



## **SOUTH-SOUTH ECONOMIC COOPERATION: EXPLORING THE IBSA RELATIONSHIP**

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### **RECORD OF DISUCSSION**

#### **1. Background**

South-South economic cooperation has long been promoted as a means to reduce the dependence of developing countries on developed countries' markets and also to help expand developing countries' export base beyond primary commodities. This was taken to another level when the Foreign Ministers of South Africa, India and Brazil launched the IBSA initiative in 2003. For many the IBSA initiative was focused on strengthening political ties between the countries; but in order to do so it needs to build economic relations amongst the three countries. Can it go beyond political rhetoric and deliver tangible benefits in the form of trade and investment?

It was in this context that the IBSA project was launched in 2005 by SAIIA, CUTS and ICONE. The purpose of this gathering was to explore the results of perceptions survey projects, undertaken in each of the three countries, of the potential for IBSA cooperation in the aerospace sector. A number of dignitaries, researchers, and other eminent persons from each of the countries were in attendance.

The slides from each of the four main presentations should be referred to for more detail (they may be found on the SAIIA website). This document provides an overview of proceedings.

#### **2. Proceedings**

##### **Introduction: Economic Cooperation between India and IBSA Countries: Present and Future**

**HE Mbulelo Rakwena**, Chief Director, Latin America, DFA.

- The logic behind IBSA? The SA government is committed to South-South cooperation, and want to ensure that the concept is not a 'lazy one', but

- something that is operational and achieves concrete results. Continually re-energising the agenda is therefore of paramount importance.
- Why South-South cooperation? Does or should anyone care? One important reason is the need for balance in the global configuration of power. Collectively this might be achieved by greater and closer cooperation between Southern countries.
  - What is IBSA's strategic objective? There are many:
    - Devising strategies for complementary development
    - Maintaining vibrant democracies
    - Continue to show regional leadership
    - Remaining committed to market economies
    - Championing the 'South-South cause'
    - Pursuing common agendas in multilateral institutions
    - Developing concrete trilateral cooperation strategies wherever and whenever possible
  - Has IBSA produced anything?
    - Trilateral trade flows have increased in leaps and bounds, and at least part of that must be attributable to the initiatives taken at the diplomatic level. The target of \$10bn total IBSA trade by 2007 may well be within reach.
    - But SA needs to do more to benefit from these increases in order to use IBSA to help meet domestic challenges.
  - Areas in which IBSA aims to show global leadership:
    - Climate change
    - Transport

**Jerry Vilakazi, CEO, Business Unity South Africa (BUSA)**

- Where is IBSA from a business perspective? Both India and Brazil are huge markets, and therefore are huge opportunities for SA business. But thus far there is a sense that business has failed to fully exploit the opportunities on offer/made possible by IBSA.
- What about the process of identifying important sectors? An SA-India CEO forum exists. The sectors this forum is looking at include ICT; energy; tourism; media; financial services; infrastructure; skills development; mining.
- Non-tariff barriers (including the transport and logistical problems) are still significant challenges—there is a great need to ensure that trade is facilitated, and that flows between Brazil and India go through South Africa, not Europe. The aim is to lower costs in this economy, and to leverage more effectively South Africa's geographic location.

## **Session I: Synthesis paper**

Chair: **Mr. Raul Campos e Castro**, Minister-Counsellor, Brazilian Embassy to South Africa.

Speaker: **Paranjoy Guha Thakurta**, School of Convergence, India.

### **"South-South Economic Cooperation: Exploring the IBSA Initiative" (working paper)**

Intro:

- Africa seems to have benefited least from all the increases in South-South trade.
- And despite the increases, Southern countries still dependent on Northern markets.
  - Tariffs are coming down
  - Southern countries are cooperating at the WTO
  - But intra-IBSA trade remains negligible – is this because IBSA is perceived as a political, not economic project?

Challenges:

- IBSA is not about just three countries, but rather three regions: South Asia, Sub-Saharan Africa, and South America. Tied to this is the notion that the BRIC(s) countries (Brazil, Russia, India, China, and South Africa) will be the main sources for world economic growth in the decades to come.
- But there are significant challenges to smoother interaction across IBSA countries:
  - Customs duties
  - Visa hassles
  - Different standards and rules for doing business
  - Other bureaucratic challenges and NTBs
  - Lack of awareness/information gaps/poor marketing
  - Logistical constraints (argued that for IBSA countries to make a serious attempt to reduce dependence on European transshipment routs, China must be on board. It's massive demand and growing influence would substantially improve the IBSA countries' chances in this regard)

- Cultural differences
- Vast numbers of small and medium businesses can't take advantage of the opportunities
- Similar economic structures/competing for Northern countries
- Low intra-IBSA foreign direct investment/no structured frameworks for shaping investment relations. No real Brazilian investment in India; little SA investment in India; some Indian investment in both Brazil and SA.
  - Sectors where investment has occurred
    - Pharmaceuticals
    - Autos and ancillaries
    - Alcohol
    - Ethanol
    - Mining
- Trade imbalances in both levels and composition
- But the biggest challenge in the speaker's view is the massive lack of awareness amongst economic actors of these 'new' countries. Quality information, including good market intelligence, is required. This should comprise the core activities of each government's day-to-day activities in each of the three countries.

#### The Way Forward:

- Many similarities—one of these is that all three countries are extremely heterogeneous, plural societies, with lessons for each other.
- Poverty alleviation and economic development must be at the core of the IBSA agenda
- Environmental management must be taken seriously
- Information technology holds much potential
- Technological cooperation amongst developing countries (TCDC)

#### Global Aerospace Scenario:

- The world over, this sector is growing rapidly; all sorts of dynamic benefits of having this sector as part of your economy
- IBSA countries are still very much second tier nations (Sweden, Canada, IBSA countries), but globalisation is allowing the development of extensive networks of sub-contractors outside first-tier countries (US and Europe).
- As yet there is very little collaboration across IBSA countries
- Three areas in which cooperation can grow:

- Expansion of cross-border supply chains, based on differing capabilities across IBSA countries
- Collaboration on strategic defence issues
- Small and micro satellites
- Sufficient scope for technical cooperation at the company level, fostered by closer government cooperation
- SA aerospace industry could exploit its competitive niche by integrating more effectively into the Indian and Brazilian markets.
- Governments must ensure the opportunities are there, by lowering tariffs, providing investment incentives, and doing everything possible to reduce transaction costs.

## Discussion

Banashree Harrison (Deputy HC of India):

- Snapshot analysis is not that encouraging, but the trend is certainly up. We should therefore be positive.
  - Thakurta: It is important to be fully aware of the challenges and problems to ensure the continued facilitation of the upward trend.
- The inclusion of China is questionable?
  - Thakurta: referring only to the sea-routes, transport issue.

Langa Zita, South African MP:

- How does IBSA respond to China?
  - Tough question – no easy answer
  - Be proud of/leverage our status as vibrant democracies?
  - But ensure that China is perceived not only as a threat but also as an opportunity

Advisor to the Sultan of Brunei

- Why is ASEAN not involved in IBSA?
 

Both ASEAN and SAARC are trying to come together, but there are obvious, big challenges.

Nevertheless, there is no reason why ASEAN can't get involved. Would be question marks over ASEAN's institutional capabilities in this regard. It isn't a formal collection of countries with a secretariat, for example.
- Peter Draper: IBSA has its real roots in UN Security Council reform, which doesn't involve ASEAN.

Rebecca Barton (Australian HC)

- What is Australia's role in all this?

Thakurta: As with ASEAN, there is no reason why Australia's involvement would be unwelcome.

Ruchita Beri (IDSA)

- Cooperation in aerospace is not an easy thing to do, due to the length of time such innovations take, and the fierce protection of any discoveries. So there may be significant hurdles in this area of cooperation. May be better to work with proven technologies only.

## **Session II: Brazil Country paper**

Chair: **Mr. Langa Zita**, Member of Parliament, South Africa.

Speaker: **Mario Marconini**, ICONE, Brazil.

### **"IBSA and the Aerospace Industry in Brazil"**

Mr Marconini provided the first country study on perceptions for cooperation in the aerospace sectors across the IBSA countries. This presentation was extremely detailed, particularly regarding the Brazilian aerospace industry. The reader is urged to consult the PowerPoint slides for more information.

- It began with a selected overview of the Brazilian economy, its trade with the world, and trade with India and South Africa.
- It moved into a detailed history of the Brazilian aerospace sector, with particular emphasis on the principal company in that sector, EMBRAER.
- The results of the survey provided some interesting, if somewhat predictable results:
  - 12 firms contacted
  - Distrust with the project
  - Additional information and clarifications
  - Linkage of project to government
  - Sources of financing for the research
  - Recourse to high technology
- Economic relevance: EMBRAER alone
- South-South cooperation?
  - 1/2 had cooperation projects going
  - China – CIBERS satellite

- Russia – satellite launchers
- ¼ knew of an Indian project
- ½ considered cooperation within IBSA infeasible
- EMBRAER already has global network
- Space sector
  - Interest with India: satellite manufacture, launching technology, optical radars, image sensors, launching vehicles.
  - Interest with South Africa: military aircraft parts
- Government involvement?
  - Skepticism
  - Do internationally what has not been done internally?
  - Yet:
    - Project in defense and space
    - Financing at competitive rates and durations
    - Nationalization of segments
    - Intermediaries with foreign governments
    - Stimulate small enterprises in specific projects
    - Create special entity or regulatory agencies
  - Presidential visits: events, fairs and commercial visits, more beneficial
- Threats:
  - IBSA cannot improve bargaining
  - IBSA cannot replace the developed countries
  - IBSA cooperation – improbable
  - IBSA technology transfer feasible, but irrelevant
- Ten conclusions:
  - Brazil's sector integrated into the world
  - Little to gain in aeronautics
  - Cooperation only in defense and space
  - Long-haul is really a "long-shot"
  - India seen as very difficult for firms
  - Skepticism wrt government initiatives
  - Better to nationalize world-class production
  - Government can support and mediate
  - IBSA cannot change the developed

IBSA cannot replace the developed

Discussant: **Mr. John Morris**, Chief Director: Strategy, Department of Public Enterprises, South Africa.

- Agrees that global market in long-haul activities is dominated by Boeing and EADS, so there's little point in trying to break into that.
- Focus in SA is on establishing exactly what we're good at. Need to then figure out how to break into global supply chains based on those advantages.
- South-South cooperation could aid that process, although as can be seen from the presentation Brazil seems to already be there.
- Projections on growth in various aerospace industries are all high and very attractive to SA (Denel in particular). This includes civilian and military.
- Thinks there is significant scope for cooperation, but this will have to happen at the enterprise/business level, which in turn would require significant government facilitation.

One area in particular is technology swaps/transfers

## Discussion

Martin Stevens, South African MP

- Cooperation is not going to take place automatically between enterprises in IBSA countries. So there's a case for 'public entrepreneurship'. A collaborative space programme, for example?
  - Realising that it is not going to be automatic is absolutely vital. A key first step is to just get the industries in the three countries to sit down and talk about what the others are doing.
  - Governments are certainly visionary, but aren't doing enough at the business level.
  - A space programme (like a big satellite) is not a bad idea, and if the business plan is good, financing probably won't be a problem. But it should be stressed that any project will have to be large in scale to justify work across three far apart countries.
  - Businesses must have more than a stake—they need an **interest**. This requires more communication as a first step.

Ruchita Beri (IDSA)

- SA is easier for Brazilian companies than India. SA is therefore critical. There is also talk of trilateral cooperation and/or trade agreements. How do these ideas figure in the Brazilian thinking?
  - Marconini: It could be argued that trade just gets in the way. These countries are perhaps not prepared for freer IBSA trade. More can be



gained from focussing on real business issues, the problems businesses face. For now these problems would not include tariffs and other things that go into a trade deal, but more basic issues of communication. If companies then develop an interest in investing in each other's countries, pressures to free up trade will follow.

Unknown

- One area of South-South cooperation relates to the international law dimensions of multilateral space cooperation. This remains unexplored across the IBSA countries.

Peter Draper (SAIIA)

- Competition these days, especially in high tech industries, is not between companies but between supply chains. So coordinating across countries throws up significant challenges, not least logistical. How could IBSA-based aerospace supply chains compete effectively on the global stage? Could-IBSA based supply chains even develop?
  - Marconini: Naturally there will be difficulties in trying to increase cooperation/consultation/communication. Not sure anyone's really thinking about an IBSA supply chain *per se*. All we're saying is can there must be ways for businesses in IBSA countries to cooperate more constructively, and collectively get into global markets through existing supply chains.
  - Most important is to maintain the vision and dream.

Unknown

- The vision needs good drivers, especially in SA. We need to facilitate actual people swaps for a number of years in order to be able to communicate effectively across the three countries. Only then do you get past the necessary diplomacy and platitudes that aren't very effective.

### **Session III: India Country paper**

Chair: HE **Zodwa Lallie**, Chief Director South Asia, South East Asia and Australasia, DFA

Speaker: **Pranav Kumar**, CUTS, India.

#### **Can IBSA Countries Cooperate in Civil Aviation Manufacturing? Managing Ambition with Reality**

- Paragraph 40 of Cape Town Ministerial Communiqué demands cooperation on research and development
  - Paragraph 54 talks of cooperation on the development of a trilateral civil aviation and maritime transport agreement
- Mutual recognition of different strengths
  - India on space
  - Brazil on passenger
  - SA on electronics
- Why aerospace cooperation instead of trade?
  - Because of the huge logistical challenges
  - Benefits of aerospace cooperation:
    - Cheaper planes for developing countries
    - Savings and earnings of foreign exchange
    - Help in checking brain drain
    - Higher paid, better jobs
    - Technology spillovers
- India paper restricted to exploring the scope for IBSA cooperation in civilian airplane for regional use.
  - Also provides information regarding the aero industry as a whole
  - Not much defence focus
- The Indian Civil Aviation Manufacturing Sector:
  - 2005 - \$150m; expected to grow to \$1bn in 4 years
  - Dominated by public sector companies
  - Strengths are in space-related activities, like satellites, launch vehicles, sounding rockets and associated ground systems

HAL is India's leading aero manufacturer

- Role of the (the small) private sector
  - Seek outsourced work from tier 1 companies.
  - Few exports
  - Supports public sector
- Exploring complementarities
  - India → defence airplanes, but India yet to develop a plane over 20 seats
  - Brazil → commercial airplanes. Brazil and EMBRAER not likely to gain much
  - SA → electronics (communications systems in particular)
- Problems in cooperation
  - Poor trade relationship
  - Lack of historical relationship
  - The China factor – EMBRAER has already entered into a JV with China Aviation Industry Corp
  - Distances are large
- Key survey findings
  - Not trying to compete with Boeing etc.
  - IBSA may not be able to collaborate on smaller airplanes due to potential conflicts of interest
  - IBSA can collaborate on component manufacture, joint research and maintenance, refurbishment, and overhaul (MRO) activities
  - India can play an important role in the space sector.

## **Discussion**

Langa Zita, MP

- Cooperation is going to need big players, but medium and small businesses are important too. Is there any scope for small business development in all this?
  - Kumar: The India survey showed strong links between big firms and their suppliers, which are usually small businesses. But obviously these businesses need support in the form of good public policy, as risks in such a high tech sector are large.

Ruchita Beri (IDSA)

- India's had defence collaboration with the Russians for 40 years or more, particularly as regards establishing India as a regional servicing hub. But this was difficult to achieve. How would that be different with Brazil/EMBRAER?

Kumar: EMBRAER is commercial, not defence, so presumably the dynamics are different. But obviously there will be difficulties, meaning more research would be needed.

Peter Draper (SAIIA)

- One must not forget the role of the US's growing relationship with India and the resulting potential constraints on the development of IBSA cooperation in aerospace, (defence industries in particular).

#### **Session IV: South Africa Country paper**

Chair: The Honourable Mr. Suresh Goel (Consul General of India).

Speaker: Dr **Mills Soko**, University of Cape Town and Mthente Research.

#### **"The Aerospace Industry: Prospects for Cooperation among the IBSA Countries"**

Project rationale:

- To explore strategies for cooperation
- Methodology: in-depth interviews with companies representatives

Global context:

- Aerospace industry key driver of wealth creation and technological progress
- Also a source of employment

South Africa's vision:

- SA wants to develop the sector as a sustainable and growing industry by 2014
- Government wants to position the sector as a natural regional source of hardware, support and innovation.
- What are SA's strengths?
  - Airframes and engine components
  - Avionic systems

Electronics

Logistical support systems

Findings of the survey:

- Currently no real collaboration across IBSA countries
- Need to clarify what kind of cooperation is expected
  - Three identified:
    - Expansion of supply chains offered by differing capabilities in IBSA countries.
    - Collaboration on systems in support of strategic defence needs.
    - Small and micro satellites
- Scope for developing better technological capabilities in components production
- SA's capabilities:
  - Skilled personnel
  - Aviation activity growth supports hiring new engineers/other technical staff
  - Companies determined to improve skills base
  - R&D spending growing
- SA's constraints
  - Insufficient investment in manufacturing facilities and capital equipment
  - Insufficient financial resources
- Role of government?
  - Needs to be pro active:
    - Provide direction/vision
    - Subsidies
    - Training incentives.
- Challenges/threats
  - Corruption (Denel-India case)
  - Competition vs. cooperation – how can companies in the three IBSA countries cooperate when they often compete for the same work? Need to focus on win-win projects at first.
  - Overcapacity and declining defence spending in all three countries
  - Indian and Brazilian attitudes to/lack of understanding of Black Economic Empowerment policies in SA may prove challenging
  - SA's Airbus deal – long term lock-in of supply contracts restricts scope for IBSA collaboration?

Way forward:

- Overall, it's fair to say there is a lot of interest in SA – need to get businessmen together.

Discussant: **Sheila Sudhakaran**, FICCI, India.

- Bedrock of cooperation is developing connectivity.
- Who should take the initiative? People need to meet; governments must facilitate. So anything from the South African Department of Trade and Industry, which has mentioned that it may try to organise something, would be a welcome step.
- Still concerns over micro, small, and medium enterprise (MSME) sector, but don't forget that should things develop in meaningful ways, lots of small businesses will become involved in support services.
- Must look at the sector in a more positive way, as the potential benefits are certainly there.

## **Discussion**

- Clarity on the Denel-India issue - it has not dampened bilateral relations in any way, although further details are not currently available.
- Have initiatives of this sort worked in the past? Are there any concrete examples of any success thus far? There must be major doubts regarding the potential success of any trilateral cooperative initiative between these three countries.

Soko: There is plenty of uncertainty in SA regarding the India and Brazilian markets, making it quite difficult to identify specific sector successes. However, SA mining companies have done well in Latin America and SA financial services firms have done well in India. Beverages and citrus fruits also do well in India. But retail is not doing well in India (Shoprite has apparently had a terrible experience).

### 3. Synopsis

The following three themes dominated the day's discussions:

- Cooperation across the three IBSA countries in all sorts of fields is still in its infancy. But the commitment is there, the vision is developing all the time, and the need for more intense consultation and communication has never been greater. IBSA countries need to ensure that they build on the successes achieved thus far, recognising that there will be significant challenges along the way.
- Cooperation in aerospace is not a priority of the major players in each of the three IBSA countries. This reflects a host of factors; not least the lack of knowledge about what each other is doing/is good at. So the need for more communication, *between businessmen*, is clear. Also, it should be stressed that Brazil, India and SA appear to be strong in different niche areas, implying significant scope for mutually beneficial collaborative projects.
- The ultimate aim of greater aerospace cooperation should not be to provide competition to Boeing and EADS. IBSA should not necessarily even work towards an IBSA supply chain, whatever that might mean. The companies in the three countries should simply make more of an effort to get together, to cooperate better, with a view to becoming more meaningful players in existing global supply chains, both individually and collectively. This implies the need for strong governmental guidance and facilitation of cross-border interactions.