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Latin American markets beckon

Ritesh Kumar Singh, Hindu Business Line

15 December: The ratio of trade to world GDP has increased from 6 per cent in 1950 to over 20 per cent in 2010. This is mainly because of faster growth of world trade compared with GDP. In 2010, world GDP grew by 3.6 per cent, while volume of trade grew by 14.5 per cent. So a country aspiring for high economic growth cannot ignore international trade.

When India's traditional export markets of the European Union, Japan and the US are in trouble, it makes more sense to look for non-traditional markets. Latin America is one such market for pushing exports and sourcing edible oil, crude oil and gas, coal and copper.

Realising the importance of the region, India has entered into preferential trade agreements (PTAs) with Chile and Mercosur bloc, comprising Argentina, Brazil, Paraguay, Uruguay and Venezuela. It would be interesting to examine the impact of these PTAs on bilateral trade flows.

Under India-Chile PTA, which became operational in 2007, India provides duty concessions on 178 items while Chile on 296 items. Under India-Mercosur PTA, which became operational in June 2009, India provides preferential market access to 450 export items of Mercosur and, in return, gets duty preference on 452 items.

Analysis of trade data shows that:

In the period 2001-11, India's exports to the world grew by five times; its exports to Latin America grew by 10 times, except export to Venezuela, Uruguay and Mexico;

Post-PTA, India's exports to Chile grew by 45.7 per cent while India's overall export to Latin America grew by 139.9 per cent in 2007-11;

Post India-Mercosur PTA, India's exports to Latin America as a whole grew by 65.8 per cent as compared to its export to Argentina (13.1 per cent), Brazil (49.7 per cent), Paraguay (8.38 per cent) and Uruguay (37.8 per cent) in 2009-11. In comparison, India's export to non-PTA Latin American partners grew at faster rates, for example, Mexico (38.4 per cent), Colombia (49.8 per cent) and Costa Rica (78.3 per cent).

As for imports, India's imports from the world grew by six times, while its imports from Latin America as a whole grew by 13 times in 2001-11. In this period, highest import growth was recorded by Venezuela (201 times), Colombia (15 times) and Brazil (10 times). In the four-year post-PTA period, imports from Chile declined by 19 per cent. In the two year post India-Mercosur PTA period, while imports from Argentina, Brazil and Paraguay posted impressive growth, Paraguay gave a lacklustre performance (8.3 per cent). The highest growth was witnessed with respect to imports from non-PTA partner Colombia (50 per cent) and Costa Rica (78.3 per cent).

Latin America India Investor Forum

At a panel discussion of the recent Latin America India Investor Forum, the role of PTAs in increasing bilateral trade was discussed. Delegates from both India and Latin America agreed that it would be too early to conclude that Preferential Trade Agreements (PTAs) had not been successful in boosting India-Latin America trade. The reasons sighted were:

Limited nature of India's PTAs with Latin American countries covering a few hundred items with 10-20 per cent duty discounts on most items;

Relatively narrow trade baskets with copper concentrates, crude oil and edible oil accounting for two-third of India's total imports from Latin America;

High duties on products with trade potential (such as, textiles and clothing, transport vehicles and food products;

Dearth of direct shipping lines between India and Latin America, thus increasing shipment time and cost by as high as 25-30 per cent;

Poor trade infrastructure, such as port inefficiencies, poor inland connectivity, cumbersome and expensive export import formalities which add to trade transaction cost;

Increasing cost of compliance with non-tariff trade barriers, especially TBT and sanitary and phyto-sanitary measures;

Currency fluctuations;

Non-coverage of trade in services and investment under PTAs.

Measures to boost trade

Given the slow progress of the WTO Doha Round, deepening of the existing PTAs into full-fledged comprehensive economic partnership agreements, covering trade in goods, services and investment will be a great boost to bilateral trade flows.

Besides, both Latin American nations and India are actively negotiating several FTAs, so there is no option but to consider expansion of preferential trading arrangements with Latin American nations, not only for acquiring duty advantage but also for protecting the existing comparative duty advantage.

Improving trade infrastructure and rationalisation of trade documentation need urgent attention. As per the latest World Bank's Ease of Doing Business Report, roughly 36-69 per cent of the time taken and 15--38 per cent of the cost of export formalities are incurred on documentation which reduces net realisations from export. In the case of India, 50 per cent of the time taken and 38 per cent of the total cost is incurred on export documentation. For Venezuela, these ratios are 69 per cent and 25 per cent respectively.

Trade Prospects

At present, Latin American region accounts for 4 per cent of India's trade. Given the comparable level of per capita income, similar consumer preferences and complementarities of resource endowment, a target of 10 per cent share of Latin America in India's trade can be attained, if the issues highlighted above are addressed.

(The author is an expert in international trade for a corporate house.)

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India mulls IDB membership to boost trade with Latin America

Smriti Seth & Vikas Dhoot, Economic times

FinMin may have to shell out $300 million

1 March, NEW DELHI: India is likely to join a multilateral bank this year to give a fillip to its trade ties with Latin America that have expanded at an unprecedented rate in the last decade. The finance ministry is considering an investment of about $300 million to become a member of the US-based Inter-American Development Bank (IDB), which supports development in Latin America and the Caribbean region with a corpus of over $60 billion. The foreign ministry had been pitching for an IDB membership almost every year since 2001, but the finance ministry had been reluctant as there was hardly any trade with the region then. The recent spurt in economic ties has spurred a re-think, with the commerce ministry giving its backing. "There is a time for everything, and given the growth in trade since 2001, I think the time has come to seriously evaluate this (IDB membership), which the ministry of finance is doing," said Jyotiraditya Scindia, Minister of State for Commerce and Industry. A membership of the bank would facilitate easier credit for Indian entrepreneurs seeking to invest in the 43-nation Latin American and Caribbean markets. More importantly, it will signal long-term commitment to a region that has seen interest from China but has greater natural complementarities with India. China joined IDB in 2009. India's trade with Latin American countries (LAC) has grown at over 1,000% in the last decade, from less than $2 billion in 2001 to $25 billion in 2010-11. In the same period, the region's share in India's total trade basket has more than doubled from 1.8% to 4%. Indian corporate investments in the region are also peaking-crossing the $15-billion mark recently. With Indian firms such as Reliance Industries, Essar, Renuka Sugars, GAIL and United Phosphorus exploring big-ticket investment opportunities across sectors, officials expect these numbers to scale up fast. "With the world's economic architecture changing, it's very important that India integrates with this part of the world," Scindia said. The minister heads a committee on trade and investment ties with the Latin America and Caribbean region, which is expected to suggest measures to ease bottlenecks in economic transactions in March.

A senior foreign ministry official said that big Indian firms were capable of entering the region on their own, but middle-rung companies would need credit support for tying up joint ventures with local partners. "The Exim Bank of India won't lend to such projects, but the IDB could offer funds through local partners," he said. While the region's population of about one billion has boosted Indian exports in pharmaceuticals, engineering goods and textile products, officials see greater opportunities due to similarities in growth patterns and the mutual needs of the two regions.

"Over the next two decades, many LatAm countries need to upgrade their infrastructure. The region offers huge tracts of land and hydrocarbon reserves, which can help us meet our food and energy security goals," the official said. "If we want to realise these opportunities, we need to enter now."

An essential for acquiring IDB membership is purchase of its shares and contribution to its Fund for Special Operations, which is expected to cost about $300 million but can be paid in tranches.

"The Bank is always open to the possibility of eventual negotiations for membership by India and by other countries," an IDB spokesman told ET, while denying any ongoing negotiations with India.

The foreign ministry is keen on prompt action as the shares on offer in the bank won't be available forever. "Some European countries had committed to join the bank but couldn't back it with funds. We can tap into those shares only for a limited time," the official said.

"If India takes this step, Delhi would be sending a very positive signal about its real intentions regarding Latin America," said Juan F Cordero, Costa Rica's Ambassador to India.

"It would be possible to get resources from the bank to finance projects that involve both countries," Cordero said, pointing to possibilities in infrastructure projects, easier procedures for commerce and technical cooperation like 'buying' India's IT expertise.

IDB currently has 48 member states including developed nations such as the US, Germany, France, Canada and the UK, besides three Asian countries-China, Japan and South Korea-which acquired membership recently.

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