



India-Brazil-South Africa (IBSA) Economic Cooperation: Towards a Comprehensive Economic Partnership

The coming together of India, Brazil and South Africa (IBSA) in a trilateral commission to strengthen the economic partnership is to be seen as a major development in the area of South-South Cooperation. Besides shared political and economic history and development experiences, there are significant synergies between these countries as they have developed substantial capabilities in different sectors over the years. But these synergies are yet to be fully utilized for their collective benefit and development of the South in general. IBSA countries can reinforce the economic strength of each other by synergising their complementarities in areas of industry, services, trade and technology which in turn could create a market of 1.2 billion people, 1.2 trillion dollars of GDP and foreign trade of nearly 400 billion dollars. IBSA partnership is also of immense strategic value for multilateral negotiations and shaping their respective roles in the global governance.

IBSA Comprehensive Economic Partnership Arrangement

IBSA constitutes a large and expanding economic space where in the total two-way trade is close to US\$ 400 billion currently. The share of intra-IBSA trade in their total trade has been approximately 2 per cent (about US\$ 5 billion) in 2002. The New Delhi Action Plan has put an ambitious goal for doubling the mutual trade by 2007. To achieve this target several measures

will be necessary. To exploit the synergies and potential of cooperation for mutual benefit, IBSA countries can explore an IBSA Comprehensive Economic Partnership Arrangement covering the following aspects among others:

An IBSA FTA

At the Ministerial Meeting of IBSA in New Delhi in March 2005, it was decided to work towards evolving an FTA between the three countries. However, a trilateral FTA between India-Brazil-South Africa may not be technically feasible as Brazil and South Africa are members of customs unions (viz. Mercosur and SACU respectively) and hence are bound to maintain common external tariffs with other partners. Therefore, we may consider evolving an IBSA Free Trading Arrangement (IBSA FTA) between India-Mercosur-SACU. This FTA could subsume the ongoing negotiations between India-Mercosur and India-SACU PTAs. This way we could have a framework for mutual trade taking place on a preferential basis besides giving access to even other members of the respective customs unions.

IBSA Trade Facilitation Framework (IBSA TFF)

The IBSA FTA may be supplemented by an IBSA TFF focusing on identifying and eliminating the non-tariff barriers and evolving a framework for trade

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facilitation. RIS study finds that significant non-tariff barriers impede mutual trade in the grouping. Some of the NTBs identified by the RIS study are as follows:

Harmonizing conformity assessment procedures and standards

India, Brazil and South Africa have their own regulatory import controls based on standards and conformity assessment procedures, specifically from the standpoint of health and safety. In this context, mutual recognition of conformity assessment procedures between them for the purposes of meeting their respective regulatory requirements represents convenient method of reducing non-tariff barriers to trade. This will call for assessing the present situation with respect to the compatibility of each other's standards and enter into mutual recognition arrangements with regard to standards and conformity assessment activities. Hence, there is also the need for the standards and export inspection bodies of IBSA to work together for harmonization and mutual recognition of conformity assessment procedures.

Customs procedures

There is the need for harmonization of customs procedures regarding the tendering, importer registration, shipment, customs and port-clearance, etc. This in turns calls for bringing together the customs authorities of IBSA to discuss ways and means of standardizing their procedures.

Addressing the Lack of Business Information and Perception Gaps

Very often a major factor that stands in the way of trade is the lack of information or presence of misinformation. The Indian products, especially in Brazil, are perceived to be of low quality. To overcome this constraint there is the need for bringing together the trading communities in the three countries. Much could be achieved in this direction by initiating an Annual IBSA Trade Fair with the location rotating among them. An IBSA Business Forum could also be set up to bring together the business community in the three countries to promote trade and investment. Such a business forum may be complemented with sectoral bodies especially covering those industries/sectors where the trade and investment potential is higher. Such bodies would facilitate formation of strategic alliances between the enterprises of the region to exploit their synergy for not only the regional markets but also for third country investments and trade opportunities. This Business Forum could also deal with trade disputes with respective governmental

bodies involved in IBSA trade and also take up the other issues such as problems concerning LCs, and high cost of insurance, as observed in Brazil or certain anti-dumping or other discriminatory practices as observed in South Africa.

Facilitating Trade in Services

Service sector has emerged as the leading sector of the economy accounting for more than 50 per cent of the GDP in all the three countries. However, with the possible exception of IT software services in India, and travel in South Africa, the service sector is an area wherein IBSA is found to be relatively weak in terms of comparative advantage. Also the service imports of Brazil and South Africa recorded negligible or negative growth rate during the recent past. The only service sectors of Brazil wherein imports showed significant increase are insurance, computer services and other business services. The service imports of these countries are subject to a number of barriers such as job quotas and barriers for commercial presence in select sectors. These barriers can be addressed within the framework of IBSA CECA in select sectors of mutual interest.

Facilitating FDI Flows within IBSA

There have been significant two-way flows between India and South Africa but potential of investment between India and Brazil is hardly exploited. A number of measures can be taken within the IBSA framework to facilitate mutual investment flows between them, as follows:

An IBSA Investment Agreement (IIA)

An trilateral IBSA Investment Agreement (IIA) signed within the framework of IBSA could be a useful component of the IBSA Comprehensive Economic Cooperation Agreement, as proposed in this Report. The IIA could provide a framework for post-investment national treatment, non-discrimination, investment protection and dispute settlement to promote mutual investment flows. It can also be complemented by an IBSA Double Taxation Avoidance Agreement to further promote mutual investment agreements.

Cooperation among the Investment Promotion Agencies

All the three countries are having their respective investment promotion agencies. These agencies may cooperate between themselves and set up their representative offices in other member countries. Such representative offices could be instrumental in the dissemination of information about the policies, rules

and procedures of the respective countries, linking the potential investors with local entrepreneurs, facilitating approvals, among other initiatives.

Strengthening the IBSA Transport Links

Given the geographical location of India-Brazil and South Africa, distance acts as a major constraint resulting in high transportation cost between them. The estimated transport cost accounts for more than 12 per cent of the value of trade between India and Brazil and about 10 per cent in case of trade with South Africa. Therefore the outcomes of initiatives outlined above are likely to be sub optimal unless the air and shipping connectivity between the three countries is strengthened. Maritime and air linkages between India and South Africa, and between South Africa and Brazil are stronger than that between India and Brazil. The low volume of trade makes the business relatively unattractive to the main-line shipping companies. Competition for business is therefore weak leading to high costs. To improve the transport links between IBSA, following measures may be considered:

Common Feeder Structure

The alleged lack of coordination between the different carriers offering feeder and inter-island services and between these carriers and the main-line services may tend to increase costs and impair service frequencies. One suggestion that has been made is to discuss the feasibility of a common feeder structure as used in the Mediterranean, whereby the main-line carriers agree to use regional feeders and inter-island carriers operating as a pool.

Warehousing Facility in South Africa

The new element in the equation is the emergence of a geographically dispersed range of ports offering transshipment services. This offers the possibility of providing even the smaller destinations with access to increased regional trade. The principal trans-shipment ports on the basis of geography for the IBSA trade should be at Durban or Cape Town. This might call for making arrangements for the creation of an IBSA Warehousing facility in South Africa which could be used by Indian and Brazilian enterprises for mutual transshipments.

Improving Airlinks

The flag carriers of IBSA countries, viz. Air India, Varig and South African Airways (SAA) could join hands to launch code-shared direct flights connecting Delhi/Mumbai-Johannesburg and Rio on a daily basis. This way the connectivity within the IBSA will improve

tremendously. The other option is to provide a regime of Open Sky Policy between the IBSA economic space for the national carriers.

Sectoral Cooperation and Sharing of Expertise and Experiences

IBSA countries can fruitfully cooperate in the following areas and share their knowledge, expertise and experiences within the framework of the trilateral cooperation.

Experience Sharing in Transportation Sector

The study holds the view that IBSA have immense opportunity to learn from each other. For example, India's expertise in automation of railways can be extended to South Africa and Brazil. Similarly, India and South Africa can also learn from the Brazilian experiences in introduction of private capital in improving railway efficiency. It would be advisable to form a commercial venture among three leading logistics operators from these three countries. Say for example, formation of any commercial venture among Container Corporation of India (CONCOR from India), Transnet Ltd. (from South Africa), and Companhia Vale do Rio Doce (CVRD from Brazil) could be of great boost to closer transport integration among the three countries. While CONCOR and Transnet are public sector companies, CVRD is Brazil's largest logistics company in the private sector. Similarly, Air India can learn from the success of South African Airways and Varig Airways. Here apart from code sharing to connect Delhi Johannesburg and Rio, joining together to promote trade and tourism and to exchange technical experiences will certainly pave the way in sustaining closer integration in near future. India, with its renowned maritime training institutes, can offer modern maritime training to seafarers of South Africa and Brazil. Similarly, South Africa's experiences of port management can also be extended to Indian port authority. Shipping lines in all the three countries can forge a network to exchange experiences in implementing ISPS code.

Promoting Joint R&D Alliances

During the last few decades, India, Brazil and South Africa have developed significant technological capabilities in different fields. IBSA cooperation should be instrumental in taking these capabilities to new heights for the benefits of countries in the South in general and IBSA in particular. In pursuing this objective, an IBSA Fund for promoting Joint R&D could be set up to support joint R&D projects with active involvement of private sector and academia in

IBSA. This may facilitate creation of strategic alliances between business enterprises of the three countries. It could also facilitate joint research on common problems of IBSA countries such as development of medicines for tropical diseases, AIDS drugs, Hepatitis vaccines, and agricultural research. It could also facilitate joint initiatives for processed food safety, quality standard, quality harmonization, market research and joint marketing among others. Other areas of cooperation in technology may include capacity building and harmonization of bio-safety guidelines, IPR regulations, and other regulatory frameworks in tune with the international protocols. To facilitate flow of technology between IBSA a Technology Transfer Network could be set up which may pool information on the availability of technologies with the enterprises/R&D organizations in the region.

Cooperation in SMEs

SMEs not only contribute a substantial proportion of industrial output, employment and exports, but they are breeding grounds for entrepreneurship. All the three countries have very rich experience and exchange of these experiences in promotion of SMEs and micro enterprises is likely to have profound development implications. It is also worth exploring what India could learn from the Black Economic Empowerment programme being implemented by South Africa. The cooperation might take the form of bringing together the small-scale industry promotion agencies and SME Associations of IBSA to establish liaison with each other and learning from each other's experience and technology sharing.

Energy

About 62 per cent of energy requirements of Brazil is met by renewable sources of which ethanol from sugarcane accounts for as much as 10 per cent.¹ Given the fact that India is the largest producer of sugarcane in the world and is facing booming oil import bill, the returns from India-Brazil cooperation in this field cannot be over emphasized. At the same time, India's capabilities in the field of solar photovoltaic could be of considerable interest for Brazil given the vastness of country and its settlement pattern. South Africa has a highly developed synthetic fuels industry, which takes advantage of the country's abundant coal resources with coal liquefaction technology. With the oil prices ruling at around US\$ 60 p.b., this technology may be commercially viable and could be explored by Indian companies. India has some expertise in harnessing solar energy and biofuels that may be of interest to Brazil and South Africa.

Agriculture and Food Processing

There is a vast potential of cooperation in the agriculture and food processing. They could conduct joint research on products of common interest and share their genetic resources in plant breeding programmes. Brazil is known for its capabilities in the food processing industry. Brazil has been able to develop a wide variety of value added products from root crops like cassava and other horticultural crops. Both India and South Africa may share these capabilities. Cassava is cultivated in on a large scale in some of the South Indian states. Yet we have not been able to develop and market value added products from Cassava. Cassava is also cultivated on a large scale in some of the African countries. It has been observed that their success in terms of productivity per hectare is low as compared to India and Brazil and they could also benefit from developing value added products. Hence, cooperation between IBSA in horticulture and root crops could be beneficial to all the three. In addition, IBSA countries may share their expertise, capability and experiences in complying with SPS measures applicable to processed foods in the developed country markets.

E-Governance and IT for development

This is a case of cooperation among equals. Focus needs to be on exchanging experiences and learning from each other. Creation of a forum of different stakeholders in IT, like private sector, civil society organizations and government for sharing experiences/expertise in the field of e-governance, harnessing ICT for development, and strengthening capabilities in Free or Open Source Software. They could also work towards an e-South framework agreement to pool together their capabilities to address the common challenges.

Gems and Jewellery

It is understood that bulk of trade between India and South Africa is in gold, gems and jewellery. However, this trade is today routed through Europe and which in turn leads to a situation wherein neither South Africa nor India has a significant role in the value chain. Therefore, there appears to be immense potential for investment, which enables these countries to capture a significant position in gold, jems and jewellery value chain. The abundant supply of colour stones in Brazil and the rich craftsmanship of India in polishing stones provides yet another investment opportunity for the third country markets.

Tourism

India with its vastness and geographical diversity could be an attractive location for tourist from both Brazil

¹ In April 2002 India and Brazil signed a memorandum of understanding for technology sharing in blending of petrol and diesel with ethanol.

and South Africa. It is found that tourism is one of the vibrant sectors in the South African economy accounting for about 7.1 per cent of the GDP and contributing significantly to job creation as a result of substantial investment made by both public and private sectors. Indian companies also have invested in the tourism sector of South Africa. Cooperative efforts among the three countries could reap rich dividends. For instance, Goa, a well-known beach resort with large Portuguese speaking population, could be of substantial interest to Brazilians. The low cost of healthcare in India is yet another fact that promotes health tourism. Initiatives to train tourist guides in the languages of three countries, relaxing visa regulations for travel within IBSA are needed to promote tourism besides improving the airline connectivity. Launch of IBSA Packages combining select locations of India-Brazil-and South Africa, for instance, Goa, Cape Town and Rio in a single package could be very attractive for western tourists seeking variety in a compact package. An Association of Tour Operators of IBSA could be formed to explore such possibilities.

Entertainment and Animation Industries

To leverage the markets in Entertainment and Animation Industries, it may be advisable that the TV and Radio broadcasting companies of IBSA join hands to launch an IBSA Channel covering news as well as entertainment content from the entire region. Indian entertainment industry (a la Bollywood), which is the largest producer of feature films in the world, could provide a backup for the Channel. It would also help in promotion of tourism and people-to-people contacts.

Financial Sector and Banking

India and South Africa have considerable experience in development of capital markets with the Bombay Stock Exchange being one of the oldest and well performing stock exchanges in the world. This expertise could be shared among the IBSA especially given the fact that the Brazilian capital market needs further strengthening. In addition, integration of the capital markets of IBSA by facilitating the cross-listing of securities with minimum standards of listing rules to help the flows of capital across the region may be beneficial to all the three countries. As of now the presence of Indian banks is limited in Brazil and South Africa. The situation appears to be not much different with respect to the presence of Brazilian and South African banks in India. Hence, with a view to promote trade and investment, intensive commercial banking links by facilitating the setting up of branches of commercial banks of IBSA in the partner countries is called for.

People to People Contacts

One of the key problems in promoting trade and investment between IBSA and especially with India and Brazil appears to be the lack of information. One of the possible ways to address this issue is through strengthening the people-to-people contacts. People-to-people contacts between IBSA are possible only through airlinks. Yet the air connectivity between India and Brazil is especially weak. In this context, code shared flights and an open sky policy, as outlined above, might be helpful in strengthening the links between the three countries. An initiative like IBSA Games could also provide rich dividends in facilitating the people-to-people links. There could be IBSA Soccer and Cricket Tournaments to promote visibility of each other country mutually.

Media

Greater interaction between media of IBSA is crucial for reducing the information gap. There is very little reporting on India in Brazil and South Africa and vice versa. To bridge this gap, some exchange fellowships for media persons and journalists could be set up to allow journalists from Brazil and South Africa to spend some time in India and vice versa.

Sharing Development Experiences

RIS study notes that more or less similar policy reforms undertaken in the three countries have yielded quite different outcomes across them. Hence, there is an enormous potential for sharing development experiences between IBSA in managing globalization and for providing constant policy inputs for promoting mutual cooperation. To facilitate such a process an IBSA Network of Think-Tanks could be created to facilitate such exchange of development experiences and studies on promotion of mutual cooperation. The Network could comprise national focal points from each member country, and have fund at its disposal to draw upon for launching studies, annual conferences and for instituting fellowships for exchange of scholars.

IBSA Cooperation in Multilateral Forums

The strategic importance of IBSA cooperation in shaping the outcome of multilateral negotiations cannot be overemphasized. As emerging powers they can provide leadership to the developing world in these negotiations and thus help in evolving more development-friendly framework for multilateral trade and financial architecture. If the recent experience of their cooperation in multilateral trade negotiations is

any guide, this partnership is going to have a major influence on the shape of multilateral negotiations in future.

Cooperation in Multilateral Trade Negotiations

Over the past year IBSA countries have already cooperated within the framework of the G-20 of developing countries at the Cancun Ministerial Conference of WTO and subsequent negotiations in a very fruitful manner. Later on in the negotiation of the July framework, India and Brazil represented G-20 in the Five Interested Parties (FIPs) that hammered out the agreement. Given the fact that the G-20 was led by Brazil, India and South Africa, it can be said that the trilateral engagement by India with Brazil and South Africa under the IBSA framework has facilitated coalition-building on WTO issues. The Ministerial Meeting of the IBSA Trilateral Commission IBSA held in New Delhi in early 2004 emphasized the importance of a common approach with regard to WTO among other priorities. It is important that IBSA countries continue playing such leadership role in the multilateral trade negotiations as they have been over the past. Furthermore, it is important for the longer-term sustainability of the coalition of G-20 in WTO to develop a more constructive proactive agenda. This agenda might cover seeking a reform of the process of decision-making in the multilateral trade negotiations to make it more inclusive, transparent and equitable; setting up a Developing Country Watchdog on the implementation of WTO commitments by developed countries and bringing complaints against any cases of

under-compliance; strengthening the provisions of technical assistance for developing countries; strengthening the provisions for special and differential treatment with the help of a framework agreement; seeking a framework agreement on movement of natural persons, and a framework agreement on transfer of technology, among others. G-20 could also become a forum for promoting South-South Cooperation such as mutual cooperation in implementation of commitments, technical assistance for compliance of emerging standards, etc. besides evolving approaches for promoting South-South trade. They could discuss ways and means for revitalizing the GSTP for promoting their mutual trade besides addressing non-tariff barriers to it. IBSA could take lead for making G-20 to pursue these proactive measures.

Reform of International Financial Architecture and the United Nations

Considering the common development concerns of IBSA countries, they could also coordinate their positions and provide leadership to developing countries in pushing reforms of international financial architecture including reform of IMF conditionalities to prevent reoccurrence of financial crisis and making it more development friendly and sustainable. Both Brazil and South Africa have suffered from mild crises in the past. The reform of the UN with expansion of the UN Security Council is also a common agenda and Brazil and India have announced support of their candidature for permanent membership of the UN Security Council on a mutual basis within the framework of G-4.

Thus the IBSA comprehensive partnership could be of immense strategic importance for the countries involved and be a trail-blazer for South-South Cooperation. A Comprehensive Economic Partnership Arrangement including an FTA in trade in goods, services and investments could provide an institutional framework for exploiting the potential of their partnership and their synergies for mutual benefit.

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RIS
Research and Information System
for Developing Countries

Core IV-B, Fourth Floor
India Habitat Centre
Lodhi Road, New Delhi-110 003, India.
Ph. 91-11-24682177-80
Fax: 91-11-24682173-74-75
Email: dgoffice@ris.org.in
Websites: <http://www.ris.org.in>
<http://www.newasiaforum.org>