bn. South African exports totaled US$304.2mn, whereas its imports from MERCOSUR stood at US$1.52bn. MERCOSUR, therefore, enjoyed a sizeable trade surplus. Interestingly, South African exports to MERCOSUR remained fairly static between 2000 and 2004, whereas imports surged by more than US$1bn during the same period. In fact, this trend reflects Brazil's total extra-regional trade in recent years, partly attributed to weak domestic demand *vis-à-vis* the growing overseas demand overseas for many of its exports.

The main trading partners in MERCOSUR-SACU trade are South Africa and Brazil. Some two-thirds of South Africa's trade with MERCOSUR is transacted with Brazil alone. Virtually, all trade with SACU from MERCOSUR's viewpoint is done with South Africa. For example, in some cases the MERCOSUR countries did not even report any exports to or imports from one of the other SACU members in 2004.

South Africa's main exports to MERCOSUR are iron and steel products; mineral products, including coal; organic chemicals; miscellaneous chemical products; and paper and paperboard products. The main imported items include: vehicles and their components; chemicals; residues and waste from food industries; animal or vegetable fats and oils; meat and edible meat offal; and machinery.

South Africa generally exports primary products, whereas MERCOSUR's exports are typically higher-value added products

Table 33: South Africa: Trade with MERCOSUR and the Rest of the World (RoW), 2004 (US$mn)

	Exports	Imports	Total
MERCOSUR	304.2	1521.7	1,825.9
- Brazil	238.5	973.5	1,212.0
- Argentina	59.3	531.7	591.0
- Uruguay	5.0	13.8	18.8
- Paraguay	1.4	2.7	4.1
RoW	39,256.2	46,493.9	85,750.1

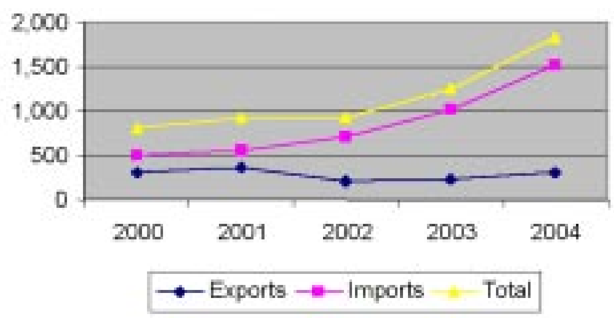
Source: UN Comtrade Database

3.3.2 Political Economy Reasons behind MERCOSUR-SACU PTA

The prospect of expanding trade between the two regions is one of the reasons for SACU and MERCOSUR to engage in an RTA. There are other reasons as well, however, that would have prompted them to strengthen their ties. Countries around the world have in the past decade been in a rush to negotiate and form RTAs and the MERCOSUR-SACU initiative can, somewhat cynically, be seen as simply yet another manifestation of this trend.

A further reason for SACU and MERCOSUR seeking closer relations with one another is to strengthen SSC. More importantly, in strengthening their economic relations, developing countries are looking to *inter alia*, reduce their dependence on the markets of developed countries, and endeavour to diversify their own economies.

Graph 13: South Africa: Trade with MERCOSUR, 2000-2004 (US$mn)



Source: UN Comtrade Database

3.3.3 The MERCOSUR-SACU PTA: Possible Impact and Outcomes

On December 16, 2004, MERCOSUR and SACU signed a PTA between them. The agreement was based on the South Africa-MERCOSUR Framework Agreement of 2000 and was seen as 'a first step towards the creation of a free trade area' (Art. 2)

The MERCOSUR-SACU PTA has provisions for issues such as: rules of origin (RoO), safeguards and dispute settlement. In general, the PTA refers various trade policy measures – national treatment, antidumping and TBT etc. – to the relevant articles of the WTO agreements. It also establishes a Joint Administration Committee (JAC) that shall meet at least once in a year and 'ensure the proper functioning and implementation' of the PTA and 'recommend further steps to create' an FTA.

Organic chemicals make up little more than half of the products to which MERCOSUR has granted preferential access to South Africa, and, in 2004, it was South Africa's third largest exported product category to the South American trading bloc. Since South Africa was not among MERCOSUR's major import partners of organic chemicals, there may be scope for the former to expand its market share. There are, however, also reasons to believe that the impact would be limited. Although many of the preference margins granted are 100 percent, the initial tariff levels generally stand at two percent only.

Moreover, organic chemicals also make up more than half (250 products) of MERCOSUR's offer list to India in the PTA they signed in early 2004. In contrast to South Africa, India is one of MERCOSUR's main import partners of organic chemicals. Although the two lists do not always feature the same products and the preference margins granted to SACU are on the whole greater than the concessions offered to India, the impact of the preferences on trade flows will (in both SACU's and India's cases) be limited.

Analysing SACU's offer list to MERCOSUR and how it corresponds with the latter's exports to South Africa yields a somewhat different conclusion. None of the MERCOSUR countries are among SACU's top ten import partners in electrical machinery and equipment or boilers, machinery and mechanical appliances. The unweighted averages of tariffs on these two product categories are 6.1 percent and 2.7 percent, respectively. This indicates that there exists a potential for MERCOSUR countries to increase their market shares in these two product categories.

Finally, the impact of the PTA on trade flows between MERCOSUR and SACU is likely to be modest, simply because it was never supposed to be anything but limited and serve as a first step towards an FTA. The real challenge and potential vis-à-vis significant impact in economic relations, therefore, lies before the two trading blocs.

3.3.4 Towards an FTA: Potential and Constraints

From SACU's perspective, the sheer market size of MERCOSUR (a population more than four times its own) offers an opportunity for SACU to exploit niches there in a future FTA. As for specific goods, two studies seek to assess South African products that have export growth potential vis-à-vis Brazil through *inter alia*, identifying under-traded goods. The main commodities found to have such potential include: aluminium and articles thereof; various chemical products and synthetic yarns; motor vehicles and components; synthetic fibres; and various machinery products, including electrical machinery.

Notwithstanding the potential of increased trade in the above-mentioned products, on balance, the overall impact of a MERCOSUR-SACU FTA would be limited. To begin with, MERCOSUR and South Africa produce many common products, e.g. motor vehicles and components, electrical and electronic equipment, and agricultural products. This indicates that little exchange might take place, but more importantly it implies that businesses on both sides of the Atlantic will be defensive. Such protectionism is naturally more likely to go with the less competitive party, which in the case of MERCOSUR and SACU generally appears to be the latter. Even if one disregards protectionist pressures, the likely impact on trade between MERCOSUR and SACU even in the case of full liberalisation would still be modest. The main reason for a low increase in trade is that the growth would be primarily based on trade diversion rather than trade creation.

Other constraints include the existence of NTBs, especially in MERCOSUR. Thus, even with tariffs eliminated, NTBs, like complex regulations and cumbersome custom procedures, could offset many of the preferences accrued. Another constraint is the possibility of an FTA covering only goods and not including other areas such as services or investment. Indeed, the MERCOSUR-SACU PTA does not contain a single mention of either services or investment. Moreover, if included, negotiations on services and investment would arguably prove to be a more arduous exercise than those on goods.

Finally, some of the obstacles that prolonged the negotiations for a PTA would prove to be stumbling blocks in the negotiations for an FTA as well. Not only do multilateral and regional negotiations divert attention from talks on a MERCOSUR-SACU FTA, but they also strain resources. Another potential problem is that the negotiations are between two trading blocs, not between two countries. Differences, therefore, need to be resolved not only between MERCOSUR and SACU, but also among the various parties within each of the two groups.

In addition, there remains the risk that the FTA negotiations would be settled too much at the political level with a continued lack of input from businesses and the civil society, as is discussed next.

3.3.5 Stakeholders' Involvement

The importance of sizeable participation of different stakeholders in the negotiations of any trade agreement cannot be understated. Yet there was a lack of involvement of businesses and CSOs in the PTA negotiations. However, the interest of the private sector is expected to gain momentum now that the PTA is in place.

But there is also some cause for concern that this may not be the case. MERCOSUR and South African businesses compete with each other in many product categories and, therefore, a high risk of loud protectionist voices could be heard on both sides of the Atlantic. In addition, because the businesses' main markets are situated in East Asia, North America and Europe, they are likely to be more concerned about getting involved in trade agreements with parties in those regions. This tendency is also reinforced by the relative lack of familiarity MERCOSUR and SACU stakeholders have with their respective regions.

3.3.6 The Bigger Picture

Since the MERCOSUR-SACU initiative does not take place in a vacuum, it is important to view it in the broader context of the trading system as a whole. At the multilateral level, the MERCOSUR-SACU Framework Agreement makes the intention clear to conform to the WTO principles. Nonetheless, a PTA by definition detracts from the non-discrimination values endorsed in the multilateral system and also diverts attention from multilateral trade negotiations. At the regional level, the MERCOSUR-SACU RTA is only one of hundreds of bilateral or multilateral trade, investment and economic partnership agreements being formed around the world. As has already been pointed out, MERCOSUR's and SACU's other RTA engagements would divert attention and strain resources.

But the impact will not be one-sided; MERCOSUR-SACU relations also affect RTAs. One of the reasons for MERCOSUR and SACU to engage in a RTA is to strengthen SSC. In addition to being important players in their respective regions – Latin America and Africa – they have strong external relations with other developing countries as well.

A key issue is convergence and whether South-South RTAs can be made compatible with one another rather than contribute to the 'spaghetti bowl' effect of a complexity of rules and regulations.

The Foreign Ministers of India, Brazil and South Africa launched the IBSA Dialogue Forum in June 2003 as a means to support political consultation and coordination, to strengthen cooperation in sectoral areas and to improve economic relations. Since then, the MERCOSUR-SACU PTA has been signed, as has a PTA between MERCOSUR and India.

India and SACU are currently negotiating a PTA, with a view to complete the talks by the end of 2006. Bilaterally, therefore, India, Brazil and South Africa are interconnected in RTAs. Moreover, at a trilateral meeting in March 2005, the three countries mooted the idea of forming a trade alliance between India, MERCOSUR and SACU.

Chapter 4: The Aerospace Industry: Prospects for Strategic Cooperation among the IBSA Countries

4.1 The Global Aerospace Industry

Not only is the aerospace industry a strategic asset, it is an important generator of wealth and a driver of technological and economic development in many industrialised countries. It is a key source of employment; for example, in 2000 the European space industry directly employed 429000 people, with thousands more employed indirectly.[24] The global aerospace sector is poised to expand by 25 percent in real terms over the next two decades to US$250bn per year.[25]

The high levels of skills and technologies that underpin the aerospace sector render it a dynamic propeller of industrial innovation. These considerable skills and technologies also contribute to high quality and safety standards. Retaining these aerospace capacities, however, requires enormous amounts of research and development (R&D) spending.[26]

Yet the global aerospace industry remains heavily dominated by a few economic powers, with the United States accounting for the lion's share of global market share and employment figures. It is a sector that is characterised by very stringent certification requirements and restrictive legislation, creating high barriers for aspirant emerging economies seeking to make significant inroads into the industry.

Table 34: Annual Sales for Select Aerospace Companies* - 2000				
Company	**Country**	**Annual Sales (RB)***	**Military Sales (RB)***	**% Military**
Boeing	USA	423	130	30
Lockheed	USA	235	188	80
EADS	EU	210	52	25
BAE Systems	UK	174	139	80
Raytheon	USA	156	125	80
Northrop	USA	79	56	70
Thompson CSF	France	62	43	70
Finmeccanica	Italy	35	17	50
Denel Aviation	South Africa	1.6	1.4	88
SA Technical	South Africa	2.2	0	0
Source: Hatty, 2000 (cited in DTI Assegai strategy, 2003)				

The international aerospace industry can be divided into two broad categories: 'first-tier' and 'second-tier' suppliers:

- 'First-tier' contractors are those national firms that are critical innovators at the edge of technological advance. Typically, these are few big companies that provide wholly packaged systems to both commercial and military markets. Apart from selling equipment, they maintain, upgrade and repair it throughout its lifespan. Nevertheless, the repair and conversion tasks have increasingly been outsourced to other industrial firms.[27] They are full-fledged business integrators, marketing, selling and delivering aircraft on a large scale in accordance with their contractual obligations. They are also system integrators, presiding over manufacturing contracts and management of supply chains, even though they do not necessarily undertake the manufacturing itself.
- 'Second-tier' suppliers, on the other hand, are firms that possess limited but significant aerospace capabilities. They include smaller industrialised countries such as Sweden, Canada and Australia, and emerging economies such as Brazil, India and South Africa. They supply either sub-systems consisting of several minor sub-systems, or parts and components. Their operations range from those that involve advanced system integration to those that focus on medium and low levels of system integration. Characteristically, companies that operate in this industry are required to meet strict certification conditions.[28]

Over the past years, the global aerospace industry has undergone a process of rationalisation and consolidation, driven mainly by company mergers and acquisitions (M&As). This has led to a decrease in the number of new aircraft development programmes, triggering stiff global competition among 'first-tier' business and system integrators. Similarly, growing competition among 'second tier' contractors has exerted pressures on the supply chain especially in respect of efficiencies, economies of scale and margins. This has prompted the system integrators to search for internationally competitive and pricing models.[29] Owing to the globalisation of the supply chain, the system integrators have been able to develop an extensive pool of sub-contractors across the world. In choosing working partners, key consideration has been given to countries that have cost-effective manufacturing solutions, balanced against the need to maintain acceptable production, quality and delivery standards.

4.2 The South African Aerospace Sector

The South African government's vision is to develop the aerospace sector as a sustainable, growing and internationally recognised industry by 2014. To this end, the government has sought to position the sector as a high-value global manufacturing industry and a regional African transport hub. Given the vast wealth-generation potential of the aerospace industry, the growth of this sector is viewed as vital to future national economic welfare.[30] This industry falls squarely into South Africa's approach to economic development and has potential for export growth, value addition and through international sub-contracting agreements, stimulates industrial innovation, competitiveness and growth further down the supply chain.[31]

Over the past five years the government has collaborated with the local industry, labour unions, academic institutions and other stakeholders to recast the industry as a national high priority sector whose growth trajectory could be modelled on that of the successful automotive sector. In accordance with its Integrated Manufacturing Strategy, the government has unveiled the Aerospace Industry Support Initiative (AISI). The AISI is an implementation strategy designed to bolster South Africa's aeronautical, space and defence industries and ensure their full integration into global aerospace supply chains. It seeks to achieve these objectives by:

- improving the global competitiveness of the South African aerospace industry;
- providing an institutional platform to encourage partnerships and innovation between government, industry and academia;
- identifying, developing and promoting the interests and capabilities of the South African aerospace industry; and
- accelerating the achievement of government strategic objectives including growth, employment and equity.

South Africa's aerospace competitive strengths revolve around avionics, aerospace systems development, and production of airframes and engine components. Other capabilities and expertise include inertial sensor systems, testing services, missiles, unmanned aerial vehicles, integrated logistic support, protection systems (for air, sea and land based applications), observation and sighting systems, air defence production, and training.

State owned Denel has embarked upon a strategy to recast its business from competing as an independent systems supplier of a broad range of products in the global market to firmly establishing itself in the supply chains of global defence contractors as a preferred supplier of sub-systems and components. To this end, it has sought to forge selective equity partnerships and alliances with global defence contractors.[32]

The AISI is predicated on the recognition that South Africa should exploit its competencies and technologies optimally and use them as a platform not only to forge international partnerships with the major aerospace original equipment manufacturers

(OEMs) such as Airbus, Boeing and Embraer, but also to promote its national development objectives. This has necessitated the creation of integrated supply chains connecting the OEMs, leading 'first-tier' South African contractors and clusters of small and emerging companies. The intention is to ensure that the supply chains echo those found in the automotive sector, which is underpinned by clusters of automotive suppliers in South Africa that are integrated into global networks. It is hoped that this will benefit South Africa by, among other things, moving suppliers up the value chain, inducing economies of scale, and generally contributing to the development of the local industry.

The A400M aircraft programme provides pointers as to how the South African government and industry intend to realise the restructuring of the aerospace sector. This is an international partnership arrangement launched in 2003 involving South Africa and seven European partners (France, Spain, Luxembourg, Turkey, Germany, Belgium, and the United Kingdom), which is aimed at designing and building the A400M military air transport plane. The programme's main contractor is Airbus Military SL, an Airbus subsidiary. In April 2005 the South African government signed a contract to purchase 8 aircrafts and will take first delivery in 2010.

South Africa's participation in the A400M programme has been influenced mainly by industrial considerations. But it has also been driven by foreign and security policy factors, especially the imperative of expanding South Africa's role in conflict prevention, peacekeeping operations and humanitarian missions across Africa. Given the limitations of the current South African military transport infrastructure, it is expected that the new transport aircraft will go a long way towards meeting the South African National Defence Force's (SANDF's) needs and contributing towards the creation of a sustainable development of the aerospace industry in South Africa.

Denel and Aerosud have been designated as primary South African contractors and will supply the A400M programme with a range of components including wing tips, wing-to-fuselage fairings, centre top shells, composite cargo hold, nose fuselage linings and other composite and metallic airframe components. Negotiations are underway to include parts of the engine and communication systems. Furthermore, both companies will undertake equipment repairs during the programme's lifespan, and they are expected to compete for the provision of aircraft maintenance and training services. The final assembly of the aircraft will take place in Seville, Spain. The A400M programme represents a clear opportunity for Denel and Aerosud to be incorporated into the world's biggest aviation supply chain.[33]

Aerosud has benefited immensely from the government's industrial participation policy. The policy derives from the government's strategic defence procurement programme and commits armaments companies to provide industrial offsets in return for contracts awarded to them. Designed to create or retain over 65 000 jobs, the offsets include direct investments, export assistance, undertakings to utilise parts made in the purchasing country, and relocation of final assembly functions to that country.[34]

BAE Systems has a 30 percent equity stake in Denel, which was acquired as part of South Africa's arms procurement package. In terms of the package, the South African government was offered an industrial participation package by BAE Systems and Saab in return for buying Hawk and Gripen aircrafts. As part of its partnership with BAE Systems, Denel was awarded contracts to supply aircraft tooling for the production of the Indian Air Force's new BAE Systems Hawk advanced jet trainer aircraft.[35]

In addition to Aerosud and Denel, South African firms have forged linkages with other international companies. Grintek has established joint ventures with Saab in Sweden and EADS in Germany, which are focused on providing shared R&D and shared marketing of products. Other international partners include Snecma, Volvo Aero, Honeywell, Lockheed and MTU. The industrial participation programme offers South African aerospace and defence firms an opportunity for long-range entry into global supply chains. But it remains to be seen whether the domestic industry can take maximal advantage of these possibilities.

4.3 Prospects for IBSA Strategic Cooperation

The importance of strategic cooperation among the IBSA countries in the aerospace industry has been championed at the highest political level in South Africa. During the visit of the Indian Head of State to South Africa in September 2004, President Thabo Mbeki called on the IBSA countries to work together to intensify trilateral cooperation in the aerospace sector and indicated that South Africa was ready to share its capabilities, technologies and expertise with its IBSA partners in this regard.

The interviews revealed that there was currently none or very little form of aerospace collaboration between South Africa, India and Brazil. There was general agreement among the respondents on the need for cooperation in this respect. As a start, it is important to ask what the rationale for such cooperation should be. Is the objective of cooperating to compete with Boeing and Airbus, or to have a sustainable high-tech industry that can provide skilled employment while making available tailor-made products at reasonable prices? In addition, it is necessary to identify each country's requirements and capabilities.

Broadly, three potential areas of cooperation have been identified as part of the agenda of the IBSA Working Group on Trade.

- The first area is expansion of aerospace supply chains. This is premised on the commercial opportunities offered by the diverse aerospace capabilities of the IBSA countries. In particular, it centres on the prospects promised by Brazil's Embraer, the world's third largest commercial airline manufacturer that produces regional aircraft. From a South African perspective, it is envisioned that the demand for regional aircraft in Africa will grow in the near future, with commercial carrying capacity in the region expected to double over the next six years.
- Second, collaboration around aerospace systems in support of strategic defence needs. The global trend toward the industrialisation of defence production – typified increasingly by the development of weapons systems through international linkages – provides clear opportunities for integrating the domestic defence industry into global supply chains. This can be accomplished through international strategic alliances, which are crucial to pursuing high-value manufacturing programmes and mitigating potential risks to individual economies. Previous experience has shown

that such global partnerships can produce important economic gains and spillovers, especially the transfer of skills and technology. Within this context the South African Department of Defence (supported by the DTI) has been engaged in discussions with the Brazilian authorities with a view to either upgrading or replacing some of that country's ageing air force hardware – mainly fighter jets but also supporting sub-systems. Denel has set up an office in Brazil to beef up cooperation with the Brazilian defence sector.[36]

With a strong electronics competitive edge, Grintek has made progress in entering the Indian market. Taking cognisance of India's growing defence spending, robust defence and aeronautical industry plus high ambitions, the company seeks to share its technology and supply Indian fighter aircraft with self-protection systems.[37] Based on 2004 figures, defence spending in India amounted to US$16.97bn, compared with US$11bn and US$3.17bn spent by Brazil and South Africa respectively (see Table 35).[38]

Table 35: Military expenditures – selected countries, 2004

Rank	Country	Amount
1	United States	$370, 700, 000, 000
4	France	$45, 238, 100, 000
7	Italy	$28, 182, 800, 000
9	India	$16, 970, 000, 000
13	Brazil	$11, 000, 000, 000
21	Sweden	$5, 729, 000, 000
31	*Chile*	*$3, 420, 000, 000*
34	*South Africa*	*$3, 172, 000, 000*

Source: CIA World Factbook, 2005

- The third possible field of collaboration is around small and micro satellites. Brazil and India possess strong competencies in small and micro satellites, including launching capability, while South Africa has a small but reputable small and micro satellite industry and fully-fledged ground support infrastructure. It was indicated that the IBSA nations stood to gain from a more coordinated and integrated approach in these fields, particularly in exchanging expertise and technology platforms and in fostering closer working relationships between both public and private sectors in the three countries.[39]

In addition to the above proposals, a suggestion has been made for a common development project (R&D oriented) aimed at developing new technology and sustaining strategic resources and/or a joint capital equipment acquisition/replacement programme where non-recurring costs may be distributed across a broader base.[40] Another suggestion was that cooperation should start with a clear strategy to pool resources (not physically but conceptually) and then buy from those resources on a sustainable basis.[41]

Concerning the role that the aerospace industries could play in supporting SMEs, through well-defined supply chains, and in creating wealth and employment, it was pointed out that SME development could only take place in the presence of major partners in each country, for example Aerosud or Denel in South Africa. It was not possible for SMEs to participate independently given the high cost and infrastructure barriers. Aerosud has been actively developing sub-tier supply by SMEs and has successfully solicited EU finance through the DTI for this.[42]

4.4 Capabilities

There is sufficient scope for cooperation among the IBSA countries to develop better technological capabilities in aircraft and aircraft components production. Even so, it was stated that perhaps the first step should be the initiation of dialogue between aviation players in each country and to hammer out a strategy from there. Such a strategy could include each country buying from one another on a preferential basis. A question was raised regarding whether there was a place in the plans of Brazil and India for South Africa to contribute.

Furthermore, the South African aerospace industry could exploit its competitive niche areas to integrate South African manufacturers into Brazilian and Indian aircraft production sectors through, for example, risk-sharing development and government-supported marketing efforts at the electronic product level. Regarding the prospects for cooperating with India and Brazil on developing an airplane, a number of concerns have been raised about this kind of cooperation including a lack of funding, a lack of defence coordination, and a lack of a market that is prepared to buy from the IBSA grouping.[43]

Nevertheless, there was a general view that the IBSA nations do possess the necessary infrastructure to develop a vibrant aerospace sector. And there is a great deal of scope for cultivating complementary niches rather than each country having to wholly finance its industry. South Africa's infrastructure capabilities vary. R&D spending remains low, although it is growing thanks partly to the AISI programme. In general, South African universities offer useful courses and the South African aviation baseload underpins the appointment of new engineers. The South African aerospace sector has skilled personnel, and there has been a determination to improve the industry's skills base.

South Africa needs to bolster its financial resources. The Industrial Development Corporation is willing to offer financial support in instances where there is a viable business case. The country also needs to increase investment in manufacturing facilities and capital equipment. Some companies, notably Aerosud, have led the way in investing in modern production methodologies and in increasing production output.[44]

4.5 The Role of Government

The interviewees acknowledged that the South African government, by providing a policy framework and incentives, has demonstrated a proactive approach to developing the aerospace sector and furthering international cooperation. There was in principle general agreement that the government ought to play a central role in: growing the aerospace sector and providing strong direction; collaborating with IBSA countries on ambitious projects; addressing concerns around import duties, tariffs, manufacturing and investment incentives, and transaction costs; and providing subsidies for collaborative investment and manufacturing programmes.

4.6 Value Addition

It is important for the IBSA countries to discuss how they can add value to aircraft production. Both Europe and the US are high-cost manufacturers and this offers opportunities for emerging economies. It is worth bearing in mind, though, that aviation is a high-risk business requiring very large up-front investment with long term break-evens. It is not a business that readily lends itself to entrepreneurship in the absence of government incentives.[45]

It is debatable whether there is an opportunity for a new low-cost engine maker in the world. If so, the main cost saving will only be production man-hour rates but under subcontract from an existing engine manufacturer. The development of a new engine will be prohibitively expensive even if the technology to successfully do so was to be made available. The starting point should be cooperation on existing programmes such as the Embraer regional aircraft.[46] The value addition and cooperation instruments that are likely to yield optimal benefits are boosting R&D, encouraging shared research, as well as cultivating joint marketing arrangements and technological exchanges.

4.7 Challenges/Threats to IBSA Cooperation

The corruption allegations levelled against Denel by the Indian government represent arguably the most important challenge and threat to cooperation among the IBSA countries in the aerospace sector. This has significant implications for Indo-South African bilateral relations and the seriousness of the matter warrants intervention at the 'highest political level.'[47] The case is currently sub judice. Furthermore, it was stated that another issue that ought to be resolved is the restructuring of Denel and a clear delineation of its relationship with established private industry, which is a pre-requisite for foreign links.

Another challenge concerns the extent of the willingness and capability of the IBSA countries to develop a common interest. Considering that the three countries have been vying to position themselves in an already congested global aviation market, the challenge is whether they can promote cooperation as opposed to competition. Fostering cooperation is possible but, as one respondent emphasised, it will require a 'win-win focus project' to realise.[48]

At a commercial level, there is the challenge of reconciling the dilemmas faced by South African and Brazilian defence industries, both of which have been experiencing the same problems of over-capacity against the backdrop of declining defence expenditure. This has resulted in companies in these countries viewing the IBSA arrangement not in terms of cooperation but rather as a means of opening new markets. A related concern is the perception that the IBSA mechanism seems to be revolving around South Africa, with limited India-Brazil activity. This perception needs to be dispelled if the IBSA is to be taken seriously by the aerospace sector.[49]

IBSA cooperation might also be influenced by the attitude of Indian and Brazilian partners to the transformation of defence-related industries in South Africa that has been taking place in keeping with the government's policy of black economic empowerment (BEE). BEE is designed to facilitate the entry of emerging businesses and the previously marginalised black entrepreneurs into defence and aerospace sectors by, among other things, helping these enterprises to overcome the stringent technical barriers that prevent small and emerging companies from participating in the industry. Early in November 2005 Phatsima Aviation, a BEE company acquired a 20 percent stake in Aerosud, increasing Aerosud's total BEE shareholding to 28 percent.[50]

A further issue that needs to be tackled is whether the Airbus/A400M strategy pursued by South Africa can be balanced against South-South cooperation within the IBSA context. Moreover, there is a challenge of dealing with matters related to transaction costs, shipping costs and delivery times.

Chapter 5: Findings, Lessons and Recommendations

IBSA – Huge Potential, Considerable Challenges

Findings

- Trade and investment among the IBSA countries is very low – often around 1 percent of the total – although there has been some growth in the past decade.
- IBSA partners tend to be *competitors* and not *clients* in relation to each other. The real clients still sit in the Northern Hemisphere.
- Among the IBSA countries' main exports to each other are: India – mineral fuels and oils, pharmaceuticals, cereals, and auto-components and ancillaries; Brazil – vehicles and auto-components, mineral fuels and oils, crude soya bean oil, and machinery; South Africa – chemicals, minerals fuels and oils, iron and steel, and gold.
- There is fear of competition from the IBSA partners in certain sectors, e.g. motor vehicles, textiles, steel, and agriculture and food products.
- The three markets offer considerable potential. India is an immense domestic market and has huge economies of scale in several sectors as well as low-cost labour; Brazil is a huge, dynamic and diversified market and has also a relatively liberal trade and investment regime; South Africa also has a considerable market, has cultural affinities with both IBSA partners and is fairly close geographically to India and Brazil.
- All three IBSA countries are important hubs in their respective regions and greater intra-IBSA relations is often considered as a way to also expand relations with other countries in the three regions.
- The IBSA countries have successfully cooperated in the Doha Round negotiations as part of the G-20.

Lessons

- There is huge potential to increase trade and investment relations among the three IBSA countries, in part due to their large markets and the currently low flows among them. Potential areas of cooperation include aircraft production (see further below), pharmaceuticals, software, automotive and transport material, and tourism.
- However, there are also considerable challenges facing the trilateral alliance that relate to, among others, tariff and NTBs, high transport costs, and cultural and linguistic differences.

Recommendations

- Engage in a high-level dialogue among MNCs and the three governments in order to ascertain whether and how the IBSA initiative might have a favourable impact on trade and FDI – particularly in industries that operate in some or all of the IBSA countries.

High Tariffs and 'Non-transparent' Tariff Structures

Findings

- High tariffs in the IBSA countries impede trade flows among them, with 15 percent in a survey saying that high import tariffs act as major barriers to increased economic relations with India and South Africa.
- 'Non-transparent' tariff structures and customs regimes have been identified as barriers to greater trade.
- Tariff peaks and tariff escalation in Brazil has been cited as a problem to export finished goods there.

Lessons

- Despite measures to further trade liberalisation in the IBSA countries, tariffs remain a considerable barrier to increased trade relations in some cases.

Recommendations

- Reduce customs duties and make tariff structure transparent in order to ensure a level playing field for importers.

'Non-transparent' Standards and Cumbersome Visa Procedures

Findings

- Non-transparent standards are among the barriers that hamper intra-IBSA trade.
- Customs procedures can be onerous and costly.
- India, in particular, has been mentioned as having cumbersome and time-consuming procedures for obtaining visa.
- In Brazil it is costly for trading partners to comply with the complex web of laws provisional measures, decrees and resolutions that regulate the country's foreign trade.

Lessons

- There are several NTBs in the IBSA countries that need to be addressed in order to strengthen commercial relations.

Recommendations

- Harmonise standards among the IBSA countries.
- An equivalence agreement can pave way for reducing transaction costs of exporters within IBSA countries – this would be particularly useful for non-agricultural products such as tyres and pharmaceuticals.
- Address visa problems and concerns related to cross-border movement of businesspersons.

- Do away completely with NTBs among IBSA partners to ensure a level playing field for importers.

Scope to Improve Investment-friendly Environments

Findings

- Investment flows between the IBSA countries are low and investment relations between IBSA countries can be best described as ad-hoc, with no clear direction. Some sectors have seen momentum, e.g. pharmaceuticals and mining.
- Even though the three IBSA countries can differ on specific indicators and indices that assess the business environment, the overall picture is not quite an 'investment-friendly' one for the IBSA 'region'.
- Lack of copyright and other IPRs protection, which act as a major disincentive to investment.
- There are no BITs between any of the IBSA partners.

Lessons

- For IBSA countries that are relative 'newcomers' in the FDI universe and do not have the same capacity and structure to back their investments as OECD countries do, the IBSA business environment makes it all the more difficult for "intra-zone" investment to occur.
- An initiative such as IBSA must at some point focus on investment by MNCs. All three countries at some level compete for FDI from the same sources and the same MNCs also compete among themselves for attractive investment regimes across countries such as the three IBSA members.

Recommendations

- Ensure adequate enforcement of IPRs.
- Consider negotiating and concluding and a comprehensive trilateral BIT.

Considerable Lack of Market Information and Knowledge

Findings

- There is a general lack of information and knowledge about the IBSA partners in the respective countries. Consequently, several companies have not identified other IBSA countries as markets simply because of their low awareness about those markets.
- Many companies surveyed felt that the current level of reliable sectoral information available is very poor and that government missions, chambers of commerce and the like could provide greater assistance to improve such information.

Lessons

- Notwithstanding the trade and investment barriers among the IBSA countries, addressing stakeholders' lack of information and knowledge about the respective partners would go a considerable way to spur greater economic relations.
- There might be a case for setting up sector specific export promotion boards rather than broad based business chambers in order to get access to detailed market information.

- There is a need to distinguish between MNCs and SMEs with regard to market information, since it is easier for most MNCs to gain access to foreign market intelligence because of their requisite infrastructure and capabilities.

Recommendations

- Use diplomatic missions, business chambers and the like to provide exporters and investors with adequate, up-to-date market intelligence and other relevant data and, more broadly, to promote economic cooperation among IBSA countries. This may be accomplished by, among other things, organising trade fairs and exhibitions in a bid to enable exporters to market their products and services.
- Use the IBSA Business Council to facilitate interaction among businesses, foster the creation of private-public partnerships, expand mutual knowledge and promote sharing of experiences.

Low Awareness and Involvement of Stakeholders

Findings

- There is very little awareness among companies about the IBSA initiative.
- Companies have mixed views about initiatives such as IBSA. Some support them as ways to explore commercial opportunities both in the partner countries themselves and in these partners' neighbouring countries. Some, on the other hand, view them with suspicion and perceive them more as political rather than economic projects.

Lessons

- There is a considerable information gap between IBSA promoters and stakeholders, which gives rise to concerns about stakeholders not being enough involved in the IBSA initiative.
- When informing and involving stakeholders, IBSA promoters need to make clear the rationale behind and benefits from the initiative.

Recommendations

- Facilitate interaction between potential exporters and investors with relevant government and private sector institutions.
- Inform businesses and business associations about the vision and programmes of IBSA and involve them in shaping IBSA processes.
- Accentuate the economic value of trade agreements to business organisations.

High Transport Costs

Findings

- Transport costs are considered to be one of the greatest impediments to stronger commercial relations. For instance, they were singled out as one of the largest factors impeding India's exports to Brazil.
- Frequent port delays that, among others, result from insufficient and poorly streamlined ports and inland custom posts also pose a challenge for greater trade flows among the IBSA countries.

- Freight costs between India and Brazil are allegedly high for primarily two major reasons. Firstly, there is no regular traffic with India, which is not included in the overall Asian routes from Brazil that tend to favour China, Japan and Korea. Secondly, many combined cargo ships (bulk and containers), even when they go by India do not stop at Indian ports given the scale of orders to that destination.

Lessons
- Freight and logistics should be one of the primary focus areas of the IBSA initiative, since transport costs are very high.

Recommendations
- Encourage public-private partnerships while tackling infrastructure bottlenecks, including the improvement of rail and sea links as well as enhancing port capacity and operations.
- Develop new trade routes among the IBSA countries.

Significant 'Environmental' Barriers

Findings
- Difficult bureaucratic procedures hamper trade flows among the IBSA partners.
- Corruption, bribery of government agencies and 'discriminatory' awarding of government contracts raise the costs of doing business in the IBSA countries.
- Differences in culture and, particularly, language can be a considerable hurdle in intra-IBSA relations. For instance, language is seen as one of the biggest problems faced by Indian business aiming to increase exports to Brazil.

Lessons
- Notwithstanding trade policy barriers and challenges related to transport and infrastructure, there are considerable 'environmental' barriers that hamper commercial relations among the IBSA partners.

Recommendations
- Ensure implementation of efforts aimed at weeding out corruption in public and private organisations.
- Use diplomatic missions, business chambers and the like to assist in overcoming cultural and linguistic differences among the IBSA partners.

Small Impact from PTAs

Findings
- India and MERCOSUR signed a PTA on January 25, 2004, while MERCOSUR and SACU signed a PTA on December 16, 2004. India and SACU are currently negotiating a PTA that they are looking to conclude by the end of 2006.
- Both the India-MERCOSUR PTA and the MERCOSUR-SACU PTA are based on a 'positive list' approach. The former contains some 600 products, while the latter designates some 2,000 products for tariff liberalisation.

Lessons

- The benefits from the three PTAs will most likely be primarily political, as none of them are expected to have significant impacts on trade flows.

Recommendations

- Conclude a comprehensive India-SACU PTA by the end of 2006.
- Explore possibility to negotiate a trilateral FTA between India, MERCOSUR and SACU.

Opportunity to Cooperate in the Aerospace Industry

Findings

- The importance of strategic cooperation among the IBSA countries in the aerospace industry has been championed at the highest political level in South Africa.
- There was a general view that the IBSA nations do possess the necessary infrastructure to develop a vibrant aerospace sector. And there is a great deal of scope for cultivating complementary niches rather than each country having to wholly finance its industry.
- The interviews revealed that there was currently none or very little form of aerospace collaboration between South Africa, India and Brazil. There was general agreement among the respondents on the need for cooperation in this respect.
- Brazil and India possess strong competencies in small and micro satellites, including launching capability, while South Africa has a small but reputable small and micro satellite industry and fully-fledged ground support infrastructure.
- South Africa's DTI has offered to make its offices available in 2007 to host a preliminary meeting of aerospace players in the IBSA countries to explore ideas, proposals, plans and strategies that can take the aerospace initiative forward. If such a gathering lays a firm foundation and yields meaningful outcomes, it is hoped that it will lead to follow-up meetings in Brazil and/or India.

Lessons

- There appears to be a will among governments and stakeholders in the IBSA countries to collaborate in the aerospace sector.
- Broadly three potential areas of cooperation have been identified as part of the agenda of the IBSA Working Group on Trade:
    - Expansion of aerospace supply chains, which is premised on the commercial opportunities offered by the diverse aerospace capabilities of the IBSA countries.
    - Collaboration around aerospace systems in support of strategic defence needs.
    - Collaboration around small and micro satellites. IBSA countries might gain from a more coordinated and integrated approach in these fields, particularly in exchanging expertise and technology platforms and in fostering closer working relationship between both public and private sectors in the three countries.
- Concerning the role that the aerospace industries could play in supporting SMEs, through well-defined supply chains, and in creating wealth and employment, it was pointed out that SME development could only take place in the presence of major partners in each country. It was not possible for SMEs to participate independently given the high cost and infrastructure barriers.

- Challenges/threats include corruption allegations levelled against South African defence products supplier Denel by the Indian government; extent of willingness and capability of the IBSA countries to develop a common interest; problems of over-capacity against the backdrop of declining defence expenditures in South Africa's and Brazil's defence industries; and matters related to transaction costs, shipping costs and delivery times.

Recommendations

- Consider and debate the three potential areas of cooperation identified as part of the agenda of the IBSA Working Group on Trade. Formulate a strategy based on the outcomes of that debate. This strategy could include each country buying from one another on a preferential basis.
- Launch a common development project (R&D oriented) aimed at developing new technology and sustaining strategic resources and/or a joint capital equipment acquisition/replacement programme where non-recurring costs may be distributed across a broader base.
- Formulate a clear strategy to pool resources (not physically, but conceptually) and then buy from those resources on a sustain

2.5.4.g The Way Ahead

As this document has underlined, some justifiable doubts and misgivings about the efficacy of the scheme do persist but these were overwhelmingly overshadowed by a desire and enthusiasm to build relationships with Brazilian and Indian aerospace companies as reliable and valued business partners. This should provide a starting point for commencing substantive dialogue among the IBSA nations. The DTI in South Africa has offered to make its offices available in 2007 to host a preliminary meeting of aerospace players in the IBSA countries to explore ideas, proposals, plans and strategies that can take the aerospace initiative forward. It asked SAIIA to liaise with CUTS and ICONE with a view to setting up such a meeting at the earliest opportunity in 2006.

At a meeting in Pretoria, South Africa, on June 28, 2006, organised by SAIIA, CUTS International, Business Unity South Africa (BUSA) and the Institute for International Trade Negotiations, Brazil, it was resolved that a conference of experts on aerospace and aviation from India, Brazil and South Africa be convened to the take the process of cooperation in the aerospace sector forward.

If this gathering lays a firm foundation and yields meaningful outcomes, it is hoped that it will lead to follow-up meetings in Brazil and/or India.

Annexure

India-Brazil-South Africa (IBSA) Dialogue Forum, Brasilia Declaration, March 30, 2006

1. The Minister of State for External Affairs, Government of India, H E Anand Sharma, the Minister of External Relations, Brazil, H E Celso Amorim, and the Minister of Foreign Affairs of South Africa, H E Dr Nkosazana Dlamini-Zuma, met in Rio de Janeiro on March 30, 2006 for the Third Meeting of the Trilateral Commission of the IBSA Dialogue Forum.
2. The Ministers discussed a wide range of critical global issues and reconfirmed their shared vision and determination to play a constructive role in international affairs and to maintain friendly relations with all countries. They reaffirmed the IBSA Dialogue Forum as an important mechanism for political consultation and co-ordination as well as for strengthening cooperation in sectoral areas and to improve economic relations among India, Brazil and South Africa.
3. They confirmed their support for a strong multilateral system as a means towards addressing issues of global concern, in particular the pre-eminent role of the United Nations in the maintenance of international peace and security and the promotion of sustainable development.

Millennium Review Summit

4. The Ministers recognised the successful conclusion of the Millennium Review Summit, which took place in September 2005. The Ministers expressed their hope that the UN reform processes continue to reflect a balance between development and security concerns and, in this regard, reiterated their perception that development matters remain an indispensable foundation for a new collective security system.
5. They reaffirmed their commitment to the goal of developing countries successfully achieving, at the minimum, the Millennium Development Goals (MDGs) as a core strategy in the international fight against underdevelopment, hunger and poverty. They reiterated their support for the Action against Hunger and Poverty initiative and, in particular, the Declaration issued by the promoters of the initiative on the occasion of the UN Millennium Review Summit. They reconfirmed the importance of obtaining new and additional financial and other resources for fighting poverty and financing development.

6. Within the framework of the Monterrey consensus, the Ministers acknowledged that the MDGs would not be achieved without also resorting to additional and innovative sources of financing for development. The Ministers confirmed their willingness to support and promote innovative financing mechanisms and in this regard reiterated their intention to take active part in the work by the Leading Group on Solidarity Levies, created at the Ministerial Conference on Innovative Financing, held in Paris in February/March 2006.

UN Institutional Reform

7. The Ministers reiterated their continued support for the reform of the UN to make it more democratic and responsive to the priorities of its Member States, particularly those of developing countries that constitute the vast majority of its membership. In this regard, they welcomed the decisions taken in the September Summit in New York in 2005 and expressed their full support for the implementation of those decisions as contained in the "Summit Outcome Document".
8. The Ministers emphasised that the Security Council must, in its composition, represent contemporary realities and not those of 1945. Keeping in view that the decisions of the Security Council should serve the interests of the larger UN Membership, they emphasised the need for the urgent reform of the Security Council that would include its expansion in both categories of membership, permanent and non-permanent, in order to render it more democratic, legitimate, representative and responsive. Towards this end, the representation of developing countries from Africa, Asia and Latin America, as permanent members of the Security Council, is essential. The IBSA countries agreed to continue to exchange views on this issue, which they felt is central to the process of UN reform, and work towards this common purpose in the coming months, with the view to achieving concrete results by the end of the 60th General Assembly session.
9. They welcomed the creation of the Peace Building Commission as an important intergovernmental advisory body through which international community could provide long-term support to countries emerging from conflict, including capacity-building efforts. IBSA countries reiterated their commitment towards working for an early operationalisation of the Peace Building Commission.
10. They voiced their full support for the capable manner in which the UN Secretary-General, Kofi Annan, has been conducting the work of the organisation, and expressed confidence in his efforts to enhance the UN's role in international relations.
11. They recommitted their respective delegations to the UN and its specialised agencies, as well as other multilateral bodies, to remain in close contact with each other and to consult on all issues of significance.

South-South Cooperation

12. The Ministers reaffirmed that South-South cooperation is an essential and fundamental component of international cooperation for development, and stressed

their support for mainstreaming of South-South cooperation and of the pursuit of the development of TCDC to its full potential. In this regard, they recommitted themselves to work together for the enhancement of South-South cooperation and emphasised the establishment of IBSA Fund as an example of cooperation among three developing countries for the benefit of the neediest nations of the South.

13. They noted with satisfaction the adoption of the Doha Plan of Action at the South Summit, held in Doha, from June 12-16, 2005. They emphasised the importance of strengthening South-South cooperation in order to promote growth and development.

The New Partnership for Africa's Development (NEPAD)

14. The Ministers reaffirmed their support for the socio-economic development programme of the African Union (AU) and committed the IBSA partnership to seeking practical and concrete measures to be pursued in support of the implementation of NEPAD. The three countries share a common experience in the struggle against poverty and underdevelopment, as well as complementary levels of development. There was therefore much to gain from sharing information and best practices in dealing with common challenges and in identifying areas of common concern, need and benefit.

South American Integration

15. The Ministers welcomed the consolidation of the South American Community of Nations, which held its first Presidential Meeting in Brasilia, on September 30, 2005, and recognised it as a major achievement in the process of strengthening the political coordination and economic, commercial and infrastructural integration among South American countries.

Terrorism

16. The Ministers reaffirmed that international terrorism constitutes one of the most serious threats to peace and security and that acts of terrorism were criminal and unjustifiable whatever the considerations or factors that might be invoked to justify them. The Ministers emphasised the need for concerted and co-ordinated action by the international community, with the ultimate objective of eradicating terrorism in all its forms and manifestations.

17. They reaffirmed their full support for the implementation of all the measures to combat terrorism outlined in relevant UN Security Council Resolutions. They welcomed the Council's efforts to increase cooperation and coordination in the fight against terrorism and called on the international community to work together in a spirit of cooperation and tolerance to eliminate terrorism. Recalling that the Outcome Document of the World Summit 2005 had called upon the member states to conclude a comprehensive convention on international terrorism during the current Session of the UN General Assembly, the Ministers stressed the importance of finalising the

convention on international terrorism and called upon all States to cooperate in resolving the outstanding issues with the objective of an expeditious conclusion of negotiations and the adoption of this Convention.

18. They emphasised that international cooperation to combat terrorism should be conducted in conformity with the principles of the UN Charter, international law and relevant international conventions, including international human rights, humanitarian and refugee instruments.

Disarmament, Non-Proliferation And Arms Control

19. The Ministers reaffirmed the view that the primary focus on human development, the fight against poverty, and measures to promote a better quality of life, should underpin and provide for greater guarantees for international peace and stability. The three Ministers took stock of the global security situation concerning disarmament and non-proliferation, and expressed their concern over the lack of progress in multilateral fora related to the field, and voiced their hope that the international community will show the necessary resolve and political will to reinforce the international disarmament and non-proliferation regime by means of multilaterally-negotiated, transparent, balanced and effective measures.

20. The Ministers expressed their conviction that multilateral institutions set up under multilateral disarmament agreements should remain the primary institutions and mechanisms, in the international community's endeavour to achieve common objectives in the area of disarmament and non-proliferation.

21. They took note of the positive continuing cooperation among their countries at the IAEA and other fora, with a view to ensuring the unimpeded growth and development of the peaceful use of atomic energy, through the supply of technology, equipment and material, under appropriate safeguards, and reaffirmed their will to intensify such cooperation. In this regard, the Ministers called for a peaceful resolution of the Iranian nuclear programme within the context of the IAEA.

22. They highlighted that nuclear energy can play an important role in meeting growing global energy requirements while at the same time addressing concerns related to global warming. In this regard they agreed to consider further enhancing international civilian nuclear cooperation, with countries that share the objectives of non-proliferation and have contributed to them, as well as having concluded appropriate safeguard agreements with IAEA.

23. The Ministers expressed concern over the continuing impasse in the Conference on Disarmament and called upon member states to intensify efforts to reach an agreement on a programme of work. In this context, they reiterated that the Five Ambassadors proposal as revised in 2003 still remained a viable basis for a programme of work.

24. They also expressed their commitment to the universalisation of the Convention for the Prohibition of Chemical Weapons and Biological Weapons Convention (BWC), as well as to the goal of ensuring its balanced, transparent and effective implementation.

25. They also agreed on the pressing need to adopt measures aimed at strengthening the Convention for the Prohibition of Biological and Toxin Weapons, in order to consolidate its role as a key disarmament instrument of the international disarmament and non-proliferation regime, and expressed their will to intensify the cooperation and consultations in relation to the Convention, in particular in the context of its 6th Review Conference, scheduled for November-December 2006.

26. They recalled the importance of cooperative and effective international action against the illicit trade in small arms, light weapons and ammunition, and the need for the 2006 Review Conference of the UN Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects (UN-PoA), adopted at the Conference on the Illicit Trade of Small Arms and Light Weapons in All Its Aspects.

Situation In The Middle East

27. The Ministers welcomed the holding of transparent and free parliamentary elections in the Palestinian territories on January 25, 2006 and of general elections in Israel this very week. They welcomed the strengthening of the democratic process in Palestine and the peaceful nature of the polling. They expressed the hope that the newly formed government in Palestine and the newly formed government in Israel will continue to pursue peaceful negotiations as laid down by the Road Map for Peace and to abstain from taking any action or measure which might put in jeopardy the peace process in the region leading to the establishment of a viable, sovereign, independent State of Palestine living side by side in peaceful co-existence with the State of Israel.

International Trade

28. Considering the results of the 6th WTO Ministerial Conference held in Hong Kong, in December 2005, the Ministers emphasised the necessity of renewed political commitment to advance negotiations so that the Hong Kong deadlines are met.

29. As agriculture is central to development and the Doha Round, the Ministers expressed their conviction that Hong Kong consolidated the G-20 as an element of systemic relevance in WTO Agriculture negotiations.

30. The Ministers emphasised the need to consolidate unity on the development content of the Round. This is supported by increased activity, in the form of consultations, held in Geneva by Indian, Brazilian and South African delegations, in order to co-ordinate positions and strengthen NAMA, as well as the establishment of the NAMA -11 whose two main principles are supporting flexibilities for developing countries and balance between NAMA and other areas under negotiation.

31. They recognised the importance of incorporating development dimension in international discussions concerning intellectual property, as a means to preserve the policy space that countries enjoy in ensuring access to knowledge, health, culture and a sustainable environment. In this context, they welcomed the launching of a

'Development Agenda in the World Intellectual Property Organisation (WIPO)' and reaffirmed their hope that WIPO incorporates effectively the development dimension in all its bodies.

32. The Ministers took note of the broader objectives of the EU proposed Registration, Evaluation and Authorisation of Chemicals (REACH) Legislation, in respect of the protection of human health and the environment. The Ministers reiterated their support for the commitments made on chemical safety at the World Summit on Sustainable Development (WSSD) in 2002.

33. The ministers expressed their concern for the unintended consequences that REACH will have on developing economies exporting to the EU. Such consequences will negatively affect the attainment of development goals in the South, including the MDGs. The Ministers recognised the efforts, commitments and determination of leaders of developing economies to effectively address the challenges of poverty, underdevelopment, marginalisation social exclusion and economic disparities.

34. The Ministers urged EU to give due consideration to the grave consequences for developing economies should REACH be adopted in its current form. The Ministers urged the EU to ensure that REACH will not become a Technical Barriers to Trade (TBT). The high costs for compliance, the possibilities for substituting commodities and the lack of technological and human resource capacity to comply may render the EU markets inaccessible for exports from developing countries. The Ministers expressed their desire that REACH should be consistent with the WTO laws and provide for adequate flexibility to developing countries.

35. The Ministers undertook to work together and jointly to address the challenges posed by REACH. The Ministers resolved to make all efforts to cooperate in coordinated manner regarding REACH.

International Financial System

36. The Ministers underlined the convergence of views regarding the need for enhancing the governance of the international financial system and, in this respect, reiterated their commitment to coordinate efforts on this issue. They further stressed that progress in this field will lead to improvements in crisis prevention and the increase of resources to finance development.

Sustainable Development

37. The Ministers reaffirmed the validity of the principles contained in the Rio Declaration, particularly on common but differentiated responsibilities, the Programme of Action contained in Agenda 21, and the Plan of Implementation of the World Summit on Sustainable Development (WSSD) held in Johannesburg. IBSA would continue its efforts to mobilise new and additional financial resources and the transfer of environmentally sound technologies within an agreed time frame in order to implement the outcomes of these conferences.

38. They stressed that an international environment supportive of development would be critical to this process. They also called for a specific focus on capacity building as well as on the transfer of financial resources and technology to developing countries.

39. They noted with appreciation the stage of the TRIPs Council negotiations on the relationship between the TRIPs Agreement and the Convention on Biological Diversity (CBD) and reaffirmed the urgent need that Members reach a prompt solution for the problem raised by the granting of IPRs concerning or making use of genetic resources and/or associated traditional knowledge without compliance of relevant provisions of the CBD. In this respect, they underscored the wide support for the proposal of amending TRIPs with a view to require IP applications to disclose the country of origin of the subject matter as well as the compliance with the requirements of fair and equitable benefit-sharing and prior informed consent, in accordance with the legislation of the country of origin.

40. They expressed, in this context, their positive expectations about the results of the VIII Conference of the Parties of the Convention on Biological Diversity (COP-8/ CBD), which is being held in Curitiba, Brazil (March 20-31, 2006). They concurred on that COP-8 constitutes an opportunity to advance the effective implementation of CBD.

41. They also called for expediting negotiation and conclusion of the international regime on access and benefit sharing, as an instrument for protecting intellectual property rights concerning traditional and indigenous knowledge. India, Brazil and South Africa, as the founding members of the Group of Like-Minded Megadiverse Countries, agreed to strengthen cooperation and co-ordination, with an emphasis on multilateral negotiations and in fostering activities related to South-South Cooperation.

42. They recalled that Brazil, India and South Africa would jointly participate in the Capacity Building Committee of the Group on Earth Observation (GEO), an intergovernmental partnership entrusted with implementing the Global Earth Observation System of Systems (GEOSS). The participation in the Capacity Building Committee provides a unique opportunity for the three countries to cooperate in enhancing the capabilities of developing countries, especially less developed ones, in the use, analysis, interpretation and modelling of Earth Observation data, for applications in the nine societal benefit areas of GEOSS, which comprise Agriculture, Health, Disasters, Water, Ecosystems, Climate, Meteorology, Energy and Biodiversity etc.

Climate Change

43. The Ministers expressed their satisfaction with the results of the Montreal meetings (COP-11, COP/MOP-1), particularly with the adoption of the Marrakech Accords and the establishment of the *Ad-hoc* Working Group on Further Commitments for Annex 1 Parties under the Kyoto Protocol to consider such commitments for the period beyond 2012. They further urged developed countries to meet their own commitments and undertakings under the Protocol not only in terms of complying

with current targets for Greenhouse Gases (GHG) emission reduction, but also in terms of their commitment in respect of technology transfer, capacity building and financial support to developing countries. They also welcomed the dialogue on long-term cooperative action to address climate change by enhancing implementation of the Convention.

44. They also agreed on the need for continued consultations within IBSA Forum on the environment and climate change issues.

IBSA Facility Fund For Alleviation Of Poverty And Hunger

45. The Ministers reiterated the fundamental character of the IBSA Fund as a means to disseminate the best practices in the alleviation of poverty and hunger. They emphasied the importance of the participation of institutions of IBSA countries (Governmental and Non-Governmental) in the projects financed by the Fund and recommended that the United Nations Development Programme (UNDP), as administrator of the Fund, find means to make that participation possible.

46. The Ministers received the report of the visit of the Technical Monitoring Committee (TMC) to Guinea Bissau and accepted the recommendations made by the TMC, especially concerning the management of the project, and urged the UNDP Office in Bissau to work more closely with the UNDP Special Unit for South-South Cooperation in New York, the Coordinator of the project and the Guinean Bissau national authorities. They accepted the Committee´s recommendation that an additional agreement be signed with UNDP in order to clarify rights and obligations of both parties.

47. The Ministers reiterated their commitment to move forward with other projects in the scope of the Fund. They welcomed the finalisation of the concept paper of the project on waste collection in Haiti (Carrefour Feuille) and called upon speedy appointment of a project coordinator so that the project can be implemented as soon as possible. They underlined the importance of making progresses in the drawing up of the projects benefiting Palestine and Laos.

48. The IBSA countries recommitted themselves to allocate at least US$1mn a year to the Fund.

IBSA Sectoral Cooperation

49. The Ministers reviewed the work of the sectoral working groups and adopted their reports.

50. Reference was made to the two Workshops on Information Society and E-Government, held in South Africa and India, and to the commitment of the three delegations to actively participate in the last event of the series, to take place in Brazil, in June 2006.

51. The Ministers welcomed the agreement reached by the Working Group on the Information Society, on the content of the "IBSA Framework for Cooperation on Information Society", setting up the basis and defining modes of cooperation in the

fields of Information Society and Communication Technologies, and took note with satisfaction of the Joint Action Programme for 2006-2007, prescribing specific initiatives in all fields of cooperation covered by the Framework. The Ministers also welcomed the development of the IBSA website (www.ibsa-trilateral.org),maintained by South Africa, and invite the various working groups of the IBSA Forum to provide content and make full use of this channel of communication.

52. The Ministers recognized with pleasure the high level of coordination between the three delegations during the second phase of the World Summit on the Information Society (WSIS), held in Tunis, in November 2005, and its preparatory works. In this regard, the three countries reiterated their commitment to keep working together during the WSIS follow-up process, as well as in other international fora related to the issue, to promote the use of Information and Communication Technologies as a tool for development and to build multilateral, democratic and transparent global Internet governance mechanisms.

53. The Ministers decided to formalise the establishment of an additional sectoral working group on Social Issues, as a follow-up to the International Seminar on Economic Development and Social Equity, held in Rio de Janeiro, on August 03-04, 2005. They also expressed their intention of establishing as soon as possible a working group on Public Administration.

54. The member countries reiterated their commitment to further promote the production and use of Bio-fuels as environmentally friendly and sustainable fuels which promote socio - economic development, taking into consideration their global importance. Progress is being made, on exchange of information on Renewable Energy and the Bio-fuels value chain.

55. More emphasis will be placed on exchange of information into the areas of energy efficiency and conservation, and hydrogen energy. India will host the second technical meeting of the Energy Working Group, to which other stakeholders including private sector players may be invited for the enhancement of implementation of IBSA initiatives.

56. The Ministers agreed on the importance of new initiatives aimed at strengthening economic and trade relations among developing countries, as a means to generate business opportunities and contribute to an international trade scenario more suitable to their development projects. In that regard, they took note with great satisfaction that MERCOSUR will be proposing to SACU and India the creation of a Working Group to explore the modalities of a T-FTA among them. They underlined the significance of this exercise and expressed their full support to the initiative.

57. Further the Ministers supported the initiative of a renewable source of energy seminar and the proposals to assist Small, Medium and Micro Enterprises through the proposed study on how to make business in the IBSA countries, and the proposals on sharing of experiences and training opportunities.

58. The Ministers also laid emphasis on the need to conclude the bilateral customs cooperation agreements expeditiously.

59. The member countries decided that, in taking forward the renewed approach to IBSA deliverables, South Africa should host a meeting on civil aviation and maritime transport in April 2006. This meeting will focus on the finalisation of the trilateral on maritime transport agreement and also review implementation of air transport agreement. It should be noted, in addition, that during the present meeting of the working group in Rio, which also included the presence of representatives of Air India, VARIG and SAA, tremendous progress has been made and concrete projects have been identified for cooperation. To this end cooperation will be fostered in areas of air link expansions, training and knowledge sharing in airports and airspace management, port management, operational and infrastructural systems, including capacity building in shipbuilding, environmental management and navigational systems.

60. The development of transhipment facilities will also be made a priority in order to support the IBSA trade strategy which advocates for the creation of South-South shipping highway that integrate sub-regional connection between MERCOSUR, SACU and Indian regions.

61. The Ministers noted progress on the establishment of a framework to strengthen cooperation in the field of agriculture. Specific areas of cooperation that have been identified are: research and capacity building, agricultural trade, rural development and poverty alleviation, and other allied areas as may be agreed.

62. Following the successful meeting of the health working group held in Brazil from February 6-10, 2006 in which broad areas of cooperation were discussed, the South African Minister of Health invited her counterparts for a meeting in March 2006. However, this meeting will now take place on the margins of the WHO meeting in Geneva, in May 2006.

IBSA Trade And Investment Forum

63. The Ministers noted with satisfaction the results of the Trade and Investment Forum. The forum was divided into four panels: a) Trilateral trade analysis; b) implementation of the preferential trade agreements between MERCOSUR, India and SACU; c) challenges to the growth of the trilateral trade (barriers, logistics and financing); and d) organisation of the trilateral business meeting on the occasion of the IBSA Meeting of Heads of Government and State in September 2006. The delegations of India, Brazil and South Africa presented data and facts concerning trade issues that entrusted fruitful discussions among the businessmen attending the meeting.

64. It was presented an evaluation of the current aspects of the negotiations involving MERCOSUR, SACU and India. All delegations concluded that there must be an expansion on acting positions to fit the ever growing market of the three countries. The importance of solid links between the three countries was mentioned several times and also the necessity of a stronger South-South union. The possible substitution of imports from northern countries by imports from southern countries was considered a possible solution to enforce this new commercial agreement.

65. Brazilian businessmen pointed out that among the main barriers to be eliminated to foster trilateral trade are: a) logistics; b) customs procedures; c) lack of information; and d) distances. The logistic problem was tackled by the suggestion of a study (previously discussed in the IBSA work group for trade and investment (on March 28) to further address the issue. The private sector also emphasised the necessity of creating flights uniting Brazil-South Africa-India. The measure would help to narrow the distances both physical and cultural between IBSA partners.

66. In what concerns customs procedures, it was suggested more cooperation in the area by the specific government institutions, in order to simplify many of the regulations and turn the customs process into a more unified process.

67. The study suggested in the work group of trade and investment, as well as the magazine "Brazil Brand of Excellence", the Brazilian website "Brazil Trade Net" and the creation of the IBSA site, were solutions proposed to help ease the gap of information, and bring businessmen from the three countries closer.

68. A great deal of possible solutions were suggested to help strengthen the IBSA economic area: more aggressive free trade agreements, closer relations between businesses and industries from the three countries, enhancing contact between the automobile industries of IBSA.

69. Some sectors were also given special attention: the renewable energy sector and ethanol industry. The WG on trade and investment decided to create a seminar that will happen in South Africa before the Summit in September.

70. The meeting was praised and considered by the attendants as highly productive. It is expected new steps towards a more united and stronger IBSA by all.

71. The Ministers of India and South Africa confirmed the participation of Prime Minister Singh and President Mbeki in the IBSA Summit to be convened by Brazil on September 13, 2006.

72. The Ministers welcomed the announcement by Brazil of the II Conference of Intellectuals from the Africa and the Diaspora, which will take place in Salvador, on July 12-14, 2006. Representatives from India will also be extended an invitation to attend this meeting as observers.

73. The Ministers of India and South Africa expressed their deep gratitude to the Minister of Foreign Affairs of Brazil for convening the Third Meeting of the Trilateral Commission.

74. The Ministers agreed that the next meeting would be hosted by India in the first quarter of 2007.

Endnotes

1 Venezuela joined MERCOSUR recently in July 2006
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3 WTO, World Trade Report 2003
4 *ibid*
5 Wilson, Dominic & Purushothaman (2003) "Dreaming with BRICS: The Path to 2050" Goldman Sachs.
6 Investment and Trade Promotion Division, Ministry of External Affairs, India.
7 Dhananjay Sharma, Sukam Communication Systems Ltd, New Delhi (Respondent).
8 Confederation of Indian Industry, CII Logistics and Freight News, June 2005.
9 Dhananjay Sharma, Sukam Communication Systems Ltd, New Delhi (Respondent)
10 The overall perception here is that Brazil has gone overboard "making all the concessions" in the Mercosul agreement with the Andean Community. As usual, perceptions normally reveal the truth at some important level.
11 *Ibid*
12 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, pp.6
13 Singh S, 'SA looks to east in bid to reduce dependence on West,' *Financial Mail*, 25 March 2005.
14 The two regions concluded a Preferential Trade Agreement in December 2004 providing for the liberalisation of 2000 products on a sector-by-sector basis.
15 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, pp.10
16 Interview with Andre Parker, MD for Africa and Asia - SABMiller.
17 Interview with Chris Nissen, Chief Executive - Umoya Fishing
18 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 policy making in India', a paper presented at a workshop on trade policymaking in developing countries', London School of Economics, May 25, 2005.
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20 This sentiment was corroborated in a telephonic discussion with Mark Rabbitts, Marketing Officer – South African Consulate, Sao Paulo.
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22 See CUTS CITEE Briefing Paper No. 3/2005, "Regionalism – A Stumbling Block for Trade Liberalisation?", http://www.cuts-citee.org/PDF/BP3-2005.pdf

23 Mariana Fuchs, "Preferential Trade Agreement between MERCOSUR and India: Its Standard Analysis of Potentialities from Argentina's Perspective".

24 Department of Trade and Industry, 'A strategy for sustainable, economical and growing aerospace industry,' July 9, 2003

25 See Peter Honey, A new flight plan,' *Financial Mail*, October 14, 2005

26 Department of Trade and Industry, 'A strategy for sustainable, economical and growing aerospace industry', July 9, 2003

27 *Ibid*

28 *Ibid*

29 *Ibid*

30 Interview with Francois Denner, Chief Director: Strategic Competitiveness, Department of Trade and Industry.

31 Department of Trade and Industry, 'Repositioning the South African aerospace industry as a priority sector – the contribution of the Airbus Military A400M programme', Pretoria, 2005

32 Interview with Tristan La Grange, Group Marketing Manager,: South America, Denel.

33 *Ibid*

34 *Ibid*

35 Interview with Tristan La Grange, Group Marketing Manager, South America, Denel

36 Interview with Tristan La Grange, Marketing Manager, South America, Denel.

37 Interview with Messrs Mark Minnies and Gerrie Radloff, Senior Business Development Executives, Grintek.

38 We are grateful to Piet Smit, Managing Director - Reutech, for bringing these figures to my attention.

39 Interview with Francois Denner, Chief Director, Strategic Competitiveness, Department of Trade and Industry.

40 Interview with Ralph Mills, Manager, Strategy, African Defence Systems.

41 Interview with Piet Smit, Managing Director, Reutech.

42 Interview with Dr Paul Potgieter, Group Managing Director, Aerosud.

43 Interview with Piet Smit, Managing Director, Reutech.

44 *Ibid*

45 *Ibid*

46 *Ibid*

47 Interview with Tristan La Grange, Group Marketing Manager, South America, Denel.

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