Evolution and Development of Trade with Latin America and the Caribbean.

1 The Latin American and the Caribbean (LAC) region comprises three principal sub regions: South America; Central or Meso America; and the Caribbean. The three sub regions share many commonalities, principally, a European colonial history from the 16th to the 19th centuries; close economic and, in many cases, political ties with the US in the more recent past; and racial miscegenation over centuries of intermingling between the indigenous and later European/North American and African inhabitants.

2 Even a superficial examination, however, reveals differences and exceptionalities such as the English (and French) speaking Caribbean; Portuguese speaking Brazil; considerable geographical disparities between tiny island states and gigantic countries such as Mexico, Argentina and Brazil; varying degrees of natural and resource endowment; as well as differences in the levels of economic development, arising out of the inconsistent nature of the political economy in a majority of the nation states, created during the 19th century, which are now struggling to create a regional identity.

3 Though Hispanic America dominates, it is Portuguese speaking Brazil which is generally acknowledged as the prime mover not just of diplomatic, but also of economic, integration. Brazil shares a land border with all of the South American countries except for Ecuador and Chile, and achieved, with its nine territorial neighbours, amicable border settlement as far back as the 19th century. It is also the largest economy in the region and has survived political and economic vicissitudes through the 20th century to emerge as the regional power, although it is aware of the challenge that Mexico and Argentina seek to pose to its assumed leadership role, even as others such as Colombia, view it with some degree of suspicion.

4 Despite the differences, there have been genuine attempts made, in the recent past, at effective regional integration, which could

enable governments in the region to further their political interests and perhaps a common destiny, through give and take on issues that divide and unite the region, and enhance trade and economic cooperation for mutual benefit. These efforts have by and large, been patchy and piecemeal, reflecting geo-political realities - as well as contrary pressures from within and outside the region – and while the trend presently is positive, there are several obstacles before even like-minded governments in the region manage to harmonize their economies sufficiently, to consolidate the process of authentic and lasting commercial and economic integration.

5 **Attempts at integration** date back to the early 19th century, when the most prominent freedom fighter of South America – Simon Bolivar – attempted to organize a conference on integration of North, Central and South America in Panama in 1822. The attempt, along with his attempt to integrate the Andean countries into a Greater Colombia, failed. A century and a half later, modern Latin American governments saw the need to increase integration mainly for commercial and economic reasons:

6 Today the Latin American and the Caribbean region consists of 40 countries with a combined population of over 500 million; a combined GDP of US$ 4 trillion and overall annual trade turnover of US$ 1.65 trillion. The region is home to about 20% of the world's fresh water resources; considerable hydrocarbons (Venezuela's resources, according to a recent study, are said to rival those of Saudi Arabia); accessible mineral deposits of iron ore, copper, coal, gold, nickel, lithium, precious and semi precious stones; vast stretches of arable land available at very reasonable prices; forest resources, particularly wood and a favourable geographical location with the Panama canal playing a greater global role, while countries such as Brazil today are more interconnected.

7 **Latin American Integration Association (ALADI)** was born as the Latin American Association for a Common Market (ALACM) in 1960 with seven countries associated. ALADI currently has 13 members - Brazil, Argentina, Paraguay, Uruguay, Venezuela,

Colombia, Cuba, Ecuador, Bolivia, Chile, Mexico and Peru – with Cuba being the last to join in 1999. The 1980 Treaty of Montevideo (Uruguay) sought convergence between the members of ALADI, leading to the eventual formation of a common Latin American market, with general guidelines on trade relations between the member countries. ALADI today serves essentially as a clearing house for regional trade.

8 Andean Community (CAN) The original Andean Pact was formed through the Cartagena Agreement in 1969 by Chile, Bolivia, Peru, Ecuador and Colombia. Chile left the CAN in 1976 and Venezuela joined in 1973 but announced its dis-association in 2006 – to be formalized in 2011. The four members of the Southern Common Market (Mercosur) have been associated members since 2005. CAN has had a chequered recent past, largely on account of a split between Colombia and Peru on the one hand, who seek closer integration and freer trade with the US and Europe, and Ecuador and Bolivia on the other (as well as Venezuela prior to 2006) who insist on a more autonomous policy. A free trade zone created by the CAN in 1993 has also been affected by some unilateral steps, (Peru in 1997; Ecuador in 2008). In 2005, CAN introduced free movement of all citizens within its territory.

9 Central American Common Market (CACM) was formed in 1960 between Guatemala, Honduras, Nicaragua and El Salvador. Costa Rica joined in 1963 and Panama is an observer. Political differences, as well as tendencies by countries such as Costa Rica to stay aloof from its poorer neighbours, hamper fuller integration and the region now cooperates through the SICA forum – Central American Integration System.

10 Caribbean Community (CARICOM) was established in 1973 through the Treaty of Chaguaramas. It increased membership to 15 Caribbean nations with seven South and Central American countries and five dependencies joining to create the Association of Caribbean States (ACS). It supersedes the Caribbean Free Trade Association (CARIFTA) which existed 1965-72 between English speaking countries of the Caribbean, following the dissolution of the West Indies Federation. 12 Caribbean countries share a single market under CARICOM since 2006 and their citizens hold Caribbean passports.

11 South American Common Market (Mercosur) After an important political understanding between the two traditional South American rivals – Brazil and Argentina – in 1985, Mercosur was formed with the signing of the Asuncion (Paraguay) Treaty in 1961 by Argentina, Brazil, Paraguay and Uruguay. The Ouro Preto (Brazil) Treaty of 1994 established the institutional structure of Mercosur, whose aim is integration through a common external tariff and adoption of common commercial policies. With the accession of Venezuela in 2006 (still to be ratified by Paraguay's Parliament), Mercosur comprises a population of over 300 million and a combined GDP close to US$ 2 trillion. Trade with India, which was over US$ 4 billion in 2008, is expected to cross US$ 10 billion in the near future. The framework agreement with India was signed in June 2003 and a Preferential Trade Agreement in 2004 which came into effect in 2009.

12 Rio Group was formed in December 1986 with the Declaration of Rio de Janeiro by Argentina, Brazil, Colombia, Mexico, Peru, Panama, Uruguay and Venezuela, known as the Contadora Group, and was seen as an attempt to counterbalance the Washington based Organization of American States (OAS) dominated by the US. The Rio Group currently has 23 members including Cuba, and has annual summits since 1988, the last in Cancun in February 2010 where a proposal was made for establishing a Community of Latin American States. The degree of political convergence was impressive and revealed through the decision to approach Venezuela and Chile to co-chair the forum and present statutes for the new institution. Venezuela is expected to host the Summit in mid 2011 and has the ambition of launching the new institution whose aim, as declared by the left wing members of the Rio Group, is to shut out the US and its allies, who in turn have shut out Cuba from the OAS since 1962.

13 Bolivarian Alternative for the Americas (ALBA) was born through a bilateral agreement in December 2004 between Venezuela's Hugo Chavez and Cuba's Fidel Castro, primarily as a reaction to the US proposal for a Free Trade Area of the Americas (FTAA) in 2000 in Trinidad and Tobago, an initiative which saw a strong reaction, not just from the left wing, headed by Venezuela, but also from Brazil, which has frequently demonstrated its resistance to US economic and trade policies. ALBA's stated aim is abolition of poverty and social exclusion and it shuns the so called neo-liberal concept of free trade, advocating contribution and sharing in social sectors, rather than promoting commercial advantage. Current membership includes Cuba, Venezuela, Nicaragua, Ecuador, Bolivia, Dominica, Antigua and Barbuda, St. Vincent and the Grenadines. Honduras has been expelled after the coup in 2009. Currently, the main tangible feature of ALBA is a free trade agreement abolishing trade tariffs between Cuba and Venezuela but it is also held together by discounted supplies of Venezuelan oil; a virtual currency called SUCRE, to enable trade between members avoiding use of the dollar; projects in the hydrocarbons sector among some members; medical missions mainly from Cuba; and other joint social projects.

14 Union of South American Nations (UNASUR) the latest grouping was formed in 2004 by 12 countries in Peru - Chile, Argentina, Paraguay, Uruguay, Brazil, Bolivia, Peru, Ecuador, Venezuela, Suriname, Guyana and Colombia. The founding treaty was only signed in May 2008 in Brasilia – Brazil was the principal force behind the grouping – but is yet to be ratified by all members. The main elements of UNASUR include, apart from the annual summits, a headquarters in Quito, Ecuador; aims for a common market; the formation of the South Bank (Banco del Sur)with approximately US$ 7 billion contributed by Venezuela, Argentina, Brazil and lesser contributions from some others; collaboration on infrastructure projects, principally energy and transportation; and a dialogue on security and defence cooperation..

15 Apart from the above regional and sub-regional institutions, there have been other initiatives at lowering barriers and enhancing economic cooperation:

16 **Plan Puebla- Panama:** An initiative promoted by Mexico to improve integration between Central American countries, in which Colombia is also participating. The intention is to improve transportation and infrastructure links, and undertake common projects such as an oil refinery.

17 **G3:** A free trade agreement between Mexico, Venezuela, Colombia. Venezuela withdrew in 2006 after political disagreement with both other countries.

18 **Petro Caribe:** An initiative of President Chavez whereby Venezuela supplies discounted oil to 20 Latin American and the Caribbean countries. This was an offshoot of the **San Jose Agreement** whereby Mexico and Venezuela in 1970s agreed to supply discounted oil to non oil producing countries in the region, but is now more important in terms of quantities and terms offered.

19 While the overlapping nature of regional and sub-regional groups can and does lead to confusion, apart from diluting the focus and aims of the members, the desire for closer integration by all governments and business interests cannot be gainsaid.

20 Latin America has witnessed **regional integration of business houses** at an exponential rate. Today, Mexican, Brazilian, Argentinean and Chilean companies compete successfully with American and European enterprises for resources and market share in the whole region. Cultural advantages are enhanced by political backing provided through regional forums. Latin American companies have also been concentrating their resources and strategies regionally to ensure their growth before they venture abroad. The resource-rich nature of most Latin American economies has also led to an inward concentration of investment, and a tendency to collaborate with outside investors rather than venture

into unknown and risky markets. This makes Latin America an extremely interesting prospect for Indian (and Chinese) investors.

21 Tendencies, both political and economic in the region, have led to some degree of polarisation between right wing regimes (Chile, Panama, Colombia, Mexico) and the left wing (Cuba, Venezuela, Bolivia, Nicaragua, Ecuador) with the former attempting to make up for what they consider to be lost years of development and economic growth, while the Left, represented by the ALBA grouping, seeks to consolidate a "social" agenda based on an anti-US platform, coloured by an anti neo-liberal ideology and elements of racial resentment against former colonizers. The Left, mainly Venezuela, but to a smaller extent, Bolivia and Ecuador, can count on hydrocarbons and mineral resources which the world cannot ignore. These assets are being used to woo more vulnerable nation states in the region and to consolidate partnerships with Iran, China, Russia and like-minded countries to challenge US dominance in the region. ALBA's orientation can pose problems for Indian business, which increasingly seeks a level playing field and frequently does not rely upon India's traditional political ties to invest and do business in these countries. Countries on the other end of the spectrum are increasingly attractive to Indian business, which has set up joint ventures in all the countries which have opened up their markets and have more liberal investment regimes. Countries in the middle such as Argentina, Uruguay, Peru and the Central American countries, can also be attractive investment destinations for India, and each needs to be evaluated specifically. In the case of Brazil, there is a wide range of areas in which Indian business is already present, while there appears to be a narrower range of activities of interest in the case of Argentina and Peru, and the smaller countries will be attractive in specific sectors.

22 India's role: Historically Latin America has been a distant frontier for Indian business. Our trade with the region has increased eight fold over the last decade from US$ 2 billion in 2000 to US$ 16.6 billion in 2009-10. Nevertheless, it constitutes less than 1% of LAC's global trade, compared to China's which is around 8% of the region's trade. Our investment in the region amounts to approximately US$ 12 billion currently.

23 Over the last decade, an aggressive campaign to secure hydrocarbon equity and imports raised Latin America's profile. By 2010, India's **ONGC Videsh Ltd**. (OVL) alone has committed or invested in Colombia, Venezuela, Brazil and Cuba, and a few other smaller ventures, well over US$ 1.5 billion, a figure expected to increase significantly in the coming decade.

24 **Reliance Industries Limited** has been a major importer of crude oil over the same period, averaging between US$ 3 to 5 billion annually, largely from Brazil, Mexico and Venezuela, but also from Colombia, Ecuador and other sources. It has also acquired hydrocarbon concessions in Peru & Colombia. **Essar** is another Indian company whose oil imports, currently from Venezuela, are increasing.

25 Depending upon the importance of the concessions secured by Indian companies, the coming decade could well see Latin America position itself as the second most important crude oil supplier to India after the Gulf. Related spinoffs include possibilities for establishing refineries through joint ventures; gas exploitation; oil and gas pipelines and joint sharing of technology and training.

26 **Software: TCS** with headquarters in Uruguay and development centers in Brazil, Argentina, Mexico, Colombia and Chile, employing thousands of Latin Americans and Indian software engineers is followed by **Infosys**, in Mexico, Colombia and Chile; **Wipro, Satyam, IFlex,** and several others who have secured important contacts.

27 **Automobiles:** Indian manufactured two wheelers and even three wheeler vehicles are ubiquitous all over Latin America with **Bajaj, Hero Honda** and **TVS** leading the way. **TATA motors** and **Mahindra** have established markets for commercial vehicles, passenger cars and SUVs. Mahindra has even set up an assembly

plant in Brazil and TATA motors is contemplating Mexico as a possible regional hub to take advantage of tariff preferences with Central America, Colombia etc.

28 **Pharmaceuticals:** Most of the major Indian pharmaceutical companies have marketing operations all over Latin America. **Strides** set up two manufacturing plants in Brazil earlier in the decade. **CIPLA, Ranbaxy, Aurobindo Pharma, Hetero**, are just some of the Indian companies, which are contributing to around US$ 1 billion of annual pharma exports to the region.

29 **Other sectors** in which Indian companies are entering and will increase their presence, include **mining** (iron ore, nickel, tin, copper, precious and semi precious stones), **chemicals** (pesticides and dyes); **alternative energy** (ethanol and biodiesel).

30 Prospects for exports in many of the above mentioned sectors can improve with consistent application and attention, even as **traditional sectors** such as textiles, synthetic yarn, engineering goods (bulbs, bicycles, machinery, spare parts etc) continue to gain weight.

31 It is significant that India's trade with Latin America and the Caribbean has not followed traditional patterns and has been sui-generis, to the extent that markets have been created through sheer perseverance and competitiveness, making the commercial links more durable, since they are not dependent on expensive marketing campaigns, subordinate relationships, nor preferential tariff rates or generous terms of credit. In fact, several lines of credit worth tens of millions of dollars offered by EXIM Bank to banks in Brazil, Colombia, Venezuela and elsewhere have remained unutilized for several years, because local banks either found the terms unattractive, or were not willing to assume the risk of exchange volatility. India's penetration of Latin American markets therefore has depended on sheer competitive strength. This needs to be backed up with institutional efforts, market penetration through export promotion councils, promotion of joint ventures with key Latin American partners, which in turn requires active steps to attract

Latin American companies to India, offering the temptation of the large Indian market on the one hand, and a competitive low cost collaborator for their own markets on the other.

32 The Indian establishment has been far more engaged with Africa in recent years with credits amounting to over US$ 5 billion to that continent and annual grants in aid around US$ 500 million, dwarfing the comparative figures for LAC which enjoys higher per capita income and where such investment would perhaps yield better results. One of the reasons perhaps for a higher concentration on Africa is the existence of an Indian diaspora in various parts of that continent, while in LAC, there is a small Indian presence, although significant in percentage terms in Trinidad, Guyana and Suriname and to a smaller extent in Jamaica and Panama. The facility of communication through English has also helped business with Africa.

33 Although ALBA has found moral comfort within its membership, it is clear that the economic results of attempts at left wing integration are inadequate. The principal economic motor, Venezuela, is in trouble with extremely high inflation, reduced levels of oil production and revenue, and an increasingly skeptical international community, which is no longer willing to accept terms dictated by Chavez and his state oil company Pdvsa. This has resulted in better prospects for international oil companies, as evident through the contracts for two blocks in 2008 and 2010 secured by OVL in Venezuela. Similar prospects may be available in other countries which are in need of capital and where Indian business may come across as more acceptable than traditional European or US investors. The iron ore concession to **Jindal Steel** in Bolivia is a case in point. We need to leverage our political relationship in all the left wing countries to seek specific contracts and concessions for Indian companies. This will not be easy - OVL has been waiting for years to procure an oil concession in Ecuador – but will require political perseverance and willingness to maintain active, and even high level contacts which should eventually yield results as in the case of Venezuela and Bolivia. Cuba, while extremely peculiar, given its

situation, can also be very promising if economic prospects are analysed and negotiated with patience. In all such cases, we can leverage our high-end as well as lower-end relevant technologies to penetrate, and create footholds in, the region.

34 The recent report of the Inter American Development Bank (IDB) – India: Latin America's Next Big Thing – identifies **tariffs** and **transportation costs** as the two main constraints for trade between the two regions. While the report understandably focuses on prospects for Latin American exports to India, the argument also holds true in reverse. **TATA Motors**, for example, can be extremely competitive but for a 35% tariff wall over Mercosur, Colombia and other important Latin American markets. The dispersed nature of Latin American population and markets also renders transport costs from India more relevant for Indian exports vis-à-vis Latin American exports to India. Unfortunately, both sides stand to lose, although it can be argued that Latin American consumers could benefit far more from Indian industrial and consumer products than vice-versa. Physical connectivity is a vital element for future growth of our exports to Latin America.

35 While attempts at mutual tariff reduction have been tentative in the past and currently exist only with Chile and Mercosur, given the considerable trade complementarities between India and Latin America, there should be more attention to identifying and pursuing preferential - and even free - trade agreements.

36 India has negotiated investment protection and taxation agreements with most of the Latin American countries, but several need to be ratified and put into effect. Lack of publicity to the potential and the institutional efforts of governments on both sides, has shielded the governments from business pressures in both regions.

37 **International dimension:** India's economic and commercial links with Latin America will also play an important role in international forums. Our partnership with Brazil is already evident

in BRIC, IBSA, BASIC, WTO etc. The presence of Argentina and Mexico in the G-20 and the presence of other Latin American countries in APEC will inevitably involve India in a web of international negotiations within Latin America, where Indian business will find and make common cause. An important aspect, which is already gaining importance, is the number of countries whose exports can enter the US (and EU and Canada) free of tariffs. With increasing consolidation of the hemisphere, Indian business should position itself to take advantage of this linkage to developed markets.

Conclusion:

While it has become evident that LAC region has tremendous potential to offer in economic and commercial terms, there is still a significant hiatus for which both sides are responsible. Some suggestions are outlined below for consideration:

i) In-depth studies of key markets within sub-regions and even specific countries. Surveys carried out in Brazil, Venezuela and Colombia excited interest among relevant Export Promotion Councils with positive results.

ii) Evaluation and assessment of resource potential - oil, minerals, agricultural and forestry products etc. – in the region and an inter-agency effort to examine and proceed with ideas to invest in projects in all these sectors. Our public sector companies can initially be involved in surveys followed by focused delegation visits for specific sector/commodity/resource.

iii) A serious examination and a dialogue with Ministry of Commerce and Indian business to identify tariff codes which can be addressed for mutual tariff reduction or offers to begin with.

iv) Examination and encouragement of shipping companies to rationalize and reduce transport costs between India and the region. Possibilities of air-link via Europe/Africa (for the Southern Cone) should be considered.

v) Continuing emphasis on a more liberalized visa regime, particularly for India businessmen, software technicians and professionals who might need to service companies and projects in the region.

vi) Consideration of financing mechanism either through binational funds or project – specific lines of credit. Dialogue with Indian banks to examine whether there is interest in setting up representative or branch offices to facilitate issue of letters of credit and payment terms for trade.

Apart from the above suggestions, it is imperative that MEA take the lead in enhancing focus and attention on the region through high level visits, better propaganda and a closer interaction with LAC Embassies in Delhi, while simultaneously concentrating efforts of Indian Embassies in the region towards common goals.

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22nd December 2010