
Another feather in India's cap Latin America recognises India's importance

Deepak Bhojwani

ON February 11 India was too immersed in domestic politics to notice an event halfway around the world. The VIII Summit of the Pacific Alliance in Cartagena, Colombia, granted India observer status in this nascent but rapidly evolving economic bloc.

The summit was attended by the Presidents of the four member states - Mexico, Colombia, Peru and Chile - who agreed upon the Pacific Alliance in 2010 and formalised it in 2012.

With a combined population of 212 million in 2013, these relatively high-growth economies account for 36 per cent of Latin America's GDP; 50 per cent of its foreign trade; and 41 per cent of its foreign direct investment. The alliance collectively constitutes the eighth largest economy in the world and the seventh largest in export terms. Its external trade amounts to well over a trillion dollars.

The formation and consolidation of the alliance owes a lot to recent political developments and trends in Latin America. In particular the emergence, in 2004, of the anti-US left-wing Bolivarian Alliance of the Americas, spearheaded by Venezuela and doctrinally guided by Cuba. The Pacific Alliance makes no pretence of its ambitions to open markets within and without. Countries seeking membership -- currently Costa Rica and Panama - must have free trade agreements with all other members.

The geographic coincidence of the four like-minded political economies on the Pacific coast of the region also juxtaposes the alliance against the more centrist, traditional, slow-moving MERCOSUR (Southern Common Market) on the Atlantic. Formed in 1991 by Brazil, Argentina, Paraguay and Uruguay, MERCOSUR admitted Venezuela in 2012. It finds itself in a predicament, afflicted by conflicting priorities, unable to negotiate trade agreements as a bloc. Internal squabbles also affect trade and investment between members

By contrast, the alliance has sealed, within its short existence, a pact eliminating tariffs on 92 per cent of goods and services traded between themselves. They have combined forces to facilitate travel and investment by their nationals and enterprises. Their embassies issue common visas for foreign visitors, on the lines of the Schengen grouping. Their stock exchanges have been integrated.

At the Cartagena Summit, Colombia's President, Juan Manuel Santos, indicated the group's future strategy: homologation of policies on medicines; capital for infrastructure;



The leaders of Peru, Chile, Columbia and Mexico join hands at the Pacific summit at Cartagena in Columbia on February 10. AFP photo

employment and free movement within the bloc. He also signalled the importance of the Asia-Pacific region, mainly China, as a market and project financier.

India's trade with Latin America and the Caribbean reached a record \$46.6 billion in 2012-13. Of this, the four Pacific Alliance economies accounted for about \$14 billion, almost 30 per cent of the total. The balance lay in favour of the Latin American economies that sell us significant quantities of crude oil, copper and other raw materials. Nevertheless, our exports to the alliance grew by around 15 per cent to \$3.87 billion, from \$3.34 billion in 2011-12.

A Preferential Tariff Agreement (PTA) with MERCOSUR, covering around 900 lines, came into effect in June 2009. Prospects for an expansion of its scope do not appear bright, given the internal contradictions within MERCOSUR. In the Pacific Alliance, India has a PTA only with Chile, covering about 500 lines, effective since August 2007. Negotiations to expand this to cover almost 3,000 lines have been completed but the new agreement needs to be ratified by us. The Centre for WTO Studies in Delhi has recommended similar negotiations with Colombia and Peru.

Japan and South Korea have used the investment route into Latin America, and have negotiated free trade agreements or are doing so with all the Pacific Alliance members. China uses its considerable financial muscle to entice Latin America. Its trade with the region is several times that of India - over \$ 260 billion in 2012 by some accounts. China also has a trade agreement with only Chile, but is aggressively wooing Peru and exports more to Mexico than it does to Brazil. Given China's formidable export profile, most Latin Americans are more willing to negotiate trade agreements with India.

Indian enterprise is keen on Mexico and Chile, which have more developed economies. It is becoming increasingly aware of the potential Colombia and Peru offer in conventional and renewable energy, agribusiness, and as markets for pharmaceuticals, automobiles, textiles, etc. Most of India's IT giants are present in the Pacific Alliance. Colombia is acquiring a higher profile as a supplier of crude oil to India. Peru has extensive deposits of natural gas as well as gold and other minerals. Mexico recently passed a law opening its vast hydrocarbon reserves to foreign investment.

India's importance has been recognised by Latin America. The Foreign Minister of Chile, as President of the newly formed Community of Latin American States (CELAC), made the community's first foreign visit to India in August 2012. India's observer status in the Pacific Alliance, along with 29 other countries, including China, Japan, South Korea and Singapore in Asia, is another opportunity to strengthen relations with that region.

Other economic powers have established strong and profitable links with Latin America. India should ensure it does not just feather its cap while others feather their nests.

The writer served as India's Ambassador in several Latin American countries between 2000 and 2012