

EXIM BANK: RESEARCH BRIEF

IBSA: Enhancing Economic Cooperation across Continents



March 2009

EXPORT-IMPORT BANK OF INDIA

Visit us at www.eximbankindia.in

No. 46

Introduction

In the aftermath of discussions at the G-8 meeting in Evian, France in 2003, the Foreign Ministers of the three countries met in Brasilia on June 6, 2003 and formalized the launching of IBSA Dialogue Forum through adoption of Brasilia Declaration. In September 2003, the Trilateral Cooperation of IBSA Dialogue Forum was formally launched by President Thabo Mbeki, President Lula da Silva and Prime Minister Atal Bihari Vajpayee during the 58th session of the UN General Assembly in New York.

The major objectives of IBSA cooperation include promotion of South-South dialogue, cooperation and common positions on issues of international importance; trade and investment opportunities between the three regions; international poverty alleviation and social development; trilateral exchange of information, international best practices, technologies and skills, as well as to complement each others competitive strengths into collective synergies; and cooperation in a broad range of areas, including agriculture, climate change, culture, defence, education, energy, health, information society, science and technology, social development, trade and investment, tourism and transport.

In light of these developments, the Study analyses, *inter alia*, recent economic performance of the IBSA countries, trends and structure of India's trade and investment relations with other IBSA members, and endeavors to identify potential areas for increased two-way flow

of trade and investment between India and IBSA countries. The Study further outlines potential areas of cooperation between IBSA countries and delineates broad strategy and recommendations which would serve to foster enhanced commercial relations between India and other IBSA countries.

Economic Environment

The IBSA countries have made significant progress in their economic performance since the formation of IBSA Dialogue Forum. The combined gross domestic product (GDP) of IBSA countries has crossed an estimated US\$ 3 trillion in 2008, from US\$ 1.3 trillion in 2003, registering a compound annual growth rate (CAGR) of 18.8 percent. IBSA countries have witnessed substantial diversity in their growth histories. The dramatically high rates of gross domestic product (GDP) growth experienced in Brazil in the late 1960s and early 1970s have now stabilised in the recent period. The real GDP growth of Brazil steadily increased from 3.2 percent in 2005 to 5.7 percent in 2007 before moderating to 5.1 percent in 2008. On the other hand, India has started witnessing a surge in GDP growth since the early 1980s, after recording low growth performance for around three decades. During the last six years, the Indian economy had witnessed an average real GDP growth of 8.5 percent. South Africa has witnessed historically less volatile but low growth. Real GDP growth of South Africa increased from 3.1 percent in 2003 to 5.3 percent in 2007, before moderating to 3.1 percent in 2008, partly reflecting impact of global financial crisis.

Foreign Trade of IBSA Countries

The post-2003 witnessed acceleration in total merchandise trade of IBSA as well as in intra-IBSA trade, in spite of the geographical distance between the three countries. The total trade of IBSA has more than trebled from US\$ 328 billion in 2003 to over US\$ 1 trillion in 2008 recording a CAGR of 30.2 percent, reflecting favourable growth performance of both exports and imports. Exports of IBSA steadily shot up from US\$ 167.9 billion in 2003 to US\$ 453.8 billion in 2008, recording a CAGR of 21.9 percent. The share of IBSA's exports in world exports increased from 2.3 percent in 2003 to 2.8 percent in 2008. Imports of IBSA also increased more than three-fold from US\$ 160.1 billion in 2003 to US\$ 576.5 billion in 2008, resulting an increase in its share in world imports from 2.1 percent in 2003 to 3.6 percent in 2008.

The share of intra-IBSA export in the total IBSA exports increased to 3.3 percent in 2008 from 2.3 percent in 2003. Albeit at this low level, intra-IBSA trade picked up significantly from US\$ 4 billion in 2003 to approximately US\$ 15 billion in 2008, reflecting a robust activity in the trilateral trade relationship. With this, the IBSA countries had more or less achieved the intra-IBSA trade target of US\$ 15 billion, announced by the leaders of the three countries during the IBSA Summit in October 2008, two years ahead of the targeted year, which was 2010.

Bilateral Trade Relations between IBSA Countries

The formation of IBSA cooperation led to significant increase in the volume of trade

between the IBSA countries. India's exports to other IBSA countries increased six-fold during 2003-2008, while South Africa's exports to other IBSA countries more than trebled during the same period. Brazil's exports to other IBSA countries also more than doubled during the same period (Table 1).

India and South Africa: The total trade between India and South Africa more than trebled to US\$ 7.8 billion in 2008 from US\$ 2.3 billion in 2003. By 2008, India's trade deficit with South Africa stood at US\$ 3.3 billion, broadly reflecting high imports of pearls and precious stones and significant increase in imports of petroleum crude and inorganic chemicals. India's exports to South Africa increased over five-fold during 2003-2008, to stand at US\$ 2.3 billion in 2008. Petroleum products are the major items exported by India to South Africa, accounted for around one-third of India's total exports to South Africa, and recorded the highest growth among export items (CAGR of over 415 percent during 2003-2008). Other major items exported by India to South Africa include electrical and electronic equipments, pharmaceutical products, vehicles other than railway, machinery and mechanical appliances and iron and steel. South Africa's exports to India increased significantly from US\$ 1.9 billion in 2003 to US\$ 5.6 billion in 2008. Pearls and precious stones are the largest items exported from South Africa to India, accounting for more than half of India's total merchandise imports from South Africa, followed by petroleum crude, with a share of 17.2 percent, inorganic chemicals, ores, slag and ash, iron and steel and aluminium.

India and Brazil: India's total trade with Brazil witnessed more than six-fold increase during 2003-2008, from US\$ 795.5 million in 2003 to US\$ 4.7 billion in 2008. During the last four years, India maintained a surplus trade balance with Brazil, which stood at US\$ 2.4 billion in 2008. Petroleum products are the largest items exported by India to Brazil, and accounted for nearly 50 percent of India's total exports to Brazil in 2008. Other major items exported by India to Brazil include organic chemicals, electrical and electronic equipments, pharmaceutical

Table 1: Trade between IBSA Countries

(US\$ million)

Exporting Country	Destination	2003	2004	2005	2006	2007	2008
India	a) South Africa	417.7	706.2	1,102.5	1,613.2	1,777.5	2,261.9
	b) Brazil	485.7	556.1	1,202.9	1,474.0	2,164.9	3,563.6
	Total (a+b)	903.4	1,262.2	2,305.5	3,087.2	3,942.5	5,825.5
Brazil	a) India	309.8	770.2	896.6	989.8	877.7	1,159.8
	b) South Africa	715.1	996.8	1,309.8	1,381.3	1,658.6	1,661.1
	Total (a+b)	1,024.9	1,767.0	2,206.4	2,371.2	2,536.3	2,821.0
South Africa	a) India	1,876.4	2,144.6	2,481.6	2,467.0	3,181.7	5,551.2
	b) Brazil	202.2	268.1	341.5	434.9	522.3	772.9
	Total (a+b)	2,078.6	2,412.7	2,823.2	2,901.9	3,704.0	6,324.1
Total IBSA Trade		4,006.8	5,442.0	7,335.0	8,360.2	10,182.8	14,970.6

Note: c.i.f. values are taken.

Source: ITC/UNCTAD.

products, cotton and machinery and mechanical appliances. Brazil's exports to India increased by more than three-fold from US\$ 309.8 million in 2003 to US\$ 1,159.8 in 2008. Ores, slag and ash are the major items exported by Brazil to India, with a share of 28.5 percent in 2008, followed by machinery and mechanical appliances, animal and vegetable fats and oil, iron and steel and organic chemicals.

Brazil and South Africa: Brazil's total trade with South Africa increased from US\$ 512 million in 2003 to US\$ 1.9 billion in 2008. Brazil maintained a surplus in its trade balance with South Africa, which increased from US\$ 107.6 million in 2003 to US\$ 386.9 million in 2008. Ores, slag and ash are the major items exported by Brazil to South Africa, with a share of 28.5 percent followed by machinery and mechanical appliances, animal and vegetable fats and oil, iron and steel and organic chemicals. South Africa's exports to Brazil increased from US\$ 202.2 million in 2003 to US\$ 772.9 million in 2008. Iron and steel are the major items exported by South Africa to Brazil, accounting for one-fourth of Brazil's total exports to South Africa, followed by mineral fuels, pearls and precious stones, machinery and mechanical appliances and organic chemicals.

FDI in the IBSA Region

The combined foreign direct investment (FDI) inflows to IBSA countries increased

more than four-fold to US\$ 63.2 billion in 2007 from US\$ 15.2 billion in 2003, thereby increasing its share in world's FDI inflows to 3.4 percent in 2007 from 2.7 percent in 2003. During the same period, the share of IBSA countries in the FDI inflows to their respective regions has also recorded significant increase. In 2007, more than 10 percent of FDI inflows to Africa went to South Africa, as against 3.9 percent in 2003. Brazil also accounted for 27.4 percent of FDI inflows in Latin America and Caribbean (LAC), which is an improvement compared to 22.1 percent in 2003. At the same time, India's share in FDI inflows to developing Asia also increased from 3.8 percent in 2003 to 7.2 percent in 2007. The overall share of IBSA in total FDI to developing South rose to 12.7 percent in 2007 from 8.4 percent in 2003 (Table 2)

Exim Bank in the IBSA Region

The countries in the African Continent and the (LAC) region, including South Africa and Brazil, have been focus regions, and thus a critical component of Exim Bank's strategy to promote and support two-way trade and investment. As a partner institution to promote economic development in the region, the commitment towards building relationships with the IBSA region is reflected in the various activities and programmes which Exim Bank has set in place.

Table 2: Foreign Direct Inflows to IBSA Countries

Item	(US\$ billion)				
	2003	2004	2005	2006	2007
South Africa	0.7	0.8	6.6	-0.5	5.7
Share in Africa (%)	3.9	4.4	22.6	-1.2	10.7
Share in World (%)	0.1	0.1	0.7	0.0	0.3
Brazil	10.1	18.1	15.1	18.8	34.6
Share in LAC (%)	22.1	19.2	19.7	20.3	27.4
Share in World (%)	1.8	2.5	1.6	1.3	1.9
India	4.3	5.8	7.6	19.7	23.0
Share in Developing Asia (%)	3.8	3.4	3.6	7.2	7.2
Share in World (%)	0.8	0.8	0.8	1.4	1.3
IBSA	15.2	24.7	29.3	38.0	63.2
Share in Developing Countries (%)	8.4	8.7	9.3	9.2	12.7
Share in World (%)	2.7	3.4	3.1	2.7	3.4

Source: World Investment Report, 2008, UNCTAD.

Lines of Credit

Exim Bank extends Lines of Credit (LOCs) to Governments, parastatal organizations, commercial banks, financial institutions and to regional development banks to support export of eligible goods and services on deferred payment terms. In tandem with 'Focus Africa' and 'Focus LAC' initiatives of Government of India, Exim Bank has extended LOCs to various financial institutions in the African and LAC regions. In Africa region, Exim Bank has 67 operative LOCs totalling US\$ 2.3 billion. In the LAC region, Exim Bank has 15 operative LOCs totalling US\$ 168 million, including two operative LOCs in Brazil totalling US\$ 20 million.

Finance for Joint Ventures Overseas

With a view to support Indian companies who endeavour to globalize their operations, Exim Bank operates a programme to support overseas investment by Indian promoter through joint ventures (JV) / wholly owned subsidiaries (WOS). Such support includes equity finance and in select cases, directs participation in equity along with Indian promoter, to set up such ventures overseas. The Bank has supported several such ventures in Africa and the LAC region. Presently, Exim Bank has supported joint ventures in South Africa in construction sector and in Brazil in sectors such as power transmission, bauxite mining and pharmaceuticals.

Institutional Linkages

Exim Bank has been forging a network of alliances and institutional linkages to help further economic cooperation with the African and LAC region. In African region, these endeavours are supplemented by the various Cooperation Agreements the Bank has in place with key institutions including African Development Bank (AfDB) and Industrial Development Corporation of South Africa Limited (IDC). Further, Exim Bank is a member of the Association of African Development Finance Institutions (AADFI), whose membership helps provide a platform for building linkages with other institutions in Africa. In the LAC region, Exim Bank has signed MOC with Andean Development Corporation (CAF), in which Brazil is one of the share holders.

Potential Items for Trade between IBSA Countries

A potential for increase in trade between IBSA countries have been identified through analysis of bilateral trade between IBSA countries at HS code 6-digit level. Accordingly, sectors where India has a potential to increase exports to Brazil and South Africa include machinery and mechanical appliances, electrical and electronic equipment, petroleum products, vehicles other than railway and pharmaceutical products. South Africa has potential for increasing exports to India in items such as pearls and precious stones,

aluminium and plastics, iron and steel, and ores, slag and ash. The items with which Brazil has a potential to increase exports to India include ores, slag and ash, electrical and electronic equipment, cotton and machinery and mechanical appliances.

Potential Areas for Sectoral Cooperations among IBSA Countries

IBSA Countries have diverse areas of excellence, which offer a broad range of potential opportunities for cooperation in areas including trade, investment, travel and tourism, and appropriate combination of their best resources will generate the desired synergy. Some of the areas of cooperation which could bring the economic relationship between the three countries to new heights are delineated below:

IBSA Visa

In the Second meeting, IBSA Trilateral Commission proposed to examine the possibility of visa waiver or the issuing of visas on arrival for IBSA nationals for tourism purposes. IBSA Business Council (October 2007) also called upon the three governments to assist the private sector in improving connectivity between the three countries, including more efficient access to visas, for business people. In this regards, IBSA Visa, in line with Schengen Visa (covering 15 countries in Europe), could be introduced- which enables a person to visit any IBSA countries for business, tourism, visiting friends/relatives etc for a stipulated number of days. This will facilitate movement of persons not only amongst the IBSA countries, but also from other countries, which are not party to IBSA. For nationals of an IBSA country, an IBSA Visa would obviate the need for visa of the other two countries separately, which would greatly ease visa formalities. For non-IBSA country nationals, a single IBSA Visa will allow entry to India, Brazil and South Africa, thereby greatly reducing visa formalities and time involved for them. This initiative will promote tourism, trade, cultural exchanges and closer cooperation in several areas between IBSA countries, and between IBSA and other countries as well.

Energy Sector

In New Delhi Agenda for Cooperation (2004) the following areas were identified for initial cooperation: (i) access to affordable energy in rural areas with emphasis on non-conventional energy; (ii) exploring bio-diesel as a commercially viable energy source by exchanging knowledge and experience; and (iii) research and development in the areas of hydrogen energy and fuel cells. In renewable energy, Brazil has one of the largest renewable energy programs in the world, involving production of ethanol fuel from sugarcane, and ethanol provides 18 percent of the country's automotive fuel. The country has become the world's second largest producer of ethanol (after the United States) and the world's largest exporter. Unlike American or European processes based on crops (e.g. barley, corn or wheat) that must first be converted at significant expense into sugars, Brazilian processes are based on sugar cane, which its climate favours, obviating any need for conversion, resulting in lower production costs compared to ethanol derived from corn. These low production costs make it a lucrative business for farmer. This Brazilian know-how, technology, and natural conditions make it the cheapest country in the world for the production of ethanol. Further, South Africa is already leading the development of bio-fuels in Africa, and the country's bio-fuels industry has the potential to produce 10 percent of South Africa's petrol and diesel needs by 2010. In addition, it can also share its expertise on innovative methods of producing synthetic fuels from coal. India, on the other hand, is the largest producer of sugarcane in the world. With the most efficient source for ethanol being sugarcane, the three countries have potential to take advantage of the opportunities in this sector and together can also benefit from technology transfer in the area of bio-fuel.

Transportation Linkages

Transportation bottlenecks between IBSA countries have been one the weakest links for enhancing cooperation. Improved shipping and air links between the three countries is crucial to increase intra-IBSA trade, as also to have a beneficial effect on inter-regional trade and economic exchanges. While recent trends suggest notable performance in intra-IBSA trade, better connectivity between the three countries will result in greater trade flows as well as economic cooperation. To address this issue, IBSA countries signed MoUs on five-year action plan for cooperation in the civil aviation sector (2008-2013) and five-year action plan on maritime projects (2008-2013) in October 2008. The five-year action plan on maritime projects include, inter alia, cooperation between shipping organisations and enterprises and promotion of sea-borne tourism opportunities, cooperation between maritime educational institutions, exchange of data and information on the flow of commercial goods at sea and ports, private sector cooperation in ship repair and port handling technology and cooperation in port development and regional hinterland connectivity.

Strategies for Enhancing India's Trade and Investment Relations with other IBSA Countries

With the objective of further enhancing bilateral trade and investment relations between India and the IBSA region, some broad strategies and recommendations are provided below. To enhance trade and investment relationship within the region, focus could be made on spreading awareness about IBSA cooperation among the business communities of their respective countries. Closer cooperation and linkages between specialised investment promotion agencies and chambers of commerce and industry, which have been set up by respective

governments in the IBSA region, would also serve to enhance access to information about investment opportunities as also prospective joint venture partners in the region. Understanding of cultures and languages of other IBSA members would serve to facilitate business interactions and foster better linkages with their business counterparts. In the realm of technology, to facilitate exchange of technology, IBSA countries could set up Technology Transfer Network, which would leverage upon the available technologies in respective countries for use within the enterprises and organisations of the three countries. A special initiative could be launched to promote joint research and development (R&D) project to address common challenges in the IBSA region. An important element of the strategy would also be effective dissemination of information to other IBSA member countries relating to trade/investment opportunities to potential exporters and investors in India as also prospective partners in the region.

The contents of the publication are based on information available with Export-Import Bank of India and on primary and desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupee are referred in crore and lakhs:

1 crore : 10 million

1 lakh : 100 thousand

Publication is available with:

Dharmendra Sachan

Chief Knowledge Officer

EXPORT-IMPORT BANK OF INDIA

Centre One Building, Floor 21,

World Trade Centre Complex,

Cuffe Parade, Mumbai - 400 005, India.

Phone : +91 22 2218 0379

Fax : +91 22 2218 3070

E-mail : dharmendra@eximbankindia.in

Website : www.eximbankindia.in

Contact Numbers : Ahmedabad : 2657 6852, Bangalore : 2558 5755, Chennai : 2522 4714, Guwahati : 246 2951, Hyderabad : 2330 7816 , Kolkata:2283 3419, Mumbai:2282 3320, New Delhi:2332 6625, Pune:2645 8599

Dakar : (221) 338232849, Dubai : (971) 43637462, Durban: (2731) 5846118, London : (44) 2073538830, Singapore : (65) 653 26464, Washington D.C.: (1) 2022233238