Why Mercosur is good for India

With the Southern Common Market poised for rejuvenation, and eager to negotiate an expanded trade agreement with India, New Delhi has little time to lose

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Brasil, a key member of Mercosur, hosted the sixth BRICS summit in 2014. Pictured here are leaders of the five BRICS countries at the summit, with Prime Minister Narendra Modi second from left

In 1991, as India's economic reforms were unfolding, four South American countries — Brazil, Argentina, Paraguay and Uruguay — founded Mercosur, or the Southern Common Market. It is the fifth largest economy in the world, with a GDP of over $4 trillion and a population of 300 million. Its territory of 15 million square km is nearly five times that of India. Its membership has expanded to include Venezuela, and will shortly include Bolivia. The other six countries in South America — Chile, Peru, Ecuador, Colombia, Guyana and Suriname — have associate status. New Zealand and Mexico are observers (www.mercosur.int).

Mercosur was a diplomatic milestone. Brazil and Argentina buried their long-standing rivalry in 1985. They finalised an Integration and Economic Cooperation Programme (PICE) in 1988. Suave and generous diplomacy convinced the buffer states of Uruguay and Paraguay to sign the founding treaty of Mercosur in March 1991. At its core, Mercosur is a common market and a customs union with a common external tariff (CET). The Common Market Council, headed by the bloc's foreign and economy/finance ministers, is the prime organ. Presidential summits are an annual feature.

Success was evident in the rise of intra-bloc trade from $10 billion in 1991 to $88 billion in 2000. The 1999 devaluation of the Brazilian currency, followed by Argentina's economic meltdown in 2001, however led to internal disputes and a protectionist outlook. The máximum bound CET rate went up to 35 per cent for 200 items by 2011.

Mercosur also lost ground recently due to recession in Brazil and Venezuela, and a bleak outlook for Argentina (www.cepal.org). The economic crisis caused by the fall in commodity prices has been aggravated by the global downturn and lower Chinese demand.

With the change of governments this year in Brazil and Argentina, Mercosur is looking to make up for lost time with the more dynamic Pacific Alliance, a similar trading bloc of the market-friendly Mexico, Colombia, Peru and Chile, formed in 2011. It has also revived free trade talks with the EU.

The political mood within Mercosur is altering the left-leaning policies of the previous regimes in Brazil and Argentina. If President Dilma Rousseff, suspended by Brazil's Congress, is impeached, interim President Michel Temer will continue till at least December 2018. President Mauricio Macri took over in Argentina in February 2016, and re-oriented policy towards the US and Europe. Uruguay and Paraguay want to move ahead with regional economic integration.

Venezuela should have taken over the rotating Mercosur presidency from Uruguay in July, but Brazil, Paraguay and Argentina insist it has not complied with its obligations on full integration, and the transfer must have the approval of all members. The resistance to Venezuela stems from its incongruence within a more market-friendly Mercosur which supports the Venezuelan opposition. Despite holding a two-thirds parliamentary majority, the opposition coalition is virtually toothless. Shortages and hyperinflation have increased support for an immediate recall referéndum against President Nicolas Maduro. He in turn has tightened his grip by giving the military more control.

India-Mercosur relations

India started looking at Latin America seriously this century. Brazil has been a key strategic partner. The relationship evolved from mutually beneficial trade in hydrocarbons and petroleum products to include the strategic sector (aviation); agro-industry; automobiles; chemicals and pharmaceuticals; steel and IT. Dozens of companies have important investments on both sides. India's partnership with Brazil in IBSA, BRICS, and in multilateral negotiations over trade, climate change, UN reform, etc. provides a model South-South relationship.

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Relations with Argentina have begun to look up recently, going beyond the import of edible oils, which remains sizeable. An important Indian delegation will participate in an international investment and business seminar in Buenos Aires, come September. Argentina's government is tweaking land ownership laws to encourage foreign investment in agriculture. Paraguay offers land and wáter for cultivation of soya, pulses, etc. Uruguay was the cradle for the birth of TCS in Latin America and offers a valuable logistics hub for India in the region.

Trade with Mercosur

India's trade with Latin America and the Caribbean (minus Mexico) amounted to $ 38.48 billion in 2014-15 (DGCI&S). The Mercosur four accounted for $ 14.24 billion, or 37 per cent. The balance in both years was favourable for Brazil and Argentina, largely due to massive imports of crude and edible oil, respectively. In 2015-16, trade fell to around $10 billion, reflecting the fall in crude prices and diesel exports by India.

India's exports to Mercosur in 2015-16 have fallen, compared to 2014-15: Brazil from $6 billion to $2.65 billion; Paraguay from $106 million to $98 million; and Uruguay from $208 million to $153 million. Exports to Argentina rose from $460 million to $536 million.

Between 2001 and 2015, Mercosur's exports to India grew at 23 per cent and imports from India at 18 per cent annually. Over the years trade has diminished in proportion to each side's global trade. In 2015, Mercosur accounted for only 1.5 per cent of India's exports and 3.4 per cent of its imports.

The India-Mercosur preferential tariff agreement (PTA), effective since June 2009, offers tariff concessions of between 10 and 100 per cent for 450 lines by India, and 452 lines by Mercosur. In 2010, India presented a list for expansion of the PTA with 3,690 lines. Mercosur presented 1,287 lines but never came up with a supplementary list and negotiations stagnated, largely due to a protectionist Argentina. Last month both sides presented fresh lists of around 3,000 lines each. Negotiations are expected to commence shortly.

Fortunately, Venezuela does not form part of the current negotiations between India and Mercosur, which commenced in 2010. Its severe recession has held up payments even for essential pharmaceutical imports from India. Oil imports continue even as ONGC awaits payment of dividends worth over $ 500 million.

According to UNCTAD statistics, in 2014 Mercosur goods imports amounted to $400 billion and its service imports $127 billion. With the current favourable mood on both sides and a willingness to negotiate, there is reason for optimism and little time to lose.

The writer is a former diplomat