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Report 12

South-South Economic Co-operation

The India-Brazil-South Africa Case

by Mills Soko

The South African Institute of International Affairs

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The India-Brazil-South Africa Case

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SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

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Jan Smuts House, East Campus
University of the Witwatersrand
Johannesburg, South Africa

PO Box 31596, Braamfontein 2017

www.saiia.org.za
info@saiia.org.za

Tel +27 11 339-2021
Fax +27 11 339-2154

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ABOUT THE AUTHOR

Dr Soko is a research associate of the South African Institute of International Affairs, and a founding director of Mthente (formerly Hluma) Research and Consulting Services.

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ABOUT THIS REPORT

This report forms part of a collaborative research project – entitled 'South–South trade and investment co-operation: exploring the IBSA initiative' – involving SAIIA, the Centre for International Trade, Economics and Environment (CUTS-CITEE), and the Brazilian Institute of International Trade Negotiations (ICONE). Initiated in February 2005, it is aimed at identifying barriers to trade and investment flows among India, Brazil, and SA – the IBSA countries – and finding ways in which these can be reduced or eliminated.

This report comprises six sections. Section 1 creates a context for the discussion by briefly highlighting the importance of expanding South–South trade in the global economy. Section 2 reviews current trade and investment relations among the IBSA countries. Section 3 outlines the purpose of the project in greater detail.

Section 4 sets out the methods used to gather the data for this study. Section 5 presents the findings of a survey of SA companies and policy-makers (the questionnaire used during the interviews appears in Appendix E). Section 6 makes some recommendations, aimed at the governments and business sectors of the three IBSA countries, for removing remaining impediments to trade and investment among them.

SOUTH–SOUTH TRADE

South–South trade has grown steadily during the past few years. According to the UN Conference on Trade and Development, developing countries now account for 32% of global trade, and 41% of the exports of developing countries go to other developing countries.[1]

The expansion of trade among developing countries is largely due to the growth of the international commercial networks associated with intra-regional preferential trade run by multinational corporations (MNCS), especially in East

1 United Nations Conference on Trade and Development (UNCTAD), 'Forum on regionalism and South-South cooperation: The case of India and Mercosur,' 9 June 2004, Rio de Janeiro, p 1.

Asia. In contrast with inter-regional trade – which has grown moderately via most-favoured-nation arrangements and the international regime of trade preferences – intra-regional liberalisation has been a key facilitator of deeper integration among developing countries.[2]

MNCs have been major vehicles of economic globalisation: they make up two-thirds of world trade, and a third of global trade takes place among subsidiaries of the same company (intra-firm). MNCs have played an important role in the globalisation of trade and finance and the international diffusion of technology – they account for 80% of world trade in technology.[3]

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

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

Notwithstanding its gradual growth in recent years, South–South trade remains hampered by the dominance of North–South trade, notably the dependence of most developing countries on the industrialised countries. It is also hampered by the lack of or limited complementarities in the production structures of developing countries; many developing nations produce similar products, and therefore compete for access to developed country markets.

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2 *Ibid.*

3 Held D, A McGrew, D Goldblatt & J Perraton, *Global Transformations*. Cambridge: Polity Press, 1999, p 236.

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

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

Enhanced trade and investment among developing countries – brought about by reducing trade barriers – has the potential not only to generate employment and incomes gains, but also to reinforce political relationships among countries. It can also enable developoing countries to reduce their dependence on industrialised countries, while advancing their industrialisation policies.

TRADE AMONG IBSA COUNTRIES

SA and India

Current levels of trade between SA and India are very low – bilateral trade grew by just 1.334% over the previous decade to $700 million in 2002, just over 1% of the total trade of both countries.[6]

India's main exports to SA are cotton products, pharmaceuticals, rice, vegetable products, finished leather, and spices. SA exports to India include gold, silver, coal, iron, steel and non-ferrous metals, textiles, sugar, and mineral fuels and lubricants. Enhanced economic relations with India could provide SA with access to affordable medicines, competitively priced motor vehicles, and heavy industrial equipment on the one hand, and new markets for iron and steel, chemicals, aluminium, and furniture on the other.[7]

SA and India have been engaged in exploratory discussions meant to culminate in the conclusion of a bilateral preferential trade agreement (PTA). The negotiations are geared towards reducing tariffs on 2 000 products, with products regarded as sensitive being excluded. Policy-makers and other stakeholders hope that the proposed PTA will expand trade between the two countries, widen the variety of goods and services being traded, promote investment, and encourage the formation of joint ventures and strategic partnerships.

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

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

SA and Brazil

SA and its partners in the Southern African Customs Union (SACU) – 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 the further growth of trade between SA and Brazil, which increased by 268% since 1994 to $660 million in 2002.[8] Currently, three-quarters of SA exports to Brazil consist of mineral products, chemicals and base metals. Major mining groups such as Anglo American and BHP-Billiton have led the investment drive in Latin America, investing heavily in a diverse portfolio of mining operations including copper, gold, nickel, industrial minerals, niobium and coal. SA imports from Brazil include machinery, vehicles, vehicle components, and chemicals.

THE PURPOSE OF THE PROJECT

The project to which this report contriburse has a threefold purpose. First, it seeks to contextualise current economic relationships among the three IBSA countries. Second, it seeks to identify barriers that impede trade and investment flows between the IBSA countries, and to recommend practical ways in which these can be reduced or eliminated. Its third objective is to encourage policy-makers and the business sectors in all three countries to work together to translate the IBSA action plan into tangible results.

8 Draper P *et al, op. cit.*, p 6.

METHOD

This study is based on in-depth perception mapping interviews conducted in the period March to June 2005 with representatives of 30 SA companies (listed in Appendix A) in the SA cities of Johannesburg, Pretoria, Cape Town, Durban and Witbank. The participating companies included MNCs as well as small and medium-sized export-oriented firms.

The sample was chosen to reflect 10 sectors in which the IBSA countries have strong export interests. These are chemicals; metals; agro-based industries; automobiles; leather and leather products; Wood, pulp of wood, and paper; minerals; capital goods and electronics; foodstuffs; and textiles.

However, interviewees soon questioned the exclusion of financial and insurance services from the list of identified sectors. Regarded as the most advanced financial system in sub-Saharan Africa, comparable with those of industrialised countries, SA's financial services sector plays a key role in the country's economy, and is arguably its most competitive sector. It is well-capitalised, and has grown exponentially in recent years, encompassing such services as commercial, retail and merchant banking, mortgage lending, insurance, and investment. Indeed, as this report shows later, financial and insurance services have been among pioneering SA investments in Brazil and especially in India.

And there is considerable potential for further investment collaboration. For example, according to the representative of Sanlam, one of SA's insurance giants, insurance penetration in India is very low compared with those in other emerging country markets, with 80% of the insurable population not covered. Therefore, SA had a strong interest in the inclusion of financial services in the survey.[9]

For these reasons, this sector was added to the list of sectors surveyed, raising their number to 11. This was important as, when firms expand abroad, they invariably prefer their domestic financial services providers to be directly represented in those markets as well. This is also important from a risk reduction perspective, given the (still) negative perceptions in SA of the risks of doing business in Brazil and India.

9 Interview with a representative of Sanlam.

Based on a semi-structured, open-ended format, the interviews were aimed at recording the perceptions of industry players of obstacles to co-operation on trade and investment among the IBSA countries, and soliciting their views on how those obstacles could be mitigated or removed.

Officials in the Department of Trade and Industry (DTI) and the Department of Foreign Affairs (DFA) concerned with the IBSA initiative and SA's trade relations with Brazil and India were also interviewed (see Appendix B). These interviews were aimed at clarifying concerns raised by the business sector about the difficulties they had experienced while trading with Brazil and India, and to establish the role the government was had played in helping SA firms to overcome these problems.

Furthermore, general discussions were held representatives of one randomly selected port authority and four shipping companies operating routes from SA to Brazil and India and vice versa (see Appendix C). These exchanges were aimed at establishing how these companies were dealing with the logistical challenges presented by the growing trade among the IBSA countries, and to compare the freight charges levied by various shipping companies.

All the interviews were analysed, and, in cases where clarification or additional information was needed, respondents were contacted by telephone or e-mail. These interviews gave a qualitative depth to the study, and helped to create a clearer understanding of the challenges faced by SA businesses in their quest to maximise trade with and investment in their IBSA partners.

SURVEY RESULTS

This section outlines the key findings of the research, based on an analysis of the information provided by respondents.[10]

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

General issues

Reasons for exporting/importing

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

SA firms have been attracted to India by its immense domestic market, huge economies of scale in several sectors, low prices, good management and labour, cheap manufacturing capacity, and large and rapidly growing middle class. Respondents mentioned labour costs, described as among the lowest in the world, as a major attraction. Although most of these companies want to do business in India itself, they also see the country as a gateway to other Asian markets such Bangladesh, Nepal, Sri Lanka and Maldives. Another key factor in the evolution of bilateral economic ties is cultural affinity, and the shared use of English is seen as an advantage. There are also similarities between SA company law and the legislation regulating foreign companies in India; both pieces of legislation are based on British law.

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

11 Interview with a representative of SABMiller.

The nature of trade and investment[12]

- **SA and India**

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

Old Mutual plc has joined forces with the Indian firm Kotak Mahindra Finance Ltd (KMFL) to form OM Kotak Mahindra Life Insurance. Old Mutual owns 26% of the company, and KMFL and its affiliates 74%. The total capitalisation of the company will be R1,500 million. According to the representative of Old Mutual, this venture 'brings together the complementary skills of Old Mutual in developing and introducing innovative products, and the strong distribution capability of KMFL'.[13] The operations in India of Denel, SA's arms manufacturer, have also grown significantliy over the past few years. According to the representative of Denel, the Indian government is a 'very active buyer of armaments and other technologies from Denel'.[14]

By the end of 2004, a total of 35 Indian companies – attracted by SA's sophisticated infrastructure, financial sector, and consumer markets – had established a presence in SA, covering as diverse a spectrum as computer software, IT, banking, automotive, and pharmaceuticals. The leading investor has been the Tata Group, which has already invested R300 million in SA and plans to invest R1,5 billion in new projects over the next two years.[15]

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

13 Interview with a representative of Old Mutual plc.

14 Interview with a representative of Denel.

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

Other companies active in SA are Mahindra, Sahara Computers, Dr Reddy's Lab, the State Bank of India, Ranbaxy, Cipla, and Hetro. Although most of these companies want to do business in SA itself, they also see this country as a gateway to other African markets. ICICI, India's largest retail bank, began operating in SA in May 2005 and will focus on trade finance for corporates and private banking as well as wealth management for Indian expatriates.[16]

SA exports (R'000s)

Country	March 2005	2005	2004	2003	2002
India (SAARC)	420,44	1,694,770	3,713,043	3,350,322	4,037,280

Source: Department of Trade and Industry

SA imports (R'000s)

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

Source: Department of Trade and Industry.

SA and Brazil

MNC licensing regimes have formed an integral part of trade and investment co-operation between SA and Brazil, particularly in the automotive, IT, and chemicals sectors. In terms of these arrangements, MNCs sell or license their technological or marketing advantages to foreign companies, thereby profiting indirectly from them.

SA companies operating in Brazil include Sappi Trading do Brasil, Banco Standard de Investimentos SA, AngloGold, Safmarine Anglo American Brasil, Alexander Forbes Financial Services, Dex Brasil, Datacraft do Brasil, Barham Financial Services, Macsteel International, NOSA, Banco Standard de Investimentos SA, and Volcano Agroscience. There are opportunities for exporting

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

aluminium, synthetic fibres and assorted chemical products, iron and steel, furniture, and fruit and vegetables.

Crucial gains could be derived from the SACU-Mercosur trade relationship[17] by exploiting niches in which SA has an advantage, from integrating SA manufacturers into strong Mercosur sectors such as aircraft production, to intra-industry specialisation in sectors such as automobile production. SACU and Mercosur could also collaborate on the development of technological capabilities in machinery and equipment, and aircraft and components.[18]

SA exports (R'000s)

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

Source: Department of Trade and Industry

SA Imports (R'000s)

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

Source: Department of Trade and Industry

Business plans

SABMiller intends to invest about $125 million in capital projects and marketing in India over the next five years. It sees this investment as part of its long-term strategy for Asia, and believes that, like China over the past decade, India could become a highly desirable market over the next five years. It plans to upgrade and expand its breweries, and further develop its brands.

17 The two regions concluded a PTA in December 2004 which provides for the liberalisation of 2000 products on a sector-by-sector basis.

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

Sanlam, another SA insurance giant, recently announced a joint venture with the Shriram Group to establish a new life insurance business, Shriram Life Insurance, in India. Sanlam will own 26% of the company, and Shriram 74%. According to the Sanlam representative, should Indian legislation be changed to permit foreign ownership, the company is keen to increase its stake in the business.[19]

Eight per cent of respondents stated that their companies were interested in expanding their operations in India and Brazil, and have conducted market research in this regard. Prospective 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 SA businesses have identified a potential for expanding trade and investment collaboration with Brazil and India are financial services, tourism, information and telecommunications technology, education and training, health, energy, mining, agro-processing, biotechnology, film-making and entertainment, fisheries, space satellites, infrastructure, and construction. They have also identified a potential for providing goods and services to newly privatised enterprises.

In the case of India, there is also an interest in adding value to the Indian agricultural industry by way of micro irrigation technology, and by providing inputs such as fertilisers and quality seeds to farmers at a reasonable price. Some firms are also interested in investing in the consumer food sector in the form of milk and milk products, deep sea fishing, and meat and poultry products.[20]

As regards Brazil, it is believed that benefits could accrue from integrating SA manufacturers with strong Brazilian sectors such as aircraft manufacturing, intra-industry specialisation in sectors such as automobile manufacturing, and greater co-operation on technological capabilities in machinery and equipment as well as aircraft and components.

19 Interview with a representative of Sanlam.

20 Interview with a representative of Umoya Fishing.

Investment decision

How quickly an investment decision is made depends on the firm concerned, and the nature of its business But most respondents stated that their firms considered the following key factors when choosing an investment location: the size of the domestic market; the domestic economic growth rate; commercial compatibility; the nature of domestic competition; the price/exchange rate; the independence of legal system; the extent of political/institutional stability; and the availability of economic infrastructure.

But business factors also play a important role in investment decisions. Investors are interested in how easy or difficult it is to start a business, employ and dismiss workers, and secure property rights; measures governing the sharing of credit information; the legal rights of borrowers and lenders; the extent to which foreign investors are protected by hte state; the ease or difficulty of enforcing commercial contracts; and the time and cost involved in dealing with bankruptcies.

SA has not signed bilateral investment treaties (BITs) with Brazil and India. (The author was informed that these were currently being negotiated.) BITs can contribute significantly to reassuring foreign investors and allaying risk perceptions.

IBSA awareness

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

IBSA and South-South trade

Seventy per cent of respondents expressed support for the IBSA objective to expand economic ties among Brazil, India, and SA as a means of promoting South–South trade and investment.

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

Threats to IBSA

The interviews highlighted a strong perception within certain companies (especially those familiar with the IBSA process) that the IBSA initiative is primarily a political rather than an economic project. Their executives believe that the preferential trade agreement signed by SA and Brazil in December 2004 – and the discussions aimed at concluding a similar deal between SA and India – have been driven by the imperatives of South–South political collaboration rather than clear economic gains.

Some respondents were suspicious of and cynical about FTAs, especially given the disappointment in some business circles with the FTA concluded with the EU in 2000. While access to the EU has improved, 38% of SA agricultural exports are still denied access to the EU market.[21]

SA's intention to conclude an FTA with China also loomed large during the discussions. As a representative of the textile industry stated: 'China has struck real fear into the heart of SA business.'[22] But companies also fear 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 have succumbed to pressure from SA and Brazilian steel producers to exclude steel products from the FTA.

Numerous respondents asked whether the IBSA governments had the political will to translate this vision into reality. Put differently, would IBSA become a successful example of economic co-operation among developing countries, or was it doomed to fail like previous South-South initiatives?

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21 See Gibb R, 'European Trade Policy in Africa,' *South African Journal of International Affairs*, 11:2, Winter/Spring 2004, p 55.

22 Interview with a representative of the Foschini Group.

They also doubted the capacity of governments to implement trade agreements, given the limited resources at their disposal. They stressed that, rather than trying to implement all the trade agreements themselves, they should involve the private sector.

All these concerns are feeding a growing scepticism about trade liberalisation in the SA business sector, and reinforcing the protectionist instincts of domestic sectors opposed to trade agreements between SA on the one hand and India and the Mercosur bloc on the other.

Cross-cutting issues

Concerns

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

As regards Brazil, tariff peaks and tariff escalation on finished SA goods were identified as major constraints. Besides imposing very high tariffs (for instance, on information technology goods and motor vehicles), Brazil restricts the importation of a variety of products, including machinery and clothing.

Respondents complained about the negative effects of Brazil's 'non-transparent' and 'costly' customs regime, compounded by the levying of different charges and taxes on top of the duty-paid value. They expressed concern about the Brazilian government's use of subsidies – in the form of tax, tariff, and financing inducements – to promote export production. They noted that foreign investment was prohibited in certain key domestic industries such as public utilities and the media. There are also legal restrictions on the foreign ownership of land.

High level of red tape, anti-dumping regulations, high import costs, a lack of information about import regulations, and a complex commercial environment emerged as additional concerns. Respondents frequently referred to the 'burdensome' import licensing system, which is used to restrict the importation of certain goods such as pharmaceuticals and textiles in to Brazil. Some interviewees said they were confused by the battery of laws, provisional measures,

and decrees regulating Brazilian foreign trade, and found it difficult to keep up with changes. They also referred to problems created by the language barrier, and what one interviewee described as a 'completely alien and different' business culture.

As regards India, respondents pointed out that while that country has reduced tariff levels, they remained among the highest in the world.[23] Internal trade had not been satisfactorily liberalised. India continued to implement a wide variety of trade restrictions and import bans and import licencing were widely used. They also complained about India's 'non-transparent' tariff and import tax structure. India's customs procedures were also criticised, with time-consuming documentation requirements and considerable and frequent delays being reported.

Respondents stated that India still has a restrictive foreign investment regime, notwithstanding the fact that that most sectors of the country's economy are now open to foreign investment.[24] A foreign firm planning to operate in India has three options: it can incorporate a company (under the Companies Act of 1956) through joint ventures or wholly owned subsidiaries; it can forge a strategic alliance with Indian partners; or it can set up a wholly owned subsidiary in sectors where 100% foreign investment is permitted under the FDI policy.[25]

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 ceilings in sectors such as pharmaceuticals and civil aviation. Also, inflexible foreign exchange control regulations were cited as one of the main problems for foreign investors in India. The representative of Shoprite stated that its experience of

23 This view has been challenged by some Indian policy-makers who have argued that India has been given less credit than it deserves for implementing drastic tariff reductions – particularly applied tariffs. See, for example, Narayan S, 'Trade policy-making in India,' paper presented at a workshop on trade policy-making in developing countries, London School of Economics, 25 May 2005.

24 Interview with a representative of Sekunjalo Investments.

25 Interview with a representative of the Southern India Chamber of Commerce and Industry.

the retail supermarket in India – Shoprite has been accused of practising 'predatory pricing' – had reinforced a perception that India was 'generally unreceptive to foreign investment.'[26]

Red tape and complex government regulations were identified as problems for foreign investors, with one respondent blaming the problem on 'the remnants of a statist mentality'. Arbitrary behaviour by government institutions was rife, and numerous respondents stated that they companies felt they had been discriminated against by procurement practices in the public and private sectors. Even so, some said they would remain in India despite these problems. As the SABMiller representative put it, 'we are there for the long haul'.[27]

Non-tariff barriers

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

As regards Brazil, NTBs persist in the form of a restrictive import licensing system, onerous and costly customs procedures, high transaction costs, the protection of geographic indications, unusual and non-transparent standards, restrictions on import payments, imposition of minimum prices, frequent port delays, corruption, insufficient protection of intellectual property rights, and language problems. Furthermore, the Brazilian business environment – characterised by complex sets of interlocking relationships among the government, suppliers, and competitors – was very difficult to navigate.

As regards India, exporters expressed frustration with the cumbersome and time-consuming procedures for obtaining visas. They were also unhappy about the excessive use of anti-dumping measures; restrictions imposed by state monopolies; arbitrary decisions on the part of government officials; corruption; non-transparent standards; the 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; and the inadequate protection of intellectual property rights.

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26 Interview with a representative of Shoprite.

27 Interview with a representative of SABMiller.

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

Business costs

High import costs – including clearing and port costs, import duty, marine tax, freight and insurance costs, excise tax, value-added tax, and commission – emerged as a key concern for SA companies operating in Brazil. There were also costs associated with providing security, coping with inadequate banking and insurance facilities, and complying with the complex web of laws, provisional measures, decrees, and resolutions that regulate Brazilian foreign trade.

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

Logistical costs were raised as a key concern (see Appendix D for a comparison of sea freight costs from SA to India/Brazil). The spokesperson for SA Port Operations (SAPO) stated that transport costs currently constituted 14.6% of SA gross domestic product (GDP). He believed this figure should be reduced to 4%–6% in order to 'drive growth, promote trade, and remove waste in the supply chain'.[28] SAPO has initiated a 15–25 year strategy to minimise port delays; encourage better co-operation among shipping lines, cargo owners, and marine operations; and ensure that the supply chain has adequate capacity ahead of demand.

In general, respondents stressed the need for adequate information about the costs of doing business in Brazil and India. This included information on the costs of labour, insurance, market intelligence, business travel, rentals, and transport, as well as the requirements for starting and closing a business, credit availability, payment facilities, productivity levels, tax regimes and government tax incentives, exchange rates, and the enforcement of commercial contracts.

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28 Interview with a representative of SA Port Operations (SAPO).

Access to information

SA companies currently acquire information about Brazil and India from diverse sources, including chambers of commerce, relevant government departments (notably the DTI and DFA), embassies and consulates, and the National Economic Development and Labour Council (NEDLAC).

The interviews underlined the need to distinguish between the experiences of SA multinationals and those of medium-sizes companies. Gaining foreign market intelligence is easier for most multinational companies as they have the resources to undertake strategic and other forms of research. This is not the case with small and medium-size exporters: although they found it relatively easy to procure basic political and economic data about Brazil and India, they pointed out that the strategic data required for investment or trade purposes was not always readily available.

Company perception

Twenty-three respondents viewed Brazilian and Indian companies in a positive light, and as similar to European or North American companies. This assessment was based on their experiences of working with Brazilian and Indian firms as well as on information obtained through word of mouth. Many noted that firms of a given country should be assessed individually rather than as a monolithic group.

Business culture

Forty per cent of spokespersons of SA companies active in Brazil noted that they had been overwhelmed by the 'completely alien and different' Brazilian business culture, compounded by the wide linguistic divide.

Less daunting, but still complicated, business customs were reported in India. There was a general willingness, though, to master the conventions of operating business es in these countries. Respondents stressed that if SA investors and exporters were to succeed in Brazil, they had to immerse themselves in the business and cultural milieus of these countries. In order to bridge the cultural gap, some companies had sent executives and staff on short courses covering a gamut of subjects such as business etiquette and protocol; under-

standing body language; business entertainment; gift-giving; negotiating tactics; and decision-making processes.

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

Country risk

Notwithstanding the generally positive attitudes of respondents towards doing business in Brazil and India, perceptions of risk abound. Three well-informed respondents raised questions about the long-term stability of the Brazilian economy, referring among other things, to its currency crisis in 1999. While they recognised that the Brazilian government had made progress in reducing its deficits, the hevel of public debt (as a percentage of GDP) was still too high. Given previous debt defaults, respondents were interested to see how the Brazilian government would finance public debt and whether this would make Brazil vulnerable to interest rate and exchange rate volatility. Respondents also referred to the high levels of crime in parts of Brazil, and the high cost implications for businesses.

Similarly, some felt that India's high levels of economic growth were threatened by the country's high fiscal deficits, insufficient domestic capital formation, and deficient infrastructure. Income inequality and poverty had implications for long-term social and political stability.[29] The 'unpredictable' behaviour of Indian state officials and bureaucrats also introduced an element of risk and ucnertainty.[30]

Trade facilitation problems

SA exporters reported an array of trade facilitation problems while trading with Brazil and India, but most complaints revolved around infrastructure bottle-

29 Interview with a representative of Old Mutual plc.

30 Interview with a representative of Shoprite.

necks such as congested roads, poor railways, delays in ports, documentation problems, time-consuming customs procedures, and insufficient co-operation among shipping lines, cargo owners, and marine operations.

RECOMMENDATIONS FOR IBSA COUNTRIES

A number of recommendations for reducing or eliminating trade and investment barriers among the IBSA countries emanate from this study. Governments and other role players should:

- Reduce customs duties and abolish NTBs, thus ensuring a level playing field for foreign investors and importers.
- Address visa and other problems hampering the cross-border movement of business people.
- Encourage the use of public–private partnerships to deal with infrastructure bottlenecks, including the improvement of rail and sea links as well as port capacity and operations.
- Lower the costs of doing business, including costs associated with telecommunication, insurance, market intelligence, business travel, rentals, and transport, thus improving the sustainability of foreign trade and participation.
- Provide sufficient banking and insurance facilities, economic infrastructure, credit and payment facilities, and tax incentives.
- Ensure the adequate enforcement of intellectual property rights.
- Involve the business sector in the formulation and implementation of trade agreements.
- Foster domestic competition, in order to reduce prices.
- Facilitate trade and investment missions of business leaders and government officials among the IBSA countries.
- Use diplomatic missions to promote economic co-operation among the IBSA countries, and organise trade fairs.
- Use the IBSA business Council to facilitate interaction among businesses, foster the creation of private-public partnerships, expand mutual knowledge, and promote the sharing of experiences.

- Provide potential investors with adequate, up-to-date market intelligence and other relevant data on which to base investment decisions.
- Accentuate the economic value of trade agreements to the business sector.
- Harmonise standards as well as trade and investment processes among the IBSA countries.
- Facilitate interaction among potential exporters and investors with relevant government and private sector institutions.
- Inform businesses about IBSA's vision and programmes, and involve them in shaping IBSA processes.
- Weed out corruption in the public and private sectors.

In conclusion, the author gained the impression that SA firms which took part in the survey were more positively disposed towards the commercial environment in India than in Brazil. Factors such as historical bonds, cultural affinity, and similar legal systems resonated strongly with some respondents, especially company executives of Indian descent. This does not imply that SA companies are not interested in Brazil, or that relations between SA and Brazil are deficient; on the contrary, their political and economic ties have strengthened considerably over the past few years. What this reveals is that the exposure of South Africans to Brazil and its political economy and culture has been very limited; indeed, this is true of Latin America in general. This underscores the need for the three IBSA countries to deepen mutual understanding and co-operation, and improve mutual public awareness.

APPENDIX A: COMPANIES SURVEYED

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

APPENDIX B: GOVERNMENT AND EMBASSY OFFICIALS INTERVIEWED

Name	Designation	Department
Noncedo Dyani	*director, Brazil desk*	*Trade and Industry*
Pumla Ncaphai	director, India	Foreign Affairs
Mark Rabbitts	SA marketing officer	Consulate, Sao Paolo
S C Pradhan	SA marketing officer	High Commission, Delhi

APPENDIX C: PORT AND SHIPPING COMPANIES SURVEYED

Mediterranean Shipping Company
Mitsui OSK Lines
Green Africa
SA Port Operations
Safmarine

APPENDIX D: SEA FREIGHT CHARGES FROM SA TO INDIA AND BRAZIL

Safmarine: SA-Bombay

Fresh foods cargo

20-foot cargo = $3,400.00
40-foot cargo = $4,400.00

Frozen foods cargo

20-foot cargo = $3,750.00
40-foot cargo = $4,700.00

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

20-foot cargo = $240.00
40-foot cargo = $480.00

International port security charge

Per freight = $6.00

Safmarine: SA–Mumbai

General sea freight charges

20-foot cargo = $1,000.00
40-foot cargo = $2,000.00
Bunker adjustment costs = $250.00

International port security charge = $6.00

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

Cargo
6-metre container = $1,050.00
Bunker adjustment costs = $115.00
12-metre container = $1,700.00
Bunker adjustment costs = $230.00
International port security charge
Per freight = $6.00

APPENDIX E: QUESTIONNAIRE

Basic statistical information	**2003-4**	**2004-5**
Number of employees		
Sales		
Imports		
Exports		
Primary export destinations		
Primary sources of imports		

Qualitative information

1. What are the countries that you import from/export to? (Brazil/India)
2. Why are you importing/exporting from these countries? (Costs, market access, product availability, product quality)
3. If there are trade relations with Brazil/India, describe the characteristics of your trade? If no, why?
4. What are the countries that your company has invested in or received investment from? (Brazil/India)
5. If there are investment relations with Brazil/India, describe the nature of investment? If no, why? (For example similar time zones, similar business culture, compatible financial systems)
6. How important are Brazil/India in your future business plans (trade/investment plans)? Why?
7. Are you aware of investments going to or coming from Brazil and India?
8. Are you able to take independent decisions on investing/trading with countries? (Interviewer to seek information on operational independence)

8.1 Are primary decisions taken from head office? Are there unwritten rules that govern your entry into countries?

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

8.3 How quickly can an investment decision be made?

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

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

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

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

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

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

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

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

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

    i. Sectoral

    ii. General (Macroeconomic)

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

    i. The WTO

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

    iii. Bilateral Agreements with Europe, US

    iv. IBSA

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

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

    (Note: The Southern African Customs Union, or SACU, is a customs union among SA, Botswana, Lesotho, Namibia, and Swaziland, while Mercosur is a Customs Union amon Brazil, Argentina, Uruguay, and Paraguay)

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

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

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e South African Institute of International Affairs (SAIIA)
O Box 31596 | Braamfontein 2017, South Africa
n Smuts House, East Campus
iversity of the Witwatersrand, Johannesburg
l: 27-11-339-2021
x: 27-11-339-2154
.saiia.org.za
info@saiia.org.za