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INDIA'S ECONOMIC ENGAGEMENT WITH LAC STRATEGY FOR TRADE AND INVESTMENT

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Strategy for Trade and Investment

सत्यमेव जयते

Ministry of Commerce and Industry
Department of Commerce
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India's Economic Engagement with LAC

Strategy for Trade and Investment

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March 2019

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Macroeconomic dynamics in the LAC region

- LAC region emerged as the dynamic and vibrant economy after the 'debt crisis' in 90s, but vulnerability of the region unveiled again during the recent episode of recession. During the period of buoyancy, spanning between 2003 and 2007 and also the first phase of recession, the continent had shown high growth trajectory. Share of LAC in the Gross World Product (GWP) remained high, and continued to rise unabatedly, showing resilience of the region. Various macroeconomic indicators, including external inflows, continued to be robust during the period. Prolongation of recession fuelled by 'Eurozone Crisis' brought down-turn to the region that was led by South America. Signs of recovery of the continent were on the horizon, and the process of recovery could be noticed in the first quarter of 2018; mostly spearheaded by South America. However, sustainability of the recovery process in LAC is under pressure because of many circumstantial evidences, which may dilute recovery.

Liberalisation of trade policies

- For India's long-term engagement with LAC countries, analysis of the trade policies is important. Of the ten emerging LAC countries, which the present study has identified as India's key partners in the years to come, some have more inward -oriented policies like Brazil, Argentina and Venezuela, than the others in the group. An understanding of the trade policies would give an overview of the extent of market access that India can avail in goods, services and investment. The tariff structure of the inward- oriented economies consists of a larger number of bands, and they have a higher average tariff rate; and of the outward- oriented economies, the tariff structure is relatively low. Chile has an extremely homogeneous tariff structure, Colombia has liberalised considerably its average tariff rates, and Guatemala and Costa Rica have bound their tariff lines thus increasing predictability of their trade policies. The average applied MFN tariff rates for agricultural products are higher than those for non-agricultural products in almost all the economies, with a few exceptions. The outward- oriented LAC economies generally have a lower

average tariff rate for agricultural and non-agricultural products than the inward- oriented economies.

- A number of non-tariff barriers such as SPS, TBT, anti-dumping measures, safeguards, licensing and standards are applied by both outward- and inward- oriented LAC economies. In Brazil, SPS measures are based on risk analysis, and technical regulation equivalence is based on the acceptance of the test results. Inward- oriented Brazil and Argentina are also significant users of trade remedies, particularly anti-dumping measures, and Brazil has even amended its regulatory framework to strengthen trade defence. On the other hand, outward- oriented economies are not frequent users of trade defence measures. Some non-tariff barriers, mainly related to registration and import licensing requirements, are in place in outward- oriented Colombia. Services and Investments are important and encouraged in LAC with country - specific restrictions in certain of the sectors. For India's long-term engagement with LAC countries, analysis of the trade policies is important. Of the ten emerging LAC countries, which the present study has identified as India's key partners in the years to come, some have more inward - oriented policies like Brazil, Argentina and Venezuela, than the others in the group. An understanding of the trade policies would give an overview of the extent of market access that India can avail in goods, services and investment. The tariff structure of the inward-oriented economies consists of a larger number of bands, and they have a higher average tariff rate; and of the outward- oriented economies, the tariff structure is relatively low. Chile has an extremely homogeneous tariff structure, Colombia has liberalised considerably its average tariff rates, and Guatemala and Costa Rica have bound their tariff lines thus increasing predictability of their trade policies. The average applied MFN tariff rates for agricultural products are higher than those for non-agricultural products in almost all the economies, with a few exceptions. The outward- oriented LAC economies generally have a lower average tariff rate for agricultural and non-agricultural products than the inward- oriented economies.
- A number of non-tariff barriers such as SPS, TBT, anti-dumping measures, safeguards, licensing and standards are applied by both outward and inward oriented LAC economies. In Brazil, SPS measures are based on risk analysis, and technical regulation equivalence is based on the acceptance of the test results. Inward- oriented Brazil and Argentina are also significant users of trade remedies, particularly anti-dumping measures, and Brazil has even amended its regulatory framework to strengthen trade defence. On the other hand, outward- oriented economies are not frequent users of trade defence measures.

Some non-tariff barriers, mainly related to registration and import licensing requirements, are in place in outward- oriented Colombia. Services and Investments are important and encouraged in LAC with country-specific restrictions in certain of the sectors.

Diverse Tariff Policy Regimes

- The dynamics of the global business cycle had a direct impact on the trade policy regime of the continent. Average level of the tariff remained low in LAC during the last two decades, and had continued to be less than 10 per cent during the entire study period. During global buoyancy, the level of average tariff had declined marginally, but the tariff rate declined significantly between 2007 and 2008; perhaps unaware of the intensity of the ensuring global recession in the next few years. However, global recession picked up marginally at the continental level during 2008-12, and continued with varying intensities until the beginning of 2018. Sub-regional experiences regarding tariff liberation were different from overall scenario of the continent. South America, being the largest sub-region, its liberalisation trend was aptly reflected in the overall trend of the region. Since the beginning of the global recession, Caribbean region was protected, Central America was liberalised and the average level of the protection in South America remained unchanged. During the period of buoyancy, 32 countries out of the 34 had liberalised their tariff rates. In 2008, 11 countries continued with their liberalisation policies and 9 of them opted for protectionist policies. Most of the economies preferred to pursue protectionist policies and none of them favoured liberalisation in the first phase of recession. Similar situation, like 2008, returned in the second phase of the recession; when 9 countries liberalised their average tariff rates and 11 of them raised average tariff to counter global protectionist regime. Most of the economies in the Central America moved towards trade liberalisation in the second phase of the recession. In the western flank of LAC region, most of the regional countries resorted to deeper level of tariff liberalisation.
- Large amount of global trade passes through regional routes since member countries within a regional grouping follow a synchronised pattern of trade policy, and the trade preferences dominate trade scene. India's strategy should be to access LAC market through involvement with a number of regional arrangements. Considering this, eight RTAs in LAC region included were: MERCOSUR, UNASUR, LAIA, G-3, Andean, SICA, CACM and Pacific Alliance for trade analysis. From them, two of them maintained high tariff rates, namely MERCOSUR and UNASUR, two with low tariff rates, such as SICA and CACM and the remaining four had lowered their average tariff

rates during the recession period. For accessing LAC region, India has to adopt differentiated dynamic trade strategies to deal with RTAs which are at different levels of trade liberalisation.

- In LAC region, South America maintained its liberal trade policies in agricultural and mineral sectors, but its manufacturing sector was relatively protected. In the sub-region, certain sectors like chemical, plastic, wood and wood pulps were more liberalised than sectors like leather, T&C and footwear. Certain RTA like Pacific Alliance, OAS, and CAFTA-DR continued to have low level of tariffs in light manufacturing sector. Gems and jewellery sector received mixed responses from RTAs in terms of level of tariff. In MERCOSUR, tariff was low for the gems and jewellery sector. India has better opportunities to have market access in RTAs to export products of metal-based manufacturing. RTAs in LAC are likely to follow liberal policies once buoyancy returns to the region in 2018.

Wide spread Non-Tariff Barriers

- Indian exports suffered enormously from the imposition of NTBs on all spectra of products. Regional economies imposed large number of NTBs on their imported goods. Nearby 46,000 products lines at the sub-heading level were subjected to different forms of NTBs by 29 regional countries during 2007-16. There existed no symmetry among the countries with regard to the number of the products subjected to NTBs were concerned. Apart from SPS and TBT measures, regional countries imposed a number of price control and export-related measures to scuttle market access to the region. While Brazil, Peru and Ecuador were highly inward -oriented economies, several other countries like Costa Rica, Dominican Republic, Colombia and Chile were observed liberal in imposing NTBs. Brazil was the largest trading partner of India in LAC region, but India experienced a large number of NTBs with several of its regional trading partners, including that of Brazil. Trend in NTBs in the continent showed that some countries had chosen to impose specific NTBs on its trading partners. For example, Brazil, Peru and Mexico focused more on countervailing duty; Brazil, Argentina, Mexico and Chile on anti-dumping; Chile, Colombia and Dominican Republic on safeguard measures, etc. Such region-specific NTBs could be seen in LAC region. Moreover, SPS and TBT measures formed the bulk of NTBs imposed by almost all countries in the region.
- Most of countries in the region imposed multilateral NTBs, but a selected few imposed bilateral NTBs on specific products. Often price control measures such as anti-dumping

and countervailing were used as bilateral NTBs by regional economies. India was subject to anti-dumping measures by Brazil, Argentina, Colombia, Peru and Mexico and was targeted by Brazil with countervailing duty on the suspicion of use of subsidy. SPS measures were used on India multilaterally and bilaterally by these countries. Other forms of bilateral NTBs included TBT, price control and export-related measures, which were used against India's exports by the regional economies. Product lines under TBT were much lower than SPS measures on India. The overall situation in the region indicated that India faced formidable trade barriers in the region in the form of NTBs. These barriers are spread into both agricultural and manufacturing sectors. Indian exports often witness multiple NTBs on the same products, thus, in a way, lowering possibility of getting market access in specific countries.

II. Trade Dynamics between India and LAC

Trade Trends

- The Latin American region registered a dynamic and persistent growth in the trade during the years of Asian Crisis, global buoyancy and first episode of recession. However, this declined with the onset of the second phase of recession in 2013 with different sub-regional experiences. The sharp decline in trade in South America resulted in overall decline of trade of LAC in the second phase of recession. LAC specialises in the export of primary commodities, and its exports are highly concentrated in a few sectors. And LAC imports are diverse and spread across all manufacturing sectors. The top trading partners of LAC are the US, the EU, China and India. India lags behind others in terms of absolute volume of trade but is far ahead of others in terms of growth.
- LAC exports to India grew faster than the region's imports between 2000 and 2017; with the trade surplus being consistently in favour of LAC. Among the three LAC sub-regions, South America had the largest share of bilateral trade with India but it declined. However, the share of Central America rose gradually during the second phase of recession and that of Caribbean also recovered, indicating that the region as a whole is on the path of recovery, which is a positive development for India. The top ten LAC economies are the most important trading partners for India but bilateral trade has been affected by continuation of recession. The return of the global buoyancy may improve India's trade linkages with the region.

- The bilateral exports of LAC to India are concentrated in a few sectors of agriculture, mining and base metals, such as lac, gums, resins and other vegetables; and ores, slag and ash, among others. While the region's imports from India cover diverse sectors such as organic chemicals, vehicles, mineral fuel, cotton, etc. This is similar to the region's trade with the world. Trade complementarities existing between LAC and India need to be exploited by improving India's export priority to meet demand requirements of LAC and *vice versa*. There is a great potential between the regions in increasing trade between them. India's exports to LAC are mainly for light-weighted products, and can be managed with the existing infrastructural bottlenecks; but imports of heavy weighted products like base metals and minerals from LAC require better transport infrastructure and direct ship liners to reduce transportation cost.

Devaluation Strategy by LAC Countries

- Several countries in LAC have adopted devaluation strategies to increase their competitiveness and also to reduce their growing trade imbalance. This may lead to competitive devaluation by trading partners to avoid negative impact on their own export industries. The deepening of the recession in the recent years has resulted in many countries, including LAC countries such as Brazil, Argentina, Colombo, Mexico and Paraguay, adoption of different forms of devaluation. India may not be in a position to devalue its currency so other options that it can implement include support exporters to reduce their cost of production domestically with certain incentives; extend export support so that landing cost of exports in the importing country can be lowered; or may be through waiting for some time to ensure that the impact of the devaluation in the importing country is reduced. Most of these policies may not be WTO consistent, and can be contested by importing countries. India can adopt the last option and reverse these policies if they are contested in WTO. However, India is passing through a phase of unilateral devaluation on account of the rise in global oil prices. India should not to do anything to match devaluation strategy adopted by the selected LAC countries.

Global Value Chains

- Global Value Chains (GVCs) are of significant interest to both India and LAC countries as the bulk of global trade passes through them. It has been estimated that 60 per cent of global trade is through GVCs. It is especially important for developing economies as they benefit from increased productivity, sophistication and diversification of economic

activity. Their GVCs trade share has accelerated consistently over years. The value added at each stage of production can be depicted through the smile curve. The two ends of the value chain involve higher value added activities than the middle part, thus, forming the shape of a smile. Developed countries specialise in higher value added and intangible production activities that are located at the ends of the smile curve. Developing countries focus on low-end and tangible production activities that are at the bottom part of the curve. India can very well be part of left and right side of the value chain curve in LAC region.

- LAC participation in GVCs was lower than other developing regions but was a part of the number of value chains in a range of sectors, including low- value added sectors like natural resources and non-traditional sectors like aerospace, medical devices manufacturing and offshore services. GVCs participation across the region was very heterogeneous. Central American countries specialised in assembly and processing of inputs. They have had strong backward linkages and were active in the downstream segment by processing foreign inputs for further exports. South American and Caribbean countries specialised as input providers, as they are rich in natural resources. They have had strong forward linkages and were active in the upstream segment by exporting natural resource based intermediate products for further processing. Caribbean faced a number of problems which made it difficult to deeply integrate into GVCs. India can very well be engaged in downstream segment of value chains, and it can also involve in upstream segment of value chains.
- Share of GVCs trade in LAC's total trade with the world has been consistent over years. It grew during the first phase of recession but was negatively affected in the second phase. The top three Parts and Components (P&C) exports of the region accounted for 97.5 per cent of the total, with machinery having the largest share in 2017. The P&C imports of the region followed a similar trend. LAC bilateral GVC imports from India were substantially higher than its exports. The region's GVC imports from India as a share of total GVC imports from the world increased consistently over years and the share of GVC exports remained stable despite persistence of recession. The main P&C imports of the region from India included machinery, vehicles and plastics. There is a vast potential for India and LAC to engage in GVC trade. However, LAC has wider engagements with the US, the EU and China. India should focus on developing important areas to enhance GVC trade with LAC region.

Dealing with Project Goods

- Project goods is construed as a single good which attracts a uniform rate of duty for a variety of goods for setting-up of industrial projects, ensuring reduction in delays in assessment, time and cost to run a project with faster clearance. Though India is trading on project goods for over a decade, yet its trade has not shown any substantial change. However, exports of project goods in LAC countries showed impressive growth, with 68.7 per cent CAGR, in pre-recession period. Thereafter is showed a sharp decline. India, however, has never imported more than 2.1 per cent of the total imports of project goods from LAC. In case of number of national lines, India exported three project goods, related to power project, project for exploration of oil and other projects. There are six project goods at the ITCHS national lines imported from LAC; mostly in power projects, industrial plant project and irrigation plant projects.

III. India and Regional Groupings in LAC

Experiment with Regionalism in LAC

- LAC as a continent experienced 'first mover's advantage' in regionalism among all the developing countries in 1960s. It has witnessed three waves of regionalism till date, and they are —a) a strong move towards consolidation of regional economies in the form of formation of trade agreements during 1961- 2002; b) these countries reached out to countries outside the continent during the period of global buoyancy (2003-07); and c) all out efforts to strengthen regional process within countries in the region and reaching out to countries outside the region by engaging LAC countries at the country level and at the regional level.
- LAC region experimented with different facets of trading arrangement. Out of 85 regional groupings in force in LAC, only 5 of them were into customs union, and mostly were in goods sector. While one-third of the RTAs focused only on trade in goods, others were engaged in comprehensive trade agreements. Most of the economies in LAC region are middle income countries, and therefore, they refrain from using 'enabling clause' while forming RTAs among themselves. LAC countries have RTAs with 45 groupings outside their continent; and more than three-fourth of these RTAs have been signed using Article 24 and GATS Article 5 of WTO.

Intra-Regional Trade in LAC

- Intra-regional trade (IRT) in LAC has remained relatively consistent since 1990 despite the proliferation of RTAs and expansion of bilateral agreements. The value of IRT grew at an unprecedented rate during global buoyancy but was affected negatively by the onset of global recession; the largest impact was felt in the post-2012 period. LAC efforts of promoting regionalism, not only with their own regional economies but also with countries outside the region during the recession, did not work in improving their IRT. The situation may improve once buoyancy returns to the region. There are differences in the sub-regional performance of IRT. South America experienced a declining IRT ratio during the period of recession but it stagnated in Central America and increased for Caribbean. Moreover, the IRT performance of various LAC RTAs was quite substantial in comparison to other RTAs of the world, and on average they had moderate performance. They can, thus, pose as significant competition to their main trading partners, including India. India has major interest in manufacturing exports and services trade and the IRT pattern of LAC indicates that they actively trade among themselves in the manufacturing sector and they can be expected to be important competitors. LAC countries also impose a number of NTBs, which prohibits trade within the region, resulting in low IRT. India should be conscious about the existence of NTBs while negotiating any regional agreements with these countries.

Identification of Important Trade Partners and RTAs in LAC

- To have a steady trade performance, India needs to interact with a group of trading partners who should be resilient in withstanding adverse effects of exogenous shocks. The study identifies ten such countries in LAC region on the basis of following criteria —a) major trading partner of India; b) globally major trading player; c) India having large trade potential in the country and d) expansionary import profile of the country during the period of recession. With a view to maintain steady economic relationship with three sub-regions in LAC, ten countries identified are as follows: Argentina, Brazil, Chile, Colombia, Costa-Rica, Dominican Republic, Ecuador, Guatemala, Peru and Venezuela. India has to focus on these economies in medium term.
- Since regional groupings are the basis for India's trade engagement, the study has identified six major RTAs to undertake steady trade cooperation with these groupings in the near future to deepen its trade and investment linkages with LAC. As discussed earlier, identified countries for India's trading partnership, is the basis for identifying

RTAs for future cooperation. We have identified Selected RTAs where appearance of identified countries is very high. With this consideration, six RTAs are identified as follows - Andean, LAIA, MERCOSUR, Pacific Alliance, SICA and UNASUR. India should prioritize these RTAs for any form of formal trade arrangement before considering other RTAs like CACM, CAFTA-DR, Rio-Group, etc. for future trade cooperation.

Major Regional Players in LAC

- Pacific Alliance is one of the fastest growing and most outward- oriented regional groupings in LAC. It has strong trade ties with the US, the EU and China. And India is emerging as an important partner in goods, services and investment. The region has robust GVC trade with the world and specialises in backward linkages. India's bilateral GVC trade with the region was relatively low but is growing fast. India has substantial trade potential in the region but it has been affected by the global recession. India's export potential has been estimated to be more than double of its current trade with the region; with the largest potential in Mexico and Chile. The manufacturing sector, and within that the machinery and electronic appliances sub-sector, has the largest potential. The SICA also is an outward- oriented regional grouping and has a small but a vibrant and liberal market. India's trade potential with the region is around $1.8 billion per annum, and is concentrated in specific sectors such as prepared foodstuff, minerals, chemicals, etc. India should consider entering into comprehensive trade agreements like CEPA/CECA with these regions to exploit existing synergies between them.
- MERCOSUR is a large but inward-oriented regional grouping in South America. Its main trade partners include the U.S., the EU and China. India and MERCOSUR have strong bilateral trade, but the trade balance is in favour of MERCOSUR. India's trade potential is around $4.4 billion per annum, which is much larger than its current bilateral exports. If the potential is fully realised, India can reverse trade deficit into a surplus in a medium term. India's export potential would increase further if a deeper trade agreement with the region is implemented. Further, construction of warehouses should be considered advantageous to boost exports to MERCOSUR and other RTAs like Pacific Alliance. Recently, Argentina and Panama have offered space and India should take advantage of this. LAIA is the oldest regional trade agreement in South America. It consists of 13 members; some of them have protective trade policy regimes while others have more outward- oriented policies. India has registered a trade deficit; it has a substantial trade potential in the region of around $14.21 billion. India has a trade deficit with UNASUR

but given its large export potential with the region, it can have trade surplus in a medium term. While negotiating a comprehensive trade agreement with the region, India should deal with the non-tariff barrier issues in the region. The main market for Andean Community's exports is the US, followed by the intra-regional market. India's trade potential in the region is low and it should wait to enter into a formal trade agreement with the region till other agreements are not firmed up for implementation.

Trade Potential of India: Trade Creation

- In an autarky situation, India's export potential is estimated as the sum of trade potentials of products which are exported at present, and those products which are likely to be exported in future to export destinations in LAC. India's export potential expressed in terms of trade creation was estimated at USD 17.3 billion for 25 LAC countries for 2015. At present, trade potential of currently traded products constitute 66.1 per cent of the total potential and future potential stands at 33.9 per cent of the total. Among 25 countries in LAC region, India's largest trade potential is in Brazil; sharing 27 per cent of the total trade potential of the region. India registered varying levels of trade potential in Chile, Argentina, Colombia, Peru and Venezuela to the extent of USD 1.5 billion, USD 1.3 billion, USD 1.04 billion, USD 0.7 billion and USD 0.5 billion, respectively, in 2015. Therefore, by focusing on these six countries and top five HS sections, including machinery and appliances, chemical products, vehicles, minerals, base metals and plastics, India can cover around 70 per cent of its trade potential in the region.

India's Export Competitors in LAC

- Apart from India, LAC countries are contingent on the traditional partners – the U.S., the EU and China— for trade, finance and other areas of development cooperation. The study analyses major competitors for India in LAC at the product level. Results demonstrated that different group of countries specialised in specific sectors. Though competition from traditional partners was expected in LAC, observation was that India faced competition from native LAC countries in sectors like mining and manufacturing. Agriculture sector was also subject to competition from LAC countries. Apart from them, India faced competition from non-traditional countries from South-East Asia, like Thailand, Indonesia, Vietnam and Singapore, in almost all important RTAs of LAC, particularly in the sectors like footwear and jewellery. India has to compete primarily with these major

countries within the region, and then with the traditional and non-traditional partners of LAC countries.

Implications of Trade Preferences for India: Trade Diversion

- The study has estimated India's gain from exports through trade diversion from LAC countries by inducing them to reduce tariffs at three levels – 25 per cent, 50 per cent and 100 per cent. In the event of reduction of tariff rates by 25 per cent by partner countries, India's export potential would likely touch the level of USD 257 million in case of 10 major identified trading countries in the study. A further reduction of tariff by 50 per cent would result additional increase of trade to the extent of USD 458.7 million in terms of trade diversion along with trade creation of $15.5 billion per annum. And reduction of tariff by 100 per cent would have an incremental increase in trade for India to the extent of USD 897.1 million along with the existing level of trade creation. In 10 countries, number of products under trade creation would exceed 3000 tariff lines. While examining number of lines for trade diversion in the identified countries, product lines would vary across countries.
- Inward- oriented economies like Brazil, Argentina and Venezuela have been identified as important ones for India, and have large number of tariff lines, where India can request them for tariff preferences. Similarly, tariff preferences can be requested from outward-oriented economies like Chile, Colombia, Ecuador, Costa Rica and Guatemala under mutually agreeable trading arrangements, to tap existing export potential in each other's market. It is also observed that India's strategy to expand existing PTA with Chile is a positive initiative where India stands out to gain. In addition, India's present trade initiatives with Peru, Colombia, Pacific Alliance and MERCOSUR are consistent with the results of the present study.

IV. Invigorating Bilateral Investment Initiative in the Region

Investment policy in LAC

- Analysis of the domestic policies and regulations in different FDI sectors has shown that there are variations in the FDI policies of LAC countries. LAC economies are open to and encourage inward FDI but with certain sector specific foreign ownership prohibitions. Brazil is the most attractive FDI destination in LAC but the inward oriented economy applies restriction on sectors like air transport, land acquisition, media, and fishing, among others. Similarly is the situation in inward oriented Argentina. Moreover, Brazil

applies a number of procedural requirements which makes the new investment cumbersome, bureaucratic and expensive. However, both these economies have emphasized increased FDI inflows, and have introduced a number of incentive schemes in this regard. Outward oriented economies, like Colombia, Chile and Dominican Republic, provide national treatment to foreign investors and have relatively few restrictions on FDI ,depending on the national priorities. LAC countries, whether inward or outward oriented, tend to restrict FDI in fishing, broadcasting media and air transport. Many LAC countries have opened further certain sectors to FDI and some, including Brazil, Chile and Colombia, are modifying their institutional structure to promote investment.

Investments Trend in the Region

- LAC region had experienced two major waves of FDI inflows— one in 1990s and other in 2000s. Over the last decade, FDI inflows have increased steadily and significantly. They increased at 4.1 per cent CAGR for 2007-2016 with a mild slowdown in 2016. Similar was with imports, it grew at 5.8 per cent CAGR during the period. Unlike inflows which reduced in the second phase of recession, LAC's FDI outflows performed well with certain degree of fluctuations. In the case of greenfield investment, LAC has experienced many fluctuations in inflows whereas greenfield outflows were severely affected from recession. A country-wise analysis showed that Brazil was leader in the FDI inflows in LAC region among other countries like Chile, Colombia, Argentina, Peru, etc., which was consistent over years, with Nicaragua as an outlier, receiving larger share of greenfield investment in 2013. The top 10 identified countries represented a share of 54.8 per cent of the total FDI inflows in LAC region. On the contrary, FDI outflows concentrated in a small number of countries with British Virgin Islands, followed by Cayman Islands, Chile, Colombia and Brazil. Similar was the case with greenfield investment outflows.
- FDI plays a vital role in many of LAC countries, particularly in Central America and Caribbean. FDI accounted for a major share of GDP in these countries, and it was highly dependent on FDI as the source of international funding. While reviewing FDI in LAC region from sectoral perspective, one can notice that it has undergone a structural change. The traditional extractive sector was replaced by new sectors like renewable energy, automotive industry and services sector. Share of FDI in services also increased in countries like Colombia and Dominican Republic. The largest share was earned by

financial services, electricity, gas and water services and telecommunication services for the entire region. Sectors like mining and quarrying and chemicals dominated in primary and manufacturing sector, respectively. This trend was followed in many LAC countries, but exceptions were Bolivia and Ecuador, where largest share was received by the primary sector in 2012. FDI outflows were directed to tertiary sector in most of these countries but with different sectoral priorities in 2012— Brazil emphasised on the financial sector, Chile on the electricity, gas and water and Colombia on the finance and transport, storage and communication.

- Economic relationship of India and LAC is at an emerging stage, having huge opportunities for investment of Indian domestic companies in LAC countries. According to the empirical analysis, India's outward FDI to LAC grew significantly during the first phase of recession but derailed to a large extent in the second, resulting in deceleration of investment to the region. The largest share of FDI from India was received by British Virgin Island, followed by Cayman Island during 2008-17, and these were not the final destinations for Indian investment. India's 10 important LAC partners received very small quantity of FDI from India during 2008-17. The largest sector receiving FDI flows from India was the primary sector, contributing around 54 per cent of the total flows, followed by services sector (25 per cent) and industry (17 per cent). India is engaged in diverse sectors, giving priority to agriculture and mining sectors in countries like Cayman Island, Panama, Colombia and Guyana and industrial sector in countries like Bahamas, Brazil, Panama and Chile. A large share of India's OFDI focuses on services sector in LAC, particularly on community, social and personal services. LAC region provides a great deal of opportunity to Indian companies to invest in different sectors suitable for Indian companies.

V. Emerging Regional Complementarities in Trade in Services

Trade policies in the services sector of LAC

- The services sector is emerging as a driver of growth, of employment and of inward FDI in many LAC countries. LAC countries specialise in diversified services sectors and have heterogeneous domestic policies. Most of the economies are liberal but there are a few that are more inward oriented. The services sector is structurally weak in Brazil and Peru; but Brazil has made WTO plus commitments in services trade. Many outward -oriented LAC countries, such as Guatemala, Costa Rica and Peru have continued to liberalise their

services regimes, and are now more liberal than their commitments under GATS. The State plays a major role to balance benefits of trade liberalisation and in protecting the domestic market in many of LAC economies. There are various sector specific restrictions on foreign investment in services— for instance Brazil, Argentina and Colombia have reserved air transport and maritime transport for national companies and individual nationals. On the other hand, outward oriented Costa Rica and Guatemala provide open access to foreign companies in these sectors. The financial services sector, telecommunications, professional services and tourism sectors in LAC are performing well, and reforms have been undertaken by many LAC countries.

Trends in Trade in Services

- Trade in services in LAC region plays a less overriding role in their total trade with the world. The total LAC exports and imports of services were USD 98.6 billion and USD 106.8 billion, respectively, in 2017. Among LAC regions, South America dominates in services sector with major share in other services. The major economies in the region faced deficit in trade in services, including Brazil, Peru, Venezuela, Chile, Colombia, Argentina and Bolivia. Economies like Costa Rica and Panama registered surplus in traditional and modern trade in services. Traditional services like transport, travel, construction, etc. had a larger share than modern services like telecom, IT, financial and insurance services in LAC region. It was observed that exports of services in 10 identified trade partners of India in LAC, were almost equally distributed whereas, imports were spread heterogeneously in the region. Other services have emerged as one of the most important sectors for these countries; having considerable level of competitiveness.
- The examination of competitiveness of LAC countries in various services sectors encapsulates diversified nature of services sector among LAC economies. It has been observed that the size of the services sector is not necessarily proportionate to the size of the economies in the region. A large number of LAC countries have registered competitiveness since 2003 in various services sectors like postal and courier transport and business and personal travel; and some of them are emerging as competitive in other services sectors like passenger transport and other services like government goods and services. There are number of sectors where competitiveness has declined in the case of the number of LAC countries during the first phase of recession like insurance and pension, telecommunication and IT sector services. In sectors like financial services,

charges for IP, maintenance and repair services, etc., lesser number of countries are competing in LAC.

- Ten identified trade partners of India collectively export less than that of India in the services sector. However, they are competitive in several services sectors. These identified economies are competitive in one or more services sectors globally. For estimating competitiveness in TIS, RCA analysis was used for these 10 identified LAC countries and India. Empirical evidences indicate that sectors where LAC countries are globally competitive, India can import those services from them and *vice versa*. These services offered by LAC countries are freight transport and business services, which India can import from countries like Chile and Venezuela. In other business services, India can import from Brazil, Argentina, Chile and Costa Rica. India can very well export its competitive TIS in the region with less competition from regional economies. Though the number of competitors is less, India is likely to face competition in sectors like telecommunication, IT services from countries like Argentina and Costa Rica.

VI. Takeaways

- Follow a two-pronged strategy to deal separately with inward and outward countries while initiating negotiations for comprehensive trade and investment Agreements.
- Conclude ongoing regional arrangement initiatives as the buoyancy is approaching the region.
- Explore possibility of providing cushion to exporting SMEs, facing complexities in the importing country. Such small firms in distress may be provided with legal aid on the foreign land.
- Enhance effective use of ‘star houses’ to market products of SMEs from different states.
- Ensure exports of quality products, timely delivery, certified, etc. to the region since consumers in the region are mostly from the middle-income group.
- Develop modalities to execute orders placed by local foreign clients, approaching Indian missions abroad for importation of goods from India.
- Build institutions for promoting matchmaking between foreign buyers and domestic sellers in India in the selected sectors for enhancing exports to LAC.

- Undertake recovery plan to turn marginally uncompetitive sectors to competitive ones for SMEs; which may be provided with financial and non-financial support to regain their sectoral competitiveness.
- Enhance market access in the region by negotiating rationalisation of tariffs, multilateral and bilateral NTBs with specific countries.
- Formulate policy to reduce trade cost by raising domestic sea liner, reducing dependence on transhipment hubs and building warehousing facilities in certain key geo-strategic locations in LAC. At present, China has higher trade cost than India, and therefore, latter is not adversely placed in relative terms.
- Focus on market access in GVCs trade since LAC has a large sectoral trade deficit with the world, and India has competitiveness in the selected parts and components sector, including machinery, automobiles and plastics.
- Consider being member in IADB despite registration fee for Membership on the higher side. Certain credit facilities, which Exim Bank does not provide, have restricted India's exports to LAC to reach its potential. IADB has the provision to finance such requirements for small exporters.
- Examine efficacy of higher order trade preference arrangements such as FTA/CEPA/CECA for deeper trade arrangement with LAC RTAs. This has been the trend in the region.
- Streamline India's strategy on LAC by engaging identified ten countries and six RTAs, which are compatible to India's trade interest.
- Improve market access in selected RTAs to promote manufacturing exports in LAC; since intra-regional trade ratios are low in many RTAs and India has competitiveness in several lines of manufacturing products.
- Evolve policies to tap unexploited export potential of US$ 17.3 billion per annum through engaging deeply with identified countries/ RTAs through CEPA/CECA.
- Strategize India's trade policies to tap two forms of trade potential in the region— (a) trade potential of currently exporting products of India and (b) Indian products having global competitiveness but have not entered in to the markets of LAC region.

- Blend India’s trade and investment policies for LAC to secure substantial trade preferences.
- Facilitate providing market access to LAC competitive sectors in trade in services like courier & freight transport, business & personal travel and other business services in India and secure market access for India’s competitive sectors like freight transport and telecom in LAC.
- Set a trade target of US$ 125 (i.e. US$ 65 as India’s exports and US$ 60 as imports) with the region by 2025. A similar investment target may be evolved to improve predictability of India’s economic engagement with LAC, particularly emphasising on the tertiary sector.

Chapter 1
Introduction

India is emerging as the fastest growing large economy in the world and is poised to join the club of $5 trillion economies by 2025. Despite continuation of the global recession over a decade, trade remained as the driver of growth for the country. Identification of new markets, new destinations, new partners and new products, is a major challenge for India. India's bilateral trade with the LAC region is small but is characterised as the fastest growing continental destination, which is unprecedented in the economic history of India. Interestingly, the LAC region is primarily engaged with a group of only four major destinations in trade, and India is one among them. However, dealing with the region is not devoid of challenges. Preferential trade is the rule of the game to secure different fragmented markets effectively, led by specific RTAs. Countries having large economic linkages with the regions are not only through trade alone rather these countries are combining both trade and investment commitments to foster bilateral trade activities in the region. While LAC region is a net importer of investment, it offers a large market, dominated by consumers from middle income group. Moreover, Trade in Services (TIS) is another area of trade, complementing merchandise trade in the region. The focus is to understand how India can emerge as a major player in LAC to achieve a trade target of $125 billion by 2025.

The Latin American and Caribbean (LAC) region is emerging as a large market spanning over 632 million populations (OECD, 2017). The major world trading economies are in the race to integrate themselves and deepen the economic ties with LAC countries, as the region fulfils both demand and supply for the trading economies. The region had prolonged engagement with a small number of trading partner - mostly the United States and the European Union, however, recently presence of Asian countries can be seen in the region with emergence of China, India and some ASEAN countries as trading partner in the region. The LAC region is a rich source of raw materials especially minerals and metals whereas it also provides a large consumer base which is yet to be explored.

The region has shown high growth trends since 2003. The growth and other macroeconomic fundamentals have demonstrated economic vibrance and resilience of the region from external shocks. This has been evident from the fact that the region has shown immense

resilience towards the global recession, where the growth had been greater than 5 per cent for the entire first phase of the recession. However, triggered with low global growth and sinking commodity prices, the second phase of recession was critically affected the growth prospects of the region. Political instability in many major nations in the region had compounded the burden of the regional slowdown since 2012, in addition to reduction in trade and investment. However, since the beginning of 2017, LAC experienced a turn around with a 17 per cent increase in exports registered on year-on-year basis (IDB, 2017). This has been due to recovery in the commodity prices and increase in the global demand, led by the U.S. and a few other emerging economies. Return of buoyancy to Latin America may spur trade with the region and boost proliferation of regional economic activities in LAC.

1.1 Trade Liberalisation across the LAC Region

The LAC region continued to maintain high share of their regional GDP in the Gross World Product (GWP) since the turn of the century due to emergence of trade as the growth driver. In this context, analysing the trade policies of major LAC economies will give important insight to determine India's long term engagement with the region. There are largely two types of countries in LAC. They include inward oriented countries which are mainly large economies like Brazil and Argentina, and outward oriented countries which consist of several LAC countries that are pursuing liberal policies with varying degrees. The trade regimes of these two types of countries varies and one needs to analyse their tariff, non-tariff, investment, trade in service policies and approach to regionalism to develop an appropriate two pronged strategy for India.

Gaining market access in LAC is an arduous task as the region is characterised by multiplicity of hindrances like complex trade policy regimes and soaring logistic barriers to trade. In addition to political instability, tariff policies in LAC countries also pose as a major barriers to enhance trade with the region. It has been discussed in the literature that the region imposes a wide range of tariffs and non-tariff barriers (NTBs) at various degrees bilaterally and multilaterally on their trading partners. India too faces similar kind of barriers with the region. A high degree of tariffs barriers and NTBs from the major economies of the region has always been an obstacle to free flow of goods and services from India. For strategizing a long-term engagement with LAC countries, there is need to analyse the tariff and non-tariff policies of various countries in the region at the sectoral level to plan the ways to get market access in these countries.

Transaction cost holds the key to India's trade engagement with the LAC region. The distance between India and LAC is an extremely important factor and logistics is becoming one of the most important determinants of trade between the two. The distance between the two regions cannot be assumed to be the reason behind the two regions not being able to increase their bilateral trade up to its potential as the distance between LAC and China is similar to that of India and yet it has not acted as a barrier to trade. The cost of maritime transport adds to the transaction costs and may be a contributing factor behind India's lower trade performance. This aspect needs to be explored in more detail and alternative solutions need to be explored. Composition of trade matters in determining transaction cost. As India is exports of non-primary products to the LAC region, weight-to-value ratio is tilted in favour of India. The prolonged period of recession in the global economy has led to the accumulation of excess capacity in the shipping industry making access to shipping available at lower costs. This trend is likely to reverse with the return of global buoyancy. India should take advantage of such opportunities to expand its trade with LAC. One possible strategy is to ship goods in bulk in direct ship liners and establish warehousing facilities in the region. This along with other solutions to the challenge of logistics may be explored further to boost bilateral trade. The possibility of establishing warehousing facilities in certain countries in Central and South America and Cape Town may be explored. India has to evolve a medium term strategy to deal with logistic issues in order to expand its bilateral trade and reversing its trade imbalances with the region.

1.2 Surging Partnership between India and LAC in Trade

The changing global economic scenarios have had an impact on the trade performance of the LAC region. LAC registered persistent growth in trade till 2012 but declined with the onset of second phase of recession. The region displayed resilience by performing well during the first phase of recession but suffered due to its continued pressure and the surging trend was reversed since 2012. There are variations in the sub-regional performances. As South America is the largest sub-region it determines the overall performance of the region and its trend matches that of the region. Central America, on the other hand, performed extremely well in the post-2012 despite the persistence of recession. LAC is specialized in the export of primary products and imports are diverse consisting of mainly technology intensive products. The variations in the trade growth performance of South America are a concern for India as it has substantial trade interest in the sub-region, particularly for import of raw material and export of manufacturing products.

The LAC region has strong trade linkages with four trading partners, namely the U.S., the EU, China and India. India lags behind the other partners in terms of absolute volume of trade as it started trading with LAC at a time when the other countries had already established themselves as mature players. India has to evolve a strategy to grow faster and catch up with the top trading partners. India's imports grew faster than its exports to the region resulting in a sizable trade deficit. The growth pattern of bilateral trade of different sub-regions with India varied during different global trade regimes. Bilateral exports of LAC are more concentrated than their imports from India. The major exports of the region are focused on primary products, while imports include a range of products from primary and manufacturing sectors. Despite recession, India's export growth remained robust. The return of buoyancy may improve India's trade linkages with the region. An examination of the top commodity trade of LAC with the world and India may determine the trade complementarities existing between LAC and India. This may help building India's trade strategy with the region.

Recent spate of devaluation policy in several LAC countries following the onset of second phase of recession has a daunting effect on exporters to these economies including India. Trading partners of devaluating countries may devalue their own currencies to offset the negative impact on their export industries resulting in successive rounds of devaluation know as competitive devaluation. Several LAC countries, including Brazil, Argentina, Colombia and Paraguay have resorted to different levels of devaluation following significant level of depreciation since 2012. India cannot afford to devalue its currency and so alternative strategies to counter devaluation in LAC need to be explored.

Bilateral trade ties between India and LAC need to be improved. This can be done by utilising the export competitiveness of both regions to determine new areas of trade. Both are engaged in industrialisation which can act the basis for future trade. Global value chains are one area where significant trade complementarities exist between the two but have not been optimally explored. Around 60 per cent of global trade, amounting to USD 20 trillion per annum passes through GVCs (UNCTAD, 2013). World trade and production are increasingly structured around GVCs and they are becoming increasingly important for developing countries. Countries in South East Asia, Europe, Central Asia, Middle East and North Africa have relatively higher rates of GVC participation. Value added at each stage of production of the value chain can be represented on a smile curve. The two ends of the curve represent higher value added activities in which developed countries are mostly engaged. Developing countries focus on the bottom part of the curve which includes low-end tangible production

activities. India has major interest in GVCs but its share is small compared to several other developing countries. Similar is the case with LAC but it is a part of a number of value chains in wide ranging sectors including traditional sectors and new non-traditional sectors like aerospace, medical devices and offshore service. Moreover, GVC participation across LAC sub-regions is very heterogeneous. For instance, Central America specialises in assembly and processing of inputs. It has strong backward linkages and is more active in the downstream segment of the value chain. While, South America and to some extent the Caribbean are rich in primary commodities and specialise as inputs provides having strong forward linkages. Sector wise bilateral GVC exports of India and LAC needs to be examined to determine the areas where India can focus on in the future to exploit the vast untapped potential of this sector.

Another area with opportunities to expand trade in the future is project goods. It is an emerging sector in trade cooperation but the two regions have not engaged much in this area. The special classification accorded to project imports in the Customs Tariff Act facilitates the smooth and quick assessment of goods imported under it. It facilitates the setting up and expansion of industrial projects. Promotion of trade in project goods between India and LAC will bring benefits to both countries while boosting bilateral trade. Emerging areas like GVC and project goods where vast potential to expand bilateral trade exist need to be examined and strategies to tap into existing opportunities must be determined.

1.3 Growing India's Economic Interest in LAC RTAs

The LAC region has been engaged in regionalism since the 1960s gaining a first mover's advantage over other developing countries. The region experienced three waves of regionalism since the early 1960s with three different trends, which are, first, 1961- 2002 witnessed a strong trend to consolidate regional economies; second, countries outside the region were engaged in trade agreements during global buoyancy (2003-07); and finally, during the period of recession, LAC strengthened its regional process by including both countries within and outside the region. The proliferation of RTAs was witnessed globally during the period of recession. LAC RTAs are of various types and only one-third is focused on trade in goods, while others are more comprehensive trade agreements. India has to evolve a robust strategy to engage with top trading partners of the region in comprehensive trade agreements. The identification of the top LAC trading partners and major RTAs is necessary for enhancing India's trade with the region. Appropriate benchmarks need to be used to shortlist the top LAC countries with which India should partner in the long run.

The existing literature states that the pattern of intra-regional trade in LAC has remained constant since the 1990s despite proliferation of RTAs and bilateral trade agreements. Thus, LAC's efforts of promoting regionalism among countries within the region and also with countries outside the region during the period of recession did not improve its intra-regional trade. Moreover, while LAC global exports are concentrated in primary products and natural resource based manufactures, the intra-regional market is the largest market for its exports of manufactured products. The tariff rates faced by intra-regional exports are extremely low on account of the number of RTAs in place but it is subjected to severe non-tariff barriers which hampers trade. India needs to take note of these trends while entering into comprehensive trade agreements with the region. There are sub-regional variations in intra-regional trade performance. These need to be examined along with the performance of LAC RTAs vis-a-vis other RTAs of the world to get a better understanding of the intra-regional trade performance of LAC. Comprehensive analysis on Intra-Regional Trade would show the extent to which regional economies can pose as competitors to India in specific export sectors in the LAC region.

An analysis of the major RTAs in LAC may be undertaken by examining India's trade potential in each of them which can lead us whether India should enter into a comprehensive trade agreement with them in the future. Pacific Alliance, established in 2011, is one of the fastest growing RTAs in LAC. Despite the continuation of recession, the region improved its global share in GDP and several other macroeconomic indicators. It is one of the most outward oriented regional groupings in LAC and has undertaken significant market reforms. It has strong trade relationships with traditional LAC partners, including US, EU and China. India has a strong trade and investment relationship with each individual member of the grouping which is expected to grow further with the return of buoyancy in the region in 2018. To deepen India's engagement with Pacific Alliance its macroeconomic profile, bilateral trade with India and other major destinations, investment, trade in global value chains and trade in services may be examined apart from estimating India's trade potential in the region. Other major LAC RTAs include Mercosur, LAIA, UNASUR, Andean Community of Nations and SICA are engaged in brisk business and have strong trade potential. They belong to different sub-regions and have different levels of economic openness, for instance Mercosur is large but inward oriented, SICA members are all outward oriented, and LAIA has some members that are inward oriented and others that are more liberal. India has varying levels of bilateral trade with each of them. India has strong trade ties with Mercosur but faces a huge trade deficit. India has large bilateral trade with LAIA and has registered a marginal trade

surplus with them. It has a relatively large amount of trade with UNASUR and SICA but not with Andean which is closely connected to the U.S. Estimation of India's trade potential with each of these RTAs will provide a perspective on whether or not India should enter into deeper comprehensive trade agreements.

Trade creation is the basis of trade in an autarky situation. It is estimated as the sum of trade potential of presently traded products and that of products likely to be exported in the future. An estimation of India's trade potential in LAC countries and its sectoral trade potential will determine the top countries and products by focusing on which India will be able to reach its total trade potential in LAC. The literature highlights the presence of four major trading partners of LAC, these include the U.S., the EU, China and India in the last decade. India has to compete not only with these traditional trade partners of LAC but also with many local LAC countries. Many LAC countries are emerging as significant competitors of Indian exports to the region as they specialise in various sectors. An analysis of the sector wise competition faced by India in the region and its various RTAs by dividing the competitors into three groups, such as traditional competitors, local LAC competitors and competition from the rest of the world will give India an idea insight about the extent of competition and the challenges it is likely to face. The surge in regionalism in LAC has made it extremely difficult for countries outside such arrangements to compete with the others. The exchange of tariff preferences between regional partners results in trade diversion. If India enters into a trade agreement with trade preferences then its trade potential with the region will expand further in the form of covering its trade diversion and trade creation together. India's trade potential in LAC with different margin of preferences may be estimated to examine its incremental gains if tariffs in creation LAC countries are reduced by different levels. The results will determine the viability of expanding current trade agreements and entering into new ones with LAC countries and RTAs.

1.4 India's Investment Prospects in the LAC Region

LAC countries deepened their regional integration during the period of recession not only with countries from the region but also with countries outside the region. Moreover, they are pursuing comprehensive trade agreements like CEPA/CECA/FTA involving trade, investment and services together with emerging countries. India, thus, has the opportunity to enter into such a trade agreement with LAC countries and RTAs. However, apart from examining India's trade interests and potential in major LAC countries and RTAs, it is necessary to understand the present situation and future scope for investment and trade in

services between the two. Many trade partner countries including China are offering package deal of trade and investment to LAC countries. India needs to target for trade and investment simultaneously to strengthen its economic ties with the regional economies.

The ratio of FDI inflows to GDP is very high despite economic downturns and slow progress of regional economies. The region has witnessed two major waves of FDI. The first occurred in the 1990s as a result of the privatisation process and increased openness to foreign participation. The second wave started in the 2000s and was accompanied by productivity benefits, such as innovative product manufacturing. In 2016, FDI in the LAC region witnessed a slowdown mainly due to weak investment in natural resources and slowing economic growth. There are many differences between the performances of individual LAC countries and sub-regions due to their diverse nature. For instance, while FDI inflows decreased in the countries specialised in mining, it increased in the manufacturing countries of Central America in 2016. The larger LAC economies like Brazil, Colombia and Chile are more attractive destinations for FDI. LAC countries are open to and encourage inward FDI. However, there are certain sectors specific to foreign ownership prohibitions in certain countries. An analysis of domestic FDI policies and regulations is necessary to determine India's approach towards inward and outward oriented countries in the region.

There is not much diversification in terms of LAC FDI partners. The major FDI inflows are coming from a few countries like the U.S., the EU and Canada. China is emerging as one of the top investors which is a recent phenomenon in LAC. It had a negligible share in 2004 but has grown substantially since then. While, no LAC country was among China's top 10 overseas direct investment destinations, the share directed towards LAC is significant. China has huge investments in Venezuela, Ecuador and Argentina which rank poorly in terms of governance indicators as Chinese investments are made by state enterprises under state-to-state deals which make them feel insulated from local economic environment. China has raised the aspirations of the regional economies for high investment even if their economy is not performing well. Economic relations between India and LAC are at an emerging stage. India is interested in the services sectors in the LAC region and particularly in the non-traditional services sector where LAC countries have adopted a liberal approach. Vast investment opportunities exist for India that need to be explored. Recent bilateral FDI trends indicate that large share of India's outward FDI in LAC is mostly directed to countries like British Virgin Island and Cayman Island which are tax havens, while the top ten identified LAC countries do not receive much FDI flows from India. India's outward FDI is mostly

propelled by private investment and therefore, a business model needs to be evolved to promote Indian investment in the region. India has a moderate level diaspora in the region with large investable capacity. India's connect with the Indian diaspora has improved stupendously in recent years. Such untapped resources from IPO/NRI may be utilized to meet India's resource gap. However, India needs to work on a strategy to increase its FDI flows to other LAC countries, using various options available to India.

1.5 Emerging Regional Complementarities in Trade in Services

The services sector is booming in India and it has strong competitiveness in IT and ITeS sector and few other modern services. LAC is a marginal player in global service trade and has a larger share of export of traditional services, particularly in the tourism sector. Other important services sectors in LAC include insurance and pension, and other business services. Services sector is emerging as the driver of growth in many LAC countries. There are sub-regional variations in performances in trade in services, and a few economies are specialising in diversified service sectors. For instance, commercial services and real estate have a large share in Argentina, while financial services and services related to hydrocarbons dominate Colombia and Venezuela, respectively. An analysis of the trade in services domestic policies and regulations of various LAC countries will help India to focus on specific services sectors where it can access LAC's markets. For promoting services sector, many LAC countries have undertaken major reforms and increased pace of liberalisation. An examination of the global export competitiveness of India and top LAC countries in specific services sectors over the years will help determine the complementary sectors in which they can trade, giving a boost to their bilateral relations. It will also give an overview of the sectors in which LAC countries will pose as competition to India's globally competitive exports and complement India in providing services with most competitive terms.

Chapterisation of the study is as follows: Chapter 2 presents trading environment in the LAC and its various sub-regions, including trade liberalisation in tariff, Non-Tariff Berries (NTBs), macroeconomic settings and challenges of logistics, etc. Trade profile of the LAC region including trade trends with the world, linkages with major trading partners (including India), trade competitiveness, engagement in the global value chain, etc. is discussed in Chapter 3. While issues involving rise of regionalism in the region including intra-regional trade, developments in major RTAs, identification of India's possible trade destinations (both individual countries and RTAs), export potentials, etc. are analysed in Chapter 4, the next

chapter focused on different dimensions of bilateral investment and trade in services. The broad conclusions and policy recommendations are presented in the last chapter.

Chapter 2

Trade Liberalisation in the LAC Region

2.1 Introduction

LAC is one of the most dynamic regions of the world, but is accidentally entangled with severe economic upheavals as the consequence of the prolongation of the global recession. It has been a resilient economy which could withstand the economic downturn of the first episode of the global recession, but succumbed to the mounting pressure of the second phase of recession. In the first quarter of 2018, recovery of the region was in sight with corrections in the macroeconomic fundamentals in several important economies. IMF (2018) has observed that growth in the region has been spearheaded by South America on account of several international and domestic factors; including better global economic conditions, surge in trade of the LAC region, improvement in commodity prices, end of recession in many regional countries, improvement in the performance of emerging economics of the region, particularly LAC emerging countries, rise in the regional investment, increase in the private consumption, etc. among others.

Apart from these positive developments in the region, there are concerns about the sustainability of the economic turnaround in Latin America and Caribbean on account of several hostile factors erupting across the globe. In order to take advantage of the global turnaround, many regional countries of the LAC region have adhered to a number of sweeping reforms in recent years. Central America and Caribbean countries are relatively more outward oriented economies than a few countries in South America. Large economies in South America, like Argentina, Brazil and Venezuela, are relatively more protected ones in the region compared to the western flank of South America. As regional economics are showing signs of recovery, trade policies of most of the economies would start unfolding to tap opportunities offered by the new global trade regime.

In Latin America and Caribbean countries, several of them are middle- income countries, with growing aspirations to become developed countries in the near future. Having strong competitiveness in agriculture, extractive industries and selected industrial sectors, regional economies deploy varying strategies to protect other domestic industries against the apprehension of flooding of imported products. At the same time, the region has developed strong inclination towards promoting regionalism during the period of recession. There has been unprecedented surge of regional blocs around LAC countries in a different format. This

interest is becoming more robust with countries which are outside the LAC region. There are growing preferences to have many trading arrangements with the emerging countries.

As India is emerging as a major trading partner with many of the countries in the LAC region, it has strong trade ties with a few of them and is keen to expand its trade ties with many others of the region; covering all major sub-regions of LAC and major regional groupings of the continent. For fulfilling such an objective, appropriate trading arrangement may be explored. But the major challenge is to encounter trade cost in a manner which is consistent with WTO trade rules. While discussing about cost of trade, it includes all forms of cost including tariff, non-tariff barriers and transaction cost. The study focuses separately on these issues. Apart from examining protected sectors in different parts of the region along with trade regimes existing in different countries and regions, factor like distance involving trade cost may also be examined. Considering the presence of large trading partners like the U.S., the European Union and China in the trade arena, trade cost related to logistics may be examined. It is also important to know Chinese strategy in dealing with logistic issues in the LAC region, as being the immediate neighbour of India.

2.2 Macroeconomic Profile of the Region

LAC has been a dynamic and resilient region in the world economy, but continued recession allowed the region to enter into a critical phase of stagnation which was unprecedented in the economic history of the region. Recovery of the region was predicted, but downside risks are looming large on the horizon and the threat of derailment of the recovery process is very much on sight (IMF, 2018; World Bank, 2018; ECLAC, 2018). LAC region was on high growth path since the days of the global buoyancy in 2003 where the region posted the global share of 5.6 per cent in the gross world product (GWP), and it soared up unabatedly during the entire phase of global buoyancy. However, it experienced persistent fall since 2014 as shown in Table 2.1.

Table 2.1 Share of LAC in the Gross World Products (GWP)

(in %)

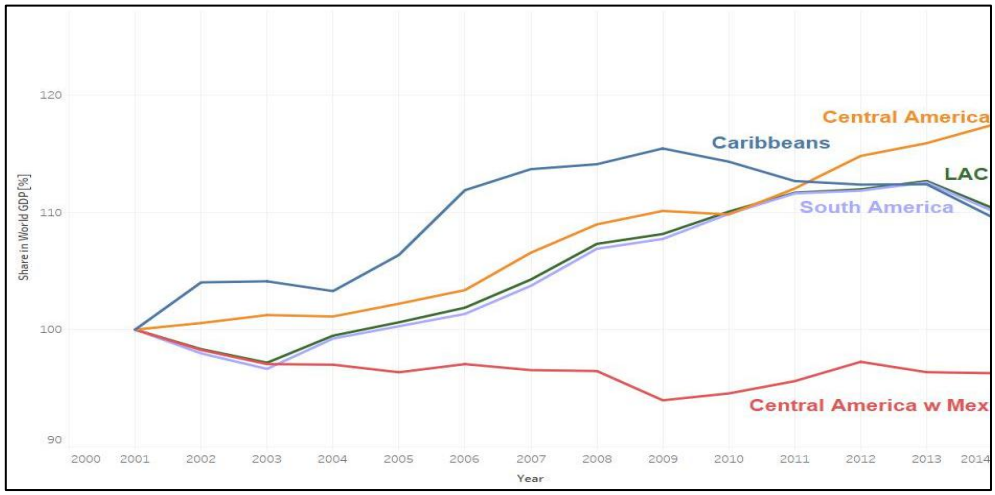
Region	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17
S. Am	5.2	5.3	5.4	5.4	5.5	5.7	5.8	5.9	6.0	6.0	6.0	5.9	5.2	4.9	4.8
C. Am	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Caribbean	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
LAC	5.6	5.8	5.8	5.9	6.1	6.2	6.3	6.4	6.5	6.5	6.5	6.4	5.7	5.4	5.4

Source: RIS estimate based on World Development Indicators, World Bank, 2018.
Note: Countries representing LAC region is listed in Appendix I.

LAC share in GWP grew from 5.6 per cent in 2003 to 6.5 per cent in 2011, showing resilience of the region in absorbing external shocks. The buoyant growth trend received a major jolt with the onset of the second episode of the global recession, resulting in continuation of the stagnancy of the region's global share between 2011 and 2013, and then it started receding till recovery crept into the region again in the first quarter of 2018. Being the largest segment of the whole region, the trajectory of the LAC GDP was greatly influenced by the pattern of GDP growth of South America. While the global share of Caribbean remained almost unaltered during 2003-17, the situation in Central America showed signs of improvement during the same period.

For better understanding of the GDP trends in these three sub-regions, we have indexed their GDP profile, putting the base as 100 for the year 2001 as shown in Figure 2.1. It is apparent that regional GDP indices were influenced by the 'Asian Financial Crisis' of late 90s, and were picked up along with rest of the world in early 2000s. However, uninterrupted growth of GDP trend of Latin America and Caribbean rose continuously until 2013. Regional GDP was affected by the onset of second phase of the global crisis, following the Eurozone crisis. GDP growth trajectory was almost uninterrupted for Central America and Caribbean, but GDP trend of LAC took a downturn in the second phase of recession owing to growth debacle in South America, which shared more than 90 per cent of region's GDP. Strong growth sentiments in Central America and Caribbean had marginal effect on overall GDP trend of the LAC region.

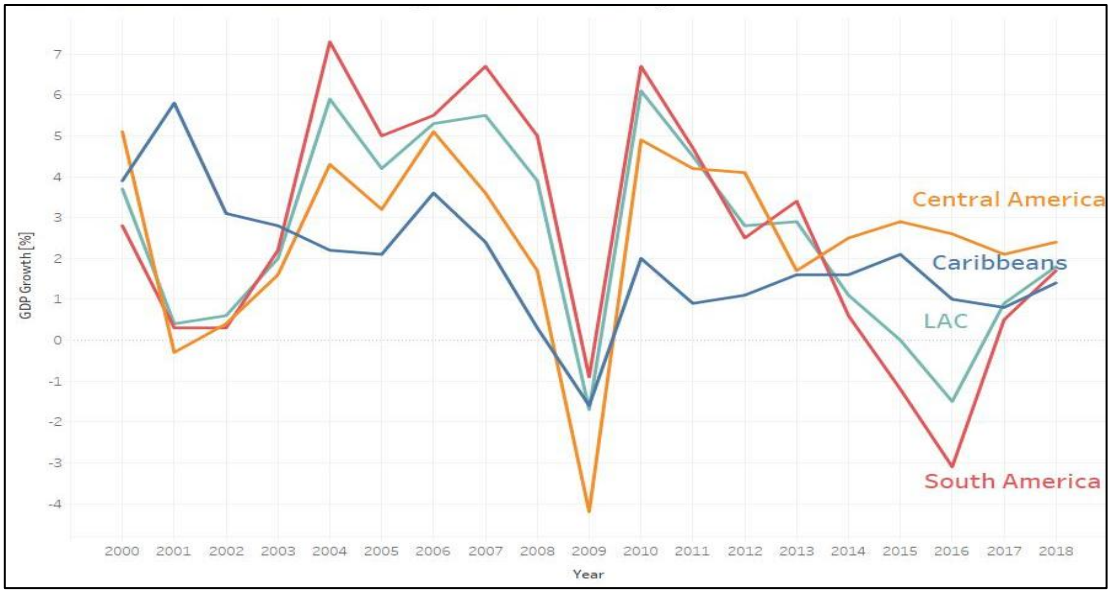
Figure 2.1: LAC Share in Gross World Product



Source: RIS estimate based on World Development Indicators, World Bank, 2018

As the global economy became buoyant in 2003, impact was very much reflected in expanding economic activities in LAC. Recovery returned to LAC in 2003, and growth rate became robust in 2004, which continued up to 2008. Following resumption of recession, LAC economy picked up firmly in 2010, but the pace could not be maintained for long, as shown in Figure 2.2. Low and negative growth syndrome crawled into the real economic activities of the region.

Figure 2.2: Growth Performance in LAC region: Sign of recovery



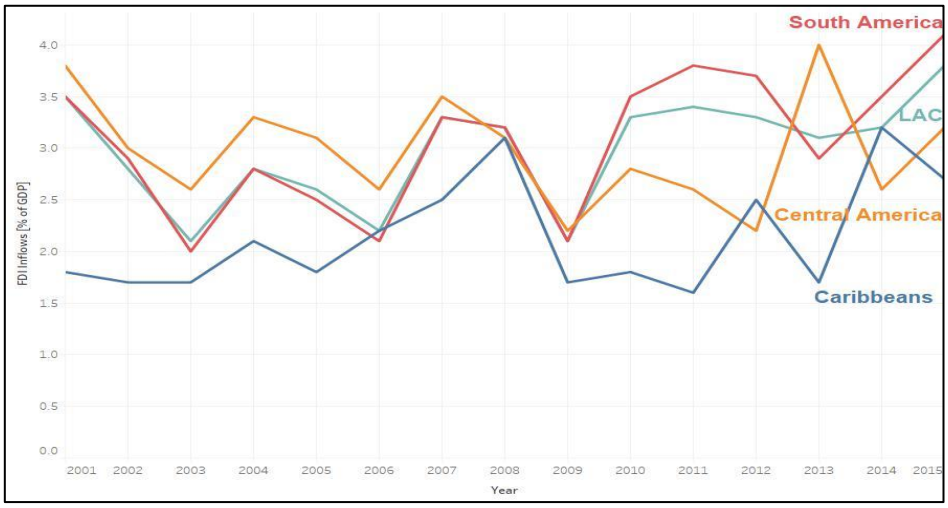
Source: World Economic Outlook, IMF, 2018

With the onset of the phase of buoyancy, the region had become $3 trillion dollar economy in 2005, and swiftly joined the league of $4 trillion economy in 2011. History did not repeat itself to have the Latin America and Caribbean region as a $5 trillion economy in 2017 or before owing to the persistent global recession. High degree of growth volatility in the LAC was mostly due to South America. From the years of global buoyancy to recession, Central America and Caribbean maintained moderate to high growth performance with certain level of aberrations in specific years; including those of 2009 and 2016. Despite moderate to high rate of growth of Central America and Caribbean sub-regions, declining trend of LAC's real GDP could not be arrested.

FDI inflows have been robust in the LAC region compared to other regions of the world. Unlike several other regions of the world, FDI inflows in LAC exceeded $1 trillion in 2008 and approached towards $1.5 trillion in 2012.The net FDI inflows to GDP ratio increased from 2 per cent in 2003 to 2.8 per cent in 2004 and further to 3.3 per cent in 2007, as shown in Figure 2.3. The net FDI inflows to GDP ratio improved further during the period of

recession. This ratio remained robust for South America, followed by Central America and Caribbean throughout 2000s. Like other macroeconomic variables, FDI inflows grew rapidly at the rate 5.43 per cent during 2008-12, but declined at the rate of -6.35 per cent during 2012-16. Therefore, during the entire period of recession (i.e. 2008-16), the overall growth rate of LAC inward FDI was negative (i.e. -0.83).

Figure 2.3: Robust FDI Inflows



Source: World Economic Outlook, IMF, 2018.

South America continued to have Lion's share in inward FDI in the region, sharing around 83-87 per cent of the total FDI inflows during 2007-16. Share of Central America in inward FDI was larger than that of Caribbean during the years of global buoyancy. During the period of recession, particularly the second phase, share of Central America and Caribbean in the total regional inward FDI started declining, but there was a remarkable improvement in 2016. The process of recovery in investment flows started in the region, and this could be seen from the improved ratio of inward FDI flows to GDP ratios of Central America, South America and whole of LAC region, as shown in Figure 2.3. Inflow of FDI remained robust in the LAC region, which was due to continuous liberalisation taking place in different countries, irrespective of their trade policy orientations. Though several large countries in the LAC region pursued inward trade policies, number of them followed liberal policies and also undertook sweeping reforms to attract FDI. Many of them have been successful in attracting FDI during the period of recession.

Macroeconomic Profile of India and LAC countries

There have been considerable variations in the macroeconomic accomplishments of the economies in LAC. As the consequence of the second phase of recession, the economic

performance of these countries was dismal. In terms of macro-economic indicators, Latin American and the Caribbean region as whole is comparable with India. So far as the size of the countries, of the region, are concerned, macroeconomic indicators, such as GDP, population, geographical area, trade, etc., regional economies are highly skewed, as has been presented in Table 2.2.

Table 2.2: Macroeconomic Profile of LAC countries and India, 2017

Country	GDP (cons. 2010 US$) (Bn)	GDP (curr. US$) (Bn)	GDP PC (curr. US$) (Thou)	Population (Mn)	Land area (Mn km^2)	Merc. exports (current US$)	Merc. imports (current US$) (Bn)	Service exports (BoP, curr. US$) (Bn)	Service imports (BoP, curr. US$) (Bn)
India	2630.9	2600.8	1.9	1339.2	3.0	298.4	447.2	185.3	109.4
Antigua & Barbuda	1.4	1.5	14.8	0.1	0.0	0.0	0.6	0.9	0.4
Argentina	460.3	637.4	14.4	44.3	2.7	58.4	66.9	14.2	24.1
Bahamas	10.5	12.2	30.8	0.4	0.0	0.6	2.9	2.8	1.9
Barbados	4.8	4.7	16.4	0.3	0.0	0.4	1.7	1.4*	0.7*
Belize	1.6	1.9	5.0	0.4	0.0	0.4	0.9	0.6	0.2
Bermuda	5.2*	5.6*	85.7*	0.1	0.0	0.0	1.2	1.4	0.9
Bolivia	27.9	37.5	3.4	11.1	1.1	7.7	9.3	1.4	3.1
Brazil	2278.9	2055.5	9.8	209.3	8.4	217.8	157.5	34.5	68.3
Chile	271.9	277.1	15.3	18.1	0.7	68.3	65.2	10.1	13.2
Colombia	373.5	314.5	6.4	49.1	1.1	37.8	46.1	8.4	12.5
Costa Rica	48.1	57.3	11.7	4.9	0.1	10.3	15.3	8.7	3.7
Cuba	75.6	96.9	8.4	11.5	0.1	2.6	10.9	-	-
Dominica	0.5	0.5	6.7	0.1	0.0	0.0	0.2	0.2	0.1
Dominican Rep.	77.0	75.9	7.1	10.8	0.0	10.3	18.1	8.8	3.5
Ecuador	87.4	104.3	6.3	16.6	0.2	19.1	20.0	2.3	3.3
El Salvador	22.1	24.8	3.9	6.4	0.0	5.8	10.6	2.6	1.9
Grenada	1.0	1.1	10.5	0.1	0.0	0.0	0.4	0.5	0.2
Guatemala	52.8	75.6	4.5	16.9	0.1	11.0	18.4	2.9	3.3
Guyana	3.0	3.6	4.7	0.8	0.2	1.5	1.6	0.2†	0.4†
Haiti	8.0	8.4	0.8	11.0	0.0	1.0	3.6	0.5	1.1
Honduras	20.5	23.0	2.5	9.3	0.1	8.6	11.4	2.9	1.9
Jamaica	14.0	14.8	5.1	2.9	0.0	1.3	5.7	3.5	2.4
Nicaragua	12.5	13.8	2.2	6.2	0.1	5.2	7.1	1.6	1.0
Panama	47.2	62.3	15.2	4.1	0.1	11.5	20.3	13.4	4.7
Paraguay	36.3	39.7	5.8	6.8	0.4	8.7	11.9	1.1	1.2
Peru	198.5	211.4	6.6	32.2	1.3	44.9	39.9	7.0	8.8
St. Kitts & Nevis	0.9	1.0	17.9	0.1	0.0	0.1	0.3	0.5	0.2
St. Lucia	1.5	1.7	9.7	0.2	0.0	0.1	0.7	0.9	0.4
St. Vincent & Gren.	0.7	0.8	7.1	0.1	0.0	0.0	0.3	0.2	0.1
Suriname	4.5	3.0	5.3	0.6	0.2	2.1	1.3	0.1	0.5
Trinidad & Tobago	21.0	22.1	16.1	1.4	0.0	7.0	5.9	1.1	3.2
Uruguay	49.6	56.2	16.2	3.5	0.2	7.9	8.5	4.8	3.6
Venezuela	421.4#	482.4#	15.7#	32.0	0.9	31.6	10.5	1.3†	9.5†

Source: World Development Indicators, World Bank, 2019.
Note: * represents data for 2013, † denotes data for 2014 and # for 2016.

Countries in LAC region may vary in terms of their performance indicators; almost all of them are in the middle -income group and some are in the upper middle-income group. The region has maintained trade openness in goods sectors, which is very much similar to India. By any macroeconomic benchmark, Brazil is the largest economy in the region (i.e., GDP, population, trade, area, etc.), and also has the large trade surplus with the rest of the world. Several large to moderate level of economies experienced trade deficit with the rest of the world despite continued recession in 2017. This indicates that the region has a large arena for furthering trade activities with India. A few countries are comparable with India in terms of

their robust economic activities; these are Argentina, Brazil, Chile, Panama, Peru, etc. among others. Considering the size of LAC region, there can be greater possibility to have enduring bilateral engagements in future with India.

Changing dynamics of macroeconomic indicators of the region is on account of trade policies of the individual countries, shifting regularly with changing domestic and global situations. Trade policies of countries in different trade regimes are discussed in the following section.

2.3 Evolving Trade Policies in LAC

Trade policy analysis is important for India's long- term engagement with LAC countries for several trading arrangements. LAC has two types of countries as far as their trade policies were concerned in 2000s. While a few countries pursued inward oriented policies like Brazil, Argentina, Venezuela, etc. Other countries were liberal with varying degrees. Ten countries have emerged as important for India's future engagement with the Latin American region, and some of these countries are inward oriented. In case India has to deal with countries from both the trade regimes, a brief understanding about their trade policies would be required. We need to understand positive as well as downside risks involved in them to shape the future strategy of the country. This would help in gauging the extent of market access that would be accrued for India in goods, services and investment sectors. There are, however, symmetries in policies between countries which are in same trade regime. Of course, country- specific variations may be there. While examining trade policies of India's most important trading partners in LAC, we have analysed separately trade policies of inward and outward oriented policy regimes to the extent possible.

Brazil is largely an inward oriented economy, but has taken some steps to facilitate trade, such as ratifying WTO's trade facilitation agreement, depositing its instrument of acceptance of the Fifth Protocol on Financial Services and upgrading its single window and authorized economic operator programme. Another inward oriented economy, Argentina, actively uses trade policy measures as instruments to attain its long and short term objectives, such as promoting overall economic growth and containing inflation. It has designed its trade policy to boost exports and promote domestic production through import substitution. It uses mechanisms such as export duties, registration requirements and import licensing to achieve desired results. This requires constant policy adjustment, which increases complexity of the trade regime, makes it less predictable and generates additional costs for the economy. Venezuela is an inward oriented economy, and has increased the use of non-tariff measures

including contingency measures, local preferences in government procurement, preferential credit schemes, technical regulations and minimum local requirements. Ecuador is a fairly open economy, and has passed new legislations in several trade and trade-related areas. The country has undertaken a number of modernisation efforts to facilitate trade, such as computerised customs clearance and elimination of pre-shipment inspections. The Dominican Republic has an open economy and formulation and implementation of its trade policies are closely coordinated among the different ministries and agencies. This improves transparency, and enables the county to develop coherent policies and positions reflecting consensus among the institutions.

Both Colombia and Chile are outward oriented economies, having implemented a number of trade facilitation measures. For instance, Chile has standardised its custom procedures for some custom destinations, and has set-up a single window for definitive imports, implemented the SIBEX module for exports and created tax and customs courts (TTA) for ensuring impartiality of decisions regarding complaints brought before the National Customs Service. Colombia has also simplified its customs and administrative procedures by establishing a single window for imports and exports and a system of risk analysis. This has reduced the frequency of inspection. In Chile, however, importers are still required to use the services of a customs agent for inward clearance of imported goods when their f.o.b. value exceeds US$ 1000, and the customs agents must be Chilean citizens.

Guatemala, which is also outward oriented, has intensified its trade liberalisation and economic reforms efforts further by eliminating export performance requirements for production under the free zones and maquila regimes. The country had adopted an Integrated Policy on Foreign Trade, Competitiveness and Investment in 2012 with the aim to improve its competitiveness, broaden and diversify its range of exportable products, consolidate openness and to access international markets and promote foreign trade and investment opportunities. It also adopted a number of trade facilitation measures, such as better utilisation of risk management systems, implementation of a computerised clearance process, one-stop window for exports and a streamlined window for imports and transits. Costa Rica has maintained an open trade and investment regime. Its foreign trade policy is designed to expand its trade platform through stronger multilateral rules and new bilateral agreements by introducing domestic reforms to take full advantage from those agreements. It has introduced a number of measures to liberalise its trade regime and facilitate trade. Peru has made a number of changes to its trade policies and practices by introducing laws on customs.

2.3.1 Tariffs

Tariff is one of Brazil's main trade policy instruments, and it applies the Mercosur Common External Tariff (CET). Argentina's tariff structure has undergone significant changes with the elimination of the minimum specific import duties (DIEMs) that affected 8 per cent of the tariff lines. The average MFN tariff rates in Chile are 6 per cent, and it still applies a price band system, which makes its tariff procedure more complex. The price bands result in zero rates but its existence has led to uncertainty among potential exporters, and has reduced transparency of Chile's tariff policy. The average tariff rate of Colombia declined considerably between 2008 and 2012. It has reduced tariff protection considerably and has implemented a tariff reform to reduce dispersion of tariffs. It still uses reference prices to check the value reported by importers during the customs inspection process. The applied tariff rates in Guatemala, which has an open trade regime, are relatively low with an average MFN applied rate of 3.05 per cent in 2015. Tariffs are the main trade policy instruments of Costa Rica, which is an outward oriented economy. Peru has a liberal policy with one of the lowest tariff rates in the region but it still applies a system of price bands on some agricultural goods, which reduces transparency dimension of its tariff structure. The tariffs of Dominican Republic are relatively low and all tariff lines are subject to ad valorem tariffs.

Tariff Rates

Brazil's applied MFN tariff is entirely ad valorem and comprises 19 bands (WTO, 2017b, WTO, 2017d). The tariff rates range from 0 to 55 per cent. The simple average MFN applied tariff declined slightly between 2012 and 2017. However, applied MFN tariffs on 134 tariff lines exceed the bound rate. This is mainly due to CET commitments of Brazil. In such cases, the importer may request application of the bound rate. With the elimination of the DIEMs, Argentina, at present, applies only ad valorem tariffs. Tariff protection in Argentina increased between 2006 and 2012 with simple average MFN tariff rates increasing from 10.4 per cent to 11.4 per cent; 73 per cent of the tariff lines were subject to tariff rates of 15 per cent or low and 4.2 per cent of the lines were subject to a tariff rate of 35 per cent. The highest tariff protection was received by sectors including textile and clothing sector, footwear, certain vehicles and oilseeds. The country does not apply tariff quotas on MFN imports but it uses preferential tariff quotas in certain trade agreements. Argentina continues to apply export duties to almost all its exports. To promote exports, the country has also introduced a number of tariff concession schemes, such as several investment promotion programmes, temporary

admission regime, in-factory customs regime, free zone regime and special customs zones. Venezuela is an inward oriented economy which applies the Andean Community Common External Tariff, with some exceptions. The average applied MFN tariff was 12 per cent in 2015. In the moderately open economy like Ecuador, the average applied MFN tariff rates dropped from 11.4 per cent in 2005 to 9.3 per cent in 2011 as the result of the custom tariff reforms and changes in the type, level and distribution of duty rates; 95 per cent of the tariff rates were ad valorem, which contributed to the transparency of the tariff structure. Around 53.5 per cent of applied MFN tariff rates were in the range of zero to 5 per cent in 2011 with the peak ad valorem tariff rates applied to a few products such as meat offal, rice, and milk and milk cream. The structure of tariff rates in Ecuador has become more complex and dispersed with the increase in the number of ad valorem rates and adoption of compound duties.

Not considering the price band system, the tariff structure of Chile, which is an outward oriented economy, is extremely homogenous and consists of only two tariff lines of 0 and 6 per cent with 6 per cent rate on 99.6 per cent of lines and 0 per cent rate on only 35 lines. Tariffs applied in Colombia have been lowered for a large number of products; mainly industrial inputs and capital goods; they are generally ad valorem. Guatemala's tariff rates range from 0 to 40 per cent and all the tariffs are ad valorem. A zero rate is applied to 49.5 per cent of its tariff lines. The rates for other lines are 5, 10 and 15 per cent; with 15 per cent being the most common rate. Guatemala has bound its tariff lines, thus increasing the predictability of its tariff regime. The rates applicable to non-agriculture products were bound at a general level of 45 per cent, while agricultural products were bound at rates ranging from 10 to 257 per cent. In Costa Rica, all the tariff rates are ad valorem and the average applied MFN tariff was 6.9 per cent in 2013. The entire tariff schedule of the country is bound with an average bound rate of 44.1 per cent which is significantly higher than the applied rate. This reduces the tariff regime's predictability. Imports originating from Central American Common Market (CACM) are duty free and Costa Rica also grants tariff preferences to import from countries with whom it has FTAs. Peru is an active member in WTO and has unilaterally liberalised its trade regime through a reduction in MFN applied tariffs from an average rate of 8 per cent in 2007 to 3.2 per cent in 2012, and is one of the lowest in Latin America. One of the most important changes in Peru's tariff structure is the reduction of the maximum applied rate from 20 per cent in 2007 to 11 per cent in 2012. In addition, the percentage of duty free tariff lies also increased during the above period from 43.6 per cent to

55.9 per cent. However, Peru still applies a system of price bands on some agricultural goods, such as rice, sugar, maize and dairy products. The duties from the price band system vary according to the international price of the products concerned. This adds some opaqueness to the otherwise transparent and simple tariff structure. Peru has bound all its tariff lines at 0, 30 and 68 per cent. Agricultural goods receive the highest rate, in addition to some of them being under the price band system. The final rate cannot exceed the WTO bound tariff rate which is the maximum applied rate. The tariffs of Dominican Republic are relatively low and the average MFN tariff rate was 7.8 per cent in 2014. 54 per cent of the tariff lines are under zero per cent tariff. There are seven tariff rates ranging from 0 to 40 per cent excluding tariffs resulting from the application of quotas which have five rates from 56 to 99 per cent.

Agriculture Tariff

The average MFN tariff for agricultural products in Brazil is 10.2 per cent. The peak tariff rate of 55 per cent applies to imports of desiccated coconuts. In Chile the tariff protection for agricultural products is 6 per cent. Sugar is subject to MFN and preferential tariff quotas. Under the trade agreements signed by Chile, it has negotiated preferential tariff quotas for products such as beef and veal, poultry meat, pig meat and dairy produce. In Guatemala and Costa Rica, tariffs on agricultural products are higher than that for other products. Agriculture products in Guatemala are subject to an average tariff of 9.6 per cent with the maximum rate of 40 per cent applied on the imports of malt beer, vermouth and ethyl alcohol. In comparison, the average tariff on non-agricultural products, excluding petroleum is 5 per cent. Similarly, agricultural products in Costa Rica have an average tariff of 14 per cent while other products have an average tariff rate of 5.5 per cent. Certain agricultural products, such as meat, dairy, potatoes, onions, sugar and rice receive a higher than average tariff protection in Costa Rica. In Guatemala, around 93 per cent of the tariff lines are aligned to its Central American trading partners. Guatemala has undertaken a commitment in the WTO to open tariff quotas for 30 agricultural by-products. It has also opened tariff quotas for agricultural products in RTAs. Colombia uses the Andean Price Band System (SAFP) to apply import duties on a number of agricultural products. The duties vary according to the international prices of the products. Agricultural products have a tariff protection level of 14.5 per cent which is higher than other sectors such as manufacturing which has an average tariff rate of 4.9 per cent. The tariff protection provided to agriculture is higher than that of Brazil. The gap between agriculture and non-agriculture tariff rates in Colombia has been accentuated by the recent tariff reduction. Ecuador's average applied MFN tariff rate for all products and

industrial imports decreased between 2005 and 2011 but that of agricultural products increased from 16.7 per cent to 19.6 per cent. Dominican Republic provides limited support to its agricultural sector which is mainly in the form of higher than average tariff.

In case of Argentina, the average applied MFN tariff rates are lower for agricultural products than for non-agricultural products. In 2012, the average applied MFN tariff for agricultural products was 10.1 per cent which was lower than the protection of 11.5 per cent for non-agricultural products. Exports of agricultural products from the country are subject to duties ranging from 5 to 32 per cent. In Peru, the average MFN applied tariff on agricultural products was lowered from 12.9 per cent in 2007 to 3.9 per cent in 2013. One of the reasons for the decline was the elimination of the 20 per cent rate affecting mainly agricultural products, such as meat, dairy products, fruits and vegetables, cereals and food preparations. Peru also removed 5 per cent tariff surcharge which it applied on 392 ten-digit tariff lines. However, taking into account the price band system Peru applied on 47 ten-digit tariff lines which are related to rice, sugar, maize and dairy products, the average MFN tariff on agriculture products increases to 4.3 per cent. Also, the average MFN applied tariff on fish and fish products is 0.4 per cent in Peru, with a maximum rate of 6 per cent.

Brazil provides a low and decreasing level of support to its agricultural producers compared to other countries but it maintains several domestic support measures, including administered interest rate and concessional credit lines (e.g. under the equalization principle), price support mechanisms, and crop insurance premium support to which emphasis has lately been shifted. Colombia's agricultural sector also benefits from programmes of domestic support, preferential access to credit and debt refinancing programmes, subsidization of agricultural insurance and mitigation of exchange rate risk. Moreover, it uses price stabilization funds to help producers to cope with fluctuating world prices. Peru also supports it agriculture sector by using measures to facilitate access to credit and debt reduction programmes.

Manufacturing Tariff

The average MFN applied tariff for manufacturing products is 11.8 per cent in Brazil, 11.5 per cent in Argentina, 5.6 per cent in Guatemala, 4.9 per cent in Colombia, 6 per cent in Dominican Republic and 3.2 per cent in Peru. In Brazil, clothing & textiles and transport equipment sectors are benefitted, benefit from the highest tariff protection rate of 35 per cent. Brazil made several export incentives, remission of duties and taxes on exports under the Reintegra scheme permanent. Argentina assists the manufacturing sector through horizontal

fiscal incentive schemes and export promotion schemes. Tariffs, automatic and non-automatic licensing and contingency measures are used by the country to protect the manufacturing sector. Clothing is the main export product of Guatemala and it operates within the free zone and maquila regimes, under which it received subsidies till 31 December, 2015. The products with above average tariffs in Guatemala include foodstuff, beverages and tobacco; textiles, clothing and leather goods; and wood and wood products. The contribution of the manufacturing sector to Colombia's GDP has declined. This is largely due to the accelerated growth of mining. Colombia is seeking to implement a Productive Transformation Programme to promote the development of human capital and improve management and infrastructure, as well as to attract greater foreign investment and to formalize the activities of the informal sector. Peru has a diversified manufacturing sector which is led by food, chemicals, textiles and leather produces. The average MFN applied tariff on manufacturing products is 3.2 per cent in Peru with a maximum rate of 11 per cent for some textiles & clothing, and other manufacturing goods. The country is also taking a number of measures to encourage innovation and technological development in the sector.

2.3.2 Licence for imports

Brazil, Argentina and Colombia have a system of automatic (free import) and non-automatic (prior licence) licences for imports even though Brazil and Argentina are inward oriented and Colombia is an outward oriented economy. In Brazil, the licensing system is applied on various products, regardless of their origin. In 2016, 137 tariff lines were under automatic licensing while imports under at least 5460 tariff lines were subject to non-automatic licensing requirements which were equal to more than half of Brazil's total tariff lines. Non-automatic licenses are also used in the administration of duty and tax concessions for which imports need to go through a similarity exam to check if no equivalent domestic production exists. Import licences must be obtained prior to customs clearance. However, if non-automatic licensing requirements apply, importers are advised to obtain licence before goods are shipped. In Argentina, the number of products subject to import licensing increased during the period under review. Argentina eliminated the Prior Automatic Import Licence (LAPI) in 2012, and substantially reduced the number of tariff lines subject to automatic licensing. The use of non-automatic licensing increased in textiles and textiles articles, and machinery and mechanical appliances sectors. Products that are subject to non-automatic licensing in Argentina are also generally subject to specific technical regulations. In Colombia, the number of tariff lines subject to automatic and non-automatic licensing also

increased since 2006. In the case of automatic licensing, it increased due to a change in the tariff classification. While in the case of non-automatic licensing, it increased due to the fact that, since 2010, it was made essential to have a non-automatic licence to import certain precursors for the production of narcotic drugs. On the other hand, Guatemala does not have an import licensing system but the imports of certain products are subject to special administrative formalities, such as granting of prior import permits, as laid down in various laws and regulations. Sanitary or phytosanitary permits are also required for a certain number of products.

2.3.3 Non-tariff Measures

A: Sanitary and Phytosanitary

The sanitary and phytosanitary measures in Brazil and Guatemala are based on risk analysis. Brazil takes into account the import origin and product characteristics to assess the risks involved. It maintains an Importation Alert Regime (RAI) targeting foreign establishments whose shipments of animal products have been found to be non-compliant with Brazilian SPS requirements. The outward oriented economies, Chile, Colombia and Guatemala, do not have a single law governing the SPS system and the drafting and application of SPS measures is the responsibility of a number of authorities. In Chile, the drafts of SPS policies are based on international standards and are prepared by technical committees which are then put up for public consultation while simultaneously being notified to the WTO. In Colombia, the Inter-sectoral Sanitary and Phytosanitary Measures Commission guides and coordinates policy on SPS and a number of Ministries fall under it. Various institutions and agencies are assigned to each Ministry and their task is to implement the policies. The Colombian SPS system operates on the principle of harmonization of policy in different sectors, in particular agriculture, public health, environment, trade, regional authorities and the private sector. The Ministry of Trade, Industry and Tourism in Colombia is responsible to notify the WTO of SPS measures and Colombia submitted 231 SPS notifications between April 1997 and December 2011. In Guatemala, SPS drafts are drawn up by various authorities with competence in the different aspects involved and it notified 18 SPS measures to the WTO between 2009 and February 2016. The country does not prohibit the import of genetically modified products. Costa Rica and Peru have a sound legal and institutional framework for the development and application of SPS measures. Costa Rica has made progress in harmonising SPS regulations with its CACM partners and has reached agreements on the

equivalence of SPS inspection systems with other trading partners. Peru has three national authorities with competence for SPS matters which are responsible for issuing and implementing regulations in their respective areas, which includes animal and plant health, fisheries and aquaculture, and industrially processed food. During 2008-14, the Dominican Republic submitted 82 notifications on SPS measures to the WTO Committee.

B: Technical Barriers to Trade

Brazil's approach to granting equivalence is based on the acceptance of test results, without explicit recognition of foreign technical regulations. Most technical regulations enacted in Brazil are based on international or MERCOSUR standards. When this is not the case, they are based on performance criteria. The Regulation Directorate of the Ministry of Trade, Industry and Tourism in Colombia is responsible for applying the Agreement on TBT. Guatemala submitted 35 notifications to the WTO Committee on Technical Barriers to Trade between 2009 and April 2016. Most of them were related to draft regulations prepared by the Ministries of Economy, Agriculture and Public Health. The Dominican Republic submitted 77 notifications to the WTO TBT Committee between 2008 and 2014.

Technical Regulations

In Chile, the legal framework for drafting and application of technical regulations, standards and conformity assessment procedures are transparent and open and the regulatory agencies are required to publish them on their website. Chile also has a Technical Regulations Gateway which centralises this information. Compliance with technical regulations for both domestic and imported products is verified after the products are placed in the market but for some specific imports like foodstuffs, beverages, medicines, weapons, radioactive substances, electrical goods and fuels, verification takes place at the border. Unlike Chile where technical regulations are issued at the Central Government level and drafted by the responsible government bodies, the task of preparing technical regulations is not centralized to a specific body in Colombia. The regulations may emanate either from the standardization institute ICONTEC, or from ministries, regulatory commissions and decentralized bodies. Each body has its own specific internal procedures for issuing them but in 2009 a procedure has been agreed upon that is based on good technical regulation practices. In Guatemala, the National Quality System is responsible for promoting and coordinating standardization, metrology, accreditation, conformity assessment and technical regulation activities. The country does not have an automatic mechanism for eliminating technical regulations. Out-of-date regulations

are repealed by a government decision and are replaced, where appropriate, by updated regulations. Costa Rica has a sound legal and institutional framework for the development and application of technical regulations and has made progress in harmonising these regulations with its CACM partners. Dominican Republic made substantial changes to the way it drafted and administered technical regulations, standards and conformity assessments procedures. The development and implementation of technical regulations now comes under the responsibility of different ministries and they must be based on national or international standards. By December 2014, the country had 169 technical regulations in force.

C: Anti-dumping measures

Brazil is a significant user of trade remedies, particularly anti-dumping measures. During the period under review 123 new AD investigations were initiated in Brazil. Argentina is also a significant user and applied 57 anti-dumping measures between 2006 and 2011. However, it did not initiate any investigations nor apply any countervailing measures Chile's anti-dumping and countervailing duty legislation is not very trade restrictive. The measures may only last one year and may not be renewed. Between 2009 and 2014, Chile initiated 8 AD investigation. Colombia continued having recourse to anti-dumping measures during the period under review. As on 31 December 2011, Colombia had 12 AD measures in force, all of which were applied to imports from China. In the same period, no countervailing or safeguard measures were applied and no related investigations were initiated. Dominican Republic initiated two anti-dumping investigations concerning steel rods during 2008-14 and in both case duty in addition to MFN rate was imposed for a period of five years. Guatemala did not use any safeguard, anti-dumping and countervailing measures during the period under review. Costa Rica is also not a frequent user of trade defence measures and applied only a couple of anti-dumping measures in the period under review.

Brazil amended the regulatory framework for investigation and application of AD measures in 2013 to strengthen trade defence. The main innovations include mandatory preliminary determinations, refinements to the definition of domestic industry, a lower industry representativeness threshold for the admissibility of AD investigation requests, retroactive application of AD duties, and formalization of on-site investigation procedures. Brazil has also being carrying out administrative procedures relating to AD investigations electronically since end-July 2015. Argentina has also introduced a new legislation to regulate investigations and review of existing measures. Outward oriented economy, Chile, introduced

a number of legal amendments during the review period to further limit the use of anti-dumping and countervailing measures by shortening the maximum period for an investigation.

D: Safeguards

Chile's safeguard legislations were changed to extend the application and renewal periods from one to two years. These limits are still lower than those in the WTO Agreement on Safeguards. Some of the RTAs signed by Chile exempt the parties from imposition of global safeguard measures adopted within the WTO framework, although in its most recent RTAs there are no such exceptions. Peru has a legislation establishing the procedures for implementing bilateral safeguards provided in the regional agreements it has signed. Between 2007 and 2012 Peru initiated only one investigation with a view to the application of a general safeguard measure to imports of cotton yarn but it ended without any measures being applied. Moderately open economy, Ecuador applied a safeguard measure against the import of windshields other than those from developing countries except for Colombia and also applied safeguard measures for balance of payment purposes. These were applied in the form of quantitative restrictions and tariff surcharges. Dominican Republic initiated five safeguard investigations during 2008-14 and in three of the cases definitive countervailing duties were imposed. These expired by December 2014.

E: Import licensing requirements

The general trend in Colombia is to move towards greater openness and to reduce obstacles that affect trade. However some non-tariff barriers are still in place which are mainly related to registration and import licensing requirements. Also, there are large number regulations which make the trade regime more complex. Colombia prohibits the import of certain goods on the grounds of public health or morality, to protect the environment, to protect national security and to meet the commitments in international agreements to which it is a signatory.

F: Standards

The general rule in Colombia is that of export freedom but under certain circumstances the government may issue standards to regulate trade to enable the economy overcome any external or internal circumstances that are adverse to Colombia's trade interests. For instance, Colombia applied temporary quotas on the export of cattle (female) on the hoof to guarantee national herd replenishment and improve the exportable supply of meat and meat products. In

Costa Rica, certain exports, such as coffee, bulk sugar, fish, molluscs and crustaceans are subject to authorisation for public health, environment protection and quality assurance reasons. Ecuador applied temporary export prohibitions on rice and quantitative restrictions on exports of waste and scrap of certain ferrous and non-ferrous metals to ensure domestic supplies and encourage domestic processing.

2.3.4 Services

Services play an important role in the LAC countries. Brazil, Chile and Colombia, are net importers of services. The main drivers of the deficit were leasing and travel services in Brazil; other services (professional, financial and insurance services) in Chile; and transport services in Colombia. The sector is a key component of Brazil's export competitiveness and a major contributor to its gross value added. Brazil's main services exports are of management and management consulting. The largest contributors to Colombia's GDP in services were financial and trade services. In addition, the Costa Rican services exports, in particular computer services and other business services are extremely dynamic which has resulted in the country having a surplus trade balance in services.

The LAC countries have undertaken a number of policy reforms in the service sectors. For instance, in the air transport sector, Brazil has undertaken a number of initiatives to address transport and related infrastructure bottlenecks. Chile has also introduced policies to strengthen its cabotage policy in air transport and to allow foreign companies free access without reciprocity, while Costa Rica has concluded new bilateral air transport agreements with a number of countries. Chile has a diversified financial sector and it has made a series of proposals to adapt its banking rules to the Basel III criteria. Colombia introduced reforms in the regulatory framework and prudential criteria of its financial services sector which resulted in sound prudential indicators of financial institutions. Peru has lowered its tax rates on financial transaction. In the telecommunication sector, Brazil has strong market competition which has encouraged the improvement of the quality and tariffs of telecommunication services. Both Brazil and Chile have established a framework for the use of the internet. Under the 2013 More Doctors Programme, foreign doctors are allowed to work in Brazil without meeting the standard requirements. Argentina has made specific commitments regarding a number of professional services under GATS, including legal, accounting, engineering and architectural services. The telecommunications sector in Costa Rica has

become highly dynamic with the end of the State monopoly in mobile telephony, internet and private networks.

2.3.5 Investment

The LAC countries under consideration are open to and encourage inward FDI. The main recipients of FDI in Brazil were the commerce, oil and gas and financial services sectors. The mining sector received the largest share of FDI in both Chile and Colombia. There are, however, certain sector specific foreign ownership prohibitions and limitations in the countries. For instance, foreign investment is restricted in postal services and nuclear energy in Brazil and in the fisheries sector, mass media, purchase of land and real estate in certain areas and cabotage services in Argentina. Chile, Colombia and Dominican Republic grant national treatment to foreign investors and foreign investment is permitted in most sectors except coastal shipping, air transport and communications media in Chile; activities pertaining to national defence and security, processing, disposal and elimination of toxic waste in Colombia; and management of toxic, hazardous or radioactive waste produced abroad, public health, environment, and weapons production in Dominican Republic. Costa Rica has relatively few restrictions on FDI and these are related to the energy, mining, fishing and certain services sectors. Guatemala allows foreign investors to participate without any quantitative restrictions in almost all economic activities except for certain sectors in which restrictions are laid down by the Constitution or the laws regulating specific economic activities; for example exploitation of forestry resources is reserved to Guatemala natural or legal persons. Brazil has designed a new model of investment agreements, the Cooperation and Facilitation Investment Agreement (CFIA), which would replace the bilateral investment agreements (BITs). It is based on UNCTAD and OECD guidelines and has been used by Brazil to negotiate and sign a number of bilateral investment promotion and protection treaties. Chile has also announced the presentation of a draft law defining a new legal framework for foreign investment in the country.

There is substantial foreign investment in various services sectors in the LAC countries. Access to the market is free of restrictions except in certain sectors where some conditions or requirements are imposed. The financial sector in Chile has a significant level of foreign participation in the banking, insurance and pension funds sectors. The financial sector in Colombia is open to foreign investment and there are no legal limitations on foreign capital holdings in commercial banks or insurance companies. There are no restrictions on foreign

investment in the telecommunications sector in the outward oriented economy, Guatemala. The LAC countries have further opened certain sectors to FDI and have also introduced policies to promote foreign investment in particular areas. For instance, Brazil has further opened certain healthcare services to FDI, Colombia introduced a new law to promote investment in the telecommunications sector and Guatemala adopted a law to authorise the entry of branches of foreign insurance and reinsurance companies into the domestic market. Costa Rica has liberalised its insurance sector, certain telecommunication services and lifted restrictions on foreign investment in Costa Rican airlines. Peru has eliminated restrictions on foreign participation in radio broadcasting services.

2.3.6 Regional Trade Agreements

The outward oriented economies, Chile, Colombia, Costa Rica, Guatemala, Peru and Dominican Republic have continued to intensify their open trade strategy by focusing on concluding and negotiating trade agreements. Chile has one of the most agreements and trading partners. Between 2009 and 2015, it concluded free trade agreements with Canada; China (services and investment); Hong Kong, China; Malaysia; Thailand; Turkey, and Viet Nam. It is continuing to negotiate the Trans-Pacific Partnership (TPP) to integrate the Asian and Pacific regions. It participated actively in the Pacific Alliance negotiations, and has continued to liberalise trade in the framework of APEC. In 2010, Chile became a member of the Organisation for Economic Co-operation and Development (OECD), having introduced a number of far-reaching reforms to its domestic legislation and practices. Colombia's trade policy is mainly focused on the negotiation of preferential agreements. The Trade Promotion Agreement between Colombia and the United States was signed in November 2006, incorporated in Colombian legislation in 2007 and approved by the United States Congress in 2011. Costa Rica has continued to liberalise its trade regime by participating in preferential trade agreements. RTAs have becoming a major part of Guatemala's trade policy and the country's trade with partners with which it had RTAs accounted for 83.4 per cent of its exports and 75.3 per cent of its imports in 2015. It is a member of the Central American Common Market (CACM), the Free Trade Agreement between the Dominican Republic, Central America and the United States (CAFTA-DR) and the Association Agreement between Central America and the European Union. Under CACM, Guatemala negotiated a trade agreement with Mexico which entered into force in 2013. It also has RTAs with the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei) (2006), Colombia (2009), and Chile (2010). Costa Rica is also a member of CACM along with

Guatemala, Nicaragua, Honduras and El Salvador. The CACM member countries have harmonised 93 per cent of their common external tariff, strengthened Central American investment regulations and taken steps to facilitate trade among them, such as the simplification of customs and transit procedures, and the harmonization of technical regulations and SPS measures. Peru has actively participated in RTAs and entered into 14 new RTAs during the period under review with several more under negotiation. Dominican Republic participates in four FTAs, namely CAFTA-DR, Economic partnership agreement between the European Union and CARIFORUM, and FTAs with CARICOM and Central America. It also has a partial scope agreement with Panama which gives tariff preferences to some goods. CAFTA-DR is one of the most important FTAs for the country since it involves its largest trading partner, the U.S., and it had to amend its legislation in a number of area for implementing it.

Inward oriented economy, Brazil continues to work on strengthening regional economic integration through RTAs negotiated within the framework of the Southern Common Market (MERCOSUR) and the Latin American Integration Association (LAIA). Argentina also being a member of MERCOSUR and LAIA, has signed a number of agreements under them. Venezuela which is also an inward oriented economy participates in a number of regional integration agreements such as Andean Community, Group of Three and LAIA. It also participates in a number of preferential trade agreements with the countries in the region. Moreover, Brazil has placed emphasis on RTAs negotiated with trading partners outside the region. During the review period, three agreements entered into force (Bolivarian Republic of Venezuela, Guyana/Saint Kitts and Nevis, and Southern African Customs Union), four were concluded with their entry into force pending (Egypt, Colombia, Palestine, and Peru), and two (European Union, and Mexico) are still being negotiated. MERCOSUR is Brazil's main preferential agreement in terms of value of trade, accounting for more than 10 per cent of its merchandise trade. Costa Rica is also expanding its network of regional and bilateral agreements not only with countries that are its traditional trading partners in the Americas but also with countries in Europe and Asia.

2.4 Asymmetrical Tariff Liberalisation in the Region

2.4.1 Overall Situation

LAC region responded positively to the global business cycle in managing their level of protection in various sensitive sectors. Though an imprint of trade liberalisation is aptly

reflected in the region, but response of different sub-regions within LAC has been different during the 2000s. Despite the world economy passed through the phases of global buoyancy and recession, the LAC region maintained moderate level of tariff protection during last two and half decades and region's average level of tariff remained less than 10 per cent since 2003 as shown in Table 2.3. During the global buoyancy, average level of tariff declined marginally for the continent, but significant changes in the average tariff rate declined between 2007 and 2008, perhaps on account of unaware of the intensity of ensuing global recession. Protectionism picked-up during 2008-12 due to continuation of recessionary business cycle, and some level of protectionism continued at the continent level till 2015. Tariff profile of sub-regions differs to a large extent during different phases of the global recession. Different sub-regions responded to continuation of recession differently. Average tariff rate of Central America remained lower than average rate of tariff of South America and the Caribbean since 2003.

Table 2.3: Overall Import Weighted Tariff of LAC

Region	2003	2007	2008	2012	2015
LAC	9.3	9.1	8.6	8.7	8.7
South America	9.7	9.6	8.9	8.9	8.9
Central America	6.3	6.4	6.4	6.4	6.0
Caribbean	10.3	9.5	8.8	9.5	10.3

Source: Trains WITS, United Nations, 2018
Note: Mexico is not included in LAC and Central America

For the analytical purpose, countries in the LAC region are grouped into three on the basis of their tariff regimes. From total of 34 LAC countries reported to the UN about their detailed tariff profile, 13 of them are turned out to be outward oriented (i.e., overall tariff ranging between 2-6 per cent), 14 countries of the moderately protected (i.e., 6-9 per cent) and 7 countries inward oriented economies (i.e., 10 per cent or more) in 2015 as shown in Table 2.4. Since 2003, the world economy witnessed three trade regimes: a) global buoyancy (2003-07), b) early phase of recession (2008-12) and c) latter phase of recession (2013-18). In order to examine responses of individual countries to three different trade regimes of the global economy, we have taken tariff data at 6-digit for 34 countries for the years 2003, 2007, 2008 and 2015.

Table 2.4: LAC Countries Overall Tariff

(in %)

Country	2003	2007	2008	2012	2015
Inward Oriented Economies					
Argentina	13.08	8.96	8.72	9.64	12.76
Bahamas	32.40	32.09	39.73	39.73	38.26
Bermuda	20.11	20.14	20.15	19.80	19.76
Brazil	12.95	11.74	12.34	12.63	12.62
Cuba	10.43	10.33	10.33	10.26	9.88
Montserrat	7.07	7.07	7.07	7.07	10.17
Venezuela	10.69	10.87	10.90	10.90	11.87
Outward Oriented Economies					
Chile	5.92	5.99	6.00	5.99	5.99
Colombia	10.05	10.08	9.98	3.89	3.66
Costa Rica	3.86	3.06	3.78	2.95	2.96
Dom Republic	6.05	4.08	5.97	4.24	4.24
El Salvador	4.02	3.09	3.10	3.19	3.16
Guatemala	3.45	3.04	3.03	3.10	3.05
Haiti	1.35	1.34	1.34	1.31	3.47
Honduras	3.28	3.05	3.05	3.11	3.10
Jamaica	4.19	4.18	4.18	7.97	4.87
Nicaragua	2.56	3.03	3.00	3.12	3.08
Panama	5.51	5.23	5.18	5.05	4.78
Peru	7.91	7.88	3.50	2.26	2.06
St. Lucia	5.91	5.89	8.04	8.04	5.81
Moderate Economies					
Antigua & Barbuda	7.78	7.90	7.90	8.14	7.87
Barbados	9.05	9.44	8.04	8.04	8.57
Belize	8.00	7.92	7.92	7.83	8.31
Bolivia	7.93	6.69	6.66	7.99	8.25
Dominica	6.68	6.72	7.92	7.92	6.59
Ecuador	9.09	9.08	7.58	5.96	6.83
Grenada	8.33	7.99	7.99	8.05	8.33
Guyana	8.23	7.46	7.45	7.45	7.45
Paraguay	10.70	7.62	7.44	7.32	7.06
St. Kitts and Nevis	7.32	7.02	7.02	8.06	6.87
St. Vincent & Gren.	7.72	7.72	7.90	7.90	7.68
Suriname	7.74	7.74	7.89	7.91	7.91
Trinidad & Tobago	5.02	4.20	4.20	8.12	8.12
Uruguay	11.16	7.93	7.73	7.71	7.75

Source: Trains WITS, United Nations, 2018

During the period of global buoyancy (2003-07), tariff reduction was visible in all countries in the LAC region except Nicaragua and Venezuela. During this period, deep cut in tariff rates was noticed in selected countries like Argentina, Dominican Republic, Paraguay and Uruguay. Emergence of recession in 2008 generated mixed responses in LAC economies in terms of reacting to changes in the global protectionism. With the onset of recession in 2008,

escalation of tariff rates was noticed in case of 11 countries and declined of tariff rates in case of 9 countries. Decline of tariff rates during first phase of recession was significant in case of Peru, Barbados and Ecuador. During first phase of recession (2008-12), several countries had adopted protectionist policies and none of them liberalise their level of tariff protection. The level of protection increase significantly, in case of two countries, namely, St. Lucia and Trinidad and Tobago.

With the commencement of the second phase of protectionism, many countries started raising their average level of tariff, thus, contributing to prolongation of protectionism in the region. Despite continuation of protectionism across the globe in the second phase of recession, some countries in the region liberalise their trade regimes significantly than others. The response of LAC countries during the second phase of recession was mixed, despite prolongation of recession in the world economy. While 11 countries raised their average tariff rates, 9 countries lowered their level of protection. During this period, 4 countries, namely, Jamaica, St. Lucia, Dominica and St. Kitts & Nevis lowered their tariff rates significantly, whereas countries like Argentina and Haiti increased their average level of tariff to a significant level.

It may be noted that several countries maintained similar level of tariff regimes in the LAC region during the period of recession. While South America was moderately placed, Caribbean countries were highly protected during the same period. Average level of protection during the period of recession remained unchanged for South America, but increasing persistently for Caribbean States. From the phase of global buoyancy to the first phase of global recession, Central America maintained similar level of tariff protection and declined significantly in the second phase of recession. Countries specifics tariff performance would shed more light on inter-country variations in the level of average and sectoral tariffs.

2.4.2 Sectoral Tariff Protection in Countries

Tariff regimes differ significantly across LAC countries. Such reflections can be traced in average tariff protection in number of sectors, but there is some element of symmetry in sectoral tariff policies in different countries, depending upon trade orientation of individual countries, sectoral endowments and structural characteristics of countries in the region. As discussed earlier the region has 7 countries with high level of protection, 13 countries with liberal trade regime and 14 countries with moderate level of trade protection in 2015. We have chosen 2015 as the benchmark year for the analysis, because tariff data for several countries is not reported to the UN for 2016. The analysis for 34 countries is presented at the

sectoral level to understand dynamics of protection at the sectoral level. The level of protection for 34 LAC countries in the disaggregated primarily sector for the year 2015 is presented in Table 2.5.

Table 2.5: Simple Average Sectoral Tariff of LAC countries: Primary Sector, 2015

(in %)

Country	Animal Products	Fruit & Veg	Fats & Oils	Prep. Food	Minerals
Argentina	9.6	8.8	11.1	15.2	2.9
Bahamas	26.4	14.1	12.7	28.4	32.8
Bermuda	6.0	4.6	5.7	6.7	19.3
Brazil	9.6	8.8	10.2	14.9	2.9
Cuba	5.9	7.5	7.2	17.0	4.7
Montserrat	10.1	18.7	17.5	18.2	5.4
Venezuela	18.3	11.2	23.2	16.5	3.9
Chile	6.0	6.0	6.0	6.0	6.0
Colombia	16.9	13.4	16.3	14.5	0.7
Costa Rica	13.8	9.2	8.2	14.1	2.5
Dominican Republic	18.8	14.3	8.4	17.3	2.2
El Salvador	13.5	9.6	7.7	16.1	2.6
Guatemala	11.5	9.6	7.7	13.8	2.7
Haiti	3.1	9.6	3.0	12.1	2.2
Honduras	12.4	9.8	8.5	13.7	2.6
Jamaica	32.3	22.9	24.4	17.7	3.2
Nicaragua	12.4	9.7	8.6	13.9	2.7
Panama	15.6	9.9	8.6	12.3	6.3
Peru	1.3	4.6	2.6	4.0	2.2
St. Lucia	28.8	21.7	26.0	17.6	4.4
Antigua & Barbuda	22.6	20.5	25.6	15.5	3.1
Barbados	42.8	30.6	33.1	29.7	6.3
Belize	33.3	23.9	10.6	23.8	6.1
Bolivia	16.2	12.0	12.4	16.1	6.5
Dominica	26.8	25.6	27.9	32.5	5.2
Ecuador	26.7	17.5	15.6	25.0	1.2
Grenada	31.0	22.3	24.0	17.7	6.2
Guyana	32.3	22.2	27.6	22.7	6.1
Paraguay	9.5	8.5	9.6	14.4	2.9
St. Kitts & Nevis	11.4	13.2	21.8	16.7	2.3
St. Vincent &Gren.	25.3	22.2	26.7	16.8	5.9
Suriname	28.3	21.8	27.4	18.6	5.9
Trinidad & Tobago	29.2	21.7	27.4	16.1	6.6
Uruguay	9.6	8.3	10.4	14.6	2.9

Source: Trains WITS, United Nations, 2018

The region shows that live animal and animal product sector is highly protected in the region, particularly in inward oriented and moderately protected economies. Interestingly, protected economies like Argentina, Brazil, Cuba and Bermuda have maintained low level of tariff in

the sector as compared to regional average. In the agricultural sector, processed and prepared food sector is highly protected like live animal and animal product sector. Three countries namely, Peru, Chile, and Bermuda have posted low level of tariff as compared to the regional tariff. In case of fruits and vegetable the region has mixed responses in terms of level of protection. The sector is liberalised mostly in outward oriented economies and half of inward oriented economies including Brazil, Argentina, Cuba and Bermuda in the region.

As moderately protected economies Paraguay and Uruguay have maintained low level of tariff, may be due to their linkages with Mercosur. Process and prepared food sector was highly protected sectors irrespective of trade regimes existing in different parts of the LAC region except for countries like Peru, Chile, and Bermuda. As part of primary sector, mineral sector was fully liberalised in the entire LAC region except for Bermuda and Bahamas. Live animal and animal products and prepared food sectors were extremely protected whereas mineral sector was significantly liberalise. India can face liberal trade regimes in fruits and vegetables as well as animal fats and oil in liberalised economies and some highly protected countries like, Argentina, Brazil, Cuba and Bermuda.

In the light of non-metallic manufacturing sector, level of trade protection is somewhat liberal in the region as shown Table 2.6. In inward oriented economies, all those sectors are protected except for a few sectors which are link to specific countries. When we refer to liberalise sector, it is applicable to low or moderately protected economies of the region. Sectors like chemicals, plastics, wood pulp and cement are liberalised in the region. Leather sector elicits mixed response from the region in terms of level of protection. Apart from outward oriented economy, most of the economies subject to highly protected and a few of them moderately protected, imposed high tariff on this sector. Wood sector received mixed responses from the region. The region was invariably protected by the region except for outward oriented economies.

Table 2.6: Simple Average Sectoral Tariff of LAC countries: Light manufacturing (non-Metal)

(in % for 2015)

Country	Chemicals	Plastics	Leather	Wood	Wood Pulp	T&C	Footwear	Cement
Argentina	5.8	13.0	11.3	8.2	12.8	27.1	29.2	11.3
Bahamas	43.5	39.4	39.8	24.9	37.5	31.1	27.5	39.9
Bermuda	21.9	22.6	20.3	13.2	21.5	8.3	12.6	20.4
Brazil	6.0	12.9	11.3	7.9	12.8	27.1	28.9	11.2
Cuba	9.0	11.2	10.8	7.3	9.1	14.2	13.7	10.5
Montserrat	4.4	8.8	9.2	8.9	11.9	22.5	20.9	17.0
Venezuela	6.4	13.1	11.0	11.7	13.9	20.9	22.6	13.3

Chile	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Colombia	0.8	4.4	5.6	2.6	6.4	9.6	13.6	4.1
Costa Rica	0.4	3.5	7.6	6.9	4.9	9.6	12.8	5.5
Dom Rep	0.6	7.1	4.5	4.0	5.8	8.6	17.3	8.0
El Salvador	0.4	3.6	8.1	7.0	5.3	10.3	13.6	5.9
Guatemala	0.4	3.6	8.1	7.4	5.3	10.3	13.6	5.9
Haiti	1.4	6.6	4.1	3.0	3.3	6.2	9.0	6.1
Honduras	0.4	3.6	8.1	7.5	5.3	10.3	13.6	5.7
Jamaica	0.5	6.0	4.3	9.2	5.3	8.2	15.9	6.4
Nicaragua	0.4	3.6	7.9	7.0	4.9	10.3	13.6	5.9
Panama	0.9	3.1	12.5	6.4	8.0	5.2	9.4	8.5
Peru	1.2	2.2	5.2	4.7	4.6	9.5	9.9	2.5
St. Lucia	4.7	6.7	4.9	10.4	5.1	9.9	16.1	7.3
Antigua & Barbuda	5.2	8.3	7.4	11.1	8.1	11.1	15.9	9.1
Barbados	5.2	8.8	8.2	10.6	8.4	11.3	16.0	8.8
Belize	5.2	6.9	8.1	17.4	8.4	11.1	16.3	9.2
Bolivia	5.6	9.9	14.2	13.3	10.9	25.2	15.9	12.3
Dominica	4.9	6.5	4.9	10.1	7.5	9.9	15.7	7.8
Ecuador	0.7	9.1	11.7	13.1	13.7	16.4	22.7	11.7
Grenada	5.2	8.4	8.3	10.3	8.0	11.1	16.3	9.2
Guyana	5.3	8.5	8.2	10.5	8.5	11.1	16.0	8.6
Paraguay	5.7	11.6	10.7	7.9	11.8	17.9	19.8	10.7
St. Kitts & Nevis	4.4	6.6	5.6	10.8	8.7	11.8	17.7	10.0
St. Vin. & Gren.	5.2	6.9	8.2	10.5	8.8	11.2	16.0	8.8
Suriname	5.3	8.6	8.2	10.6	8.5	11.2	16.0	8.7
Trinidad & Tobago	5.3	8.9	8.2	10.6	8.5	11.2	16.0	9.2
Uruguay	5.7	11.8	11.0	7.4	11.6	18.0	27.4	11.1

Source: Trains WITS, United Nations, 2018

Wood sector is partially protected by the region, but not the wood pulp sector, perhaps promoting regional value chain in this sector. Cement and stone is liberalise in outward and in certain moderately protected economies. Textile and clothing and footwear sectors are highly protected sectors in regions where the later sector is more protected than the former. Among outward oriented economies, Chile and Guatemala are highly liberal in the light non-metal manufacturing sectors. In these sectors, countries like Bolivia, Ecuador, Paraguay and Uruguay are highly protected in several sectors, being moderately protected economies. India is competitive in footwear and T&C sectors globally, and these two sectors face high degree of protection in the region. India should take advantage of other sectors such as chemicals, plastics and leather sector in the region.

In a metal base manufacturing sectors the region present mixed level of protection as shown in Table 2.7. Inward oriented economies have been protecting these sectors over a period of

time. In other countries, base metal mechanical machinery and electrical appliances and precession instrument sectors are subjected to less protection. Sectors like gems and jewellery and automobiles are subjected to mixed responses in terms of protection in these countries. Base metal sector is having low protection except countries in the Mercosur. Machinery sector is invariably liberalised in the region with the exception of inward oriented economies. Precession instruments are liberalised in regions other than inward oriented economies and a few moderately tariffed economies including Paraguay, Barbados and Belize. Automobile sector is mostly protected in inward and moderately tariffed economies. Other miscellaneous manufacturing sectors are highly protected across the region. India's interest in gems and jewellery sector could be in certain outward oriented economies in the region. India can capitalise the low tariff regimes in sectors like base metal, machinery and precession instruments. The automobile sector, India has to focus on outward oriented economies and a few moderately tariffed economies like Bolivia and Paraguay.

Table 2.7: Simple Average Sectoral Tariff of LAC countries: Manufacturing (Metal Based)

(in % for 2015)

Country	Jewellery	Base Metal	Machinery	Vehicles	Instruments	Misc Mfg.
Argentina	10.2	11.9	13.6	16.0	13.1	20.0
Bahamas	20.4	42.5	40.1	5.9	33.5	40.5
Bermuda	6.3	22.2	22.4	28.5	18.7	21.9
Brazil	9.7	12.1	13.2	20.9	12.8	18.3
Cuba	11.6	7.8	9.8	10.0	12.0	15.4
Montserrat	27.1	10.5	9.5	13.5	10.7	9.8
Venezuela	11.0	11.0	12.1	17.4	9.6	17.7
Chile	6.0	6.0	6.0	5.7	6.0	6.0
Colombia	3.3	2.7	2.1	10.3	2.1	12.4
Costa Rica	6.5	2.3	1.3	4.8	1.9	10.1
Dom Republic	17.8	5.6	2.4	8.4	4.9	16.8
El Salvador	6.9	2.6	1.4	4.5	2.0	10.8
Guatemala	6.9	2.4	1.4	3.4	2.0	10.8
Haiti	13.1	3.3	3.1	3.4	4.6	9.1
Honduras	6.9	2.5	1.4	5.9	2.0	10.7
Jamaica	11.9	2.5	3.0	8.7	6.4	14.6
Nicaragua	6.9	2.3	1.5	4.5	2.0	10.3
Panama	5.8	5.7	4.6	6.4	8.3	10.0
Peru	3.4	0.8	0.8	1.4	1.9	4.9
St. Lucia	14.2	3.1	2.9	8.2	6.5	14.4
Antigua & Barbuda	16.6	6.1	7.0	11.0	9.3	15.0
Barbados	28.1	6.5	6.7	10.9	10.6	14.9
Belize	26.0	6.0	6.4	10.6	10.4	17.1
Bolivia	12.3	8.6	4.5	8.0	6.9	19.7

Dominica	16.1	6.0	4.2	10.3	7.9	15.7
Ecuador	7.3	8.4	5.3	13.5	4.6	26.2
Grenada	18.4	6.5	6.8	11.1	9.5	15.0
Guyana	28.1	6.5	5.1	10.3	10.5	15.0
Paraguay	9.8	11.5	3.5	9.7	7.2	17.3
St. Kitts & Nevis	14.2	6.0	5.9	12.3	8.9	16.5
St. Vincent &Gren.	14.2	6.2	6.4	10.3	9.6	15.0
Suriname	21.3	6.6	6.6	10.0	9.5	15.0
Trinidad & Tobago	19.0	6.6	6.9	10.6	9.9	15.0
Uruguay	9.9	11.1	5.0	11.7	8.4	18.1

Source: Trains WITS, United Nations, 2018

2.4.3 Sectoral Tariff Protection in Regional Groupings

The present literature is indicative of the fact that the global trade takes place through the regional route. While India is strategizing its trade policy to access LAC market, it is important to focus on specific regional groupings. It is commonly felt that each region follows some harmonize trade policy which are important for predictability of policies in the medium term among regional economies. This has been the guiding principle for the global trade through the regional routes. On the bases of identifying top 10 trading partners from LAC region for India, we have identified eight RTAs in the LAC region, on the basis of dominant representation of top trading partners of India. They are MERCOSUR, UNASUR/CSN, LAIA/ALADI, G-3, Andean, SICA, CACM, and Pacific Alliance[1]. Besides these RTAs, 9 more important RTAs are identify from the region for the present analysis. Tariff protection of these RTAs since global buoyancy is presented in Table 2.8. From 8 important RTAs of India, two of them namely, MERCOSUR and UNASUR are persistently maintaining protected tariff regime since the days of the global buoyancy till recent years. Another two RTAs have maintained low tariff regimes during the phase of the global buoyancy and recession. They are SICA and CACM. Other remaining four RTAs including LAIA, G-3, Andean and Pacific Alliance have significantly lowered their average level of tariff during the period of recession as compared to the period of global buoyancy. Among other RTAs in the region, three of them (i.e., CARICOM, OECS and ALBA), have maintained high tariff regime, three of them (OAS, FTAA and CAFTA-DR) maintained low level of tariff and three of them (CELAC, RIO group and ACS/AEC) have considerably lowered their average tariff rates during the global recession as compared to the previous trade regime. Among the preferred RTAs, India has to face high tariff regime with

[1] G-3 is dropped from the present analysis because of exit of Venezuela due to difference with the other two partners.

MERCOSUR and UNASUR. India may benefit from the regimes if PTA/FTA or any other form of agreements is negotiated in future.

Table 2.8: Import Weighted Tariff in LAC Region and RTAs

(in %)

RTA	2003	2007	2008	2012	2015
MERCOSUR	10.5	10.4	9.9	10.7	11.1
UNASUR\ CSN	9.7	9.6	8.9	8.9	8.9
LAIA\ ALADI	12.9	10.4	10.0	7.7	7.3
G-3	15.0	11.9	12.2	6.5	6.0
Andean	10.2	9.8	7.8	5.9	5.7
SICA	6.6	6.6	6.8	6.4	6.4
CACM	6.0	5.8	5.8	6.3	5.8
Pacific Alliance	14.1	10.6	10.3	5.6	5.2
CARICOM	11.0	9.7	8.6	10.7	11.8
OECS	13.3	13.7	8.2	9.6	12.7
ALBA	10.4	12.4	11.9	9.7	10.6
CELAC	12.3	10.0	9.7	7.7	7.3
Rio Group	12.3	10.1	9.7	7.6	7.2
ACS\ AEC	13.6	11.0	11.1	6.8	6.3
OAS	4.6	4.1	4.4	4.0	3.9
FTAA	4.6	4.0	4.4	4.0	3.9
CAFTA-DR	2.8	1.9	2.4	2.5	2.8

Source: RIS estimate based on Trains WITS, United Nations, 2018

In the primary sector, LAC region has mixed response as shown in Table 2.9. While agricultural sector is protected to varying degrees, mineral sector is liberalised. Sub-regional variations are very much evident in number sectors. In the LAC region, particularly in South America, agricultural sector is protected but mineral sector is liberalised. As discussed earlier, mineral sector is fully liberalised as compared to other sub-sectors in the primary sector. Food and vegetables and fat and oils in Caribbean and fat and oils in Central America are largely liberalised. In most of the regional grouping, animal and animal products, fruits and vegetables, and prepared food sectors are protected. Among India's preferred RTAs, fat and oils are attracting low tariff in SICA, CACM and Pacific Alliance. Otherwise all other agricultural sub-sectors in these RTAs are subjected to high tariff. Similar is the situation in other RTAs, excepting for OAS, FTAA and CAFTA-DR. India has very little space to trade in agricultural sector unless there is preferential trade regime for it. Mineral sector is substantially liberalised in minimum protection where India can see its long term interest in the export of processed petroleum products.

Table 2.9: Import Weighted Tariff in LAC Region and RTAs: Primary Sector, 2015

(in %)

RTA	Animal Products	Fruit & Veg	Fats & Oils	Prep. Food	Minerals
LAC	17.1	10.6	13.4	13.1	2.3
South America	15.8	10.3	14.8	12.9	1.8
Central America	24.7	13.1	7.6	12.0	3.4
Caribbean	16.0	9.0	10.6	15.9	5.0
MERCOSUR	20.9	9.9	20.1	17.3	0.7
UNASUR\ CSN	15.8	10.3	14.8	12.9	1.8
LAIA\ ALADI	32.8	11.0	12.1	14.6	1.5
G-3	42.5	12.7	16.6	18.5	0.7
Andean	11.6	12.2	11.3	10.7	1.3
SICA	23.6	11.8	6.4	12.2	3.1
CACM	24.0	12.0	7.6	12.6	2.4
Pacific Alliance	38.8	11.2	7.3	13.7	1.7
CARICOM	16.0	10.0	25.1	19.0	6.2
OECS	7.3	17.9	22.6	22.1	6.7
ALBA	22.4	11.3	27.0	18.1	3.2
CELAC	30.9	10.9	11.8	14.6	1.8
Rio Group	31.8	11.0	11.9	14.5	1.7
ACS\ AEC	37.3	12.3	14.2	16.3	2.0
OAS	16.1	4.3	6.7	7.3	1.2
FTAA	16.2	4.2	6.7	7.2	1.2
CAFTA-DR	6.8	2.4	2.7	4.9	1.1

Source: RIS estimate based on Trains WITS, United Nations, 2018

In the light of non-metal manufacturing, tariff regimes in the LAC region have been mixed sectors like chemicals, plastics, wood and wood pulps are liberalise and sectors like T&C and footwear are protected as shown in Table 2.10. There is considerable level of variations in tariff rates among various sub-regions in specific sectors. In South America, protection level is high in leather, T&C and footwear, in Central America high protection in leather and footwear, and in Caribbean high tariff on plastics, footwear and cement. In India's preferred RTAs, Mercosur has high tariff on all light non-metal manufacturing sub-sectors except chemicals. India can witness low tariff in her preferred RTAs in sectors like chemicals, plastics, wood, wood pulps and cement. Leather, T&C and cement could be different areas with high tariff in these RTAs. Among other RTAs, CARICOM and OECS impose high tariff in almost all sub-sectors in this manufacturing segment. Other RTAs like CELAC, FTAA, and CAFTA-DR have relatively more liberalised tariff regimes.

Table 2.10: Import Weighted Tariff in LAC Region and RTAs, Light manufacturing (non-Metal)

(in % for 2015)

RTA	Chemicals	Plastics	Leather	Wood	Wood Pulp	T&C	Footwear	Cement
LAC	5.7	8.6	16.0	8.4	7.5	15.1	16.1	9.6
South America	5.8	9.0	17.9	8.8	8.2	17.1	16.8	8.5
Central America	3.9	4.3	12.2	7.7	5.4	9.6	12.4	9.5
Caribbean	7.8	12.2	6.6	8.3	7.9	9.0	17.0	16.3
MERCOSUR	6.5	12.1	24.0	12.3	10.4	26.2	29.2	11.0
UNASUR\ CSN	5.8	9.0	17.9	8.8	8.2	17.1	16.8	8.5
LAIA\ ALADI	4.8	6.9	12.2	5.9	5.0	15.7	17.1	7.6
G-3	3.4	5.2	8.6	4.6	2.9	13.6	18.5	6.6
Andean	3.7	4.6	14.1	5.4	5.7	10.4	11.9	5.8
SICA	3.8	5.4	9.3	5.7	5.6	8.9	13.0	11.0
CACM	3.9	4.1	11.9	7.4	5.2	9.4	13.9	9.5
Pacific Alliance	3.2	4.8	8.0	4.2	2.7	11.2	13.1	5.7
CARICOM	11.3	16.7	17.2	11.8	10.6	16.0	19.6	17.6
OECS	12.6	12.8	20.3	8.2	10.7	18.4	19.6	11.3
ALBA	7.2	9.1	23.1	10.4	9.5	16.6	12.1	10.6
CELAC	4.8	6.9	11.9	6.6	5.3	14.7	16.8	8.5
Rio Group	4.8	6.8	12.2	6.1	5.1	14.9	16.8	7.8
ACS\ AEC	3.7	5.5	8.8	5.9	3.9	12.3	16.7	8.4
OAS	2.4	4.9	8.4	1.9	1.9	12.0	12.2	5.0
FTAA	2.4	4.9	8.4	1.9	1.9	12.0	12.2	5.0
CAFTA-DR	1.5	4.0	7.8	1.3	0.6	11.0	11.4	4.5

Source: RIS estimate based on Trains WITS, United Nations, 2018

LAC RTAs maintained relatively more liberal tariff regimes in metal based manufacturing sector as shown in Table 2.11. Regions have liberal tariff policies in sectors like base metal, machinery, and precession instruments. Tariff police are mixed in case of gems and jewellery and automobiles. Other manufacturing sector faces high tariff from several RTAs in the region. Some of them like Pacific Alliance, OAS, FTAA and CAFTA-DR have maintained low tariff in all sub-sectors falling under metal based manufacturing. Among India's preferred RTAs, Mercosur imposes high tariff in all sectors except gems and jewellery. Automobile sector is protected in MERCOSUR, UNASUR, LAIA, G-3 and Andean; and gems and jewellery sectors faces similar treatment in regional groupings including ANDEAN, SICA and CACM. Among other RTAs, CARICOM is highly protected in all segments of the metal manufacturing. High tariff remains in sectors like gems and jewellery, automobiles and miscellaneous manufacturing. Despite of varying tariff regimes in different RTAs, India can have market penetration in several sectors of metal base manufacturing.

Table 2.11: Import Weighted Tariff in LAC Region and RTAs, Manufacturing (Metal Based)

(in % for 2015)

RTA	Jewellery	Base Metal	Machinery	Vehicles	Instruments	Misc. Mfg.
LAC	12.9	8.1	8.2	13.7	7.7	14.9
South America	8.7	8.5	8.7	14.7	8.2	14.7
Central America	11.6	4.2	3.1	3.7	2.2	12.5
Caribbean	20.8	10.7	8.7	12.5	7.4	20.5
MERCOSUR	7.6	11.8	11.7	18.7	10.6	18.9
UNASUR\ CSN	8.7	8.5	8.7	14.7	8.2	14.7
LAIA\ ALADI	5.5	5.0	4.8	13.2	5.1	11.1
G-3	4.1	2.5	2.0	12.7	2.4	8.3
Andean	13.0	3.7	2.8	11.7	2.7	12.8
SICA	17.4	5.0	3.3	5.6	2.2	13.2
CACM	11.1	3.7	2.5	3.9	1.2	12.4
Pacific Alliance	4.2	2.3	1.9	10.3	2.4	7.3
CARICOM	25.4	12.4	10.3	12.3	10.5	23.2
OECS	28.1	9.2	8.1	19.0	11.0	18.5
ALBA	19.7	9.0	8.6	16.2	6.5	19.9
CELAC	8.4	5.2	4.8	12.9	5.0	11.8
Rio Group	6.1	5.0	4.7	12.9	5.0	11.3
ACS\ AEC	8.5	3.1	2.3	11.8	2.6	10.1
OAS	1.8	2.8	2.1	5.5	1.8	3.1
FTAA	1.8	2.7	2.1	5.5	1.8	3.1
CAFTA-DR	1.8	1.8	1.2	3.4	0.9	1.6

Source: RIS estimate based on Trains WITS, United Nations, 2018

To sum up, the analysis of tariff regimes in different regions/countries/RTAs/sectors indicate that tariff regimes have been liberalised in the post recessionary period. Liberalisation has not affected all sectors equally. In terms of liberalisation of countries, sectors and RTAs, certain stylise facts can be drawn as discussed above. India can draw a long term strategy on the basis of tariff regimes existing in the LAC region.

2.5 Proliferation of NTBs in the Post-Marrakesh Period

LAC countries have imposed a large number of NTBs on almost all sectors of trade. India's export is no exception to this trend in escaping NTBs. During 2007-16, it was estimated that nearly 46,000 product lines were subjected to NTBs at different levels of product aggregation by 29 LAC countries as shown in Table 2.12. With various notifications in WTO, individual countries impose NTBs from time to time. However, there exists no symmetry between countries in terms of considering number of tariff lines under NTBs. For example, Surinam has put NTBs on 4 product lines as against 8140 lines in case of Brazil during the period 2007-16.WTO source indicates that LAC countries indulge in imposition of NTBs in the form of SPS, TBT, and several other measures including price control measures and export

related measures. Some of the important price control measures for which WTO provides product-wise information are anti-dumping, countervailing duty safeguard measures and special safeguard measures. Some countries also impose export related measures such as quantitative restrictions.

Table 2.12: Number of NTMs imposed by LAC Countries, (2007-16)

(in Number)

Country	ADP	CV	QR	SG	SPS	SSG	TBT	Total
Argentina	342			3	503		380	1228
Barbados					133	13		146
Belize					106		15	121
Bolivia							199	199
Brazil	558	23		5	5948		1606	8140
Chile	13	1		39	1341		892	2286
Colombia	136			30	1363		872	2401
Costa Rica	10		550	5	1142		1614	3321
Cuba			529		4		194	727
Dom. Rep.	9			16	444		2648	3117
Dominica							53	53
Ecuador	2			9	1464		4745	6220
El Salvador					431		962	1393
Grenada							25	25
Guatemala	2				319		868	1189
Guyana					7			7
Haiti					6		3	9
Honduras					501		369	870
Jamaica	1				62		350	413
Mexico	341	3		2	877		1488	2711
Nicaragua			92		452		741	1285
Panama	12			4	72		319	407
Paraguay					98		310	408
Peru	42	9	434	2	4884		1437	6808
Saint Lucia							20	20
St. Vincent &Gren.							465	465
Suriname							4	4
Trinidad & Tobago	8						1818	1826
Uruguay	3		71		101		25	200
LAC Total	**1479**	**36**	**1676**	**115**	**20258**	**13**	**22422**	**45999**

Source: RIS estimation based on WTO Online

Note: The products are drawn from WTO database at the level of chapter, heading and sub-heading

Analysis of NTB measures since 2007 indicates that Brazil, Peru and Ecuador are in the forefront in terms of imposing such trade measures and have become the most restricted economies in the LAC region. In case of some moderate countries like Costa Rica, Dominican Republic, Mexico, Colombia and Chile, product lines under NTBs are relatively lesser in number than the aforesaid countries. Brazil is one of the leading economies in the

region, experimenting with all forms on NTBs in a significant manner. It covered 29.4 per cent of region's total product lines under SPS, 63.9 per cent of countervailing duty and 37.7 per cent of Anti-dumping duties of the entire LAC region during the period 2007-16. However, 92.8 per cent of Brazil's total product lines under NTBs were covered by SPS and TBT measures. Peru follows the footsteps of Brazil in terms of handling NTBs with its partner countries. It applied almost a quarter of region's countervailing duty, quantitative restriction and SPS measures during 2007-16. However, SPS and TBT covered substantial size of country's total product lines subjected to NTBs.

Interestingly, certain countries focused on specific areas of NTBs in their trade policies, rather than exhausting all other options available with them. For example, in the entire LAC region, Brazil and Peru focused on SPS measures; Ecuador and Dominican Republic on TBT measures; Chile, Colombia and Dominican Republic on safeguard measures; Barbados on special safeguard measures; Peru, Costa Rica and Cuba on quantitative restrictions; Brazil, Peru and Mexico on countervailing duty; and Brazil, Mexico, Argentina and Chile on Anti-dumping measures, more strategically than others. However, SPS and TBT form major part of their trade strategy to extend protection to their domestic trade sector.

India is subject to bilateral and multilateral NTBs at the product level in the LAC region. As a customary practice, WTO member countries impose NTBs at the multilateral level, but a few countries target on individual countries at the bilateral platform. In the LAC region, India was subject to multilateral and bilateral NTMs during 2007-16 as shown in Table 2.13. Eight countries in the region invoked bilateral NTBs against India, and these counties were Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Nicaragua and Peru during 2007-16. Other than Mexico and Nicaragua, rest countries are expected to be top trading partners of India.

Number of product lines under bilateral NTBs is less compared to product lines covered under multilateral NTBs. While anti-dumping and countervailing duties are fully bilateral trade measures, quantitative restrictions and safeguard measures including special safeguard measures and transitional safeguard measures are multilateral in nature. While products under SPS are falling in the domain of both multilateral and regional in nature, TBT remains in the sphere of multilateral NTB measures. Under the price control measures, anti-dumping and countervailing duties are used bilaterally.

Table 2.13: India subjected to NTMs by LAC countries, (2007-16)

(in number)

Imposing Country	Level	ADP	CV	QR	SG	SPS	SSG	TBT
Argentina	Multilateral				3	419		380
Argentina	Bilateral	13				3		
Barbados	Multilateral					8	13	
Belize	Multilateral					106		15
Bolivia	Multilateral							199
Brazil	Multilateral				5	5080		1606
Brazil	Bilateral	24	13					
Chile	Multilateral				39	896		892
Chile	Bilateral					11		
Colombia	Multilateral				30	1139		872
Colombia	Bilateral	3						
Costa Rica	Multilateral			550	5	957		1614
Cuba	Multilateral			529		4		194
Dominica	Multilateral							53
Dom. Rep.	Multilateral				16	432		2648
Ecuador	Multilateral				9	583		4745
Ecuador	Bilateral					19		
El Salvador	Multilateral					391		962
Grenada	Multilateral							25
Guatemala	Multilateral					263		868
Guyana	Multilateral					7		
Haiti	Multilateral					6		3
Honduras	Multilateral					501		369
Jamaica	Multilateral					62		350
Mexico	Multilateral				2	431		1488
Mexico	Bilateral	20	3					
Nicaragua	Multilateral			92		378		741
Nicaragua	Bilateral					6		
Panama	Multilateral				4	63		319
Paraguay	Multilateral					94		310
Peru	Multilateral			434	2	1344		1437
Peru	Bilateral	1				94		
Saint Lucia	Multilateral							20
St. Vin. &Gren.	Multilateral							465
Suriname	Multilateral							4
Trin. & Tobago	Multilateral							1818
Uruguay	Multilateral			71		98		25

Source: RIS estimation based on WTO Online

Note: The products are drawn from WTO database at the level of chapter, heading and sub-heading

Anti-dumping measures are used by Brazil, Argentina, Colombia, Peru and Mexico against India on a bilateral basis. Countervailing duties were employed mostly by Brazil, followed by Mexico on the suspicion of use of subsidy by India. Interestingly, no TBT measure is exercised bilaterally. SPS measures are used at the most by regional economies bilaterally and multilaterally, ranging between 50-70 per cent of their total product lines, subjected to

NTMs. India's top trading partners in the LAC region have invoked various forms of NTBs at the product level which is presented in Appendix II.

Some of the chapters in the domain of agriculture subjected to SPS measures are: live animals (01), meat and edible meat (02), dairy produce birds, eggs (04), live trees and other plants bulb (06), edible fruits & nuts; peel or melon (08), and oil seeds and oleaginous fruits (12). These countries invoke TBT measures on several HS chapters include dairy produce: birds, eggs (04); coffee, tea, mate and spices (09); prepared vegetables (20); misc. edible preparation (21); beverages, spirit & vinegar (22); essential oils and resinoids (33); articles of plastics (39); articles of rubber (40); iron & steel (72); articles of Iron or steel (73); electrical machinery (85); vehicles other than railway or tram (87); optical, photographic, cinematography, etc. (90).

Besides these NTBs, other measures including price control and exports related measures are also employed on several products. Those HS chapters affected by other NTBs are meat and edible meat offal (02); dairy produce: birds, eggs (04); edible vegetables (07); cereals (10); Animal or vegetable fats & oils (15); residues & waste from food industries (23); cotton (52); footwear, gaiters & like (64); iron and steel (72); vehicles other than railway or tram (87); toys, games & sports, requisite (95).

Though expected top trading partners of India are restricting trade through the use of NTBs, priorities of countries are different in regard to target specific products/chapters. In the use of SPS measures, countries like Brazil, Peru, Colombia, Chile and Venezuela are important among top trading partners of India. Brazil imposes SPS on several HS chapters and most important chapters are edible fruits & nuts: peel or melon (08); diary produce: birds, eggs (04); live animal (01); and oil seeds and oleaginous fruits (12) and meat and edible meat offal (02). Focus of Peru is on HS chapter like meat and edible meat offal (02); live trees and other plants bulb (06); live animal (01); oil seeds and oleaginous fruits (12); and residues & waste from food industries (23) for SPS measures. While Colombia focuses on HS chapters like live animal (01); meat and edible meat offal (02); diary produce: birds, eggs (04); fish & crustaceans, mollusks (03); and residues & waste from food industries (23); Chile focuses on HS chapters like live trees and other plants bulb (06); meat and edible meat offal (02); live animal (01); oil seeds and oleaginous fruits (12); and edible fruits & nuts: peel or melon(08). Venezuela imposes SPS measures on as many as 625 products, and most of these restrictions came into force in 2003. Among these products, several of them are in chapters like meat and

edible meat offal (02); live animal (01); oil seeds and oleaginous fruits (12); animal products (05); and edible vegetables & certain roots (07).

Products under TBT measures are less in number than SPS. Unlike SPS, coverage of products under TBT is both in agriculture and manufacturing sectors. In terms of TBT measures, Ecuador focused on HS chapter including boilers and machinery (84); electrical machinery & equipment (85); articles of Iron or steel (73); preparation of vegetables, fruit, nuts, etc. (20); and meat and edible meat offal (02). Dominican Republic targets on specific HS chapter including diary produce: birds, eggs (04); preparation of vegetables, fruit, nuts, etc. (20); beverages, spirit & vinegar (22); coffee, tea, mate and spices (09); miscellaneous edible preparations (21). Argentina aims at HS chapter like beverages, spirit & vinegar (22); essential oils and resinoids (33); electrical machinery & equipments (85); oil seeds and oleaginous fruits (12); and inorganic chemicals compounds (28), etc. NTBs of Costa Rica are directed on HS chapter like diary produce: birds, eggs (04); beverages, spirit & vinegar (22); miscellaneous edible preparations (21); preparation of vegetables, fruit, nuts, etc. (20); boilers and machinery (84). Guatemala focuses on HS chapters including beverages, spirit & vinegar (22); dairy produce: birds, eggs (04); coffee, tea, mate and spices (09); preparation of vegetables, fruit, nuts, etc. (20); miscellaneous edible preparations (21).

Several countries apply various other NTMs on India both bilaterally and multilaterally. Costa Rica used quantitative restriction against certain products which were falling in chapters like inorganic chemicals compounds, etc. (28); organic chemicals (29); meat and edible meat offal (02); fish & crustaceans, mollusks (03); and explosives (36). Anti-dumping measures were used by Argentina on certain products which were part of chapter like tanning or dyeing extracts (32); miscellaneous articles of base metal(83); electrical machinery & equipments (85); miscellaneous chemical products(38); articles of plastics (39). Similarly, Brazil raised countervailing duty on India on certain products which were in chapter like articles of plastics (39); and man-made staple fibres (55).

To sum up, India has been witnessing formidable trade barriers in the LAC region, both in the form of tariff and NTBs. The nature of NTBs is highly diversified and they encompass a substantial number of products in agriculture and manufacturing sectors. Often multiple NTBs are subjected to specific products, resulting in lowering the chances of getting market access in the region. Many of these structural impediments can be addressed effectively by entering into various formations of regional agreements with these countries.

2.6 Challenges of Logistics

Logistics plays a key factor in strengthening economic relations between the two regions. Quality of logistics assumes critical importance depending on the trade composition of bilateral trade. For handling value added products, special logistic infrastructure is required, particularly to deal with the trading partners that are sensitive towards quality deliveries. The nature of trade infrastructure would be different when trade weight to value ratio is very high. Trade composition of LAC is highly transport-intensive as their exports are dominated by agricultural products and minerals trade where weight to export value ratio is lofty and results in inefficient transaction cost. Geographical factors remain key when distance matters for the bilateral trade, and trade barriers like tariffs and NTBs are relatively less relevant than the transaction cost. In this regard, transportation cost can be kept under control while focusing on twin factors such as freight charges and duration of shipment when movement of goods are handled by direct ship liners and depending less on transhipment hubs.

2.6.1 Importance of logistics in bilateral trade

The distance factor between LAC and India is so important that logistics is becoming one of the most determining factors in setting the trade flows between them. It is imperative from the literature that maritime and air transport between India and LAC is complex, cost ineffective and also subject to down side risk. This limits the possibility of trade ties between the two regions (CEPAL, 2016). Comprehensive approach towards freight logistics, specialised infrastructure and trade facilitation measurers is necessary for reducing non-tariff berries and transportation costs to benefits from increased integration (Guerrero, Lucenti and Galarza, 2010). There has been a perceptible change towards reduction of cost of road and air transport as a result of intensification of investment efforts in transportation infrastructure, technological innovation, transportation reform, leading to reduction of overall trade barriers. Developments in several other areas including containerisation has brought sea change in the form of reduction of transaction cost and Non-Tariff Barriers. Besides, use of large maritime vessels, fewer freight lines, efficiency gains in port operations, reduction in direct port costs due to improved infrastructure, and greater storage capacity have contributed to this endeavour (Guerrero, Lucenti and Galarza, 2010).

2.6.2 State of logistics in LAC

The LAC region has a set basket of commodities for exports which are dominated by agricultural products, minerals and base metals. Besides, a few manufacturing sectors

including automobiles are emerging during the last few decades. Over the years, investment profile of the region has been in the range of low to moderate and also located in certain pockets of the region. However, LAC countries have not benefited much from the improvements in transport and logistics. Large part of the LAC region is facing the problems of underinvestment in infrastructure and poor performance in freight logistics. This has been an impeding factor for region's integration with the world trading system including GVCs which are highly sensitive towards transaction cost. This is evident from region's logistic performance index which is lagging behind other regions of the world including the Middle East, Northern Africa and industrialised countries in Asia. Moreira, Volpe and Blyde (2008) have shown that for most products and markets, LAC's transport costs create larger impediments to trade than those resulting from tariffs.

Transaction cost increases when inefficient logistics is blended with higher weight-to-value ratio. The main export of the LAC region is raw materials which are large and bulky and have a much higher weight-to-value ratio than many capital intensive goods. LAC's exports are more transport-intensive than their competitors' exports and therefore, are sensitive to changes in demand and the quality and quantity of their transport infrastructure. It is estimated that around 40 per cent of the difference in the price of shipping of the LAC region and that of the U.S. and Europe can be explained by port and airport efficiencies, while only 17 per cent is due to higher tariffs (Moreira, Volpe and Blyde, 2008). Another study found that LAC countries spend on average two to three times more than OECD countries on logistics. But logistic cost of LAC as a percentage of its product value was twice that of OECD and the U.S., hence, losing its global competitiveness (Guasch and Kogan, 2006). Lopsided development in transport has also affected the growth of regional integration in LAC. The region needs to focus on measures to reduce transport and logistics costs which will enhance productivity growth and competitiveness. Several initiatives are already underway including the development of strategic corridors such as the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) and the Mesoamerica Project; and these initiatives may help LAC countries in overcoming their impediments in the area of logistics.

2.6.3 India and China in LAC

Lack of geographical proximity has been the most important factor for low level of trade between India and LAC as shown in the literature. For instance the fastest flight from India to the main cities in LAC takes more than 24 hours. However, the distance between LAC and

China is similar to that between LAC and India and that has not acted as a barrier to trade in case of China. (Mesquita Moreira, 2010). Since China and India are on the same footing so far as transportation cost is concerned, India can equally improve its trade ties with LAC like that of China.

Transportation costs may be important due to distance factor, but most importantly it is the composition of trade basket which matters. This has been a case with India and China as far as their trade with LAC is concerned. Apart from the distance factor, the composition of LAC's exports to these countries consists of heavy, high weight-to-value natural resources. Heavy content of raw materials has a direct effect on the cost escalation of the freight cost. The freight cost of these products forms a significant part of the final CIF prices of imports.

There are divergent views about trade cost affecting India and China in the markets of LAC. Some studies indicate that transportation cost affects India more adversely that China and vice-versa. Mesquita Moreira (2010) observed that India's trade with LAC was severely affected by trade costs in the form of transport costs, tariffs, and non-tariff barriers, particularly in the case of agricultural goods. Though India leapfrogged 19 places in World Bank's Logistics Performance Index (LPI) ranking to achieve the 35th rank, China ranks 27 amongst 160 countries. China continues to have an advantage over India in logistics performance. Despite such ranking, the study argued that the average import freight rates of LAC countries from India and China were comparable, and found that they were lower for imports from India than from China except in the case of Chile even though China's transport infrastructure was regarded better than that of India (Moreira, 2010).This observation indicates that India can very well expand its trade linkages with LAC if China can do it in the continent with similar transaction cost structure. Distance should not be construed as a retarding factor for constraining trade between India and LAC.

2.6.4 LAC's imports from India and China

It is often discussed in the literature that why LAC imports less from India than that of China? Is it because of high import freight rates that LAC faces in India than China? The results of Moreira (2010) using econometric analysis show that import freight rates are lower for LAC from India than China. It is imperative from the literature that imports freight rates are determined by several factors including quality of infrastructure, distance, trade composition, among others. Ocean freight accounts for the major share of trade of LAC with India and China. The results of Moreira (2010) present that India is performing better than

China in many ways. It has been estimated that the average freight rate of imports from China is higher than that from India for the LAC countries. Imports of LAC from China are heavier than India where weight-to-value ratio is high, leading to escalation of freight cost for importation. Both distance and import tariffs in LAC countries favour India over China, but the difference is very small. The cost of shipping goods from India to LAC is roughly the same as that from China to LAC.

In certain manner, China has been performing better than India. The quality of infrastructure favours China but its impact is not significant enough to make the freight rates in favour of China to a large extent. Price elasticity of imports favours China over India. Because of Price elasticity of imports, trade volume of LAC with China is very high. Both India and China import raw materials and agricultural products with a high weight-to-value ratio which requires quality of infrastructure to make a difference in transaction cost. They are more transport intensive than LAC's imports from these two countries and are, thus, more sensitive to the quality of infrastructure. India has no direct shipping services to LAC and therefore, the goods have to be first shipped to transhipment hubs in Singapore or Europe (Fonseca, Azevedo and Velloso, 2005) before transported to India, leading to rise in freight expenditures. While estimating freight expenditures, it includes not only advantages of having direct shipping services but also covers other costs including the time costs of transportation, depreciation and inventory costs. Since China has direct shipping services to LAC, it has marginal advantage over India in transaction cost. That cost difference would not deter India to trade with the LAC region.

In a study, SELA (2014) suggests that cooperation agreements between India and LAC countries should be undertaken in order to strengthen air and sea connectivity between the two regions and this would facilitate maritime and air transport services to boost trade between them. With the changing trade scenario in the LAC region, direct maritime services between LAC would deepen bilateral trade. LAC being an attractive region, bilateral trade relationship between both regions would significantly depend on key strategies adopted by European countries and other new emerging countries in Asia. Since competition is looming large in the LAC region, any downside risk may cause dearly to India in terms of its bilateral trade relationship with the region. With improvement in sea and air connectivity, bilateral economic ties are likely to bloom with the passage of time and strengthen trade, business, tourist and cultural links.

It is simulated in a RIS study that India is looking at an ambitious bilateral two-way trade target of $125 billion with LAC in order to attain an overall trade target of $2250 billion which would enable India to enter into the exclusive club of five trillion dollar economies by 2025. For achieving such a lofty target, India's quality of infrastructure needs to be improved to increase imports from LAC. Direct shipping services to LAC will help increasing India's exports to the region. India and LAC may develop cooperation agreements to facilitate maritime and air transport services. These measures are critical not only to compete with the major competitors but also emerging competitors from Asia in the LAC region.

To sum up, the dynamic economies of LAC were adversely affected by the prolongation of recession. The first quarter of 2018 had shown a glimpse of region's recovery and economic profile of several countries displayed ample evidences of termination of recession in many of them. However, downside risk of the region is looming large along with the syndromes of economic recovery of the region. Several elements of risk may cause reversal of early economic recovery, and these factors include deterioration in domestic fiscal conditions, policy uncertainties in important regional economics including Brazil, Peru, Guatemala, etc., rise of the state protectionism in the U.S., recurrence of natural disasters in Caribbean, etc., which are pronounced and risky for the region. Trade policies of the region have been mixed, depending upon trade regimes adopted by sovereign individual countries. But one thing is very common between them where liberalisation is in progress, both in inward and outward oriented economics of the region. In the liberalisation process, sectoral biases in trade liberalisation is strong, particularly investment and trade in services which are on the path of fast liberalisation.

Tariffs are rather more liberalised than non-tariff barriers in the region. Several countries have focused on specific forms of non-tariff barriers to protect their domestic sectors. Large countries have more instruments of non-tariff barrier than small economies. However, sanitary and phytosanitary (SPS) measures are most predominantly used policy of the region, most widely used by regional economics. Export bottlenecks are not only confounded to tariffs and non-tariff barriers but also cover transaction cost. Logistic is a measure impediment to India in trading with Latin American and Caribbean countries. Restructuring of trade baskets (i.e., moving from heavy to light weighted products for trade), use of direct maritime services while evading transhipment hubs, introduction of India's own shipping services and evolving cooperation agreements to facilitate maritime and transport services, etc. among others, could be some of the initiatives to promote trade with the LAC region.

Chapter 3
India-LAC Bilateral Trade Linkages

3.1 Introduction

Persistence of recession in the global economy had a lasting imprint on the trade performance of the LAC region. In order to adjust with the new situation in the aftermath of the global economic downturn, regional economies responded by adopting appropriate trade policy measures from time to time. The region displayed resilience of the economy by withstanding adverse effects of recession during 2008-11. The experiences of different sub-regions in trade performance were diverse in nature during the period of global buoyancy and recession. As the global recession spilled over to its second phase, South America was rather more adversely affected than the other sub-regions of LAC.

LAC region has the unique distinction of having absolute trade linkages with only four trading partners and relatively less trade with other countries across the globe. This feature of LAC distinguishes the continent from others in the World. The regional economies are engaged with the U.S., the EU, China and India because countries from the LAC region are middle income countries and their demand pattern of trade is complementary to these countries. India being the smallest trading partner among these Big Four, it faces the challenge of secure its position as a major trading country in the continent. External sector is becoming the growth driver of the Indian economy and LAC is merging as the next important trade destination of India. Moreover, India is on its way to enter into the club of USD 5 trillion economies within a period of less than a decade from now. Considering these factors, it is important to identify selected sectors, which are critically vital for India to have wider market access in selected important countries in LAC. For more inclusive trade with the region, India's trade policy should be demand-driven, focusing on trade at the product level. India's top exporting items should focus on tapping the most important import items of the region and vice-versa. It is important to examine trade similarity of top ranking products between these two regions.

It is necessary to evolve a level playing between the two regions to give priority to exports and imports of each other. It should be accommodated as a matter of principle through each other trade policies. The present trend shows that this principle is not effectively adhered by

both the regions. Fresh efforts may be initiated in order to promote different forms of trade to enhance overall economic activities in both the regions. In this regard, GVC is emerging as one key sector where both regions have strong trade complementarities and are yet to tap existing opportunities optionally. Trade competitiveness has been significant in selected sectors and has enough scope to expand trade in the medium term. Therefore, both countries should take a serious view in promoting trade in this sector. Trade in project goods is an emerging sector for trade cooperation. However, both regions have not made significant headway in engaging themselves seriously in this sector. Therefore, more efforts are required to examine these potential sectors which can spur new vista of opportunities for both regions.

3.2. Changing Dynamics of Trade Trends

Latin America has been a dynamic continent in trade since the years of the "Asian crisis", and further during the global buoyancy. However, the buoyant trend continued even with the onset of the first episode of the global recession. Expanding regional trade accompanied by slow growth rate of exports during recession as compared to the earlier global trade regime, did not hamper the LAC region in its rising regional trade share in the world. The rising global share of the region in mercantile trade received a major setback in 2012 following commencement of the second phase of the global recession. In fact, the export share of LAC in the world stood at 2.97 per cent in 2003, and increased to 4.2 per cent in 2011, then the reverse trend started, which continued up to 2017. In case of global share of the region in imports, similar trade continued up to 2013, before started receding until 2017. In 2003, region's import share in the world was 2.5 per cent, and increased to 4.11 per cent in 2013, but declined to 3.6 per cent in 2017. The region's export became more vulnerable than imports during the period of global recession. However, the situation deteriorated during the period 2013-17. India also faced similar fate during the same period. Following recession, India's global share in mercantile export increased from 0.8 per cent in 2003 to 1.64 per cent in 2011, and declined in the subsequent years, with a marginal revival in 2013 and 2014. Though India could manage to revive its real GDP growth since 2014, its export sector remained vulnerable to the global financial crisis. After a prolonged spell of recession, the LAC region could indicate signs of economic recovery in 2017, which was encouraging for the world economy.

The LAC region as a whole showed persistent growth trend in the trade until 2012 before declining on account of the onset of the second phase of global recession, as presented in Table 3.1a. Performance of the different sub-groups within the LAC region also varies

experiences during different phases of recession. Central America displayed magnificent performance by improving its global share in 2015 both in exports and in imports, despite persistence of adverse global economic situation. In 2004, regions' export share in the world was 0.23 per cent and touched 0.29 per cent in 2014, but in 2015 increased to 0.31 per cent. Similar was the situation with the region in the case of imports. Contrary to the experience of Central America, South America suffered considerably during the second phase of recession; both in terms of exports and imports. Caribbean region, as the smallest sub-region in the continent, was also adversely affected and region's global share in export and in import started declining from 2008, indicating failure of the region to withstand pressure of global recession.

Table 3.1a: Trade of LAC with the World

(in USD Billion)

Year	Value		Share (%)					
	Exports	Imports	Exports			Imports		
	LAC	LAC	Car	C Am	S Am	Car	C Am	S Am
2000	199.3	208.7	8.1	7.2	84.6	15.1	10.7	74.2
2001	191.6	208.2	9.0	6.8	84.1	14.9	12.1	73.0
2002	191.9	180.0	8.1	7.9	84.1	17.3	14.2	68.4
2003	219.7	186.8	7.3	7.6	85.2	15.6	16.0	68.4
2004	286.7	235.7	6.7	6.3	87.0	13.2	14.3	72.5
2005	356.9	292.7	6.3	5.5	88.2	13.1	13.1	73.8
2006	430.0	354.6	6.0	5.2	88.7	11.9	12.5	75.6
2007	489.4	454.8	5.5	5.2	89.4	10.0	11.5	78.5
2008	596.7	589.3	5.5	4.6	89.8	9.5	10.2	80.3
2009	454.7	439.2	4.4	5.4	90.2	9.4	10.5	80.1
2010	571.3	572.9	4.1	4.9	91.0	8.1	9.5	82.5
2011	719.6	716.6	4.2	4.6	91.2	7.6	9.1	83.3
2012	704.2	749.6	3.9	5.0	91.1	7.5	9.8	82.7
2013	700.6	770.0	4.9	4.9	90.2	7.3	9.7	83.0
2014	665.3	738.5	4.8	5.6	89.6	7.5	10.2	82.3
2015	523.1	618.0	4.9	6.7	88.3	8.6	11.6	79.8
2016	496.2	533.5	4.6	6.6	88.9	9.7	13.0	77.2
2017	567.1	575.9	4.5	6.2	89.3	9.6	12.9	77.5

Source: Direction of Trade Statistics, IMF, 2018

The trade trend in Latin America indicates that there have been lopsided trade performances among different sub-regions of the continent. In 2003, the LAC region exported USD 219.7 billion worth of merchandise goods, which increased to USD 719.6 billion in 2011, and in 2017 declined to USD 567.1 billion. The fall in the quantum of trade was so sharp that exports reported in 2017 remained lower than that of 2008. Similarly, the region's import was USD 186.8 billion in 2003, increased to USD 749.6 billion in 2012, and declined to USD 575.9 billion in 2017; lower than that of 2008 level. Despite being the largest region, South

America exports continued to be maintained more than its total imports, thus, influencing overall trade pattern of the region.

South America's imports and exports shares with the region increased, and the trend remained positive for the region until 2012; before declining marginally in the subsequent years. In the total exports of the LAC region, South America shared 85.2 per cent in 2003, which increased to 90.2 per cent in 2013. Similarly, in imports, region's share was 68.4 per cent in 2003, and increased to 83 per cent in 2013 before declining significantly in the subsequent years. Because of the sharp decline in trade of South America, the overall performance of the LAC region received a major setback during the second phase of global recession.

Central America is more dependent on imports than exports with the rest of the world. Both in terms of import and export shares in the region, Central America displayed persistent rise in its regional share; even during the period of recession. Export share of Central America in LAC was 6.3 per cent in 2004, and decreased marginally to 6.2 per cent in 2017. Similarly, imports share of the region increased from 10.2 per cent in 2008 to 12.9 per cent in 2017. It is important to note that Central America performed exceedingly well within the LAC during the period of global recession, and rather supported the region in reviving from deep crisis. Caribbean region presented a poor performance in terms of its trade with the rest of the sub-regions in LAC. Its regional share declined significantly in LAC, both in terms of exports and imports. In 2003, Caribbean shared 7.3 per cent of the region's exports, which declined to 4.5 per cent in 2017. Similarly, its import share was 15.6 per cent in 2003 and declined to 9.6 per cent in 2017. Though Caribbean's import share in the region was depressing during the second phase of recession, its import share showed same signs of improvement during the corresponding period, thus lending support to the region to revive from the global recession.

Table 3.1b: Trade of LAC region and sub-region with the World: Growth Performance

(in %, CAGR)

CAGR	Exports				Imports			
	Car	C Am	S Am	LAC	Car	C Am	S Am	LAC
2003-07	13.6	11.1	23.6	22.2	11.7	15.1	29.3	24.9
2008-12	-4.4	6.2	4.6	4.2	0.2	5.0	7.0	6.2
2012-17	-1.8	0.1	-4.6	-5.3	-0.3	0.3	-6.4	-6.4
2008-17	-2.9	2.8	-0.6	-0.6	-0.1	2.4	-0.7	-0.3

Source: Direction of Trade Statistics, IMF, 2018

During the last and half decades, LAC's external sectoral performance has been highly sensitive towards the global trade regime. During global buoyancy, the region displayed very

high performance in both exports and imports. Even during the early phase of recession, the region was strongly resilient to withstand the pressure of exogenous global shocks, but with persistence of the global recession, unhealthy economic environment brought disastrous consequences to the region. During global buoyancy (i.e., 2003-07) exports of the region grew at the rate of 22.2 per cent and imports by 24.9 per cent per annum, as shown in Table 3.1b. In the first phase of the global recession (i.e., 2008-12), LAC region grew at the rate of 4.2 per cent and 6.2 per cent in exports and imports, respectively. But region's performance suffered adversely when average growth rate of the exports declined to -5.3 per cent and imports to -6.4 per cent per annum for the period 2012-17. Because of the sharp decline in the regional performance during the second period of recession, the average export growth during 2008-17 was -0.6 per cent for exports and -0.3 per cent for imports. Responses of the sub-regions to different phases of global business cycle were different; reflecting differences in growth trajectory of different regions of the region. During the global buoyancy (i.e., 2003-07), South America registered highest growth rate of 23.6 per cent in exports and 29.3 per cent in imports; much higher than the whole LAC region. Similarly, the second phase of recession (2012-17), exports of South America declined at the rate of -4.6 per cent and imports at the rate of -4.6 per cent. Variations in export growth performance of South America are a concern for India since India's substantial trade interest is in South America, particularly imports of raw materials.

Latin America follows a relatively differentiated trade patterns in its three distinctive sub-regions. LAC is specialised in exports of primary commodities, including agriculture and minerals, and imports mostly technology- intensive products. While exports are highly concentrated in a few sectors, import seems to be diverse in nature, spreading over almost all manufacturing sectors. Since most of the countries in the continent fall into the high- income group, their import requirements are mostly on final consumer goods. The region is more conscious about the quality of the products for imports. Different sub-regions have their specialisation in different sectors, depending on their factor endowments, but mostly follow a stylist pattern common to the entire continent. LAC is very strong in agriculture sector, both raw and agro processing areas. Apart from animal products, the region is strong in vegetable products and processed food, but lacks significantly in animal fats and vegetable oils. Primary sector formed 64.3 per cent of LAC's exports in 2017 and the lumpiness of the sector was on account of their strong presence in the mining sector, as shown in Table 3.2. Base metal exports from the region were 7.3 per cent of the LAC exports in 2017. Several other manufacturing sectors, including automobiles, precession instruments, chemicals and

gems and jewellery, emerged as important ones. As the fast growing emerging economies have major thrust on industrialisation and domestic consumption, sizeable imports were in the area of machinery and mechanical appliances, automobiles, chemicals and minerals. Import pattern of the region was mostly driven by industrialisation and domestic consumption considerations ref: DDLG, ELG.

Table 3.2: Sectoral Trade Pattern of LAC with the World in 2017

(in USD Billion)

Sec	Description	LAC		Import Share (%)				Export Share (%)			
		Imports	Exports	LAC	Car	CA	SA	LAC	Car	CA	SA
1	Animal Prod.	12.6	37.2	2.2	3.6	1.9	2.0	5.9	0.9	4.4	6.2
2	Vegetable Prod.	19.8	84.2	3.4	4.6	3.5	3.3	13.4	2.6	17.5	13.5
3	Fats & Oils	4.9	9.8	0.8	1.0	0.9	0.8	1.6	0.4	2.3	1.5
4	Prepared Food	26.9	59.7	4.6	7.8	7.8	3.8	9.5	10.8	12.2	9.2
5	Mineral Prod.	73.9	213.5	12.7	17.9	10.4	12.5	33.9	25.1	2.9	36.9
6	Chemical Prod.	88.2	33.8	15.2	8.2	16.6	15.8	5.4	21.2	13.3	4.1
7	Plastics	35.4	12.7	6.1	5.8	6.9	6.0	2.0	3.0	4.0	1.8
8	Leather	2.1	3.8	0.4	0.4	0.4	0.3	0.6	0.0	0.4	0.6
9	Wood	2.2	7.1	0.4	1.2	0.4	0.3	1.1	0.0	0.6	1.2
10	Pulp of wood	11.5	14.1	2.0	3.0	3.9	1.6	2.2	0.9	2.5	2.3
11	Textiles	25.9	14	4.5	3.8	9.0	3.8	2.2	3.9	15.2	1.1
12	Footwear	6.1	3	1.1	1.0	2.0	0.9	0.5	1.7	2.1	0.3
13	Cement	6.4	3.1	1.1	1.8	1.2	1.0	0.5	0.0	0.8	0.5
14	Jewellery	1.8	22.2	0.3	1.4	0.4	0.2	3.5	8.7	1.5	3.5
15	Base Metals	37.7	45.8	6.5	6.4	6.7	6.5	7.3	5.2	3.4	7.7
16	Machinery	136.1	27	23.5	18.9	16.8	25.0	4.3	5.2	8.6	3.9
17	Automobiles	61.8	30	10.7	8.8	7.1	11.4	4.8	4.8	0.8	5.1
18	Photography	15.5	5.4	2.7	2.2	1.9	2.8	0.9	5.2	6.1	0.3
19	Arms	0.2	0.5	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
20	Misc. Mnfg	11.1	2.2	1.9	2.4	2.2	1.8	0.3	0.4	1.3	0.3
21	Works of Art	0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Com Trade, UN, 2018

As discussed earlier, sub-regional experiences are very similar to overall trade pattern of the continent with marginal differences in certain sectors which could be construed as their regional specialisation. South American and Central American countries are highly sensitive to raw material exports of agriculture sector and Caribbean states are somewhat different in this respect. Interestingly, all the sub-regions are major exporters of processed food. While South American and Caribbean are deeply engaged in the exports of minerals, Central American is not exposed to the sector for exports. In textiles, Central American states are very much into exports to rest of the world. Caribbean sub-region is more specialised in (1) mineral products, (2) chemicals, (3) prepared food, (4) gems and jewellery. Central American economies are exporters of (1) foods and vegetables, (2) textiles, (3) chemicals (4) processed food and (5) machinery. Since Central America is close to the U.S., the region is exposed

more towards export of technology- intensive products. Most of the South American countries, except Chile, Costa Rica and Guyana, follow inward oriented trade strategy, and therefore, export basket of the region is mostly concentrated on exports of primary commodities. Nearly, two-third of the sub-region is focused on primary commodities, and a small segment of the total trade is directed towards hi-tech exports.

3.3 Trade with Major Destinations

LAC countries have strong trade linkages with specific countries falling outside the Latin American continent. Traditionally, the U.S. and the European Union are the top trading partners of the region, and recently China as well as India has joined the group as the top trading partners of the region. These four major countries and ASEAN countries have close economic ties with the regional economies. In recent years, China has been competing with the European Union for securing the second position in the LAC region in bilateral trade. India is placed at the fourth position in trade, but the difference between third and fourth position in LAC regional trade has been quite distinct. In terms of absolute volume of trade, India may have lagged behind the U.S., the European Union and China, but in terms of growth trends, India is far ahead of others. Growth trajectory of India's trade with the LAC region has been more spectacular than other major players in the LAC region.

Table 3.3 LAC's Trade with Major Trading Partners: 2003 and 2017

Partner	Unit	Exports				Imports			
		Car.	C Am.	S Am.	LAC	Car.	C Am.	S Am.	LAC
		2003							
India	$ Mn	25.8	17.1	1431.7	1474.6	94.9	63.5	1062.4	1220.7
China	$ Mn	335.6	112.2	9945.8	10393.6	1439.6	574.4	8537.4	10551.4
U.S.	$ Bn	9.3	4.9	66.8	81.0	12.1	11.0	30.2	53.2
EU	$ Bn	1.8	1.5	36.5	39.8	3.9	2.4	25.3	31.6
		2017							
India	$ Mn	596.9	81.2	12122.9	12801.0	435.2	923.3	7374.6	8733.1
China	$ Mn	237.2	262.4	87488.5	87988.1	5201.6	10840.7	90698.0	106740.3
U.S.	$ Bn	10.4	17.6	67.5	95.5	20.0	21.6	81.9	123.5
EU	$ Bn	2.3	5.0	65.3	72.6	6.1	5.2	72.9	84.2

Source: ComTrade, UN, 2018

During 2003-17, India's exports and imports to the LAC region increased by 7.2 and 8.7 times, respectively, as shown in Table 3.3. India's bilateral trade performance was many times better than the U.S. and the European Union during the same period. China's bilateral import growth from LAC was much slower than that of India. However, China's export profile was much sharper than India; it increased 10.1 times as against 8.5 times in case of India during the same time. Exports from LAC to the U.S. and the European Union increased

by little lesser than double and imports by more than two and half times. India's import surge was very high with Caribbean and South America as compared to its exports to them; leading to sizable bilateral trade deficit with LAC. The situation is just opposite with Central America where Indian exports with the sub-region increased by 14.5 times as against imports, which were 4.7 times during the corresponding period. India's inability to keep pace with its import growth commensurate to its export growth, and this led to significant trade deficit with the region. India maintained double digit growth rates in exports and imports for all sub-regions in LAC during 2003-17. India did not lag behind major players of the region, including China, but the country had started trading with LAC at a time when others were mature players in the region. India has to evolve a well-defined strategy to grow faster than others to catch-up with the major players in the region.

3.4 Trade Profile of India with the Region

India's long trade history with the LAC from the period of economic bouncy to recession is presented in Table 3.4a. Export from LAC to India grew faster than its imports during last one and half decades. The region had a perpetual trade surplus with India, except in 2001. However, bilateral trade imbalances with India had varied implications for different sub-regions and individual countries (as shown in Table 3.4a and Appendix III). The positive trade balance of the region benefited mostly South America, but adversely affected Central America. Trade balance of Caribbean countries with India was negative until 2014, but this reversed in the latter phase of recession. Among the three sub-regions, South America took the lion's share of the bilateral trade between India and LAC during the 2000s, but showed declining trend during the entire period under study except in 2017. Trade share of Central America was small and declined since early 2000s, but again rose gradually during the latter phase of recession. Trade share of the Caribbean region with India declined in the first phase of recession, but recovered during 2013-17. Sign of recovery was very much on horizon in LAC, and this a positive development for them as well as for India.

Table 3.4a: Changing pattern of LAC's Trade with India

(in USD Million)

Year	Exports	Imports	Export Share (%)			Import Share (%)			Trade Balance			
			Car	CA	SA	Car	CA	SA	Car	CA	SA	LAC
2000	927	836	1.1	0.6	98.3	6.6	3.9	89.5	-45	-27	164	92
2001	918	1123	0.2	0.5	99.2	5.9	3.4	90.7	-64	-33	-107	-205
2002	1331	1100	0.3	0.7	99.0	6.0	4.4	89.7	-62	-38	330	230
2003	1403	1117	0.7	1.2	98.0	6.7	6.2	87.0	-65	-53	403	285
2004	1855	1435	1.3	1.7	97.0	10.9	6.7	82.4	-132	-64	616	420
2005	2716	2469	0.4	0.7	99.0	5.6	5.3	89.0	-129	-113	490	248

2006	3836	3149	0.1	0.6	99.3	5.2	6.0	88.8	-158	-168	1013	687
2007	7049	4405	1.2	0.7	98.1	3.7	5.5	90.8	-80	-192	2916	2644
2008	7616	6879	1.3	0.8	98.0	3.5	5.6	90.9	-145	-324	1206	737
2009	8247	4898	1.4	0.7	97.9	6.1	5.7	88.2	-186	-217	3752	3349
2010	12585	8012	0.4	0.8	98.8	4.4	5.0	90.6	-301	-305	5179	4574
2011	13280	10709	0.5	0.5	99.0	2.8	4.5	92.6	-245	-416	3231	2570
2012	24592	10942	0.1	0.4	99.5	5.0	5.7	89.3	-527	-525	14702	13650
2013	24732	12547	0.1	0.5	99.4	3.7	5.5	90.9	-442	-555	13182	12185
2014	25708	12944	0.6	0.3	99.1	3.3	5.8	91.0	-271	-663	13698	12764
2015	16146	10870	3.7	0.4	95.9	4.5	8.7	86.7	105	-885	6056	5276
2016	13380	7400	5.0	0.6	94.4	6.1	13.1	80.8	213	-887	6654	5980
2017	18213	9083	3.3	0.6	96.1	5.9	10.3	83.8	59	-826	9897	9131

Source: Direction of Trade Statistics, IMF, 2018

Pace of trade ties with India by different sub-regions was diverse in different global trade regimes, as shown in Table 3.4b. The entire LAC region registered positive growth performance in bilateral exports during 2008-17, despite serious setbacks during second phase of recession. In various phases of trade regimes, bilateral export growth with India varied significantly between different sub-regions, but all of them registered positive growth rate during recession. During the first phase of recession, growth performance of their bilateral imports was buoyant, but received major setback in the subsequent period of recession. Import of Central America remained buoyant during the entire period of 2000s.

Table 3.4b: Growth Dynamics of LAC Trade with India

(in %, CAGR)

CAGR	Exports				Imports			
	Car	CA	SA	LAC	Car	CA	SA	LAC
2003-07	68.6	29.2	49.8	49.7	21.7	36.2	42.4	40.9
2008-12	-35.4	14.0	34.6	34.1	22.6	13.0	11.8	12.3
2012-17	104.6	1.8	-6.5	-7.2	-0.1	8.4	-4.9	-4.5
2008-17	22.6	7.0	9.9	10.2	9.4	10.4	2.2	3.1

Source: Direction of Trade Statistics, IMF, 2017

Structure of bilateral trade baskets of both India and LAC is significantly different. Exports of LAC to India are more concentrated than its bilateral imports. There are evidences indicating that significant level of structural transformation has taken place in the trade basket of the LAC to India. Major exports of LAC included HS sections like minerals, gems & jewellery, fats & oils and, as shown Table 3.5. Other exports at the HS sections included prepared food, base metal and chemicals. Minerals, gems and jewellery and fats & oil shared 80.1 per cent of LAC's exports to India. Region's imports from India have been from many sectors, ranging from primary to manufacturing sectors. Major HS sections involved in LAC's imports from India included chemicals, automobiles, textile & clothing, machinery,

and base metals. Bilateral imports of LAC included other areas, such as plastics, minerals, vegetable products, precision instruments and cements.

Table 3.5: Sectoral Trade Pattern of LAC with India in 2017

(in USD Million)

Sec	Description	Imports	Exports	Tr. Bal	Import Sh. (%)		Export Sh. (%)	
					2007	2017	2007	2017
1	Animal Products	17.2	2.5	-14.7	0.2	0.2	0.0	0.0
2	Vegetable Prod.	119	174.1	55.1	0.9	1.4	1.7	1.4
3	Fats & Oils	29.8	2572.6	2542.8	0.1	0.3	19.4	20.1
4	Prepared Food	82.2	961	878.8	0.2	0.9	0.5	7.5
5	Mineral Products	172.5	4937.2	4764.7	27.7	2.0	62.8	38.6
6	Chemical Products	2866.6	281.4	-2585.2	26.1	32.8	2.6	2.2
7	Plastics	520.7	168.9	-351.8	4.8	6.0	0.5	1.3
8	Leather	59.1	54	-5.1	0.6	0.7	0.9	0.4
9	Wood	5	177.2	172.2	0.1	0.1	0.8	1.4
10	Pulp of wood	27.2	105.9	78.7	0.2	0.3	0.2	0.8
11	Textiles	1350.4	36.1	-1314.3	13.6	15.5	0.3	0.3
12	Footwear	59.1	5.3	-53.8	0.2	0.7	0.0	0.0
13	Cement	112.5	11.7	-100.8	0.6	1.3	0.1	0.1
14	Jewellery	14.2	2746.9	2732.7	0.1	0.2	0.2	21.5
15	Base Metals	858.9	335.3	-523.6	7.2	9.8	5.5	2.6
16	Machinery	867.6	122.3	-745.3	8.5	9.9	3.4	1.0
17	Automobiles	1362.2	83.4	-1278.8	7.4	15.6	0.7	0.7
18	Photography	124.7	23	-101.7	0.9	1.4	0.3	0.2
19	Arms	0.6		-0.6	0.0	0.0	0.0	0.0
20	Misc. Mnfg	83.4	2.1	-81.3	0.5	1.0	0.0	0.0
21	Works of Art	0.1	0.1	0.0	0.0	0.0	0.0	0.0

Source: Com Trade, UN, 2018

Bilateral trade deficit was largely with India, but sectoral balance presented a different picture in 2017. India had trade deficit in number of sectors including minerals, gems and jewellery, fats & oils, and prepared food, registered trade surplus in certain other sectors, like (1) chemicals, (2) textile and clothing, (3) automobiles, (4) machinery, (5) base metals, and (6) plastics. Both regions showed trade complementarities in certain areas including minerals, chemical products, base metals and machinery items.

There was a certain level of structural change that took place in bilateral trade baskets between the two regions during 2007-17. Noticeable changes in the composition of bilateral exports of LAC were observed in sectors, like gems and jewellery, prepared food, minerals, base metals and machinery. Similar changes were observed in region's imports from India in minerals chemicals, cements, base metals, and automobiles. So far as structural transformation in bilateral trade basket is concerned, LAC export basket observed more

structural changes in the agriculture and manufacturing sectors and in the import basket in manufacturing sector.

3.4.1 Trade of Important Regional Economies with India

Based on the number of considerations, ten countries in the LAC region are identified and detailed discussion on them can be seen in section 4.4. These countries, drawn from different sub-region of LAC, may be considered as the most important trading partners in future for India's export and import, as shown in Table 3.6. Contribution of these countries to India's exports to LAC was 83.4 per cent in 2017; declined from 84.7 per cent in 2008. Similarly, these countries shared 94.0 per cent of India's imports from LAC in 2017; which was similar in 2008. While India's exports declined substantially between 2008 and 2017 to Brazil and Venezuela; but an export surge was noticed with other 8 identified partner countries. In the import front, there was a surge in imports with Peru, Argentina, and Dominican Republic, whereas it declined between 2008 and 2017.

Table 3.6: India's Trade with Ten Important LAC Countries

(in USD Million)

Flow	Country	Value					Share (%)		CAGR (%)			
		2003	2007	2008	2012	2017	2008	2017	03-07	08-17	08-12	12-17
Exports	Brazil	327	2251	3194	6129	2874	51.5	34.8	62.0	-1.2	17.7	-14.1
	Colombia	87	712	411	927	912	6.6	11.1	69.2	9.3	22.6	-0.3
	Peru	41	247	408	635	729	6.6	8.8	56.7	6.7	11.7	2.8
	Chile	80	281	418	647	745	6.7	9.0	36.8	6.6	11.5	2.9
	Argentina	81	270	381	501	661	6.2	8.0	35.3	6.3	7.0	5.7
	Ecuador	14	55	94	172	265	1.5	3.2	41.6	12.2	16.3	9.0
	Venezuela	26	139	160	252	82	2.6	1.0	52.1	-7.1	12.1	-20.1
	Guatemala	24	75	93	222	282	1.5	3.4	32.3	13.2	24.4	4.9
	Dom. Rep.	13	41	55	109	196	0.9	2.4	32.8	15.1	18.4	12.5
	Costa Rica	18	29	39	78	134	0.6	1.6	12.6	14.6	18.7	11.5
Imports	Brazil	314	959	1166	5406	5100	13.5	25.4	32.2	17.8	46.7	-1.2
	Colombia	9	82	23	1382	646	0.3	3.2	72.3	45.2	179.7	-14.1
	Peru	29	150	298	424	2069	3.4	10.3	51.3	24.0	9.2	37.3
	Chile	159	1862	1791	2498	1700	20.7	8.5	84.9	-0.6	8.7	-7.4
	Argentina	494	899	603	1222	2487	7.0	12.4	16.2	17.1	19.3	15.3
	Ecuador	5	175	60	758	329	0.7	1.6	144.4	20.8	88.3	-15.4
	Venezuela	3	484	4116	12057	5898	47.6	29.3	262.5	4.1	30.8	-13.3
	Guatemala	1	3	4	6	18	0.0	0.1	41.4	17.8	11.1	23.5
	Dom. Rep.	1	3	10	10	595	0.1	3.0	18.9	58.4	2.0	125.1
	Costa Rica	21	77	61	224	69	0.7	0.3	39.3	1.2	38.1	-21.0

Source: Direction of Trade Statistics, IMF, 2018

Despite recession, India's export growth remained robust and continued to be in double digits with most of its partners, but growth rate became negative in case of Brazil and Venezuela. In the bilateral import sectors, India faced similar experience during the period of recession.

India's positive import growth during 2012-17 was limited to a few top countries like Peru, Argentina, Guatemala and Dominican Republic. Return of global buoyancy may improve India's trade linkages with the region.

3.4.2 LAC Trade with India and the World: Product-wise Analysis

LAC's Top Commodity Trade with the World

Trade of the LAC region with the world has been lopsided where region's export is less diversified than its import basket. This is imperative from Appendix V.1 and Appendix V.2 that top 50 import and export items of the LAC region from the world constituted 34.3 per cent and 66.1 per cent, respectively, in 2017. In several broad sectors at the chapter level, a number of top products were imported and exported simultaneously by the region; indicating a strong presence of intra-industry trade. Some of the chapters where such syndrome is experienced were in chapters like Cereals (10); Oil seeds and oleaginous fruits (12); Residues & waste from food industries (23); Mineral fuels mineral oils and products (27); Pharmaceutical Products (30); Nuclear reactors, boilers, machinery (84); Vehicles other than railway or tram (87); Aircraft, spacecraft and parts (88); and Optical, photographic, cinematograph, etc. (90). Petroleum is one such sector where seven import items and seven export items dominate sectoral trade of the region. The region exported USD 31.8 billion worth of soya bean; USD 13.8 billion of sugar; USD 15.2 billion of oil cake; USD 29.2 billion of iron, copper, zinc and lead; USD 137.4 billion of petroleum products and electricity; USD 19.5 billion of gold metal; and USD 51.7 billion of copper to the rest of the world. These top 50 export items of the LAC region brought substantive export earnings of USD 416 billion in 2017.

Similarly, top 50 import items of the region were worth USD 199.1 billion in 2017. The region imported USD 6.8 billion worth of wheat and corn; USD 59.8 billion of petroleum, coal and gas; USD 13.5 billion of medicine; USD 6.8 billion of fertilizers; USD 5.7 billion of insecticides; USD 5.6 billion of polymers; USD 9.7 billion of printing machines and data processing machines; USD 27.6 billion of integrated circuits , transmission equipments and telephone apparatus; USD 36.9 billion of vehicles parts and accessories and gears; and USD 1.8 billion of aero plane parts from the world. This trade composition indicates that LAC region exports are dependent on primary and base metal products and imports on the sizable number of manufacturing products.

LAC's Top Commodity Trade with India

LAC follows the same trade pattern with India as with the rest of the world. Appendix V.3 and Appendix V.4 indicate that top 50 products shared 52.2 per cent and 94.7 per cent of India's bilateral imports and exports, respectively, in 2017. Considering the trade pattern of top products between two regions, it points that there exists no strong intra-industry trade between them. The pattern of trade indicated it to be concentrated in varying intensity in both import and export sectors. This demonstrates strong preference of both regions to trade in specific sectors. Bilateral exports of LAC are more restricted than its imports from India. In sectors like Ores, slag and ash (26); jewellery (71) and Fats and Oils (15) exports of LAC were strong and were moderate in sectors, like Mineral fuels mineral oils and products (27); Sugars and sugar confectionery (17); and Plastics (39). In Animal or vegetable fats & oils (15), two vegetable oil items shared 20 per cent and 3 products of ores, slag and ash (26) (i.e. copper ore, iron ore and molybdenum ore) shared 24.2 per cent of the total exports of top 50 exportable items of LAC to India. Sugar and metal gold contributed 28.5 per cent of bilateral exports to India. Four items such as oil, coal, gas and coke under mineral fuels mineral oils and products (27) constituted 13.7 per cent of LAC's exports to India.

However, region's imports from India have been in diverse sectors. Some of the important sectors are Pharmaceutical Products (30); Vehicles other than railway or tram (87); Organic chemicals (29) and Man-made filaments (54). Other important sectors are Miscellaneous chemical products (38); Mineral fuels mineral oils and products (27); Cotton (52); and Articles of Iron or steel (72 and 73). Acid and heterocyclic compounds (11 items) and vehicle gear parts and motorcycle (five items) in Vehicles other than railway or tram (87) are important emerging ones for India to export to LAC. Some important items are imported from India to LAC, but they are in some moderate sectors. Dyes (3), insecticides (3), cotton yarn (4), yarn (2), iron and steel (7) are important import products of LAC from India.

Table 3.7: Top Ranking Imports of LAC from the World and India in 2017

India Rank	HS	Description	India ($ Mn)	World Rank	World ($ Bn)	Share % (Ind/Wld)
1	300490	Medicaments	535.6	5	11.8	4.5
2	870322	Vehicles; piston engine	381.4	7	6.2	6.2
5	870323	Vehicles; piston eng. exceeding 1500cc	214.6	3	13.0	1.7
7	380810	Insecticides	182.0	27	2.1	8.5
8	271019	Petroleum oils	142.5	1	24.1	0.6
9	380820	Fungicides	135.3	41	1.6	8.3
28	401120	Rubber; new pneumatic tyres	52.5	31	1.9	2.8

33	380830	Herbicides	42.5	30	1.9	2.2
40	382490	Chemical products	34.9	36	1.7	2.0

Source: RIS estimate based on ComTrade, UN, 2018
Note: India Rank refers to product ranking of LAC's import from India; World Rank refers to product ranking of LAC's import from World

It is important to understand trade complementarities existing between top products imported by LAC countries from the world, and how many of them would constitute most important export products to LAC from India. Similar is the case with the LAC top export products to the world and India. We have examined this aspect of bilateral trade by taking top 50 import products of LAC from the world and trying to match them with top 50 exporting items to LAC as shown in Table 3.7. We found nine such items where India could match import priority of the LAC region. In case of 3 products, Indian exports were covering more than 5 per cent of their import requirements. Among ten most important import items of the region, India could supply four of them in 2017. India has to improve its export priority according to demand requirements of the LAC region.

Table 3.8: Top Ranking Exports of LAC to World and India in 2017

India Rank	HS	Description	India ($ Mn)	World Rank	World ($ Bn)	Share % (Ind/Wld)
1	260300	Copper ores & concentrates	2937.0	2	32.5	9.0
2	710812	Metals; gold	2561.8	5	17.3	14.8
3	150710	Vegetable oils; soya-bean	2480.4	18	5.2	47.8
4	270900	Oils; petroleum oils	1548.0	1	109.6	1.4
5	170111	Sugars; cane sugar, raw	924.1	9	11.0	8.4
6	710813	Metals; semi-manufactured gold	156.9	40	2.3	6.9
7	260111	Iron ores & concentrates	136.4	4	18.3	0.7
14	270112	Coal; bituminous	56.0	15	6.8	0.8
17	720712	Iron or non-alloy steel	47.2	30	2.7	1.7
19	470329	Wood pulp; chemical wood pulp	39.3	13	7.0	0.6
22	720293	Ferro-alloys; ferro-niobium	29.3	50	1.6	1.8
24	271111	Liquefied, natural gas	27.6	22	3.7	0.8
45	281820	Aluminium oxide	12.1	26	3.1	0.4

Source: RIS estimate based on ComTrade, UN, 2018
Note: India Rank refers to product ranking of LAC's export to India; World Rank refers to product ranking of LAC's export to World

Similarly, we have matched top export items of the LAC region to India with the top import items of India from the world. There are 17 such matching items found from these two lists, as shown in Table 3.8. In case of soya bean oil, LAC covered 47.8 per cent of India's global imports in 2017. In case of products like gold, raw sugar and copper ore, where 8-15 per cent of India's global imports was covered by LAC. In other cases, India's dependence on the LAC region is not that significant. There is a great potential between the regions to augment trade between them.

The existing import pattern of LAC from India indicates that bilateral trade is taking place on the basis of trade specialization. While LAC shows its active engagement in sectors like agriculture, mining and base metal, India's exports are in manufacturing sector. Interestingly, India is exporting light-weighted products to LAC, and thus India can manage with infrastructural bottlenecks. However, import of raw materials and base metals are heavy-weight products which require better transport infrastructure and direct ship liners for reducing transaction cost. India needs to improve upon transport infrastructure and introduce direct ship liners to strengthen its trade ties with the LAC region.

3.5 India's Policies towards Devaluating Importing Countries

The deepening of the recession in recent years led to many countries adopting devaluation strategies as a means to increase their competitiveness and arrest their growing trade imbalance. Competitive devaluations by trading partners may arise over concerns of a negative impact on their own export industries. The main determinants of international transmission of exchange rate crisis are trade links, financial and macroeconomic variables. LAC countries have adversely affected due to the effects of recession and therefore, many countries have resorted to different forms of devaluation. The highest devaluations in LAC have been observed in Brazil, Argentina, Colombia, Mexico and Paraguay following the significant depreciation experienced by the region since 2012, which worsened since 2015 due to the higher interest rates in the U.S. India, is a fast growing economy and cannot afford to have devaluation. There is a need to explore different possibilities to counter devaluation in LAC.

Depreciation of exchange rate as a result of the devaluation has both short and long term impacts on a country's trade flow. Devaluation leads to a fall in export prices in dollar terms that results in competitiveness gains, but imports become more expensive in terms of local currency. This creates opportunities for the local industry to substitute foreign suppliers. The extent of substitution depends not only on the magnitude of the devaluation but also on the physical and technological capability of the local firms to respond to growth opportunities. The timing and duration of the devaluation also matters. If the devaluation happens when the local industry has significant spare capacity, a faster response is more likely to materialise, otherwise a reaction can only happen in the mid-to-long term. But for that to happen, firms' expectations about the duration of the real devaluation— nominal changes can be quickly erased by inflation—are the keys to trigger necessary investments. The real effective exchange rate index is used to observe currency depreciations as it provides a better measure

of how relative prices have changed with respect to all import suppliers and not just the ones that have their currencies pegged to the dollar (Mesquita Moreira, Pierola & Sánchez-Navarro, 2017)

The Marshall-Lerner (ML) analysis attempts to determine the conditions under which a devaluation or depreciation would improve country's trade balance (Menzies, 2005). Devaluation of the exchange rate leads to reduction in the price of exports thus the demanded quantity for these exports would increase. At the same time, price of imports would rise and their demanded quantity would diminish. The net effect on the trade balance would depend on price elasticities. Assuming that the current account is initially zero, ML condition argued that depreciation would improve trade balance in the long run, if the sum of elasticities of the demands of exports and imports (absolute value) was greater than one (Appleyard and Field, 1986). If exported goods are elastic to price, their demanded quantity would increase proportionately more than the decrease in price, and total export revenue would increase. Similarly, the total import expenditure would decrease if imported goods are elastic to price. This leads to improvement of the trade balance (Mai Thi Van, 2011)

A possible consequence of devaluation by one country is a round of successive devaluations. For instance, trading partners may become concerned that devaluation may negatively affect their export industries. Neighbouring countries may devalue their own currencies to offset the effect of their trading partner's devaluation. Such "beggar thy neighbour" policies tend to exacerbate economic difficulties by creating instability in broader financial markets (Federal Reserve Bank of New York, September 2011).

The use of exchange rate policy to gain competitive advantage over a country's trading partners has been recognised as a major threat to the stability of international monetary system. Corsetti *et al.* (2000) examined the impact of devaluation by one country on its trading partners and the incentives for them to devalue in turn. Devaluation by one country affects state of economic fundamentals and may also induce exchange rate tensions in other economies in the world. Trade links, financial and macroeconomic variables are determinants of the international transmission of exchange rate crises. Trade links increase incentives of other countries to devalue their currencies in the event of a country-specific currency crisis. Thus, this increases the likelihood of speculative attacks in foreign exchange markets. In other words, competitive devaluations may be reinterpreted as contagious devaluations. Corsetti *et al.* considered a general equilibrium three- country model with nominal rigidities and monopolistic competition— Two countries, A and B, produce goods that are close

substitutes for each other but poor substitutes for goods produced in the other country, C. Country C is the centre and the other two countries, A and B, are referred to as the periphery. Consider an exogenous permanent unanticipated monetary expansion or devaluation in country A. The centre is assumed to maintain its monetary stance regardless of external developments. There are three following policy scenarios that the country B may adopt.

1. Policy of monetary stabilisation: The devaluation in country A reduces the price of its goods relative to country B's goods. This results in a shift of demand away from country B's goods. It also reduces the relative price of the periphery goods as a whole and moves worldwide demand away from the centre's goods. The devaluation thus results in a reallocation of consumption in country B along with an ambiguous effect on its overall level:

    i. Consumers at the centre switch away from country B goods to country A goods and from centre goods to periphery goods, but the former effect is stronger since there is more substitutability and thus the market share of country B exports at the centre decreases and results in a revenue loss and fall in consumption of centre goods for country B.

    ii. On the other hand, if the law of one price holds, the price of country A's goods fall in country B and thus country B consumers benefit from an improvement in their terms of trade and this increases their consumption. This results in an ambiguous effect on the overall consumption on B.

Under this policy regime the exchange rate of country B depreciates against the centre because the shift in consumption towards country A's goods reduces the demand for country B's currency. However, the fall in money demand is not large enough to depreciate the currency of B against that of A.

2. Defence of the current exchange rate level vis-a-vis the centre or a unilateral peg: Under this regime, country B must defend its currency. This can be achieved through a monetary contraction. However, B's monetary contraction does not offset A's monetary expansion; so the net periphery monetary stance is expansionary. The equilibrium devaluation of country A is lower in the peg scenario than in the monetary stabilisation scenario in which country B does not contract its monetary policy and lets the currency depreciate. Thus the monetary tightening or devaluation in country A results in a contractionary effect in country B if it follows the policy of a unilateral peg. By further appreciating the

exchange rate against country A, country B suffers additional losses of market share in the centre. However, it benefits from larger improvements in its terms of trade vis-a-vis country A.

3. Matching Devaluations: The central bank of country B may decide to match the rate of devaluation of country A in order to maintain the market share of its exports to the centre. This policy further reduces the prices of periphery goods and increases the shift of consumption away from the centre's goods. The demand of country B's exports by the centre rises and this prevents reduction of demand of imports of the centre's goods by country B. There is no change in the intra-periphery terms of trade.

Corsetti *et al.* then examined the conditions under which a devaluation by A deteriorates country B's national welfare and the conditions under which country B is better off by matching country A's devaluation. Under the first policy scenario of monetary stabilisation, a monetary and exchange rate shock in country A, can hurt country B only if the periphery as a whole loses against the centre. However, country B will always prefer the policy regime involving the largest monetary expansion, that is the matching devaluation regime or to maintain the peg with the centre, that is the unilateral peg regime over the monetary stabilisation regime in which it does nothing. Country A's devaluation is contagious only when country B's terms of trade externalities are negligible. If the degree of exchange rate pass-through is high, there is a non-negligible range of elasticity values for which country B does not have a welfare incentive to match country A's devaluation. High degree of pass through allows domestic producers to increase their market shares in a third country at the expense of other competitors. It also translates into a fall in their relative prices and thus bilateral trade between countries that compete in the world economy reduces the incentive to resort to exchange rate policy as a means to enhance competitiveness.

Conversely, a low degree of pass-through increases likelihood that a devaluation be competitive but for reasons that are very different from those highlighted by the traditional model. If relative prices in national currencies are insulated from exchange rate movements, devaluation raises profits of exporters and domestic real incomes so that domestic households increase their consumption. Since, the higher demand is met by foreign producers at unchanged consumer prices they experience a loss in sales revenue. A devaluation is therefore beggar-thy-neighbour as the foreign producers must work more for any given level of consumption (Corsetti *et al.*, 2000)

Devaluation in LAC

Several LAC currencies have been experiencing a significant depreciation since 2012. This has been driven by the slowdown in the region's main markets, particularly China, which has led to a sharp fall in commodity prices. Since 2015, the slowdown has been compounded by higher interest rates in the U.S. The highest real depreciations in LAC have been observed in Brazil, Colombia, Mexico and Paraguay (Mesquita Moreira, Pierola & Sánchez-Navarro, 2017).

In Brazil, substantial currency devaluation in relation to the U.S. dollar started in 1997 and further devaluations occurred as a result of government measures in response to financial crises in Asia and Russia. Devaluations began in Argentina in 2002 owing to the country's domestic financial crises. The soybean export market is a significant contributor to U.S. agricultural export earnings. However, the share of US in major importing countries is being displaced by exports from several competitors, particularly Brazil and Argentina. These countries have benefited from reduced costs in production, marketing, and domestic transportation as the result of political reforms and infrastructure development. Furthermore, currency devaluation in Argentina and Brazil may also be an important factor underlying declining role of US soybeans in world markets. As the result of the devaluation in Brazil and Argentina, which decreased the value of their currencies relative to the U.S. dollar, soybean from US became more expensive. Sampaio, Costa, and Gunter (2003) and USDA ERS (2000) have concluded that currency devaluations in Brazil and Argentina have been important factors in decreased competitiveness of US soybeans in the world market. Andino, Mulik and Koo (2005) estimated that soybeans imports from the U.S. increased as major importers increased their total demand of soybeans and imports from US were negatively affected when the value of the U.S. dollar increased relative to the currency of major importing countries. Dohlman, Schnepf and Bolling (2001) elaborated that even though the cost of producing soybeans was lower in Argentina and Brazil than in the U.S., these two countries still faced problems in terms of financial structure, land limitations and internal transportation constraints. This restricted Argentina and Brazil in producing the amount of soybeans necessary to cover world demand. Therefore, other competitors, such as the United States, Paraguay, and Uruguay, are still increasing export volumes, but not in the same proportion as Argentina and Brazil. Effort needs to be directed to developing strategies that improve the cost advantage position of the United States in producing soybeans or strategies

that allow quality differentiation that favours the U.S. soybeans over other competitors (Andino, Mulik & Koo, 2005)

"ASEAN Economic crisis" and Response of China to Competitive Devaluation

During the Asian Crisis, when a financial crisis had hit the high performing East and South East Asian economies in mid-1997, it was believed that it would spread to China since the country had extensive intra-regional trade and investment linkages with the rest of Asia and suffered from the same structural problems like that of South Korea, Thailand, Malaysia and Indonesia. However, except for its external trade and external capital account, China remained insulated from the region-wide crisis. China was able to sustain its strong GDP growth, attract FDI, could have a current account surplus and maintain stability of its currency even though there were currency devaluations and asset price deflations in the rest of the region.

Sharma *et al.* (2002) discussed a number of reasons behind China's immunity from the crisis. First, unlike the other Asian economies affected by the financial crisis, China's currency, the RMB, was not convertible for capital account transactions and was only convertible on the current account, which means that official documentation of a legitimate trade or other approved transaction is required to change money. The partial convertibility of the RMB makes it difficult for speculators to place bets since there is no forward market. Also, the PBoC requires everyone to buy or sell foreign exchange or foreign currency denominated financial assets to enter the exchange market. This resulted in the PBoC gaining greater flexibility in responding to balance of payment problems. Large RMB spot transactions require pre-approval of the State Administration for Foreign Exchange (SAFE). The SAFE approval requirements and limitations on foreign participation in China's equity markets have resulted in low levels of portfolio investment. A combination of these factors made China less vulnerable to competitive devaluations and domestic or externally driven speculative attacks. Second, in the pre-crisis period, the other Asian countries used a mix of pegged exchange rate, heavy sterilisation and no capital controls to discourage liquid short term flows. This encouraged heavy external borrowing in the form of short -term credits, which led to excessive exposure to foreign exchange risk in the financial and corporate sectors and also had a negative impact on FDI and portfolio investment. On the other hand, 70 per cent of capital inflows to China were in the form of FDI which were almost twice the level of China's officially reported foreign borrowing (Lardy, 1998). FDI is far more stable and less susceptible to negative monetary shocks or investor panic since their maturities are much

longer, and they have a manageable debt –service ratio. This made China less vulnerable to a speculative-led liquidity crisis. Third, Thailand, South Korea, Indonesia and Malaysia were heavily burdened with short- term debt liabilities but 90 per cent of China's external debt was medium or long term with FDI and were mostly joint ventures having the largest share. These are highly illiquid and difficult to withdraw quickly. Moreover, China's banking and financial system did not have substantial foreign debts denominated in foreign currencies which reduced possibility of immediate banking crisis. Also, China had fewer capitalisations through the stock market. The banks are state-owned in China, and so their bad debts are government debts, not private debts, and are denominated in RMB and not US dollars. The burden of servicing the government debts as a share of the government budgetary expenditure was comparable to other countries and was manageable. This resulted in China having more space to make the necessary policy adjustments during the crisis. Fourth, China had a trade and current account surplus since 1994 which helped accumulate substantial foreign exchange reserves. This reduced the pressure to devalue the currency or raise interest rates. Finally, the size and diversity of the Chinese economy helped it to better withstand the crisis.

India has limited policy options for effectively dealing with its export destinations which are resorted to devaluation in recent years. At the time of devaluation, country's export competitiveness increases and its imports also become more expensive. Therefore, the country is endowed with the option to reduce its imports and at the same time improve its export performance. But the impact of devaluation remains effective for a certain period. The positive impact of devaluation diminishes as price level sores on account of expensive imported inputs for domestic consumption and exports. But India may find it difficult in the medium term to deal with such economies because it may not be in a position to go for devaluation. Therefore, India may do the following:

1. Exporters may be supported to reduce their cost of production domestically with certain incentives,
2. Export support may be extended so that landing cost of exports in the importing country may be lowered and
3. India may wait for some time to ensure that the impact of devaluation in the importing country is fully reduced in due course.

Most of these policies may not be WTO consistent. Importing countries may contest in the WTO against India's policies of cost cutting of exportable items by production and export support. India can reverse these policies once the WTO decides to retaliate on these policies.

China followed the third option outlined above during the period of 'Asian Financial Crisis'. India also followed similar policies during the Mid-90s.

3.6 Examining Trade Competitiveness: Methodological Issues

3.6.1 Trade Creation and Trade Diversion

In a seminal study, Viner (1950) explained through a model the rationale for countries to trade among themselves and the role of preferential trade in shaping their trade linkages. The model explains that trade takes place through trade creation and trade diversion in a regional trading arrangement or in a bilateral framework (Greenaway, Hyclak, and Thornton, 1989). With changing dynamics of global trading order, there have been changes in the trading behaviour of the trading nations in different regional groupings.

In this study, export competitiveness is estimated using modified trade creation and trade diversion model. In a partial equilibrium framework, export competitiveness is estimated based on ground realities existing in the global economy. Under this framework, if a product becomes competitive based on its comparative cost advantage, the volume of increased trade is considered as trade creation. If a product is structurally uncompetitive, and acquires competitiveness through policy-induced tariff adjustment under preferential arrangement, it becomes trade diversion.

Price competitiveness, whether naturally acquired or policy-induced, is the basis for estimation of trade potential. Often trade creation or trade diversion is not fully absorbed by the exporting countries because of several reasons including measurement errors of export/import prices of commodities, data reporting error, difficulties relating units of products, data error of reporting countries, quality consideration of products, traditional relationship with the importer vis-à-vis other competing countries, etc. among others. For these reasons, complete realisation of export potential does not happen fully in the medium term (Mohanty, 2003). This model is applied to estimate export potential of India in its partner countries. Other studies also estimated bilateral and regional trade potential in South Asia, China, Africa (Mohanty, 2003; 2014a; 2014b) and India (Mohanty, 2009; Mohanty and Saha, 2018).

Price Competitiveness

For estimation of price competitiveness, each product is considered separately at disaggregated level (i.e. at 6-digit HS level). In this approach, the export price of each

product from j^{th} country is compared with the corresponding prices offered by its competitors in the k^{th} importing country. In this analysis, trade potential of the j^{th} country (i.e., India) is estimated in k^{th} country (i.e., Brazil).

Competitive products: Trade Creation

Let us assume that j^{th} country exports i^{th} product to the world at a given price (P_{xiw}). Importing country k has several suppliers for the i^{th} product, i.e.,

$Suppliers_{ik}$ = 1, 2, 3, …., j,…., …., l, …, m, ….,r, ….s,…..,n

Consider another competing supplier s also exporting the same product to country k at a different price (P_{xisk}), where P_{xiw} denotes export price of j^{th} country, for the i^{th} product in the global market, P_{xirk} represents export price of the i^{th} product of the s^{th} competitor in k^{th} market. Country j may prefer to maintain its global price in the k^{th} market in order to maintain its competitiveness, and if this is a case, then $P_{xiw}= P_{xij}$.

For the i^{th} product, if j^{th} country has price competitiveness over a few other competitors in the k^{th} market, then the export price of j^{th} country should be lower than those of other competitors in the k^{th} market. In such a case, the condition may be:

$P_{xij} < P_{mik}$ … … … … … (1)

This is the case of the i^{th} product where j^{th} country has absolute price competitiveness over some suppliers in the k^{th} country. Like i^{th} commodity, all those products where j^{th} country has competitiveness in the k^{th} country would be j^{th} country's competitive products based on trade creation.

Competitive products: Trade Diversion

For examining trade diversion effects, let us begin with a situation prior to signing any trade agreement between two countries. While considering exporting country's price of the i^{th} product, we consider export price of the j^{th} country to the world as export price of the country to the k^{th} importing country. It is argued that an exporting country can lower its price to any export destination at par with its global price.

Let us begin with the autarky situation, where the price condition remains as the following:

$P_{xij} (1+T_{mfn}) > P_{mik} (1+T_{mfn})$ … … (2)

Where, T denotes tariff and mfn stands for Most Favoured Nation (MFN).

Equation (2) indicates that at the time of autarky, export price of the j^{th} country [i.e., P_{xij} $(1+T_{mfn})$] remains higher than import price of the k^{th} country [i.e., P_{mik} $(1+T_{mfn})$]

Consider a situation in autarky, where the j^{th} exporting country is uncompetitive to export i^{th} product to k^{th} importing country.

Trade diversion is possible in a situation where country j and country k have come to a trade agreement, following which tariff concession is offered by k^{th} country to j^{th} country for the i^{th} product, which is denoted by

P_{xij} $(1+Tprf) < P_{mik}$ $(1+T_{mfn})$ … … (3)

where prf stands for preferential tariff in equation (3), j^{th} country has received tariff preference from the k^{th} country and therefore, other suppliers to k^{th} country face MFN tariff where j^{th} country is subjected to lower preferential tariff compared to its competitors in the k^{th} country.

In the post-liberalisation situation (i.e., signing of any such agreement like PTA/FTA/CEPA/CECA), the following tariff condition holds.

$T_{prf} < T_{mfn}$ … … … … … (4)

or, $T_{prf} = T_{mfn} * \beta$ … … … … (5)

Where $\beta < 1$ … … … … … (6)

In equation (6), β denotes the level of preference that k^{th} country offers to j^{th} country for the i^{th} product under the trade agreement.

Let us consider a situation where j^{th} country is exporting i^{th} product, where its export price (P_{xij}) can face three situations.

(i) $P_{xij} < P_{mik}$ (i.e., trade creating situation), where j^{th} country is more competitive than l-number of suppliers of i^{th} commodity among n-number of suppliers in the k^{th} country. After tariff liberalisation under PTA/FTA/CECA/CEPA, prices would go down further, for the j^{th} country. In that case, j^{th} country (α) may be more competitive than a few more suppliers or (b) may not be able to compete out a few more suppliers in the k^{th} country. In a situation like

(a) where number of out competing suppliers could be more than l- number of suppliers/countries (i.e. m which is more than l) and number of out competing suppliers in (b) could be just l-number of supplying countries

(ii) In a situation where tariff preferences are offered, a commodity having uncompetitive in the autarky situation (i.e. equation 2) becomes competitive, as shown in equation 3. In that case P_{xij} $(1+T_{prf})$ can out compete m-number of suppliers in the k^{th} market.

(iii) In another situation, it may so happen that preferential tariff may not help j^{th} country in competing with any supplier in the importing market. Seeking preferential tariff for such products may be avoided while negotiating for tariff preferences.

In situation (i) and (ii), new competitive products over and above trade creation may be considered as competitive products under trade diversion.

Trade Potential

If j^{th} country has price competitiveness in one product, it does not mean that all the competitors in that product category necessarily have higher prices than that of j^{th} country. For a given product, some of the competitors may also offer lower prices than j^{th} country. In that case, j^{th} country must look at the market share of those competitors, whose export prices are higher than that of j^{th} country. The export market share of j^{th} country's inefficient competitors may be considered as its export potential. Viner (1950) referred such trade potential as the trade creation effect of the j^{th} country in a regional trading arrangement.

Suppose j^{th} country exports i^{th} product, while another r number of suppliers are also present for the same product segment in the k^{th} market. Each competitor holds some portion of the market share (Sh_{irk}) in the import of the i^{th} product in the k^{th} market. Therefore, all the suppliers cover total market share of the k^{th} market for the i^{th} product. It implies the following.

$$\sum Sh_{ikj} = 100 \quad \ldots \quad \ldots \quad \ldots \quad \ldots \ldots \quad (7)$$

where, Sh_{irk} stands for the market share of r-number of exporters of the i^{th} product to the k^{th} market.

Suppose j^{th} country has price competitiveness over a few competitors(but not all of them) in the export of i^{th} product, in that case, j^{th} country effectively enters the k^{th} market as a supplier,

and the combined market share of uncompetitive competitors (assuming sum of ratio as α), may be treated as j^{th} country's potential export share.

$0<\alpha<1$ … … … … … (8)

where, α denotes the proportion of the market for the i^{th} product, which is covered by the export of less competitive competitors of j^{th} country in the market of the k^{th} country.

The export potential of j^{th} country (POT_{ij}) in the exports of i^{th} product in the k^{th} country may be estimated as:

$POT_{ij}= \psi M_{ij}$ … … … … (9)

where, M_{ij} stands for total imports of the i^{th} product by k^{th} country from all sources. If ψ is less than 1, it means that j^{th} country has a price edge over a few competitors and a part of the k^{th} import market (i.e. ψ) will constitute j^{th} country's potential export. If ψ is equal to 1, it means that the entire import of the i^{th} product by the k^{th} market would be potential export of the j^{th} country. This trade potential may be considered as modified trade creation effect of a regional trading arrangement (Mohanty, 2003).

Decomposition of Potential Exports: Future and Presently Traded Products

As discussed earlier, j^{th} country's global export prices are considered for the estimation of j^{th} country's export competitiveness. One can find that j^{th} country has export competitiveness for p^{th} number of disaggregated items, and from which many items (i.e., p_a) are currently exported and many items (i.e., p_b) are not introduced by the j^{th} country in k^{th} country, but have the export competitiveness. Export potential of the j^{th} country can be decomposed into trade potential of products which are presently traded, using p_a and trade potential of products which are to be traded in future using p_b.

In this measure, we assume that India (j^{th} country) may be able to improve its market share by taking over market segments held by less efficient competitors in the k^{th} market on the basis of absolute cost advantage. One of the limitations of this measure is that it cannot explain a situation where a product of India has a global competitiveness, but is unable to tap export potentials in a specific economy. Identification of those economic and non-economic factors is beyond the scope of the present study.

The above methodology is empirically examined in chapter 4 where empirical analysis is undertaken for several LAC countries for all commodities at 6-digit HS over a period of time since 2003.

3.6.2 Revealed Comparative Advantage

The RCA has gained wider acceptance among the applied international trade economists, as it is a more comprehensive indicator of the concept of specialisation. Balassa (1965) presented a comprehensive measure of the relative comparative advantage index. It provides a better measure for the overall specialisation pattern of a country. The RCA Index is expressed as follows:

$$RCA_j = \frac{X_{ij}}{\sum_j X_{ij}} \Big/ \frac{\sum_i X_{ij}}{\sum_i \sum_j X_{ij}}$$

where *X* stands for exports, *i* for ith country, *j* for jth product (or industry). RCA_j measures ith country's exports of the jth product (or industry) relative to its total exports and to the corresponding exports of a reference group or World (see Appendix IV for details).

When RCA_j >1, it may be interpreted that the reference country has a revealed comparative advantage in the export of jth product to a reference group or World. If RCA_j is less than unity, the country is said to have comparative disadvantage in the product/industry. Greenaway and Milner (1993) have argued that the RCA index is lopsided due to exclusion of imports from the index. In order to correct the export bias in the RCA index, several indices are proposed in the literature by introducing imports in the modified indices. Greenaway and Milner (1993) have proposed "own" country trade performance. A number of other transformed indices are also seen in the literature, and most of them are very similar to Balassa Index. For the measurement of price competitiveness, mercantile trade is more suitable because volume of trade and its prices are presented in various international databases. Therefore, Viner's trade creation/trade diversion methodology is more suitable for merchandised trade in goods. In this study, Viner's model is used for the estimation of trade potential in Chapter 4 instead of using RCA. However, Revealed Comparative Advantage is used for the estimation of competitiveness of services sectors of India and other LAC countries in Chapter 5 of this study in section 5.2.

Apart from computing this index for a country in comparison to the world, there is another method, where comparative advantage of a country can be compared in the exporting market

vis-à-vis what world is exporting in that market. This is known as Bilateral Revealed Comparative Advantage (BCRA). The BRCA index is represented as:

$$BRCAk_{ij}^{k} = \frac{X_{ij}^{k}}{\sum_{k=1}^{n} X_{ij}} \Big/ \frac{X_{wj}^{k}}{\sum_{k=1}^{n} X_{wj}}$$

Where, X_{ij}^{k} is country i export of commodity k[th] to country j, $\sum_{k=1}^{n} X_{ij}$ is total exports of country i to country j, X_{wj}^{k} is world's export of k[th] commodity to country j and $\sum_{k=1}^{n} X_{wj}$ is total world's export to country j. Value of BRCA greater than 1 implies, country i has a comparative advantage for product k in the j[th] market in comparison to the world and a value less than 1 implies otherwise. This methodology has been used in Chapter 4 of this study in section 4.7 to identify BRCA of top 50 Indian exports in LAC countries.

3.6.3 Trade Complementarity Index

Michaley (1996) introduced the trade complementarity index to measure the extent to which two countries are natural trading partners by calculating the degree to which the export profile of the reporter matches or complements import profile of the partner. It also provides information on the prospects of intra-regional trade between the two.

The trade complementarity index between countries i and j on the export side, approximates the adequacy of j's import demand to i's export supply by calculating the extent to which i's total exports match j's total imports. The export TCI between i and j can be estimated as follows.

$$TCI_{ij} = 100 \times [1 - \sum_{k=1}^{n} |x_{ik} - m_{jk}|/2\ ]$$

Where, TCI_{ij} represents the trade complementarity index of exporter i with importer j; the products traded are represented by k. Also, x_{ik} represents product k's share in country i's total exports to the world, and m_{jk} represents product k's share in country j's total imports from the world. Similarly, the import TCI between i and j may be estimated.

The value of the index lies between zero and 100. A value of zero indicates that there is no correspondence between country i's exports and country j's imports and a value of 100 indicates that the two countries are ideal trading partners with a perfect match of their export-import pattern. A high index value indicates that the two countries would gain from increased trade and it may be useful to evaluate a prospective bilateral or regional trade agreement.

Changes in the index overtime indicate whether the countries' trade profiles are becoming more or less compatible (UNCTAD, 2012).

3.6.4 Export Similarity Index

The export specialisation index is a slightly modified RCA index which allows one to focus on specific markets or partners. It provides product information on revealed specialisation in the export sector of a country with respect to specific markets or partners instead of the world as given by RCA (World Bank, 2013). It is calculated as the ratio of the share of the product's export in the reporter country's total exports from the world to the share of the product's imports in the total imports of specific markets of partners rather than in the world. It may be estimated as follows.

$$ES_{ij} = \frac{x_{ik}/X_{it}}{m_{jk}/M_{jt}}$$

Where, x_{ik} is the export of product k from country i, X_{it} is the total exports of country i to the world, m_{jk} is the value of import of product k in market j and M_{jt} is the total imports of market j.

If the value of the index is smaller than one, it reveals a comparative disadvantage of the reporter country in the specific market, while, a value above one represents a comparative advantage in the specific market.

3.6.5 Trade Intensity Index

The trade intensity index is used to determine whether the value of trade between two countries/ regions is greater or smaller than what would be expected on the basis of their importance in the world trade. The index uses similar logic as that of revealed competitive advantage but for markets rather than products (World Bank, 2013). It indicates whether a reporter exports more, as a percentage, to a partner than the world does on an average. It is measured as country i's exports to country j's relative to its total exports divided by the world's exports to country j's relative to the world's total exports.

$$TII_{ij} = \frac{x_{ij}/X_{it}}{x_{wj}/X_{wt}}$$

Where, x_{ij} and x_{wj} are the values of the country i's exports and the world's exports to country j and X_{it} and X_{wt} are the values of the country i's total exports and the world's total exports, respectively.

If the value of the trade intensity index is greater than one it indicates an intense trade relationship, that is, the bilateral trade flow is larger than expected; given the partner country's importance in world trade.

India and RTAs in LAC: Export and Import priorities

LAC has been India's focused trade destination for the last few decades. In the process, several LAC specific policies were introduced along with other policies to augment trade with the region. The 'Focus LAC Programme' is an important domestic initiative of India to foster bilateral trade ties with the region. As discussed earlier, acquaintance of the LAC region with regionalism was much older than other regions in the developing world. India's strategy towards the region in the past was not only focusing on important countries of the region but also on focused RTAs.

With Trade Intensity Index (TII), the study has attempted to examine the manner in which India emphasised its policies on selected RTAs in the region during 2000-16. Export and import indices are estimated separately to examine trade behaviour of India with selected RTAs in different global trade policy regimes, particularly the manner in which India is emphasising RTAs in the LAC region vis-à-vis the world economy during the above period. It is imperative from the analysis that when Export Intensity Index (XII) is greater than one, India gives importance to exports of a LAC RTA than the world economy and *vice versa*. Similar is the case with Import Intensity Index (MII).

Figure 3.1: India's Trade Linkages with LAC RTAs

Source: RIS estimation based on Direction of Trade Statistics, IMF, 2017
Note: TII denotes Trade Intensity Index

In the study, experiment was extended to select RTAs, including Mercosur, LAIA, UNASUR, CAFTA – DR and Andean, as shown in Figure 3.1. The results show that India's policies towards LAC in exports and imports, particularly towards these RTAs, have been diverse in different trade regimes. It is clearly evident that during the global buoyancy, India's exports in selected RTAs were promoted including those of Andean, CAFTA-DR, Mercosur, etc. among others. With the onslaught of global-recession, there was a policy swing against export focus towards the region. But such a shift in export policy tilted towards the region again in the first episode of recession. However, its intensity declined in the subsequent period.

India pursued Domestic Demand Led Growth (DDLG) strategy during recession for which domestic production was promoted with importation of raw materials from outside (Mohanty, 2012, 2014a). In the first phase of the global recession, India followed the policy of promoting imports from LAC RTAs as compared to rest of the world. MII indices for several RTAs in LAC region started rising during the First phase of recession. The inferences from MII are consistent with India's trade trends with LAC RTAs. During the said period, India relied more on several LAC RTAs for imports including Mercosur, UNASUR, LAIA, and Andean. However, this trend disappeared in the second phase of recession. Such regional trade focus should be made consistent to have sustained economic relationship with the region.

India and the LAC region's focus have been mixed and have been constantly shifting from time to time. The average volume of trade needs to be made consistent to make the external sector robust. Depending on the export competitiveness of both the regions, new areas may

be identified for improving their bilateral trade ties in the long run. Both are heavily engaged in industrialisation which could act as the basis for future trade between them. In this context, the global value chain is an important area where both the regions can trade between themselves. Possibilities of such an initiative are examined in the following paras.

3.7 Global Value Chains

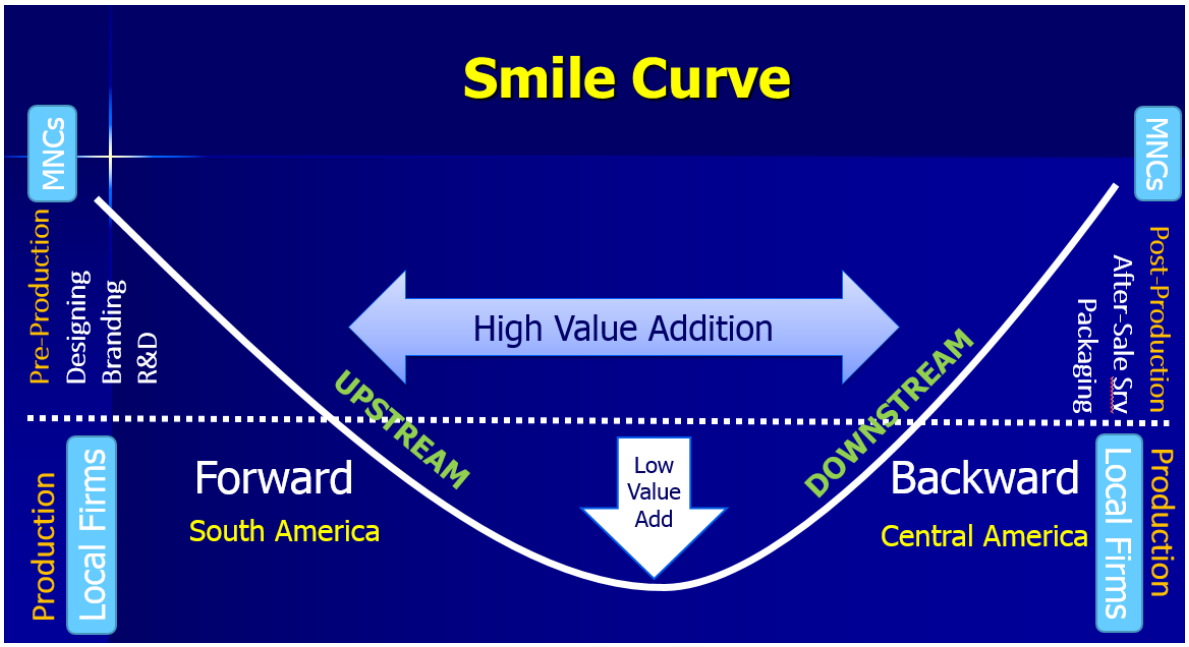
GVC is of major interest to India and countries in the LAC as bulk of the global trade is accounted by the Global Value Chains. It may be noted that global trade grows faster than that the global output, but GVC trade grows faster than the global trade. The increase in fragmentation of production enlarges the gains from specialisation, which results in more trade for any given value of final production. This contributed to the substantial rise of gross trade flows during the 1990s and 2000s which was also accompanied by a rise of global value chain participation (Powell, 2016). About 60 per cent of global trade passes through GVCs, amounting to more than USD 20 trillion per annum. In addition, global value chains shape by transnational corporations (TNCs) account for 80 per cent of global trade. GVCs are important for developing economies and their share of global value added trade is increasing rapidly over the years. For instance it grew from 20 per cent in 1990 to 30 per cent in 2000 to over 40 per cent in 2010 for these countries (UNCTAD, 2013). In comparison with other developing countries, India's share is small in this sector. It is, rather, essential to interact with large countries as well as regions such as Latin America in order to enhance the scope of trade between them.

Fragmentation is the process to competitively make selected segments of the product. In the relevant segments, production becomes part of a regional or global operation and reaches large scales. Its drivers are new transport and communication technologies that reduce the costs of international integration and the facilitators are trade and FDI liberalisation (Lall, Albaladejo and Zhang, 2004). Value chains have made off-shoring stages of production possible. The stages that are offshored have a lower value added. Smile curve shows the value added at each stage of production (Elms and Low, 2013). The two ends of the value chain involve higher value added activities than the middle part of the value chain. If this is represented in a graph with value added on the Y axis and the stages of the value chain on the X axis the curve will be in the shape of a smile (Mudambi, 2008). Comparative advantages of countries differ across the GVC[2]. Developed countries tend to engage more in high-value

[2] See Figure 3.2 presenting position of LAC sub-region in the smile curve.

added and intangible production activities that are located at the two ends of the smile curve, while developing countries focus on low-end and tangible production activities that are usually on the bottom part of the curve (Ye, Meng and Wei, 2015).

Figure 3.2: Positioning LAC Countries in the Smile Curve



Source: Prepared by authors

The main difference between GVC and global production networks (GPNs) is that GVC focuses on different value added activities in a value chain, while GPN focuses on a flagship firm's production network. GVC focuses on the possibility of technological upgrading of local enterprises from their position in product specific value chains. In the case of GPNs, local enterprises need to possess high technological capabilities to become a part of the production network (UNIDO, 2004). Pre-conditions for location of gross production networks in developing countries are political, social and economic stability, good infrastructure, and suitable location for accessing markets and inputs and efficient bureaucratic procedures. GPNs generally need skilled and high levels of workers rather than raw labour because as firms grow they need greater local content which requires world class suppliers, service providers and institutions. MNCs are the key players in global production networks and the dominant players in complex industries. The networks have independent enterprises in the host countries that are linked to the lead actors. In low technology industries, MNCs play a smaller role and production is in the hands of the local firms (Lall, Albaladejo and Zhang, 2004).

Importance of GVC in Global Trade

Word trade and production are increasingly structured around GVCs. Value chains include a range of activities, such as design, production, marketing, logistics, distribution and support to the final consumer, firms engaged in bring a product to the market. These are spread across various firms in different countries (Backer and Miroudot, 2014). The reduction in service link costs including the cost of trade, investment, coordination and communication has facilitated this process (Ye, Meng and Wei, 2015). The share of intermediate goods, which includes primary goods, parts and components and semi-finished products, in the world's total manufactured imports is more than 50 per cent and the share of intermediate services such as business services is more than 70 per cent in the world's total services imports (OECD, 2013). The emergence of GVCs has changed the nature and determinants of the location of economic activity and has implications for both domestic and international policies (Cadestin, Gourdon and Kowalski, 2016). Companies are reorganising and relocating their operations to gain from the comparative advantages offered in different locations (Dash and Chanda, 2017). By participating in GVCs, firms are achieving efficiency gains from specialisation and economies of scale (Cadestin, Gourdon and Kowalski, 2016). UNCTAD (2013a) has estimated that 60 per cent of the global trade is conducted through GVCs.

Athukorala (2011) and Fernandez-Stark, Bamber and Gereffi (2014) observe that value chains have gradually evolved and are present in a range of sectors such as electronics, clothing, automobiles, machinery, agriculture, services and tourism among others. OECD (2015) concludes that many developing countries are increasingly participating in GVCs. Developing countries are getting a number of economic benefits from their participation in GVCs such as increase in productivity, sophistication, and diversification of economic activity. Countries in South East Asia, Europe, Central Asia, Middle East and North Africa have relatively higher rates of GVC participation, while economies in South Asia and Sub-Saharan Africa fall behind. Also, South East Asia has the highest share of intra-regional GVC participation while other developing economies have a higher share of extra-regional than intra-regional GVC participation (Cadestin, Gourdon and Kowalski, 2016).

GVC provides developing countries access to developed country markets which enables them to add value to their local industries (Fernandez-Stark, Bamber and Gereffi, 2014). UNCTAD (2013a) has estimated that in developing countries, domestic value added created from GVC trade is quite significant compared to the size of the local economies. Among the developing countries, foreign value added in exports is higher in countries specialising in processing like

East and South East Asia, Central America (including Mexico) compared to economies where the share of natural resources and commodities which have little foreign inputs in exports. This is the case in Africa, West Asia, South America and the transition economies. South Asia has the lowest share of foreign value added in exports since services exports dominate total exports.

LAC's participation in GVCs

LAC's GVC participation is lower than other developing regions, particularly in value chain segments related to the manufacturing sector. But it is part of a number of GVCs and is participating in a range of sectors including low value added sectors like providing natural resources and new non-traditional sectors like aerospace, medical devices manufacturing and offshore services. On average, LAC countries participate more than Europe and Asia in GVCs as suppliers of primary inputs and Europe and Asia participates more than LAC in GVCs as suppliers of manufacturing inputs with high, medium and low technology content. Intra-LAC GVC participation is weak (Fernandez-Stark, Bamber and Gereffi, 2014; Cadestin, Gourdon and Kowalski, 2016; Blyde, 2014; ECLAC, 2014)

Sub-regional divide in LAC in terms of GVC

Blyde, 2014; Gereffi, Bamber and Fernandez-Stark, 2016; Cadestin, Gourdon and Kowalski, 2016 suggest that GVC participation across the LAC region and sub-regions is very heterogeneous with the different sub-regions and economies in LAC specialising in their area of comparative advantage. Central American countries (e.g. Costa Rica) specialise in assembly and processing of inputs. They have strong backward linkages and are more active it the downstream segment of the value chain. They participate in the final stages of production. These countries are engaged more in the production networks of North America since they are have low cost labour and are located close to the manufacturing hubs of North America which makes them ideal recipients for offshoring activities. They are dependent on foreign inputs that mainly come from North America and specialise in processing them for further export which mostly goes to North America. Mexico and Costa Rica have used their advantages of low cost labour and proximity to the U.S. to enter in to a number of supply chains. They have upgraded from low-tech production (apparel) to high-tech operations (aerospace, medical devices). Mexico has a large labour force that has allowed it to expand further in labour intensive sectors using low and moderately skilled labour. On the other hand, Costa Rica has a small labour pool that has forced firms to upgrade into more highly skilled segments of the supply chains to remain competitive. Within the Central American

countries that specialise in the downstream segment of the supply chain, some economies specialise in value chains of low technological content (e.g. Honduras exporting T-shirts) and others in more high-technology segments.

On the other hand, South American countries (e.g. Chile and Peru) and the Caribbean (e.g. Trinidad and Tobago, and Jamaica) are rich in primary commodities and specialise as input providers. They are integrated in global supply chains in agriculture and extractive sectors. They have strong forward linkages and are more active in the upstream segments. They enter the supply chains in its early stages. Importing for processing and re-export is less prevalent in South American countries. They tend to export natural resource based intermediate products which are further processed or consumed abroad. They are increasingly exporting to Asia. Caribbean faces the problem of poor connectivity and low levels of economic development which has created a challenge for it to deeply integrate into global supply chains. However, a number of Caribbean countries participate, to some degree, in supply chains in the high value agriculture sector (tropical fruits from St Vincent and the Grenadines), tourism and financial services sector (e.g. The Bahamas, St. Kitts and Nevis).

LAC's GVC participation in different sectors

Latin American has a lot of experience in GVC participation in more traditional sectors such as natural resources and the extractive industries. Using this experience Chile, Costa Rica and Uruguay have upgraded their value chains in primary products. LAC countries have the potential to identify segments of higher value that have not been exploited in industries in which they have comparative advantages (Gereffi, Bamber and Fernandez-Stark, 2016). For instance, Honduras has traditionally been linked to the low technology value chain in which it specialises in the production of T-shirts. Honduras can use the knowledge it has developed through the supply chain of exporting T-shirts to enter a new export segment of the textile industry, such as parachutes (Blyde, 2014). It is also participating in GVC of new export oriented industries (Gereffi, Bamber and Fernandez-Stark, 2016).

I. Agriculture

1. High Value Agriculture Value Chains

High-value agriculture or agri-food products are non-bulk agricultural commodities that require special handling, such as fresh fruits and vegetables, or are processed in one or more post-harvest stages such as specialty coffee and honey, prior to reaching the end market (Bamber and Fernandez-Stark, 2014). LAC countries are important global suppliers of high

value agriculture products. LAC has traditionally been exporting these products to the U.S. but over the last decade the export destinations have increased with fruits and vegetables being exported frequently to Europe and Asia. The basket of agricultural exports has also diversified. For instance, Caribbean and Central American countries export high quality coffee, cacao and tropical fruits like coconut. Chile specialises in the export of fresh fruits and is the top exporter of apples, blueberries, cherries and grapes to the world. Honduras has specialised as a supplier of Asian vegetables. Brazil and Peru are also strong exporters of fresh fruit and vegetables. LAC countries have participated in global supply chains by supplying the Northern Hemisphere with quality produce during their low season (Gereffi, Bamber and Fernandez-Stark, 2016).

2. Coffee Value Chain

The world coffee market is extremely large and the biggest global producers are Brazil, Vietnam, Colombia and Indonesia. The largest consumer market is the United States. There are two main varieties of coffee with one being of higher quality (Arabica) and the other of lower quality (Robust). Central America is one of the leading specialty coffee producers. In most countries of the region over half of the production is classified as premium coffee (i.e., above commercial grade). Guatemala and Honduras are one of the best established Central American coffee suppliers in global markets. Nicaragua and Panama are rapidly gaining market share in the specialty coffee segment. Small producers are the major suppliers of speciality coffee in Central America. The speciality coffee value chain is dominated by a few large exporters and roasters that are located near the final consumers in North America, Europe and East Asia. It is not economical for smallholders to build wet processing plants as they require huge infrastructure investments. These plants are essential to ensure the quality of premium coffee. Thus, short-term financing for infrastructure and high cost inputs like fertilisers, is a major obstacle for Central American smallholders in the specialty coffee segment. The creation of strong national or regional coffee associations could provide a major boost to export producers in Central America given the importance of quality control, branding and coordination across the chain (Gereffi, Bamber and Fernandez-Stark, 2016).

II. Extractive Sector

The extractive sector is a crucial driver of LAC's growth. Chile is the world's largest producer of copper. Peru is the second-largest producer of silver and third-largest producer of copper. Peru has also identified important oil and natural gas reserves. Argentina, Brazil, Guyana, Mexico, Suriname and Trinidad and Tobago are important producers of minerals, oil

and gas. Chile and Peru are primarily engaged in the extraction stages of the value chain but are also engaged in some downstream processing. On the other hand, Argentina, Mexico and Brazil have stronger mid-stream processing in the petrochemicals and steel sectors (Gereffi, Bamber and Fernandez-Stark, 2016). The terms upstream, midstream and downstream are used to refer to the major sectors of the petroleum industry. The upstream sector is also called Exploration and Production (E&P) sector and it involves the identification of suitable areas to conduct exploration for oil and gas. The Petroleum fields are then appraised, developed, and produced. The mid-stream sector is related the transportation of crude or refined petroleum products, via pipeline, road, rail or ports. It also includes storage of these products and wholesale marketing efforts. The downstream sector is also called Refining and Marketing (R&M) and it refers to the refining, processing and purifying of crude oil and natural gas. It also includes efforts made to market and distribute the products (Tordo, 2011).

III. Manufacturing

1. Apparel Manufacturing Global Value Chain

Nicaragua participates in the low value "Cut-Make-Trim" stage of the apparel value chain and focuses on manufacture of trousers, mainly denim jeans and twill pants, as well as t-shirts. It has gained market share in the U.S. since 2004 in certain segments, such as woven pants and cotton shirts as a result of the preferential trade status it has been granted under the Dominican Republic-Central American Free Trade Agreement (Bair & Gereffi, 2014). However, the country has had limited success in moving up the apparel value chain and mainly competes through low-cost apparel assembly. The apparel industry in LAC consists of a large proportion of foreign-owned firms and very few locally owned companies. A significant proportion of these firms are part of larger global or regional networks which allows them to provide full-package services for their clients by leveraging the interactions of multiple country operations (Gereffi, Bamber and Fernandez-Stark, 2016).

Blyde (2014) shows that GVCs are not exclusive to high technology industries and some countries participate in value chains low-technology content as well. For instance, the foreign value added in exports is higher in Honduras than in Mexico. This seems like an anomaly since Mexico has extensive production linkages with North American firms in motor vehicles, electronics, aeronautics, and other industries. This can be explained by the fact that one-third of Honduras' exports are textiles, particularly T-shirts and 80% of the value added is yarns, fibres and other inputs that come from other countries. This explains the higher foreign value added in its exports. Thus, while Mexico has higher content of foreign value

added from high and medium technology sectors, Honduras has a larger share of foreign value added in low and medium-low technology sectors.

3. Automobiles Value Chain

There is a sharp contrast between the patterns of GVC participation in the automobile manufacturing industry of Brazil and Mexico. The sector attracts large amount of FDI in both the countries but the role played by the transnational corporations (TNC) is different. The automobile industry in Mexico relies on low cost workers and extensive FDI from US, Europe and Japan. Mexico has close proximity to the U.S. and trade agreements with over 40 countries which has made it the top automotive exporter in the world but it has weak linkages with local suppliers. The range of activities in Mexico's automotive value chain is extremely diverse since it supplies Japanese, German and American automakers. On the other hand, Brazil gives more importance to increase sales to its internal market and MERCOSUR partners. It applies high tariffs on imports of automotive products from outside MERCOSUR to encourage the increase of technological capabilities of the Brazilian affiliates of foreign car makers. Brazil's exports are lower than Mexico's but the local suppliers are more integrated into the operations of the TNCs and have higher levels of local innovation and research and development (R&D) capabilities. GVCs in the automobile sector have created more jobs in Mexico, but higher skill levels and technological capabilities in Brazil (Gereffi, 2015). Also, the automobiles network is more advanced in Latin America than in East Asia, however the growth rate is slower and it is not integrated into the regional system (Lall, Albaladejo and Zhang, 2004).

4. Electronics Value Chain

The global electronics industry is more fragmented than the automobiles industry since it has a higher value-to-weight ratio and lower capability needs for the fragmented processes. Fragmentation of production, innovation and demand growth has resulted in substantial growth of the electronics exports. LAC plays a small role in the electronics sector with Mexico accounting for the major share of exports. Mexico exports mainly to the U.S. and thus LAC's electronic value chains are heavily linked to North American production networks. Electronics networks are more advanced, widespread and integrated in East Asia than in Latin America and are responsible for East Asia's rapid export growth. However, electronics exports of LAC have grown much faster than that of East Asia but LAC's base to begin with was much smaller (Lall, Albaladejo and Zhang, 2004).

IV. Non-Traditional Sectors

Advanced manufacturing sectors that include medium and high-tech sectors such as aerospace, automotive, electronics and medical devices, among others, are being driven by ongoing technological changes and large capital expenditures. The main segments of the advanced manufacturing supply chain include, R&D, design, raw material and components procurement and manufacturing, assembly, distribution and marketing. Usually, the highest value activities of the chain take place in developed countries and components manufacturing and assembly take place in developing countries but the skill level of the workers engaged in the low value added stages of the supply chain is higher than those engaged in low value added stage of value chains in sectors such as apparel manufacturing and agriculture (Gereffi, Bamber and Fernandez-Stark, 2016).

LAC is a part of a variety of GVCs, including low value added segments of traditional sectors such as agriculture, manufacturing and extractive industries by providing raw materials and also new non-traditional sectors such as aerospace, medical device manufacturing and offshore services. Certain LAC countries have also upgraded into higher value added segments of value chains in the traditional sectors by leveraging their expertise and reducing their dependence on primary products. The region's insertion into advanced manufacturing value chains has provided employment opportunities and has led to transfers of technology and upgrading into higher value services (Fernandez-Stark, Bamber and Gereffi, 2014).

1. Medical Devices GVC:

A number of products fall under the global medical devices industry such as inexpensive bandages to technology-intensive hearing aids and tissue heart valves and high cost items like magnetic resonance imaging machines. The various segments of the medical devices GVC include research and product development, component manufacturing, assembly, distribution, marketing and sales and post sales services. Research and product development is the highest value segment of the chain under which new products are conceptualised and prototypes are produced and tested. Demand is led by developed countries with US, Europe and Japan accounting for 85 per cent of total demand. Developing countries account for only a marginal share but they are an important growth opportunity for this sector. Demand is beginning to grow in large emerging economies such as Brazil, China and India with growth rates higher than 10 per cent. In Asia, Japan is the largest market for medical devices and is followed by China and India (Fernandez-Stark, Bamber and Gereffi, 2014).

In LAC, Baja California in Mexico, Costa Rica, Puerto Rico and Dominican Republic are part of the global medical device manufacturing value chain. They are all strategically located close to United States and have export oriented medical device clusters. Exports from these countries include both low and high value product categories and are primarily destined for the U.S. The Costa Rican medical device industry is relatively young with the first medical device company starting operations in 1985. In 2012, there were over 50 firms with 60 per cent of them being from the U.S. and only 30 per cent from Costa Rica. The firms are concentrated in the production segment of the value chain, particularly manufacturing components and assembling final goods which are lower value segments. Costa Rican owned firms are active in labelling, packaging and support services segments of the value chain. There has been an increase in the complexity of products manufactured in Costa Rica since 2005 with a shift from disposable products, such as intravenous catheters, to more sophisticated products, such as surgical instruments and therapeutic products like bovine heart valves. There has also been a rise in the production of highly regulated life-supporting or life-sustaining devices. This shows that there has been an increase in confidence about the ability of Costa Rican plants to follow strict regulatory protocols. Costa Rica has thus engaged in product upgrading and increased its value added trade. Brazil also has a significant role in the manufacture of medical devices but majority of multinational firms in the country are more focused on production for the domestic market than exports (Bamber and Gereffi, 2013; Fernandez-Stark, Bamber and Gereffi, 2014).

2. Offshore Services in LAC:

There are three broad types of offshore services that can be provided across all industries: Information Technology Outsourcing (ITO) which covers software designing and development; Business Process Outsourcing (BPO) such as back office functions in call centres; and Knowledge Process Outsourcing (KPO) such as market and legal research. LAC emerged as an important region in the provision of offshore services in the early 2000s mainly due to its geographical location, cheap labour costs, extensive new telecommunication infrastructure and the availability of qualified human capital. LAC countries participation in offshore services value chains is heterogeneous with each country specialising in its area of competitiveness. The services provided by them are generally of lower value. For instance, the Dominican Republic, Guatemala and El Salvador concentrate on call centre activities. Certain other countries have upgraded into higher sections of the chain. Costa Rica, for example, has developed a strong presence in the BPO services segment, but has also

upgraded into knowledge process outsourcing (KPO) and research and development (R&D) activities. Uruguay focuses on information technology (IT) activities, while the majority of the services exported by Chile are in the KPO sector (Gereffi, Bamber and Fernandez-Stark, 2016).

GVC exports of LAC to the world have a small share in its total exports but the share of GVC imports is comparatively large. The region's share of GVC trade in its total trade has been somewhat consistent over the years. During different global regimes, the share of GVC imports in the total imports was experiencing insignificant level of fluctuations. However, share of GVC exports decrease marginally during 2007-17. As per Table 3.9, LAC's exported USD 20.6 billion and imported USD 76.4 billion worth GVC products which constituted 3.3 per cent of LAC's total exports and 13.2 per cent of LAC's total imports in 2017.

Table 3.9: LAC GVC Trade with the World; 2007-2017

(in USD Billion)

Year	Imports	Exports	Import Share (%)	Export Share (%)	Trade Balance
2007	52.0	20.9	12.5	4.9	-31.1
2008	73.7	24.0	13.0	4.1	-49.7
2012	96.2	24.7	13.5	3.5	-71.5
2017	76.4	20.6	13.2	3.3	-55.8

Source: ComTrade, UN, 2018

GVC trade of LAC was not affected by the global financial crisis and total GVC imports and exports grew by 41.8 per cent and 14.2 per cent respectively between 2007 and 2008. The region experienced a growth in its GVC trade with the world during the first phase of recession (2008-12) as GVC imports and exports grew at a CAGR of 6.9 per cent and 0.7 per cent respectively. However, the region's GVC trade was negatively affected by the second episode of recession (2012-17) and it declined. GVC imports recorded a negative CAGR of 4.5 per cent and exports a negative CAGR of 3.6 per cent during this period. For the overall period (2008-17), the region witnessed a fall in GVC trade, where imports experienced a growth of 0.4 per cent compounded annually and exports witnessed a negative growth of 1.7 per cent during the entire period of recession. The region experienced a negative trade balance in GVC trade with the total deficit reaching USD 71.5 billion in 2012 before coming down to USD 55.8 billion in 2017.

Table 3.10: Sectoral Trade of LAC in P&C with the World: by HS Sections

(USD Million)

Section	Description	2008		2017	
		Import	Export	Import	Export
7	Plastics & Articles thereof	4936.7	2554.5	5839	2378.9
8	Raw Hides & Skins, Leather, etc.	1.2	0	0.2	
11	Textile & Textile Articles	244.1	53.4	267.8	56.7
15	Base Metals & Articles of Base Metal	1292.4	456.3	1332.4	291.8
16	Machinery & Mechanical Appliances	51706.2	13114	53512.3	12497.4
17	Vehicles, Aircraft and Vessels	14507.3	7642	14595.9	5250.3
18	Optical, Photograph & Cinematography	827.8	138.1	811.6	149.5
20	Miscellaneous Manufactured Articles	158.2	20.7	89.9	18.2

Source: ComTrade, UN, 2018

Table 3.10 examines LAC's sector wise trade in Parts and Components (P&C). It is observed that the major P&C export sectors in LAC are machinery and mechanical appliances; vehicles, aircrafts and vessels; and plastic and articles thereof. The top three sectors exports accounted for 97.5 per cent of total P&C exports in 2017 with machinery and mechanical appliances sector contributing 60.5 per cent of the total. The region's major P&C import sectors were the same as those of the P&C export sectors and the top three sectors shared 96.7 per cent of the total P&C imports of LAC from the world in 2017. The machinery and mechanical appliances sector had the largest share of 70 per cent. High level of concentration of a few sectors in total P&C exports and imports was also observed in 2008 and the top performing sectors were also the same. There was a change in the composition of the export sector between 2008 and 2017. While export shares of sectors like machinery and mechanical appliances, and plastics and articles thereof sectors increased, similar share for automobile sector receded during the same period. The import shares of the major sectors have remained constant over the years with minor changes. Moreover, the top performing P&C sectors in the region did not change in 2017 as compared to 2008 but the value of trade decreased over the period in almost all the sectors except plastics products, textiles and machinery. While plastic products and textile articles experienced a growth of 1 per cent each, total trade in machinery grew marginally at 0.2 per cent during 2008-17.

As can be seen in Table 3.11, bilateral exports of LAC in GVC to India were USD 109.6 million and it imported a substantially larger amount of USD 859.8 million in 2017. Bilateral trade in GVC between India and the LAC region was not affected by the global financial crisis and the region's total GVC imports from India grew by 48.8 per cent and exports to India grew by 1.9 per cent between 2007 and 2008. The region's imports of GVC from India increased during the first phase of recession (2008-12) and grew by a CAGR of 19.4 per cent but bilateral exports growth witnessed a negative CAGR of 0.9 per cent. Bilateral GVC trade

declined during the second episode of recession (2012-17) where LAC's GVC imports from India increased by a CAGR of 8.6 per cent but its exports increased marginally by 0.8 per cent.

Table 3.11: LAC GVC Trade with India: 2007-2017

(USD Million)

Year	Imports	Exports	Import Share (%)	Export Share (%)	Trade Balance
2007	275.9	100.4	6.7	2.1	-175.5
2008	410.6	102.4	6.3	2.7	-308.2
2012	833.7	98.6	8.2	0.9	-735.1
2017	859.8	109.6	9.8	0.9	-750.2

Source: ComTrade, UN, 2018

GVC exports of LAC to India were a very small proportion of their total bilateral exports to India and the share decreased over the years from 2.10 per cent in 2007 to 0.9 per cent in 2017. However, the sector is critical in terms of India's GVC exports to the region, especially in the recent years. LAC's GVC imports from India grew from USD 275.9 million in 2007 to USD 859.8 million in 2017 and their share in total bilateral imports increased from 6.7 per cent to 9.8 per cent during the period. The region's share of GVC imports from India with respect to its total GVC imports from the world increased consistently over the years from 0.5 per cent in 2007 to 1.1 per cent in 2017. Interestingly, GVC exports of LAC to India as a share of its total GVC exports to the world remained constant over time, despite persistence of recession. The GVC trade surplus was consistently in favour of India and the surplus grew from USD 175.5 million in 2007 to USD 750.2 million in 2017.

Table 3.12 examines the section-wise bilateral trade in parts and components (P&C) of the LAC region with India. The main P&C export sectors of LAC are Machinery & Mechanical Appliances, Vehicles, Aircraft and Vessels and Plastics which had a combined share of 96.2 per cent in LAC's total exports of P&C to India in 2017. LAC imports of P&C from India were higher in comparison to its exports in machinery and mechanical appliances. The major bilateral import sectors of LAC include Machinery & Mechanical Appliances, Vehicles, Aircraft and Vessels, and Articles of Plastics, and the combined share stood at 96.1 per cent in 2017, with machinery lone contributing 56.5 per cent of the total. High level of concentration in bilateral P&C trade between India and LAC was also observed in 2008 and major sectors were same as in 2017, however, the share of LAC's imports of machinery from India increased where that of plastics decreased substantially in 2017 compared to 2008.

Table 3.12: Sectoral Trade of LAC in P&C with India: by HS Sections

(USD Million)

Section	Description	2008		2017	
		Import	Export	Import	Export
7	Plastics & Articles thereof	90.1	5.6	140.9	17.9
8	Raw Hides & Skins, Leather, etc.	0			
11	Textile & Textile Articles	0.7	0.1	2.9	0
15	Base Metals & Articles of Base Metal	6.3	0.6	24.8	2.1
16	Machinery & Mechanical Appliances	213.9	59.7	486.2	56.2
17	Vehicles, Aircraft and Vessels	95.9	35.4	198.8	31.2
18	Optical, Photograph & Cinematography	3.3	0.9	6	2.1
20	Miscellaneous Manufactured Articles	0.4	0	0.2	

Source: ComTrade, UN, 2018

The share of LAC exports of machinery and plastics increased marginally and that of vehicles decreased between 2008 and 2017. The share of LAC imports of different P&C sub-sectors from India with respect to their import from the world increased for all sub-sectors except Miscellaneous Manufactured Articles between 2008 and 2017 with the largest increased being experienced by Vehicles, followed by Base Metals & Articles of Base Metal, Machinery & Mechanical Appliances sectors and plastics. LAC imports of P&C from India in all sectors, except Miscellaneous Manufactured Articles, also grew between 2008 and 2017. The growth rates of all the sectors were substantial with textiles experiencing a more than four-fold increase in imports between 2008 and 2017. On the other hand, growth of LAC exports of P&C to India between 2008 and 2017 were mixed. Base Metals & Articles of Base Metal sector registered the maximum increase. Plastics and Optical, Photography & Cinematography sectors also grow significantly but other sectors experienced a decline. This highlights the vast potential that exists for India and LAC to engage in GVC trade.

LAC has wider engagement with the U.S., the European Union and China with whom they have a strong trade share. Services, including those related to infrastructure, act as enablers of trade and support enhancing economic productivity and competitiveness. There are services elements in all stages of GVCs and they acts as important facilitators of trade. Other important areas that help enhancing GVC trade include transport, telecommunications, computer and information services and financial services. India needs to focus on a number of important areas to enhance its GVC trade, including small and medium enterprises, productivity growth, greater engagement with the trade sector, technology enhancement and working with TNCs. GVCs present a tremendous amount of untapped potential and it should be highlighted as a means to promote trade between India and LAC in the future.

3.8 Relevance of Project Goods for India in LAC

Imported goods are normally classified separately under different tariff headings, and applicable customs duty is assessed. But for setting up industrial projects, a variety of goods are imported and their separate classification and valuation for assessment of duty becomes cumbersome. Ascertaining values for items separately delays assessment which leads to demurrage and time and cost overruns for the project. A special classification has been introduced in the Customs Tariff for project imports, baggage and postal imports. The diverse goods that are imported for the purpose of execution of projects or as baggage and postal imports are classified under one heading and subjected to a uniform rate of duty instead of classifying each item distinctly. To facilitate smooth and quick assessment, goods imported under the Project Import Scheme are placed under a single Tariff Heading 9801 in the Customs Tariff Act, 1975. Projects Imports is an Indian innovation with the objective to facilitate the setting up and expansion of industrial projects. The advantages of the Project Import Scheme include simplified assessment of imports of capital goods and related items required for setting up of a project by classifying all goods under a one heading and applying a uniform customs duty rate for them even though other headings may cover these goods more specifically. This ensures fasters clearances.

The purposes for which such goods can be imported under the Project Import Scheme are for 'initial setting up' or for 'substantial expansion' of a unit of the project. 'Unit' is defined as any self-contained portion of the project which has an independent function. A project will fall under 'substantial expansion' if the installed capacity of the unit is increased by at least 20 per cent. Goods that can be imported under Project Import Scheme include machinery, prime movers, instruments, apparatus, appliances, control gear, transmission equipment, auxiliary equipment, equipment required for research and development purposes, equipment for testing and quality control, components, raw materials for the manufacture of these items, spare parts, and consumables up to 10 per cent of the assessable value of goods. A large number of projects for assessment under Tariff Heading 9801 have been notified. The different projects to which heading 9801 applies include irrigation project, power project, mining project, oil/mineral exploration projects, industrial plants used in the process of manufacture of a commodity, and projects notified by the Central Government in public interest keeping in view the economic development of the country to which this facility would apply. This benefit is not available to hotels, hospitals, photographic studios, photographic film processing laboratories, photocopying studios, laundries, garages and

workshops. This benefit is also not available to a single or composite machine (CBEC, 2014; CBEC, 2015).

Present Trends in India's Project Goods Trade

Project goods trade has not picked up in India. Despite India is trading over a decade, there is no substantial change in the quantum of trade in this sector. The total trade of project goods increased from USD 987.5 million in 2005 to USD 1.98 billion in 2017, as reported by the Ministry of Commerce and Industry, Government of India. There was a rising trend in total trade of project goods during 2005-11, and this was mostly on account of a surge in imports of number of projects in India. Exports of project goods are almost non-existent in India in 2016. The impact of recession on the sector was significant, and caused decline of imports from USD 8.7 billion in 2011 to USD 1.96 billion in 2017, as shown in Table 3.13. It could resist the adverse impact of first phase of recession and allowed imports to grow from USD 3.11 billion in 2008 to USD 8.7 billion in 2011. During 2012-17, imports declined unabatedly and registered a meagre amount of USD 1.96 billion in 2017.

Table 3.13 India's Trade in Project Goods with the World

(in USD Million)

Year	Value		Share in Total Trade		Trade Balance
	Exports	Imports	Exports	Imports	
2005	118.5	869.0	0.12	0.58	-750.4
2006	88.4	1706.7	0.07	0.92	-1618.3
2007	122.2	1266.2	0.07	0.50	-1144.0
2008	96.6	3111.6	0.05	1.02	-3015.0
2009	72.7	4553.4	0.04	1.58	-4480.7
2010	67.2	5986.0	0.03	1.62	-5918.8
2011	35.8	8698.1	0.01	1.78	-8662.3
2012	98.6	6484.0	0.03	1.32	-6385.4
2013	38.2	4499.4	0.01	1.00	-4461.2
2014	18.9	3608.9	0.01	0.81	-3590.0
2015	14.8	2632.3	0.01	0.69	-2617.5
2016	2.5	2033.9	0.00	0.53	-2031.4
2017	19.3	1965.3	0.01	0.42	-1946.0

Source: Export Import Data Bank, Department of Commerce, MoCI, 2018

There was a surge in exports between 2007 and 2012, but the situation worsened in the second phase of recession, leading to major decline of exports in 2016. In the second phase of recession, exports of project goods posted a major decline from USD 98.6 million in 2012 to USD 19.3 million in 2017.

Exports and imports of project goods in India were under stress during the last decade and that led to persistence of negative trade balance since 2005. Increase in imports since 2005

caused increasing trade deficit till 2011. However, the deficit started receding from the second phase of recession; primarily due to reduction in imports rather than surge in exports of project goods. Moreover, the share of project goods in India's total trade is very negligible. The share of imports of project goods ranged from 0.5 per cent to 1.7 per cent of total imports, whereas exports were between zero per cent and 0.12 per cent of the total exports during 2005-17.

India's exports of project goods to LAC countries have shown an impressive growth performance during the pre-recession period. It increased from USD 2.6 million in 2005 to USD 12.6 million in 2008, with a CAGR of 68.7 per cent, as shown in Table 3.14a and 3.14b. During the period of global buoyancy, India's exports of project goods to countries outside the LAC region registered a negative growth rate (-10.1 per cent per annum). Thereafter, there was sharp decline in exports of India's project goods to LAC countries in the period of recession, but the exports reached to USD 51.3 million in an unprecedented manner in 2012, with a CAGR of 42 per cent in the first phase of recession (i.e., 2008-12).

Table 3.14a: India's Trade of Project Goods to LAC and Other Countries

(in USD Million)

Year	Exports			Imports		
	LAC	Non LAC	World	LAC	Non LAC	World
2005	2.6	115.9	118.5	18.2	850.8	869.0
2006	0.7	87.7	88.4	29.2	1677.5	1706.7
2007	5.2	116.9	122.2	15.2	1251.0	1266.2
2008	12.6	84.0	96.6	24.1	3087.6	3111.6
2009	0.5	72.2	72.7	61.8	4491.6	4553.4
2010	0.4	66.8	67.2	47.8	5938.1	5986.0
2011	1.2	34.6	35.8	4.0	8694.1	8698.1
2012	51.3	47.3	98.6	12.9	6471.1	6484.0
2013		38.2	38.2	48.6	4450.8	4499.4
2014		18.9	18.9	21.8	3587.1	3608.9
2015		14.8	14.8	1.8	2630.5	2632.3
2016		2.5	2.5	0.03	2033.8	2033.9
2017		19.3	19.3	1.00	1964.3	1965.3

Source: Export Import Data Bank, Department of Commerce, MoCI, 2018

However, there were no records of India's export of project goods to LAC during the period 2013-17. In case of imports of project goods from LAC countries, India had never imported more than 2.1 per cent of the total imported during the period 2005-17. Project good imports from LAC region reached the peak level of USD 61.8 million in 2009, thereafter shown a volatile trend. It recorded a growth of 20.32 per cent during the first phase of recession, and then a negative growth of 21.21 per cent per annum during the second phase of recession.

With the deterioration of global trade, project goods imports from LAC reached USD 1 million in 2017.

Table 3.14b: Growth of Trade in Project Goods of India with LAC during 2005-17

(in %, CAGR)

CAGR	Exports			Imports		
	LAC	Non-LAC	World	LAC	Non-LAC	World
2005-08	68.79	-10.18	-6.60	9.80	53.67	52.99
2008-12	42.20	-13.39	0.51	-14.47	20.32	20.15
2012-16		-16.41	-27.83	-40.04	-21.21	-21.24

Source: Export Import Data Bank, Department of Commerce, MoCI, 2018

Commodity spread of trade in project goods in India has been limited to six products. India exports of project goods to LAC comprises three products (national lines), namely goods related to power plant (HS 98010013), project for exploration of oil (HS 98010015) and other projects (HS 98010019), whereas in case of imports the basket increases to six national lines, including those of goods related to industrial plant (HS 98010011), irrigation plant (HS 98010012) and mining project (HS 98010014). Out of the total exports of USD 74.4 million (cumulative between 2005 and 2012) to LAC countries, 79.5 per cent of exports was involved in power projects, followed by goods for oil exploration (13.8 per cent) and the rest was linked to other projects, as shown in Table 3.15.

Composition of imports of project goods at the product level (i.e., national lines) presents a lopsided scenario. From the total imports of project goods, 63.1 per cent of imports formed other project goods from LAC countries during the period 2005-2017. Among the important products imported from the LAC region were power projects (27.4 per cent), industrial plant projects (7.1 per cent) and irrigation plant (1.9 per cent).The share of project goods related to mining projects and exploration of oil and other materials was negligible in the total project imports from LAC.

Table 3.15: India's Project Goods Trade with LAC Countries by Products

(in USD Million)

Country	Exports (2005-12)				Imports (2005-2017)						
	98010013	98010015	98010019	Total	98010011	98010012	98010013	98010014	98010015	98010019	Total
Argentina	5	-	0.2	5.1	0.5	-	0.4	-	-	7.2	8.1
Bahamas	-	-	0	0	-	-	-	-	-	-	-
Br. Virgin Isl.	-	-	0.2	0.2	-	-	-	-	-	-	-
Brazil	53	10.3	1.5	64.8	19.9	5.5	73.0	0.86	-	170.34	269.58
Chile	-	-	0.9	0.9	-	-	-	-	-	-	-
Colombia	0.1	-	1.3	1.4	-	-	-	-	0.4	-	0.4
Costa Rica	-	-	-	-	-	-	0.1	-	-	2.6	2.7
Dom Rep	-	-	0	0	-	-	-	-	-	-	-
Ecuador	-	-	-	-	-	-	-	-	-	0.8	0.8

Guyana	-	-	0	0	-	-	-	-	-	-	-
N. Antille	-	-	-	-	-	-	0.1	-	-	-	0.1
Paraguay	-	-	-	-	-	-	5	-	-	-	5.0
Peru	-	-	0	0	-	-	-	-	-	-	-
Suriname	0.9	-	0.7	1.6	-	-	-	-	-	-	-
Trinidad	-	-	0.1	0.1	-	-	-	-	-	-	-
Uruguay	0.3	-	-	0.3	-	-	-	-	-	-	-
Total	59.2	10.3	4.9	74.4	20.4	5.5	78.58	0.86	0.4	180.94	286.68

Source: Export Import Data Bank, Department of Commerce, MoCI, 2018
Note: 98010011 - Industrial Plant Project; 98010012 - Irrigation Plant; 98010013 - Power Project; 98010014 - Mining Project; 98010015 - Project for Exploration of Oil or Other Materials; 98010019 - Other Projects

Among India's major export destinations for project goods in LAC, Brazil was at the top, receiving all the three products from India during 2005-12. Argentina ranked second for India's export of project goods, particularly in the power sector. Other countries such as Suriname, Colombia and Chile were India's destinations for other project goods (HS 98010019). Apart from these countries, Paraguay also adds on to the list as a major partner to India for imports of project goods, mainly in power projects. India imported project goods related to irrigation projects and mining project from only Brazil whereas goods for exploration of oil from Colombia alone. The rest lines were shared by two or more countries but India was more tilted towards Brazil for project goods.

As India's trade with the region multiplied by many-folds over the last two decades, domestic firms of different sizes are engage with the region in trade and investment. Large firms have almost no difficulty in raising resources for establishing their affiliates in specific countries because of their strong resource base. However, medium and small sized firms need credit support for partnering with the local firms which have been a common practice in the region. Exim-Bank has difficulties in extending credit support to these initiatives in the LAC region. On the contrary, much of resource constraints relating to availability of institutional credit for collaboration at the firm level can be addressed by seeking Membership in the Inter-American Development Bank (IDB). IDB has the mandate to finance such kind of arrangements in the region. Interestingly almost all major trading partners of the LAC region including the U.S., China, Germany, France, the UK, etc. are having membership in the bank. Furthermore, several Asian countries including Japan and South Korea have also taken full-fledged Membership in the bank.

India was having low level of two-way trade of $2 billion in 2001 and increased sharply to $27 billion in 2017, registering a 13½-fold increase in bilateral trade during a time span of less than two decades. India was holding a considered view that bilateral trade flow was low and IDB membership fee of US$ 300 million was too high as compared to credit

requirements of Indian firms to engage with the region. The situation has changed completely during the past two decades. Since bilateral trade between both the regions are expanding rapidly and participation of medium sized firms with the region has increased fast, acceptance of membership in IDB by India is very much needed from the commercial point of view. It is proposed to take membership in IDB at a time when India is targeting at US$ 125 billion bilateral trade flow with LAC by 2025.

To sum up, India has strong trade ties with the LAC region, but its economic relationship suffered a major setback with the onset of global recession. Strong fabric of bilateral trade ties between the two regions was adversely affected due to prolongation of recession over a decade. First phase of recession had frozen the pace of growth of bilateral trade between the two regions, and the second phase of recession further wrecked the trade links between them.

Recent global turnaround has shown some positive movement in LAC as well as in trade flows between both the regions. Onset of the global recession had shown resilience of different segments of the LAC region. India's trade ties with the LAC region were mostly affected by declining trade, largely with South America, and to some extent by Caribbean. Bilateral trade linkage with the Central American region was strong and steady during the entire period of the global buoyancy and recession. As compared to South America, India's volume of trade was significantly lower with Central America and Caribbean. These imbalances in sub-regional trade should be corrected to arrest India's growing trade imbalance with the LAC region.

Countries in the LAC region have robust trade ties with four countries including the U.S., the EU, China and India, which are outside the LAC region. Considering post-global buoyancy development in the LAC region where proliferation of regional grouping took place both inside and outside the LAC region, dominance of major trading partners in trade with the LAC region might not be a feasible proposition in a long run. This requires urgent attention of major trading partners to deal with the Post-buoyancy development of resurgence of regionalism in LAC with effective policy actions. India is likely to be affected because of this new development in the LAC region, unless it pursues a robust strategy towards the region.

It needs to be underlined that India has large trade opportunities to expand trade with LAC countries with GVC, project goods and high technology trade. In another development in the region, many countries have resorted to devaluation as a mainstream strategy to improve their export competitiveness and to address their expanding trade imbalances with the rest of the

world. India is likely to face difficulties to deal with such a regional trend. But, it has limited policy options to deal with such situations. Therefore, for improving trade ties with the LAC region, India should be more conscious in its approach to focus on regional exports and imports policies on a continuous basis to improve its growing presence in the region.

Chapter 4

India and Regional Groupings in LAC

4.1 Introduction

Among developing countries, LAC is the first continent to experience the 'first mover's' advantage from regionalism in the 60s. Region's experiment continued with different forms of regionalism like PTA, FTA, Customs Union, bilateral FTA, etc. Region's tryst with regionalism continued for four decades and most of the arrangements continued with regional economics within the LAC region. In the 2000s, LAC experienced regional tie up with countries outside the region and eventually big players became their dominant partners in the later period. This trend picked up robustly during the period of global buoyancy, particularly in the aftermath of the 'Asian Financial Crisis'. The process of regionalism picked up more vigorously during the entire period of recession, providing strength to surge regionalism within the continent and also inclusion of partners outside the region. This process encouraged new trading partners to compete with the region, and these countries are drawn from the LAC region and outside the continent. Contrary to existing understanding from the literature, several RTAs within LAC have large IRT ratio as well as trade flows within the region.

This could pose serious challenges to India in dealing with the region as multiple actors operate in the region. Being an important player in the region, Indian approach should be selective in identifying important partners from the region. These regional partners should lend support to India for its smooth transition into important regional groupings in the region. Choice of RTA for future engagement is also linked with important partners because a group of new large countries are pursuing inward oriented trade policies in the region. On the other hand, several countries follow medium to highly outward oriented trade strategy. India is to engage with some of the important RTAs because the region economies frequently use non-tariff barriers, which can prohibit India's capabilities to have wider market access in the continent. The potential adverse impact of NTBs can be minimised through regional arrangements with the some RTAs where India has its keen interest.

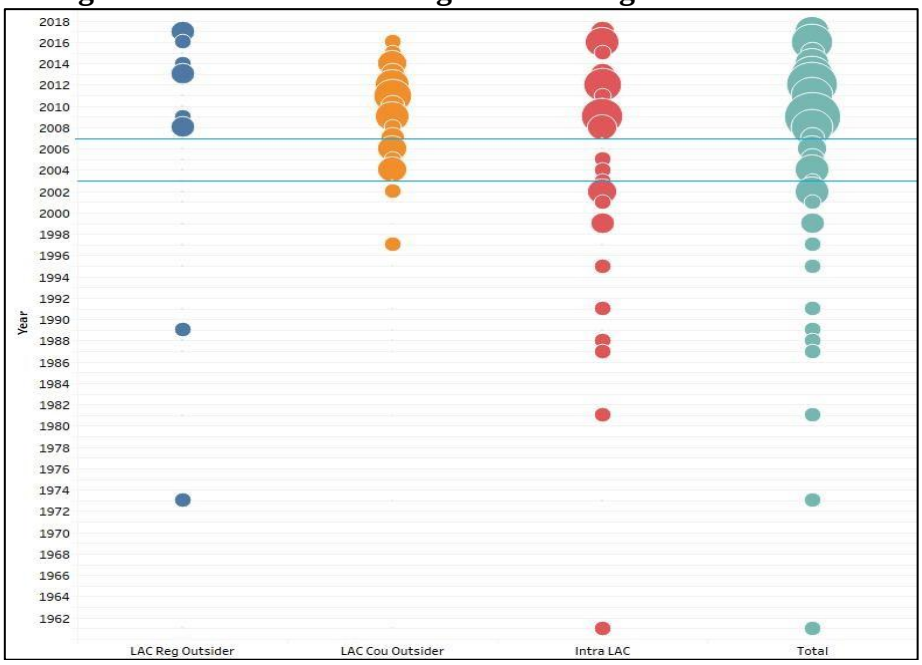
Important issues for India are how to clear the deck to have better market access in the region? The present literature stipulates that the competition is high between Big Four including the U.S., the European Union, China and India for gaining market access in LAC.

In fact, the native regional actors are fully equipped to compete with Indian products. Identification of competitors by product in specific regional groupings would be important for evolving a comprehensive trade strategy for the region. However, examination of India's competitiveness in the region is important to assess India's trade potential in important countries and regional groupings in LAC. For taking a view on possibility of PTA/FTA/CEPA/CECA in the region, the impact of possible trade preference by regional economies/RTAs on India's market access may be important for understanding the ground realities existing in the LAC region.

4.2 LAC Countries/RTAs engagement with other Regions

LAC region has a long history in dealing with the regional trading arrangements (RTAs) since the 60s. Among developing countries, LAC countries are the ones, which had fast mover's advantage from the regional process. The region witnessed three waves of regionalism since early 60s, as shown in Figure 4.1. The region has experimented with regionalism with the formation of the CACM in 1961. The region experimented with different forms of regional grouping including Partial Scope Agreement (PSA) or PTA, regional groupings outside the region (PTN in 1973), bilateral trade agreement (Panama and Dominican Republic in 1987), etc.

Figure 4.1: Global Trade Regimes and Regionalism in LAC

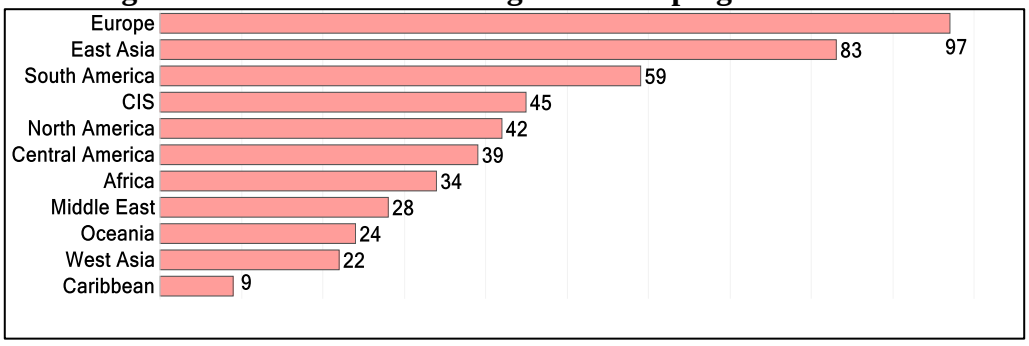


Source: RTA Database, World Trade Organisation, 2018.
Note: LAC Reg Outsider mean RTAs between more than one LAC countries with rest of the world, LAC Cou Outsider mean RTAs between one LAC country with rest of the world and Intra-LAC mean RTAs with LAC countries. Each bubble represents number of RTAs.

During the last six decades, the history of the regional process in Latin America suggests existence of three different trends in the region. They are: a) a strong move towards consolidation of regional economies in the form of formation of trade agreements during 1961- 2002, b) these countries reached out to countries outside the continent during the period of global buoyancy (2003-07), and c) all out efforts to strengthen regional process within countries in the region and reaching out to countries outside the region by engaging LAC countries at the country level and at the regional level. Some Regional groupings expanded enormously during the period of global buoyancy, but achieved very little in terms of engaging large number of countries within LAC before the starting of the recession. Regional consolidation, however, is at rise during recession and can minimise trading space of major traditional partners, mostly from outside the region.

There has been proliferation of regional groupings across various sub-regions of the world economy. By 2018 June, 673 regional groupings were formed in the world, and 459 RTAs have been notified as active regional groupings as shown in Figure 4.2. It is reported by the WTO that only 287 RTAs are found to be active, meaning thereby, 54 per cent of RTAs have faced natural death in their infancy. However, active RTAs have come up in various sub-regions in the world. Among various sub-regions outlined by WTO, Europe has the largest number of RTAs and Caribbean has the least number of RTAs among major sub-regions. Taking into account of active RTAs existing in the LAC sub-region, South America, Central America and Caribbean have 59, 39 end 9 RTAs, respectively, in 2018. In total, LAC has 85 RTAs in force since 1961.

Figure 4.2: Proliferation of Regional Groupings in the World



Source: RTA Database, WTO, 2018.
Note: Each bar represents number of RTAs.

Regional process in the LAC region has experimented with different schemes of trading arrangements. These regional RTAs are into custom union, FTA, Economic Integration Agreements (EIA), mostly dealing with services sector, Partial Scope Agreement, focusing on trade in goods and various combinations of these groupings. While one-third of the RTAs

have focused only on trade in goods, others are engaged in comprehensive trade agreements, as presented in Table 4.1. From a total of 85 regional groupings in force, only 5 of them are into customs union, and mostly are in goods sector. In the goods sector, most of the regional groupings are in the form of partial scope agreements (PSA). Many of these comprehensive trade agreements are in the form of FTA with the feature of EIA.

Table 4.1: Coverage of FTAs in LAC Countries

(Number of RTAs)

Coverage of Issues	CU	CU & EIA	FTA	FTA & EIA	PSA	Total
Goods	3		6		13	22
Goods & Services		2		61		63
Total	3	2	6	61	13	85

Source: RTA Database, World Trade Organisation, 2018.

RTAs among LAC countries and their relationship with outside the region in terms of forming regional grouping present an interesting insights. Considering the nature of the regional consolidation, these RTAs may be categorised into three following groups- a) RTAs among LAC countries, b) LAC countries forming regional grouping with countries outside the continent and c) LAC regions forming regional grouping outside the continent as shown in Table 4.2. Periodisation of RTAs and putting them into various categories are important as regional countries from LAC have established strong trade ties with four regions that include the U.S., the EU, China and India, which are existing outside the LAC region. Sustainability of their relationship with these major regions in the face of intense efforts towards regionalism with large number of countries and regions is a critical issue requiring serious consideration.

Table 4.2: Notification of FTAs LAC by Nature of Agreements and Groupings

(Number of RTAs)

RTA Region	Enabling Clause	Enabling Clause & GATS Art. V	GATT Art. XXIV	GATT Art. XXIV & GATS Art. V	Total
LAC Reg Outsider	5			6	11
LAC Cou Outsider	1		5	28	34
Intra-LAC	10	1	2	27	40
Total	15	1	7	61	85

Source: RTA Database, World Trade Organisation, 2018.

Note: LAC Reg Outsider mean RTAs between more than one LAC countries with rest of the world, LAC Cou Outsider mean RTAs between one LAC country with rest of the world and Intra-LAC mean RTAs with LAC countries.

However, it is a fact that regional consolidation has been taking place in the region before and after global buoyancy. Most of the economies in the LAC region are middle income countries, and therefore, they refrain from using 'enabling clause' while forming RTAs among themselves. LAC countries have RTAs with 45 groupings outside their continent, and

more than three-fourth of these RTAs have been signed using Article 24 and GATS Article 5 of WTO. Similarly, two-third of intra-LAC RTAs have been formed under these two clauses. LAC countries are becoming specific in choosing partnerships with countries outside the continent. Therefore, only one-fourth of RTAs of LAC are in the area of goods with countries outside the continent.

LAC countries have lesser number of PTAs as compared to total number of agreements with the rest of the world, but these agreements are mostly with the regional economies within LAC. The regional trend shows that LAC countries prefer to be engaged with major four countries, but their interest also is to have trade agreements with other countries outside the region to optimise their performances. These countries have high preference for forming comprehensive trade agreement with emerging economies, and this trend is becoming robust in the recent years. During the period of recession, LAC countries exhibited keen interest in signing comprehensive agreements in all forms.

With countries outside the region, LAC countries are approaching as individual country and also in the form of a group for signing comprehensive trade agreements. These developments indicate that LAC countries are becoming outward oriented in managing their external sector and are preparing stage to go out of the monolithic pattern of trade with selected number of countries outside the continent.

India has to evolve a robust strategy to engage with top trading partners with the region through comprehensive trade agreements. Choice of select top regional partners is important to maximize India's trade interest with these countries. These selected countries may be ideal partners to put India's foothold in the selected regional groupings in the LAC region where these countries are firmly placed. Identification of the important partners and RTAs in LAC is important for advancing India's trade policies towards LAC. Prior to this, performance of important RTAs in LAC in recent years are to be examined which would be of interest to India to understand more about the region and countries.

4.3 Intra-Regional Trade in LAC

The existing literature highlights that many regions of the world have become increasingly integrated over the years but the pattern of intra-regional trade in LAC has remained relatively stable since 1990 (Cerra et al., 2017). It has been estimated that intra-regional trade of Latin America which includes South and Central America (excluding Mexico) and the Caribbean is very low and is around 15 per cent of the region's total trade. This is much

lower than the intra-regional trade of Europe and Asia. The economic potential of integration in LAC has not been fully realised in the 1990s and 2000s. This was mainly because that countries did not implement sufficient domestic policy changes to promote deep integration, or to remove barriers that remain around rules of origin, residual tariffs, technical standards and harmonization and other regulatory standards, infrastructure issues, and other market structure barriers. It was expected that the proliferation of RTAs in LAC during the 1990s along with the expansion of bilateral agreements post-2000 would generate relatively higher intra-regional trade in LAC, but this was not the case (Isbell and García, 2015).

Intra-regional trade of LAC and its sub-regions present intra-regional diversities which are coming to the forefront with the onset of the global shocks during the last decade. Table 4.3 examines the intra-regional trade in LAC and its various sub-regions. Intra-regional trade as a ratio of total trade for LAC reached a peak of 21.5 per cent in 2008 but declined in the subsequent years to reach 15.9 per cent in 2017. The intra-regional trade ratio of the region declined consistently during the overall period 2008-16. However, the three sub-regions of LAC have followed different trends. The intra-regional trade ratio of South America has matched the trend followed by that of the LAC region and declined consistently from 22.4 per cent to 18.7 per cent over 2008-17. The intra-regional trade ratio of Central America remained constant at around 4 per cent over the entire period of recession. While, the Caribbean witnessed an increasing trend in its ratio over the period 2000-2008, reaching to 9.4 per cent in 2008 and further declined to 6.1 per cent in 2017, possibly due to the pressures of recession. The intra-regional trade ratio of the entire region was mainly driven by South America in 2017 as the other sub-regions had relatively lower ratios. The value of intra-regional trade in the LAC region and its sub-regions follow a similar trend but the major impact of the recession was in the post-2012 period. The value of intra-regional trade in LAC grew at an unprecedented rate of 27 per cent during the period of buoyancy (2003-07). During this period the value of intra-regional trade in three sub-regions also grew substantially with South America growing the fastest at a rate of 27.6 per cent, followed by Caribbean at 23.6 per cent and Central America at 17.8 per cent. During this period the growth rate of intra-regional trade in LAC as well as in its three sub-regions was higher than their respective growth of total trade with the world. This shows the importance and dynamism of intra-regional trade in LAC.

Table 4.3: Trend of Intra-Regional Trade in LAC

(in USD Billion)

Year	Central America*			Caribbean			South America			LAC		
	IRTV	WLDV	IRTRv	IRTV	WLDV	IRTRv	IRTV	WLDV	IRTRv	IRTV	WLDV	IRTRv
2000	11	389	2.7	3	41	6.2	75	323	23.1	130	759	17.2
2001	11	373	3.0	3	41	6.4	72	313	22.9	129	732	17.6
2002	12	381	3.1	2	40	6.0	59	284	20.8	116	709	16.3
2003	13	392	3.3	3	42	7.1	67	315	21.3	124	749	16.6
2004	15	448	3.3	3	48	6.4	91	420	21.7	171	917	18.7
2005	18	507	3.5	5	59	8.0	116	531	21.9	219	1098	19.9
2006	21	588	3.5	5	67	8.0	145	650	22.3	261	1306	20.0
2007	25	648	3.8	5	71	7.7	179	794	22.6	311	1515	20.6
2008	29	706	4.1	8	86	9.4	226	1009	22.4	388	1804	21.5
2009	24	549	4.4	5	60	8.0	169	762	22.1	282	1372	20.6
2010	28	700	4.1	6	67	8.8	208	992	21.0	346	1762	19.6
2011	34	820	4.2	8	83	9.7	257	1253	20.5	427	2158	19.8
2012	37	872	4.2	8	83	9.2	255	1262	20.2	429	2218	19.3
2013	37	893	4.1	9	91	9.7	246	1271	19.3	424	2256	18.8
2014	38	934	4.0	7	88	8.3	226	1204	18.8	398	2226	17.9
2015	36	907	4.0	6	79	7.0	176	955	18.4	318	1941	16.4
2016	35	886	3.9	5	76	5.9	161	853	18.9	288	1816	15.8
2017	36	964	3.7	5	83	6.1	178	953	18.7	319	2001	15.9

Source: Direction of Trade Statistics, IMF, 2018.

Note: IRTRv is the ratio of Intra-regional Trade expressed in percentage.

*Central America includes Mexico

The average intra-regional trade ratio for the region as a whole was 19.4 per cent during the period of global buoyancy and it grew at a CAGR of 6.2 per cent. The first phase of recession (2008-12) resulted in a drastic decline in the growth of intra-regional trade but its value continued to remain positive and it grew by 3 per cent over the period. The three sub-regions also witnessed lower but positive growth in their value of intra-regional trade. Additionally, the average intra-regional trade ratio increased during the first phase of recession to 20.8 per cent and was higher than that observed during the period of global buoyancy. This trend was observed in Central America and the Caribbean as well. The second phase of recession (2012-17) adversely affected the intra-regional trade of the LAC region as a whole and that of South America resulting in a drastic fall in value. However, the value of intra-regional trade in Central America remained constant to some degree and that of the Caribbean rose up to 2015. As a result of the substantial negative impact of the second phase of recession, the region registered a decline in intra-regional trade in the overall period of recession (2008-17) and could not reach the values observed prior to the recession.

As seen in the previous section, during the last decade, LAC countries mostly focused on regionalism among themselves until the pre-buoyancy period. During buoyancy, the regional economies felt the need to undertake regional agreements with countries lying outside the

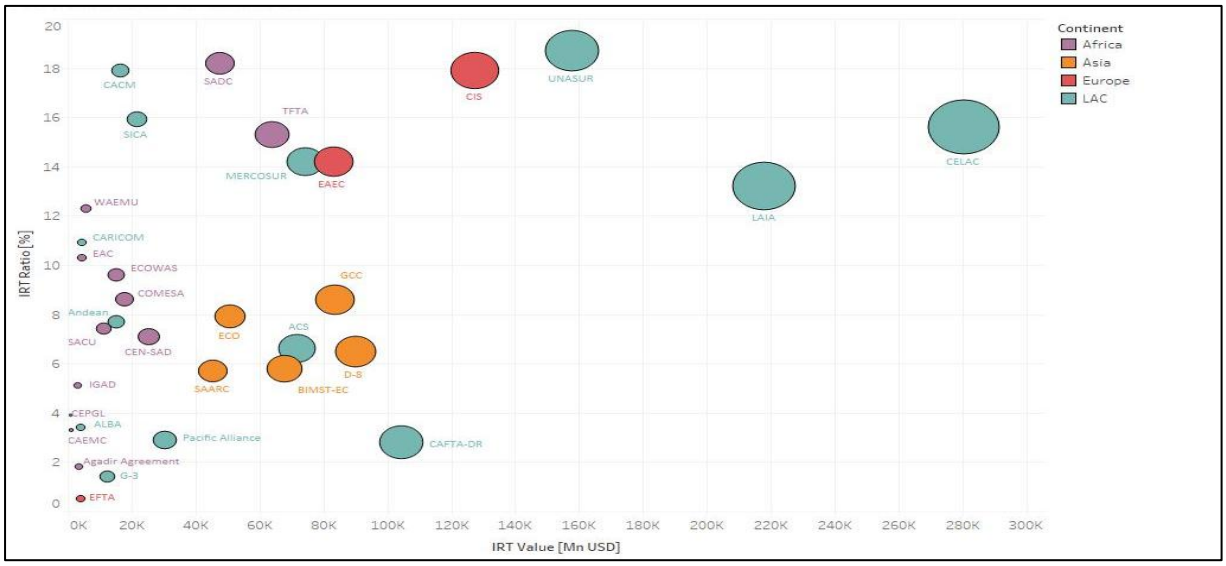
region. This contributed in terms of paying huge dividends to the three sub-regions and the region as a whole in terms of improving their intra-regional trade ratio and also volume of trade within the region. This is observed in the above table as an increase in intra-regional trade ratio and volume of the LAC region. This syndrome may be observed in the three sub-regions during the period of global buoyancy. Gains from such a regional approach induced LAC countries to seize the opportunities of regionalism in all formats during the period of recession and they engaged in the process of regionalism on all fronts during this period. They not only worked comprehensively with their own regional economies but also with countries outside the LAC region. However, these efforts of promoting regionalism during recession did not work out properly in terms of improving their intra-regional trade. The situation may improve in the LAC region once buoyancy returns to the region. Spotty evidences indicate that buoyancy returned to the region in 2017. Present literature is also confirming to this trend. ECLAC (2017) estimated that intra-regional trade in the LAC region as a whole as well as in all its groupings and sub-regions increased in the first half of 2017 with a substantial improvement in South America. The largest increase in intra-regional trade in 2017 was seen in the oil and mining, automobiles, and agriculture, hunting and fishing sectors. Intra-regional exports of manufacturing sectors such as chemicals, rubber and plastic, non-metal minerals, and metals and their derivatives also increased. The value of intra-regional exports is projected to grow by 9 per cent in 2017 and its share in the region's total exports is expected to be 16.8 per cent. However, this is much smaller than the peak value of 22 per cent achieved in 1994 and the level of intra-regional trade in other regions such as European Union (62 per cent), East and South East Asia (50 per cent). Cerra et al. (2017) state that the lower level of intra-regional trade in LAC compared to the rest of the world is largely the result of weak connectivity among countries due to geographic factors and low investment in infrastructure such as lack of adequate roads and railways, and inefficiencies at ports and airports. However, LAC's intra-regional trade as a share of its exports is comparable to other regions of emerging market and developing countries.

Performance of LAC RTAs

The intra-regional trade performance of various regional groupings in LAC may also be examined to highlight the dynamism of the region. Figure 4.3 focuses on the performance of LAC RTAs vis-à-vis several other global RTAs spread across Asia, Africa and Europe and covers the various sub-regions of the different continents as well. The size of intra-regional trade in the different groupings is determined by the size of the bubbles which also highlight

the magnitude of trade taking place in different RTAs. It can be seen that some LAC RTAs are performing at a low level while some are at a much higher level compared to other regional groupings. LAC regional grouping that have a low intra-regional trade ratio and value include Group of Three, ALBA and Pacific Alliance. However, these are still outperforming the European regional grouping EFTA and the African groupings Agadir Agreement and CAEMC. A number of LAC RTAs are performing much better than top regional grouping of Asia, Africa and Europe in terms of intra-regional trade ratio and value, such as CELA, LAIA and UNASUR. These are doing better than the European regional groupings including CIS and EAEC, African RTAs like SADC, TFTA and Asian RTAs such as GCC, BIMSTEC and SAARC. CACAM, SICA and MERCOSUR have relatively high intra-regional trade ratios but their intra-regional trade values are lower than the top performing LAC RTAs. However, they are more integrated than other LAC regional groupings, such as CARICOM, Andean, and ACS and global RTAs, such as BIMSTEC, SAARC, WAEMU, and ECOWAS, among others. The figure clearly indicates that regional groupings in LAC are comparable across different segments of the world economy.

Figure 4.3: IRT comparison of LAC RTAs in comparison with Major Groupings of the World in 2017

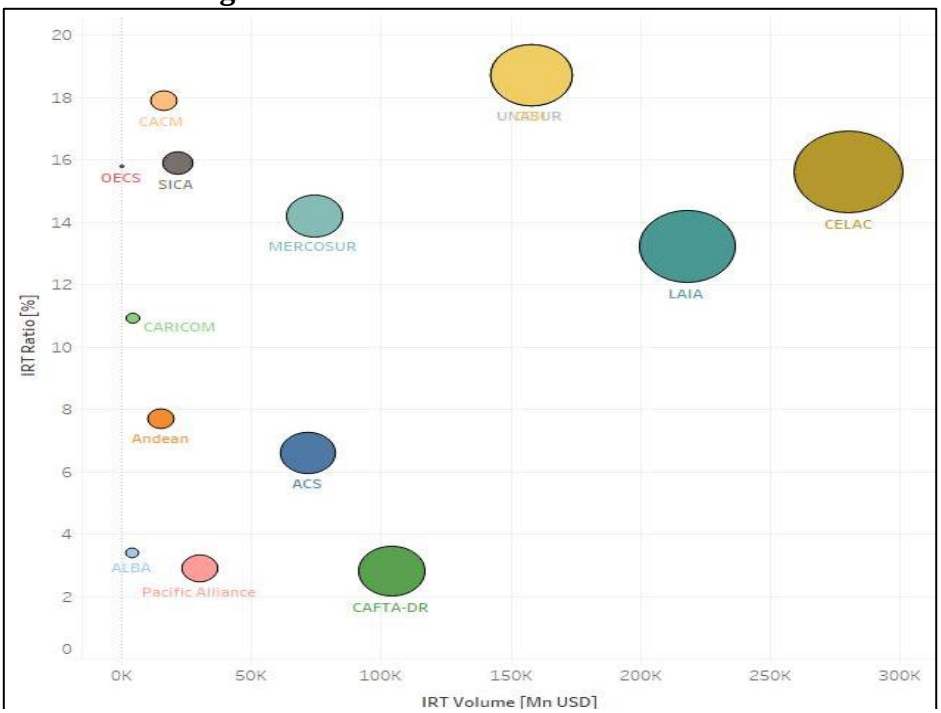


Source: Direction of Trade Statistics, IMF, 2018.
Note: Size of bubble refers to value of Intra-regional Trade.

The performance of LAC RTAs in recent years has been very dynamic both in terms of the intra-regional trade ratio and value of intra-regional trade. Figure 4.4 is indicative of the fact that many regional groupings of LAC had moderate to high level of intra-regional trade ratio in 2017 which shows that they have been trading vigorously among themselves. These include UNASUR, CELAC, LAIA, MERCOSUR, CACM, and SICA (list of members in

different LAC RTAs is presented in Appendix VII). Some of the large RTAs, particularly those with the most number of member countries have a substantial intra-regional trade value, like UNASUR, CELAC and LAIA. However, irrespective of their sizes, RTAs in LAC have maintained a moderate level of intra-regional trade. The regional groupings of LAC performed unprecedentedly well during the period of global buoyancy with growth rates of intra-regional trade being in double digits for almost all the major RTAs and going as high as 58.45 per cent for ALBA. But the efficacy of LAC RTAs declined significantly during the recession and they may prove to be more efficient with the return of buoyancy in the global economy. Certain RTAs registered positive growth of intra-regional trade even during the overall phase of recession (2008-17). These include CACM, OECS and SICA. Thus, many LAC RTAs have a large flow of trade through them and may pose some serious competition to India when the country attempts to have wider market access in LAC region besides stiff competition it will face from other major economies like the U.S., the EU and China.

Figure 4.4: IRT in LAC RTAs in 2017



Source: Direction of Trade Statistics, IMF, 2018.
Note: Size of bubble refers to value of Intra-regional Trade.

Barriers faced by LAC in enhancing regional integration and way forward

Intra-regional trade in LAC is subjected to severe trade barriers, mainly non-tariff barriers such as quotas, non-automatic import licences, informal barriers, antidumping duties and others. As a result of the multiple agreements in effect in LAC, the tariffs applied to intra-regional trade are very limited and are on average 2.9 per cent for the region as a whole

(ECLAC, 2017). Grübler, Ghodsi and Stehrer (2016) estimated the ad valorem equivalent estimates of non-tariff measures in LAC and found that, on average, the non-tariff barriers in effect in the region are equivalent to a tariff of 25.3 per cent which is almost nine times the average value of the tariffs imposed on intra-regional trade. Also, the ad valorem equivalent estimates of non-tariff measures are higher in the Andean Community, MERCOSUR and CARICOM. In addition to tariffs and non-tariffs, intra-regional trade is subjected to costs associated to custom processes which are reflected in taking additional time to clear export and import. ECLAC (2017) has estimated that these costs are equal to an additional tariff equivalence of 20 per cent.

LAC region is a significant supplier of a range of agricultural products with most of them being primary goods. The presence of agro-industrial products is very low. Asia is the main market for LAC's agricultural exports. The product concentration of LAC's exports to Asia is very high consisting mainly of primary products and natural resource based manufactures. LAC's exports to China are the most concentrated with a single product (soya bean) accounting for 60 per cent of total agricultural export value. This is followed by exports to European Union. The region's export basket for India is very similar to that of other Asian countries. In contrast, there is great diversification in intra-regional trade among LAC countries. The intra-regional market is one of the largest markets for many LAC countries for their manufactured exports of different technological intensities (CEPAL, 2011; ECLAC, 2017). The difference between intra-regional trade in LAC and that in other developing regions is that the LAC's intra-regional trade is more oriented towards final goods whereas in other developing regions it is concentrated in intermediate goods. This trend is consistent with the concentration of the region's trade in commodities given its large endowment of natural resource. This limits LAC's scope to immediately increase intra-regional trade to some extent (IMF, 2015; Cerra et al., 2017).

Intra-regional trade in LAC offers great potential for exports of manufactured goods and more processed products in general. There is a need to deepen regional integration. This has become especially important with the recent shift in the United States' trade policy and the uncertainty surrounding the renegotiation of the North American Free Trade Agreement (NAFTA). ECLAC (2017) has estimated that signing a regional trade agreement would produce considerable gains for LAC, which would be greater if the agreement were not limited to reducing tariffs, but also included the removal of non-tariff barriers and the harmonization or mutual recognition of technical, sanitary and phytosanitary standards.

Cumulation of origin mechanisms would also promote the integration of production. Another major component to increase regional integration is trade facilitation. It could help raise the current low levels of intraregional trade, promote the internationalization of SMEs and strengthen production chains within the region.

To sum up, intra-regional trade in LAC is not low but is quite substantial compared to many leading RTAs of the world, such as CIS, EAEC, SADC, TFTA, GCC, BIMSTEC and SAARC. On average, intra-regional trade in LAC is moderate and thus, the various countries in the region could pose as formidable competition to major trading partners, including India. India's major interests are in the areas of manufacturing exports and services trade. As discussed, the intra-regional trade pattern of LAC indicates that they are very active in terms of trading among themselves in manufacturing sector, and intra-regional is offering large market to many LAC countries in the exports of manufactured products of different technological intensities. Therefore, the regional economies should be expected as important competitors similar to that of the U.S., the EU and China. Moreover, the LAC countries have lowered their tariff rates on account of multiple regional trade agreements in effect but they are highly conservative in terms of using non-tariff barriers, such as quotas, non-automatic import licences, informal barriers and antidumping duties among other, thus, prohibiting trade within the region. This is one of the major reasons that certain LAC RTAs experience low intra-regional trade. This is equally applicable to India and therefore, while negotiating for any regional arrangement, India should be conscious about the existence of NTBs in these countries.

4.4 Identification of Important Trading Partners in LAC

The global recession of 2007 is construed as the worst of its kind in the Post-War period. It is important to understand that Latin American economies are resilient in withstanding adverse impacts of recession by maintaining steady trade performance over a long stretch of time but eventually can succumb to the pressure following continuation of the global downturn. From India's point of view, it is important to know which countries India should partner with in the long run. For this, we need to consider a few benchmarks to understand credibility of potential partners. An important criterion for identification of such countries should be the high resilience of the partner countries to withstand pressure of imports in adverse situation. The import growth of LAC countries during 2008-16 can be an appropriate indicator to examine this criterion. In these countries one needs to examine India's competitiveness in different lines of products. For India's long term engagement with Latin American countries,

economic weight of relatively large economies need to be focused to understand India's substantial trade and economic interest in them.

Trade orientation is important in partnering with these economies for comprehensive trade agreement. In LAC region, Central America, South America and the Caribbean are three integral parts of the continent. Choice of partner should encompass proper representation from all sub-regions to keep a hold on all regional groupings in the continent. Based on these considerations, some focused countries may be identified for India's long term trade engagement with LAC. For identification of the countries, following criteria have been adopted: a) Important trading partners of India for exports and imports, b) major trading players in the region, c) quantum of India's trade potential in the region and d) import profile of the country during the entire period of recession (2008-16). Trade performances of some of the Latin American countries are presented in Table 4.4. Considering these four criteria, top ten important trading partners of India have been identified as follows: Brazil, Mexico, Argentina, Chile, Colombia, Costa-Rica, Dominican Republic, Ecuador, Guatemala, Panama, Peru, and Venezuela.

Table 4.4: Identification of Important Partner Countries in LAC

Country	Sub-Reg.	Regime	Literature	GDP	Tariff (%)	Import Grw. (07-16)	Export Grw. (07-16)	Trade Pot ($Mn)	Imp World ($Bn)
Anti & Barbuda	Car	Moderate		Low	7.9	-0.6	7.1	14.7	0.5
Argentina	S. Am.	Inward	Inward Looking	High	12.8	2.4	0.4	2052.1	55.2
Bahamas	Car	Inward		Low	38.3	0.2	-4.5	92.6	3.0
Barbados	Car	Moderate		Low	8.6	2.5	5.7	50.6	1.6
Belize	C. Am.	Moderate	Forward Looking	Low	8.3	7.1	-2.3	12.7	1.0
Bermuda	Car	Inward		Low	19.8			28.3	
Bolivia	S. Am.	Moderate	Inward Looking	Low	8.2	12.0	6.8	318.3	9.8
Brazil	S. Am.	Inward	Inward Looking	High	12.6	2.3	1.8	4727.6	137.6
Chile	S. Am.	Outward	Forward Looking	High	6.0	2.4	-1.5	2006.5	58.8
Colombia	S. Am.	Outward	Forward Looking	High	3.7	3.5	0.4	1478.2	44.3
Costa Rica	C. Am.	Outward	Forward Looking	Medium	3.0	2.3	1.5	482.5	15.3
Cuba	Car	Inward		Medium	9.9	0.0	0.0		6.4
Dom. Rep.	Car	Outward		Medium	4.2	5.6	2.4	570.0	17.3
Dominica	Car	Moderate		Low	6.6	0.9	0.0		0.2
Ecuador	S. Am.	Moderate	Inward Looking	Medium	6.8	2.0	2.2	609.7	16.1
El Salvador	C. Am.	Outward	Forward Looking	Low	3.2	1.2	3.2	308.1	9.8
Grenada	Car	Moderate		Low	8.3				
Guatemala	C. Am.	Outward	Forward Looking	Medium	3.0	3.0	5.0	521.7	17.6
Guyana	S. Am.	Moderate	Forward Looking	Low	7.4	5.2	7.1	48.7	1.6
Haiti	Car	Outward		Low	3.5				
Honduras	C. Am.	Outward	Forward Looking	Low	3.1	2.3	7.6		8.0
Jamaica	Car	Outward		Low	4.9	-3.6	-6.7	115.0	4.7
Montserrat	Car	Inward		Low	10.2	4.2	0.0		0.0
Nicaragua	C. Am.	Outward	Forward Looking	Low	3.1	5.8	16.4	152.4	5.9
Panama	C. Am.	Outward	Forward Looking	Medium	4.8	-0.7	-24.3	384.7	12.1
Paraguay	S. Am.	Moderate	Inward Looking	Low	7.1	5.8	6.7	333.4	9.8
Peru	S. Am.	Outward	Forward Looking	High	2.1	6.9	2.8	1092.6	36.2
St. Kitts & Nevis	Car	Moderate		Low	6.9	-2.0	1.9		0.2

St. Lucia	Car	Outward		Low	5.8	0.1	7.5		0.6
St. Vin. & Gren.	Car	Moderate		Low	7.7	0.0	-0.7	10.5	0.3
Suriname	S. Am.	Moderate	Inward Looking	Low	7.9	3.0	1.3		1.8
Trinidad & Tobago	Car	Moderate		Low	8.1	2.2	-2.4	204.8	9.3
Uruguay	S. Am.	Moderate	Inward Looking	Medium	7.7	4.2	4.9	250.7	8.1
Venezuela	S. Am.	Inward	Inward Looking	High	11.9	3.3	4.1	1446.1	41.3

Source: RIS estimation based on various trade databases.

These ten countries are emerging as important ones for India for establishing a long term economic relationship. They are ideal partners so far as trade, investment and trade in services are concerned. These counties are not only important in their respective regions, but also important from India's exports and important requirements. India is interested in establishing long term trade linkages with them bilaterally and also in accessing other vibrant regional groupings in the LAC region with these partners. India's focus on identification of RTAs should be on the basis of partnership with these important regional economies.

India is on its high growth path to enter into the USD 5 trillion economies by 2025. Trade would be the growth driver of the economy. There are signs of recovery in various corners of the globe. India's export strategy would embark on its trade linkages with the LAC region. Though India has made major strides in consolidating its trade with the region, the forthcoming years would be more worthwhile. India needs to integrate its trade with investment strategy based on private sector model in the region. Country and RTA focus can foster India's economic engagement with the LAC region.

4.5 Identification of important RTAs

It may be noted that substantial trade of the world passes through the regional route. It is important to know the countries, which are the key to India's trade interest in LAC. These countries should have comprehensive presence in important regional groupings within the LAC region. For this purpose, 15 important regional groupings are selected within the LAC region as shown in Table 4.5. With a view to examine the presence of these 10 important countries in different RTAs of the region, the selected countries are presented in these important regional groupings with varying intensities. In some RTAs, presence of selected countries has been more predominant than others. The combined share of these identified countries in each RTA is more than 35 per cent of the total membership of the grouping. These identified groupings are Andean, G-3, LAIA, Mercosur, Pacific Alliance, SICA and UNASUR. Group of Three (G-3) was formed in 1995 with Colombia, Mexico and Venezuela

as a three Member FTA; with the departure of Venezuela from the caucus, the grouping became redundant. Therefore, G-3 has not been included in our selected list of RTAs.

Table 4.5: Identification of Important Regional Groupings for India

RTA	Top 10 Cou	RTA Members	Share (%)
Andean	3	4	75.0
Pacific Alliance	3	4	75.0
MERCOSUR	3	5	60.0
UNASUR\ CSN	7	12	58.3
LAIA\ ALADI	7	13	53.8
SICA	3	8	37.5
CACM	2	6	33.3
CAFTA-DR	3	8	37.5
G-3	2	3	66.7
Rio Group	9	24	37.5
CELAC	10	33	30.3
OAS	10	35	28.6
G-24	6	25	24.0
ACS\ AEC	5	24	20.8
ALBA	2	11	18.2

Source: RIS estimation based on various trade databases.
Note: Top 10 Cou means number of important countries to India which are present in the RTA and RTA Members mean total number of countries in a particular RTA.

In certain regional groupings where selected countries are moderately represented (i.e., 30-50 per cent); they are: CACM, CAFTA-DR, CELAC and Rio Group. CACM was the oldest Customs Union in the LAC region, formed in 1961 with five members. Panama joined the group in 2005. Other RTAs with low representation are: ACS, ALBA, G-24 and OAS. Among 15 regional groupings considered in LAC, Venezuela is represented in 10 RTAs, Colombia in 8, Argentina in 7, Brazil in 7, Chile in 6 and Dominican Republic in five regional groupings in the LAC region. Therefore, regional groupings such as Andean, LAIA, Mercosur, Pacific Alliance, SICA and UNASUR are identified as India's important focused RTAs in the LAC region. These RTAs are overwhelmingly represented by India's identified top trading partners in the region.

4.6 Major Regional Groupings in LAC

4.6.1 Pacific Alliance

Pacific Alliance is emerging as one of the fastest growing regional groupings in the LAC region; registered an average growth rate of 2 per cent during the period 2017; much higher than average growth performance of the LAC region (-1.5 per cent) during the corresponding period. As a dynamic region in the world economy, it has persistently improved its global

share in GDP from 2.65 per cent in 2011 to 2.7 per cent in 2017, despite continuation of global recession and intermittent re-occurrence of exogenous shocks. The region's ascent in the world economy is reflected in its rising global share in several other macroeconomic indicators such as trade, FDI, remittances, etc., demonstrating prowess of the region in the last decade. Sweeping market reforms have been the hallmark of the region and are amply reflected in region's economic performance since its inception in 2011. Pacific Alliance is the most outward-oriented grouping in LAC, having strong trade ties with the U.S., the EU and China, but lacks grossly in intra-regional trade with them. There is high expectation from the region to overcome such impediments with strong regional initiatives. The existing literature views the region as an emerging mega region in the coming years. India has strong economic engagement with each of the individual members in the grouping, which is likely to expand further in 2018 when buoyancy returns to the region.

Political uncertainties swept the Andean Community during the height of global buoyancy and further aggravated with the onset of global recession. Pacific Alliance was formed despite continuation of political turmoil in the LAC region in 2011. The idea of forming Pacific Alliance came from the then Peruvian President Mr. Alan Garcia in 2006. The initiative of a new grouping could not be formalised following exit of Venezuela from the Andean Community, and thus, created a great deal of uncertainty in the region. Two other prominent partners of the regional grouping showed their allegiance to ALBA, exhibiting their indifference with the Andean Community. Incidentally polarization of countries in the Asia-Pacific region had opened up a new vista of opportunities in the Western Arc of the LAC region for reorganisation of countries, and this led to formation of Pacific Alliance. The Agreement was signed on 6 June 2012 in Chile for formalising the new regional caucus. At present, most of the member countries have formal trade agreements with the U.S., the EU and China. The regional grouping began its journey with the ambitious goal of attaining seamless flow of goods, services, investment and natural persons with in the region. With the experience from the past, Pacific Alliance has attempted to achieve its economic objectives in the framework of effective political coordination.

The Pacific Alliance began its integration process with a comprehensive tariff liberalisation policy in 2013. While 92 per cent of all tariff lines were subjected to tariff elimination at the first phase, the remaining tariff lines were deferred to be brought down to zero by 2020. Regional strategies were evolved with the support of trade promotion agencies to invoke various economic agents including trade, investment and tourism in the region. Movement of

natural persons was considered priority and considered growth driver for the region. As part of the financial sector integration in the region, stock exchange of member countries was integrated with the setting up of a regional initiative called the Mercado Integrado Latinoamericano (MILA). The initiative had started with three institutions including the Lima Stock Exchange, the Santiago Stock Exchange, and the Colombia Stock Exchange, and Mexico joined at a later stage. This has helped the region in integrating their capital markets. Besides, the region has made significant headway in undertaking swapping reforms in member countries for deepening of regional integration.

Macro Settings in Pacific Alliance

Within a very short stint of its existence, Pacific Alliance has emerged as a dynamic regional grouping in the LAC region. Region's economic performance along with multi-sectoral reforms, enabled the RTA to move out of the global recession and also took the lead in bringing recovery to the region. While various sub-regions of the continent, including South America., Central America and Caribbean registered declining share of their GDP in the world economy, Pacific Alliance emerged robust in the continent.

The grouping is a moderately growing region in Latin America, and outlook of the region looks promising by the World Bank projections. GDP of the region stood at USD 1.8 trillion in 2016 and is likely to reach the level of USD 2.3 trillion by 2022, as shown in Table 4.6. Mexico is the largest economy in the regional grouping, sharing about 60 per cent of the GDP of the region and its macroeconomic fundamentals determine region's overall growth prospects.

Table 4.6: Macroeconomic Projections for Pacific Alliance

Variables	2016	2017	2018	2019	2020	2021	2022
GDP, current prices (USD, Billion)	1771	1752	1836	1942	2047	2160	2284
GDP, growth (% change)	2.3	2.0	2.4	3.0	3.0	3.0	3.0
Gross national savings (% of GDP)	20.6	20.3	20.3	20.5	21.2	21.8	22.3
Total investment (% of GDP)	23.4	22.8	22.9	23.2	23.8	24.4	24.9
General govt revenue (% of GDP)	23	22.2	22.2	22.2	22.3	22.3	22.4
Govt total expenditure (% of GDP)	25.9	25.1	24.7	24.4	24.3	24.2	24.1
Current account balance (% of GDP)	-2.8	-2.4	-2.6	-2.6	-2.5	-2.5	-2.4
Current account bal (USD Billion)	-49.0	-43.0	-47.0	-50.0	-51.0	-53.0	-56.0
General govt net debt (% of GDP)	37.9	37.3	37.5	37.5	37.2	36.7	36.2
Population (Million)	221.0	223.0	225.0	228.0	230.0	232.0	234.0

Source: World Economic Outlook, IMF, October 2018.

The region maintained moderate level of growth during the period of deep recession and growth prospects are expected to improve in the coming years. There are better growth prospects of the region because of the strength of the domestic sector, particularly saving and

investment ratios. Though investment ratio was higher than saving ratio, the former remained stable and hovered around 23 per cent of GDP till recently. Being a middle income and moderately populous region, size of the middle income population is large and growing with the passage of time. The import demand of the region is likely to increase with the consolidation of domestic demand in the region. Despite being an outward oriented region, its current account deficit is projected to be under control as the ratio of CAD to GDP ratio has stabilised around 2.5 per cent per annum in the medium term. Similar is the case with the external debt situation where region is expected to continue with moderate level of debt-GDP ratio, particularly around 37 per cent in the medium term. There is a perceptible trend indicating that the region is likely to be stable and dynamic in the forthcoming years. Considering buoyancy in the region, India may consider developing a medium term strategy for the region.

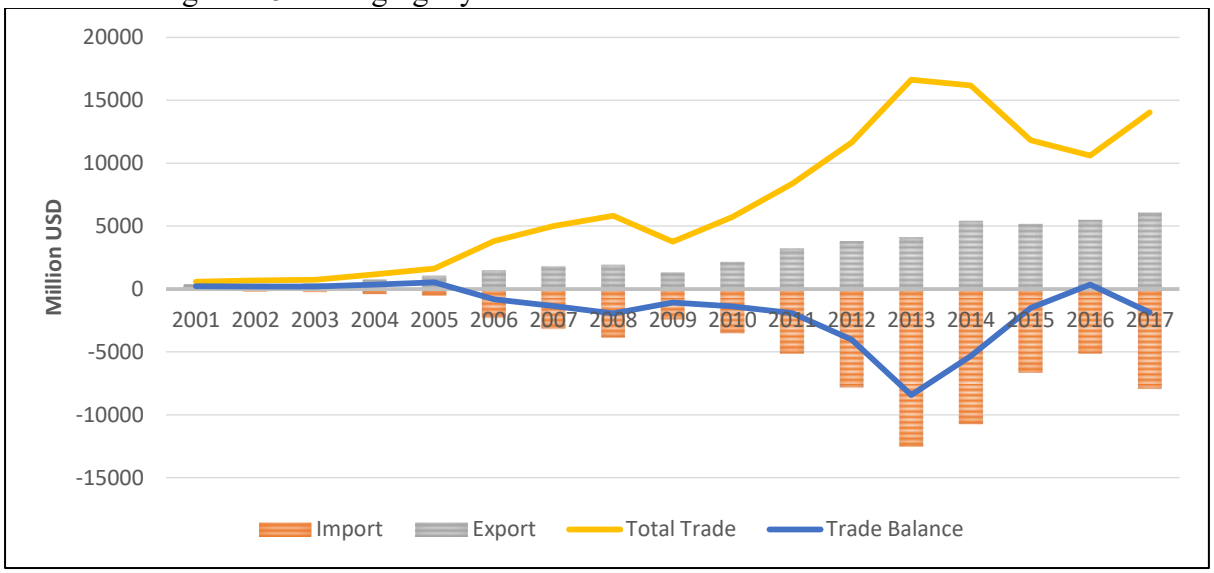
India's Trade with Pacific Alliance

Pacific Alliance is a vibrant trading grouping in Latin America and Caribbean region, contributing more than 37.4 per cent of GDP of LAC in 2016. Region's trade with the world grew from USD 796 billion in 2007 to USD 1.13 trillion in 2012, but increased marginally to USD 1.15 trillion in 2017 owing to second episode of recession. In terms of trade balance, the region oscillated from the position of a net surplus to a net deficit region with the rest of the world, and the regional gap between its exports and imports was very thin over a number of years. During the first phase of the global recession during 2008-12, growth performance of the region's trade with the world was buoyant, but turned out to be low during 2013-17 owing to fall in the crude, mineral and other commodity prices.

Trends in India's Bilateral Trade

India has followed a trade pattern with Pacific Alliance which is somewhat different from most of the regional groupings in the world. Between 2000 and 2005, India posted trade surplus with the grouping to a small extent as level of trade remained low during that period as shown in Figure 4.5. Size of the trade grew unabatedly since 2006 until 2013 before declining under the pressure of global recession. Since 2006, India's imports and trade deficit expanded by leaps and bounds till 2013 before receding significantly till 2016 to a surplus of USD 343 million and again presented a deficit of USD 1.8 billion in 2017.

Figure 4.5: Changing Dynamics of India's Trade with Pacific Alliance



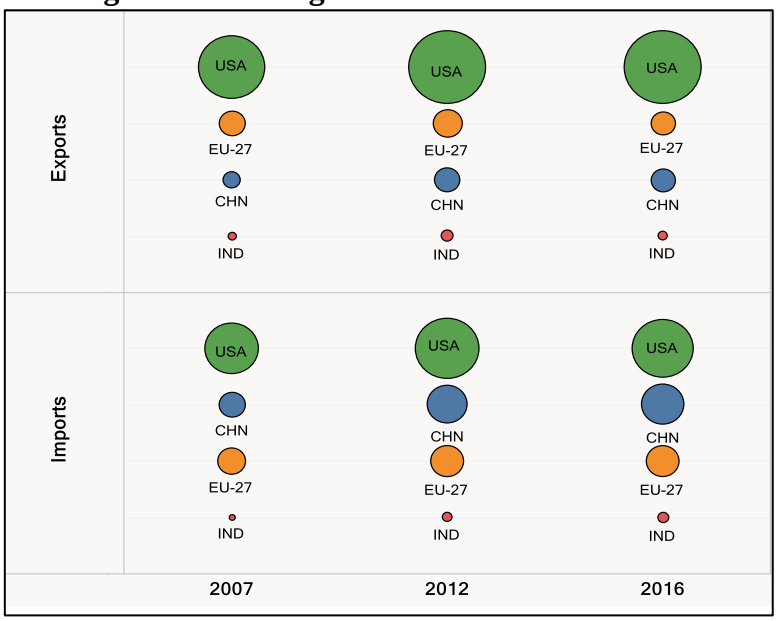
Source: Direction of Trade Statistics, 2018

The magnitude of trade deficit started disappearing since 2013 before it completely disappeared in 2016. Since 2005, India's total volume of trade registered a structural shift in terms of its volume of trade, and the same momentum continued almost till 2013. India's trade with the Pacific Alliance countries grew very fast before formation of the regional grouping in 2011. During the period 2001-17, bilateral trade grew at the rate of 22.2 per cent compounded annually where exports and imports grew at 18.6 per cent and 27.1 per cent respectively. During the first episode of recession (i.e., 2008-12), growth performance of the bilateral trade remained robust where export grew at the rate of 18.4 per cent and import by 19.2 per cent. During the second episode of recession (i.e., 2013-17), bilateral trade received a major setback where export growth declined to 10.3 per cent, but import growth remained at -10.7 per cent during 2013-17, mostly due to slump in crude oil prices and other commodity prices.

Trade with Major Destinations

Pacific Alliance is mostly engaged with a limited number of trade destinations namely, the U.S., the EU and China. India is emerging as the fourth important player in Pacific Alliance, but the gap between the third and fourth ranking partners is becoming too large as shown in Figure 4.6. The U.S. is the single largest export destination of the regional grouping. Export of the regional grouping to the U.S. was USD 350 billion in 2017 as compared to USD 323 billion in 2012. Except for the U.S. and India, in all other cases, bilateral exports of the regional grouping could not touch the level of 2012, as in 2017.

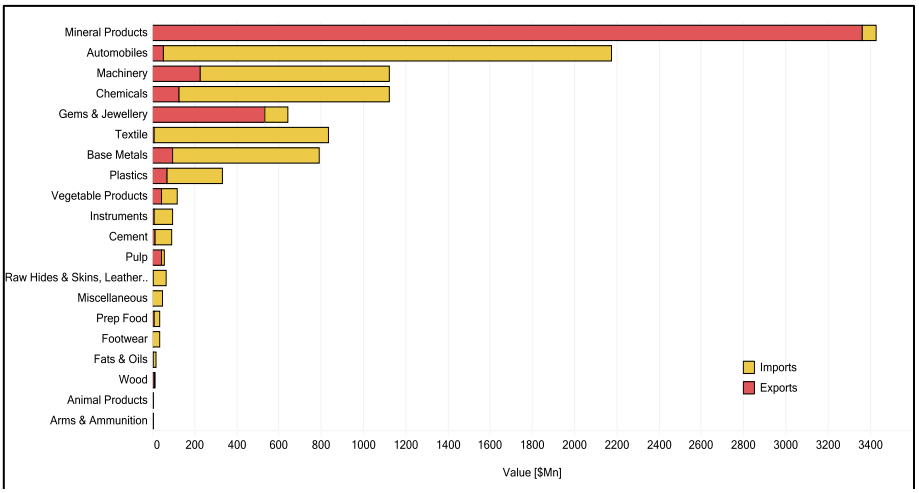
Figure 4.6: Emergent India in Pacific Alliance



Source: RIS estimation based on UN ComTrade, 2018.
Note: Size of the bubble represents magnitude of trade.

During 2008-17, exports of Pacific Alliance grew at the rate of more than 24 per cent per annum with India and China, but remained lower than 10 per cent per annum for other major export destinations. Exports to major destinations declined during 2012-17, but significant fall was noticed for India as compared with other high ranking trade partners. Like exports, imports of Pacific Alliance from major destinations remained buoyant during 2008-12, and rapid growth in exports was noticed with India at an annual growth rate at 17.4 per cent, followed by China with 14.4 per cent per annum. While other major markets failed partially to gain market access in Pacific Alliance, high growth performance continued with imports of Pacific Alliance from India and China during 2012-17. Imports of Pacific Alliance from India grew at 7.6 per cent for the period 2012-17, whereas the same in case of China, the EU and the U.S. has been 3.6 per cent, 2.3 per cent and -0.04 per cent respectively.

Figure 4.7: Sectoral Trade of Pacific Alliance with India, 2017



Source: RIS estimation based on ComTrade, UN, 2018.

Trade of Pacific Alliance with India was lopsided in terms of trade imbalances and also in terms of structure of trade in exports and imports. Export of the region to India was almost dominated by the mineral sector, almost 70-90 per cent of total bilateral export during 2007-17 as shown in Figure 4.7. As pressure builds up due to recession, share of minerals in the total exports declined and product diversification started with exports, like gems and jewellery, chemicals, base metals, etc. On the contrary, import from India was highly diversified and major sectors included automobiles, chemicals (particularly pharmaceuticals), machinery, T&C, base metals, plastics, optical instruments, etc. among others. Diversified trade base would help India in improving its market access in the region with much dynamism.

Investment in the region

FDI is another area where India has long term strategic interest in the region. Overall bilateral flow of Indian FDI to Pacific Alliance has been low, balanced and mostly below its potential. During 2008-17, India received USD 253.8 million from Chile, Colombia, Peru and Mexico together as shown in Table 4.7. Cumulative inflow of FDI was USD 147.7 million from Chile and USD 103.3 million from Mexico whereas similar inflow was insignificant from both Peru and Colombia during the same period. Nearly 99 per cent of total investment inflow to India from Pacific Alliance was from Mexico and Chile during the last 10 years. Bulk of such investment flew to India in the first phase of recession, and the flow declined significantly during the second phase of the global recession. India has to make additional efforts to secure FDI from Peru when Preferential Trade Agreement (PTA) negotiation is underway. Similarly, more inward FDI may be expected from Chile when negotiations would commence for widening scope of current level of engagement under the bilateral PTA.

Table 4.7: India's Inward FDI from Pacific Alliance

(in USD Million)

Year	Chile	Colombia	Mexico	Peru	Pacific Alliance
2008	0.3	0.2	0.0		0.5
2009	1.8		0.0		1.8
2010	71.3		0.0		71.3
2011	28.6	0.1	10.6		39.3
2012	36.3				36.3
2013	0.2	0.2	54.3		54.7
2014	2.9	0.0	9.4	0.1	12.4
2015	6.3	1.0	5.7	0.0	13.0
2016	0.0	1.3	20.0	0.0	21.3
2017	0.0		3.3	0.0	3.3

Source: DIPP, Ministry of Commerce and Industry, 2018.

As against total FDI inflow of USD 253.8 million from the region during 2008-17, India's outward FDI to Pacific Alliance stood at USD 266.9 million between September, 2007 and December, 2017 as shown in Table 4.8. Substantial outward FDI from India reached Chile and Mexico, and only 17.9 per cent India's outward FDI reached Colombia and Peru during the aforesaid period. Bulk of India's investment was in the manufacturing sector, sharing nearly 76.5 per cent of country's total outward FDI to the region. Both agriculture/mining and service sectors received almost equal ranking in India's outward investment to the regional grouping. While manufacturing received priority in countries like Mexico, Chile and Peru; agriculture received importance in Colombia, and services in Mexico.

Table 4.8: India's Outward Sectoral FDI to Pacific Alliance Countries

(in USD Million)

Sector	Mexico	Colombia	Chile	Peru
Agriculture and Mining		27.4		4.9
Manufacturing	63.8	2.2	126	12.3
Finance, Insurance and Business Services	22.7	0	2.5	0.4
Transport & Communication Services			0	
Wholesale, Retail, Restaurants and Hotels	0.8	0.5	1	0
Community, Social and Personal Services	2.4			
Total	89.7	30.1	129.5	17.6

Source: RIS estimation based on RBI, 2018.

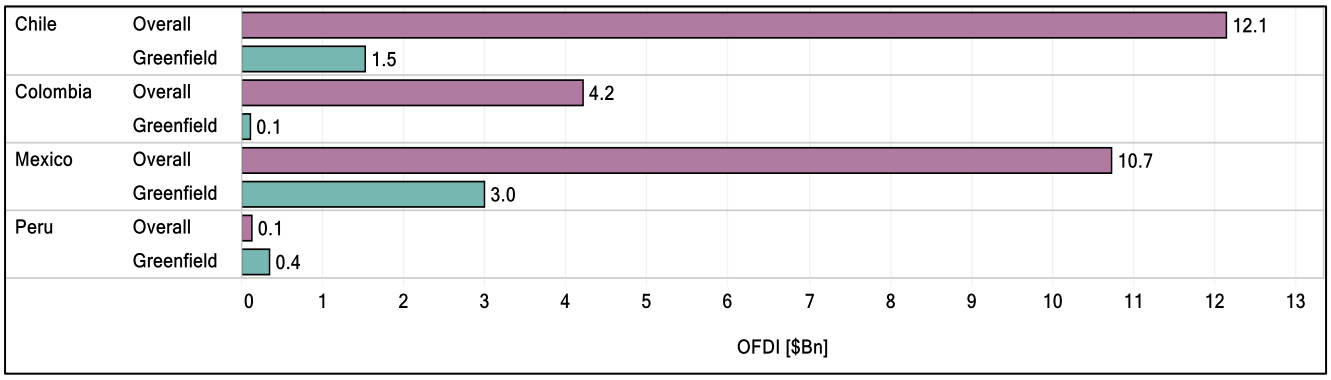
Note: Cumulative - Sep, 2007 to Dec, 2017.

Investment profile of Indian companies is highly concentrated in a single country except a few. For example, Glenmark Pharmaceutical and Intas Pharmaceutical in Mexico, ONGC in Colombia, JSW Steel in Chile and Glenmark Pharmaceutical and Upkar Mining in Peru are important companies in the region. A few companies have their presence in multiple countries such as Glenmark Pharmaceuticals Limited and Intas Pharmaceutical Limited in the region. These two pharmaceutical companies have their presence in two to three countries in

the region. Though the region is flourishing in several sectors, presence of Indian companies has a thin spread as compared to China and other major partners.

The region is rich in mineral resources and member countries are thoroughly engaged in mineral and base metal production at home and abroad. In terms of attracting FDI, Mexico was the leading player in the regional grouping both in terms of overall and greenfield investment. Nearly 54.6 per cent of overall and 58.2 per cent of inward greenfield FDI of the region flew in to Mexico in 2008, and dominate position of the country continued until 2016. In the changed situation, 69.5 per cent of region's greenfield inward FDI flew into Mexico in 2016. Chile was holding the second position in the region in terms of attracting FDI in greenfield sector followed by other two members in 2016.

Figure 4.8: Profile of FDI Outflow from Pacific Alliance, 2015



Source: World Investment Report, UNCTAD, 2017.

In terms of outward FDI in greenfield investment, Mexico continues to dominate in the region followed by Chile. Other two countries namely, Colombia and Peru were engaged in the greenfield investment but their level of participation in outward investment was too small as compared to other two partners in the region as shown in Figure 4.8. The present trend indicates that India's priority for outward FDI should be in the order of Mexico, Chile, Colombia and Peru. India can expect sizable inward FDI from Pacific Alliance in the order of Chile, Mexico and Colombia in the greenfield sector. Looking at the current trends, greenfield investment may be perused with Mexico and Chile, while other two countries are marginal players in this sector.

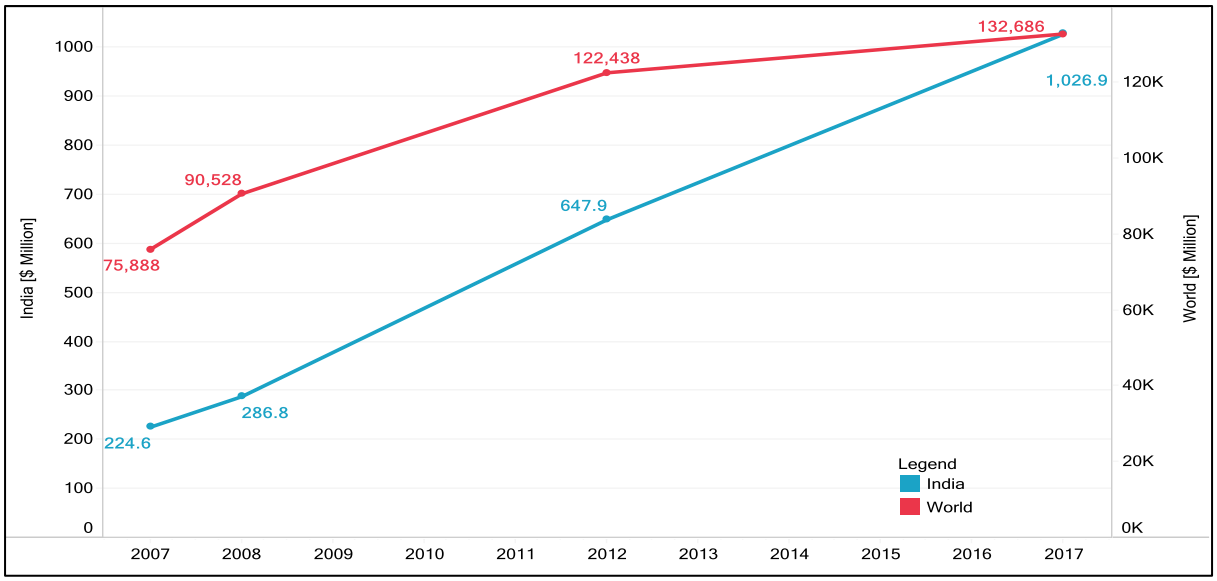
Trade in Global Value Chain

GVC exports of Pacific Alliance forms a very small portion of its total bilateral exports to India, but the sector remains critical so far as India's exports to the region is concerned in recent years. For some years, bilateral export of GVC products by the region was not significant, but the sector is gaining momentum in recent year in region's bilateral exports.

However, GVC export of the region to India was adversely affected during the second phase of recession. During 2008-17, bilateral GVC export of the region grew at the rate of 5.9 per cent, but turned out to be alarming with reduction in the growth rate to 2.5 per cent during 2012-17. In 2017, bilateral GVC exports of the region were USD 138 million and shared 2.27 per cent of the total bilateral trade with India.

On the contrary, GVC trade of the region with the world is robust as compared to most of the regions of the world. This is happening on account of region's strong trade association with selected destinations including the U.S., the EU and China. It is a mere coincidence that the sectoral trade of the region is not been picked up with India. Region's export in the sector contributed 14.1 per cent of its global trade in 2017. Export share of the region has been rising in the sector and similar is the case with its imports from the world. In the total exports to the world, GVC share of the region increased from 11.1 per cent in 2007 to 14.1 per cent in 2017, expanding at the rate of 5.8 per cent per annum during 2008-17. Similar is the case with region's import of GVC from the world where share of the sector increased from 20.8 per cent in 2007 to 23.8 per cent in 2017, registering a growth rate of 4.34 per cent during the period 2008-17.

Figure 4.9: GVC Import of Pacific Alliance from India



Source: RIS estimation based on UN ComTrade, 2018.

In 2017, the regional grouping exported to the tune of USD 78.6 billion and imported USD 132.6 billion worth of GVC products from the world. Considering this trend, India has large space to engage with the region in GVC sector trade. Pacific Alliance has been importing large amount of GVC products from the world, but pace of its imports is declining over the years. On the contrary, dependence of the region on India has been small for GVC but

growing fast during the same period as shown in Figure 4.9. The region is specialised primarily in backward GVC sector where it is largely dependent on intermediate imports for further processing in order to make greater value addition. India should find its way to tap existing opportunity in this sector by substituting some of its close competitors in the sector. As of now, India is a marginal player in this sector in the markets of Pacific Alliance, but can improve its position with greater sectoral engagement with the region.

Trade in Services

The region has a large trade in services sector. Member countries in the grouping have varying experiences in regard to some of the selected sectors where they have export competitiveness and also large domestic requirements for imports. Though India may have some economic interest in trade in services in the region, its experiences differ significantly among member countries. India has to choose its partners and sectors on the basis of its competitiveness to enter into the region.

Table 4.9: Sectoral Trade in Services of Pacific Alliance in 2017

(in USD Million)

Sectors	Chile	Colombia	Mexico	Peru	P. Alliance
Manufacturing Services on Physical Inputs Owned by Others		2			2
Maintenance and repair services		12	275	4	291
Transport	7446	4539	16739	4246	32969
Passenger	1636	1621	3938	1565	8760
Freight	4161	2051	11837	1948	19998
Other (including postal and courier)	1649	867	963	733	4212
Travel	5950	9316	32176	5924	53366
Business travel	672	0	3404	0	4076
Personal travel	5278	9316	28772	5924	49290
Other services	9858	7035	15941	6053	38887
Construction services	0	1		0	1
Insurance and pension services	720	1015	8694	2193	12621
Financial services	883	1207	2523	168	4782
Charges for the use of IP	1629	486	298	333	2745
Telecommunication, computer & IT	911	1245	257	752	3165
Other business services	4934	2583	3726	2236	13479
Personal, cultural, and recreational	65	202	67	33	367
Government goods and services	716	298	375	338	1727
Grand Total	23254	20903	65131	15840	125129

Source: Balance of Payments Statistics, IMF, 2018.

Total trade in services in Mexico was USD 65 billion in 2017, increasing from USD 44.6 billion in 2008, and registered a growth rate of 4.27 per cent during 2008-17. While service exports increased at the rate of 11.04 per cent, import increased at the rate of 3.65 per cent during 2012-17, resulting in reduction of sectoral trade imbalance in trade in services as

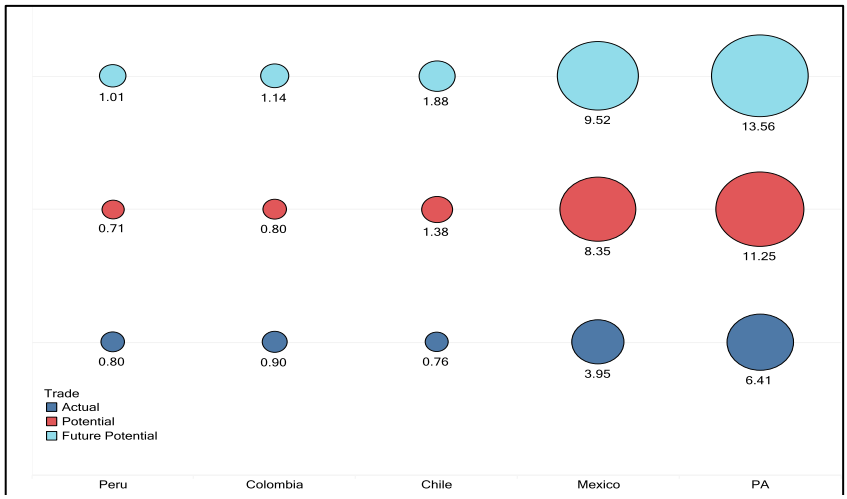
shown in Table 4.9. Mexico showed a large trade deficit in the services trade in the pre-and post-recessionary periods, thanks to the second episode of the recession which brought down trade balance in the service sector.

Important sectors for imports in Mexico are personal travel, insurance and pension services, freight and passenger transport, other business services and business travel. Chile has a large trade deficit in the services sector. Total trade in services of the country was USD 23.25 billion in 2017 and the sectoral trade was stagnated because of recession. Some of the important sectors for imports are freight transport, other business services, personal travel, etc. Colombia is a net deficit economy in trade in services. Total services in trade increased from USD 12.4 billion in 2008 to USD 20.9 billion in 2017. Important sectors of the country for imports are personal travel, trade transport, other business services, insurance and pension services and telecom and computers. India has competitiveness in sectors like Transport Freight, Personal, Cultural and Recreational services and Telecom and IT as shown in chapter 5 of this study. India needs to develop a strategy to promote selected competitive sectors in trade in services which could be complementary to trade in goods.

Trade Potential of India in Pacific Alliance

As an expanding region, Pacific Alliance has offered large trade opportunities to its trading partners including India. India's export to the region was USD 6.41 billion in 2016, affected adversely by the continued global recession. India's trade potential, based on trade creation of currently traded products, was USD 11.25 billion in 2016, and this could be construed as a potential loss of trade opportunities for India as shown in Figure 4.10. India has global competitiveness in several lines of products which are imported by the regional countries; and in this segment of potential trade, India is yet to supply commodities despite enjoying global competitiveness. If trade potential of the future traded products is added to the existing trade potential, the overall trade potential of India in the region could be increased to USD 13.56 billion in 2016, which is lower than its potential, had there been no recession.

Figure 4.10: India's Trade Potential in Pacific Alliance in 2016



Source: RIS estimation based on UN ComTrade, 2017.
Note: Size of the bubble presents trade potential in USD Billion.

Existing potential of India in different countries of the region varies significantly across member countries, where the least trade potential is observed in Peru and the largest potential in Mexico within the region. In terms of actual trade, Chile is the least traded country within the region, but in terms of trade potential, Chile stands better than Peru and Colombia. In Peru and Colombia, India's present trade is just half of the total trade opportunities existing in these countries. Trade potential is likely to go up further in future when trade potential of future trade is added to the existing trade potential in these countries. India has initiated negotiations with Peru for a PTA and a robust strategy may be extended to cover other members of the region including Colombia. India has exploited 35.5 per cent of its existing trade opportunities with Chile, and negotiations are on for an expended PTA, which could be beneficial for India in the goods sectors. Mexico is the largest trading partner of India in Pacific Alliance and India's export potential with the country ranges between USD 9.52 and USD 11.48 billion, which can be tapped effectively in the medium term. India's combined trade potential in Peru, Colombia and Chile will be just half of the potential existing in Mexico.

India's trade potential with the Pacific Alliance is highly skewed. Largest trade potential of India is in the manufacturing sector in the region. Substantial proportion of India's total trade potential is in the machinery and electronic appliances sector followed by, base metals, chemical products, automobiles and plastic products. The group of sectors, having India's trade potential varies significantly across countries within the region. In Chile, additional market access can be in the sectors like machinery, automobiles, pulp of wood, plastic products and animal products. Similarly, in Peru, India can have market access in sectors like

machinery, base metals, automobiles, chemical products, pulp of wood and T&C. India can be competitive in Colombian market in sectors like machinery, products of chemicals, base metals and plastic products. Mexico can offer market access in sectors like machinery, products of chemicals, base metals, automobiles, plastics, pulp of wood and several other sectors.

India is likely to benefit from Pacific Alliance in number of sectors where Indian exporters have not yet introduced their products which can be competitive with in the region. The composition of these sectors, having future competitiveness, differs significantly among regional countries.

In future trade, India's largest trade interest will be in the machinery and electronic appliances sector. Other than this sector, trade potential would be evenly spread across several other sectors including automobiles, products of plastics, chemical products, base metals etc. In export potential in future trade, Chile and Colombia seem to be more attractive destinations than the other two countries in the region because of diversification of their potential trade sectors. Total trade potential of India in future trade is expected to range between USD 2.3 and USD 4.1 billion per annum in the region.

Table 4.10: India's Top Potential Products of the Machinery Sector in Pacific Alliance

HS	Product Description	Country
847150	Units of automatic data processing machines	Colombia
851712	Telephones for cellular networks	Colombia
843049	Boring and sinking machinery; not self-propelled	Colombia
840999	Machinery parts for making or finishing paper or paperboard	Colombia
848180	Taps, cocks, valves and similar appliances	Colombia
851712	Telephones for cellular networks	Chile
851762	Communication apparatus for the reception & transmission of data	Chile
843149	Machinery and parts of machines handling earth, minerals or ores	Chile
847130	Portable automatic data processing	Chile
850231	Electric generating sets; wind-powered	Chile
847150	Units of automatic data processing machines	Peru
851712	Telephones for cellular networks	Peru
841480	Pumps and compressors for air, vacuum or gas	Peru
847490	Machines for washing, crushing etc. for forming foundry moulds of sand	Peru
841199	Turbines and parts of gas turbines (excluding turbo-jets and turbo-propellers)	Peru
851762	Communication apparatus for the reception & transmission of data	Mexico
847170	Units of automatic data processing machines; storage units	Mexico
854231	Electronic integrated circuits for processors and controllers	Mexico
841191	Turbines and parts of turbo-jets and turbo-propellers	Mexico
854232	Electronic integrated circuits and memories	Mexico

Source: RIS estimation based on UN ComTrade, 2017.

As discussed earlier, India has the largest trade potential in the machinery sector. In this broad sector, the largest potential is in the machinery and boiler sector, which is followed by electrical machinery and equipments as presented in Table 4.10. In the machinery sector, India has competitiveness in number of sectors in the region, but some of the top products in the regional economies include automatic data processing, storage units, memories; telephones for cellular networks, machines for boring, sinking, taps, cocks, valves; machines for paper and paper boards; machines for reception and transmission of data; machines for handling minerals, ores, washing and crushing stones; electric generating sets; pumps and compressors; turbines for gas, turbo jets, etc.; electronic integrated circuits. India needs to focus on a selected number of competitive products in each country of the region to strengthen its foothold in different countries of the regional grouping.

To sum up, Pacific Alliance is one of the fastest growing and outward oriented regions in the LAC. The economies in the region are already linked closely with the U.S., the European Union, and China through FTA or similar type of trading arrangements. As macroeconomic indicators for these regional economies are sound with high trade openness, their robust economic performance enabled the region to recover from the global recession in the first quarter of 2018. These dynamic economies are having strong trade ties with selected group of economies which are located outside the region/continent. Though small, India is emerging as a regional player in trade in goods, services and investment. The regional countries in Pacific Alliance could be dependable partners for India in pursuing commercial ties with them. In regard to FDI, India can hinge on these economies, particularly for greenfield investment, which is currently low from the region to India.

The Pacific Alliance has a strong market in GVC and India can explore this new market. India's bilateral GVC trade with the region is low but rising fast during the last decade. India's trade potential with the region is large but under stress due to continuation of the global recession. India’s export potential based on the currently traded products has been more than double of its present trade with the region. Trade potential of India is between USD 11.25 billion and USD 13.45 billion, and can be increased further to USD 13.45 billion per annum as against actual trade of USD 5.41 billion in 2016. India should continue trade negotiations with Peru and Chile to improve its bilateral commercial ties in trade and investment. Considering the present situation in the Pacific Alliance, India should consider its deep engagement with the region in terms of entering into comprehensive trade agreement like CEPA/CECA with the region in order to exploit the synergies existing between them.

4.6.2 MERCOSUR

Mercosur was established in 1991 when the treaty of Asuncion was signed by its four founding members, Brazil, Argentina, Paraguay and Uruguay. Its institutional structure was defined in 1994 by the Protocol of Ouro Preto. The groundwork for its formation was laid in 1986, when Brazil and Argentina signed the PICE (Argentina-Brazil Integration and Economics Cooperation Program). It was established as a customs union and the member states share a Common External Tariff (CET), which entered into force on 1 January 1995. In the recent years, Mercosur has taken important steps towards the consolidation of the Customs Union. Different exceptions have been admitted through decisions by the Council for the Common Market (CMC). All Mercosur member states are currently authorized to have an exception list of products on which higher or lower tariffs *vis-à-vis* the CET would be applied. There are different provisions for each country. Brazil can include up to 100 tariff lines and modify as many as 20 per cent of them every six months, until the end of 2021. Brazil is also allowed to establish special tariffs for Capital Goods (BK) and for Informatics and Telecommunications Goods (BIT) until the end of 2021. The sugar and automotive sectors are the only ones excluded from free trade within Mercosur (WTO, 2017d).

The main trading partners of Mercosur are the European Union, China and the USA. Brazil, being a larger economy is not as dependent on the region for its exports compared to the other member countries (De Gouvea *et al*, 2014). Mercosur's exports to EU are mainly concentrated in food and live animals, as well as crude material and its imports consists of machinery and transport equipment and chemical goods (Thelle and Sunesen, 2011). Mercosur's exports to China mainly consist of raw commodities while its imports from China are concentrated in industrial products (Arya, 2012). Mercosur's trade in commercial services has increased substantially over the last few years with Brazil's share in total services trade growing the most (Arya, 2012). Mercosur`s intraregional trade share value peaked at 23 per cent in 1998, and has declined since then (RIKS, 2012; SELA, 2015). In comparison, the percentage ranged between 61 and 67 in the European Union (EU) between 1991 and 2008, respectively (RIKS, 2012).

Mercosur has trade agreements with a number of Latin American countries and free trade agreements with all South American countries. Mercosur also acted as one party at the Third Round of Negotiations under the GSTP. Mercosur has a broad range of trade agreements within the framework of LAIA. These trade agreements are known as Economic Complementation Agreements (ACEs). They have been signed with the Plurinational State of

Bolivia (ACE-36), Chile (ACE-35), Mexico (ACE-54, ACE-55), Peru (ACE-58), Colombia (ACE-59), Ecuador (ACE-59), the Bolivarian Republic of Venezuela (ACE-59) and Cuba (ACE-62). As a result of the schedule of tariff commitments in these agreements, there would be a virtual free trade area within South America by 2019. Negotiations for a Bi-regional Association Agreement between Mercosur and the European Union, originally launched in 1999 and suspended in 2004, were re-launched at the Mercosur-EU Summit in May 2010. Since then, negotiating rounds have taken place, and the last round of negotiation took place in March 2017, in Buenos Aires in where significant progress was achieved. Both sides have announced the intention to conclude the Agreement in the near future. In 2016, Mercosur and the European Free Trade Association (EFTA) concluded an exploratory exercise for an FTA. In 2016, Mercosur and India had started working on the expansion of the Preferential Trade Agreement (PTA) signed in 2004 and was in force since 1 June 2009. The PTA between Mercosur and the Southern Africa Customs Union (SACU) entered into force on 1 April 2016. The FTA signed by Mercosur and Palestine on 20 December 2011 provided its entry into force, bilaterally, after Palestine and one of the Mercosur States ratified it. In December 2014, Mercosur signed Framework Agreements on Trade and Economic Cooperation with Lebanon and Tunisia, aiming at strengthening economic dialogue and promoting negotiations of FTAs (WTO, 2017d).

Mercosur is a large but inward oriented economy in South America. It is one the top ranking regional grouping in LAC in terms of intra-regional trade flows in recent years. The region has strong trade ties with India but it is same what lopsided, leading to have USD 2.6 billion trade surplus against India in 2017 as shown in Table 4.11. Brazil has been the largest trading partner of India in the whole of LAC. Some of the most important bilateral export sectors of Mercosur were fats and oil (3); prepare foodstuffs (4); minerals (5); and minor sectors were chemicals (6); gems and jewellery (14); base metals (15); and machinery & mechanical appliances (16) in 2017. Some of the sectors which registered surge in exports between 2008 and 2017 were prepared foodstuffs (4); gems and jewellery (14) and articles of wood (9). Sectors showing deceleration of export growth during the same period were vegetable products (2); chemicals (6); textile (11); base metals (15); machinery & mechanical appliances (16) and automobiles (17).

Table 4.11: Trade Performance of Mercosur with India

Sec	Description	Value ($Mn)		Share (%)				CAGR (%)			
		Imp.	Exp.	Imports		Exports		Imports		Exports	
		2017	2017	2008	2017	2008	2017	08-12	12-17	08-12	12-17
1	Animal Prod	4	3	0.1	0.1	0.1	0.0	-30.7	46.1	-37.8	52.8
2	Fruits & Veg.	69	108	0.8	1.6	4.1	1.5	15.0	2.8	-10.0	15.1
3	Fats & Oils	17	2573	0.2	0.4	44.0	36.6	22.9	-4.7	12.9	12.5
4	Prep. Food	23	934	0.3	0.5	4.2	13.3	-5.7	14.9	55.1	14.2
5	Mineral Prod	143	2205	40.0	3.3	19.9	31.4	6.4	-42.4	77.3	-10.9
6	Chemicals	1871	253	23.7	42.7	4.7	3.6	8.9	5.1	3.8	18.2
7	Plastics	253	111	3.5	5.8	1.5	1.6	12.4	0.6	6.0	23.6
8	Leather	11	52	0.3	0.2	1.9	0.7	6.0	-8.9	5.0	2.9
9	Wood	3	60	0.0	0.1	0.3	0.9	14.4	-6.3	49.8	17.9
10	Pulp of wood	9	29	0.0	0.2	0.3	0.4	36.5	9.3	5.1	34.2
11	Textile	616	19	13.0	14.1	0.8	0.3	7.3	-4.0	22.4	-12.0
12	Footwear	18	5	0.1	0.4	0.1	0.1	54.3	-0.7	1.6	26.1
13	Cement	73	11	0.4	1.7	0.3	0.2	26.7	8.7	0.0	17.1
14	Jewellery	10	222	0.2	0.2	0.4	3.2	-1.2	-1.6	-8.0	107.4
15	Base Metals	382	223	4.7	8.7	4.7	3.2	8.8	5.6	29.2	-3.1
16	Machinery	469	114	8.7	10.7	9.1	1.6	18.5	-9.0	-6.6	-3.7
17	Automobiles	294	80	2.8	6.7	3.1	1.1	20.9	2.5	35.2	-17.2
18	Photography	77	19	0.6	1.8	0.8	0.3	14.6	10.0	5.3	0.4
19	Arms	1		0.0	0.0	0.0	0.0	7.5	8.4		
20	Misc Mfg	41	2	0.3	0.9	0.1	0.0	24.9	7.1	-15.9	24.6
21	Art Work	0	0	0.1	0.0	0.0	0.0	-51.5			
	Total	4383	7022								

Source: ComTrade, UN, 2018.

Mercosur's imports from India mostly constitute manufacturing products. Region's imports dominated in specific sectors like chemicals (6); clothing & textile (11); machinery & mechanical appliances (16) in 2017. Other minor sectors in the import basket of Mercosur were minerals (5); edible plastics (7); base metals (15); automobiles (17) and precision instruments (18) in same years. During the period of recession spanning between 2008 and 2017, import share increased in case of sectors like chemicals (6); plastics (7); plaster and cement (13); base metals (15); machinery (16); automobiles (17); and precision instruments (18). However, among the prominent sectors which faced decline in their import share include minerals (5) during the above period.

India has large trade potential in the region where present level of export potential is much higher that what India exported in 2016. With this sort of trade potential with the region, India can reserve its trade deficit in to trade surplus in the medium term if trade potential is fully realized. India has trade potential to the extent of USD 4.4 billion per annum in the region. This export potential figure would go up further following implementation of any form of deeper trade agreement with the region, involving margin of trade preference. India has large export potential in sectors like chemicals (6); plastics (7); plaster and cement (13);

base metals (15); machinery & mechanical appliances (16); and automobiles (17). In other sectors, India can have additional market access and those sectors are prepared foodstuffs (4); and precision instruments (18). India can consider negotiating for higher order of trade engagement like CECA/CEPA with the region which would improve its presence in the LAC region. Brazil and Argentina are having high tariff rates and Mercosur region space is a custom union. Substantial tariff cut may yield mutual gains for both the regions. India needs to negotiate for lowering NTBs against Indian manufacturing products and such measures are extensively used by the regional partners. For reducing pressure on frequent use of sea liners in these far off region, India should consider constructing warehouses to accommodate bulk exports from India and to carter to the need of Mercosur and other nearby RTAs like Pacific Alliance. Recently, Argentina agreed after a prolonged negotiation to provide space to develop warehouse facility to India for pharmaceutical products. India should consider to seize such opportunities. Similar offer by Panama may also be considered.

4.6.3 Latin American Integration Association (LAIA)

The Treaty of Montevideo, which was signed in 1960, created the Latin American Free Trade Association (LAFTA), which was the first instance of regional trade in South America. This intergovernmental organisation was replaced by the 1980 Montevideo Treaty creating a new association, the Latin American Integration Association (LAIA). It has 13 member states, namely Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela. The long-term objective of this Treaty is the gradual and progressive establishment of a Latin American Common Market (Díaz, 2015).

The LAIA region has regional tariff preferences under which the member countries grant one another tariff preferences on a reciprocal basis. Two categories of agreements are used as instruments to attain the objectives of LAIA. These are Regional Scope Agreements under which all member countries participate according to their level of development and Partial Scope Agreements, which do not require the participation of all the members, but only the condition of it being open to full participation in the future. Partial Scope Agreements not only provide tariff preferences but also aim to foster economic complementarity and developing economic cooperation activities between the signatories. The LAIA treaty also promotes a multilateral association system with other LAC trade organisations. This resulted in the proliferation of bilateral free trade agreements and regional agreements in Latin America with 26 FTAs signed between 1990 and 1994 under the LAIA framework. Agreements between LAIA and non-LAIA members were established and major sub-regional

preferential trading areas such as CARICOM, MERCOSUR and the Group of Three (Colombia, Mexico and Venezuela) were also set up (Díaz, 2015). MERCOSUR is incorporated into the LAIA legal regime under Economic Complementarity Agreement No. 18. LAIA economic complementarity agreements must be open for accession by any LAIA country (WTO, 2017b). In 2006, LAIA created the Free Trade Space with the aim to facilitate market access, adopt common norms and disciplines, and to provide support to less developed member-countries (Baumann, 2011).

Kuwayama *et al* (2000) estimated that LAIA's imports from the Asia-Pacific region increased substantially and grew at a growth rate of 25 per cent during the period 1990-1995. The growth rate of imports from Asia-Pacific decreased to an average rate of 10 per cent during 1996-1998 but was still higher than the growth rate of LAIA's total imports and its imports from the European Union. Thus, Asia replaced the United States and the LAIA region itself as the region that most profited from Latin American trade liberalisation in the decade. In the case of exports, the European Union received the major share of LAIA's total exports and the share received by Asia-Pacific was much smaller. The imports of LAIA are concentrated in manufactures and the share of manufactures in the region's total imports from Asia-Pacific grew substantially between 1990 and 1998 reflecting the increasing competitiveness of Asia-Pacific manufactures and the growing openness of Latin American markets to Asian exports. The share of manufactures in LAIA's total exports to the world also increased during 1990-1998 and the largest increase was witnessed in the region's exports to the U.S. The importance of manufactures also increased in the intra-regional exports of LAIA. However, the trend was opposite in the case of the Asia-Pacific and Japan where the share of manufactures declined and that of food items increased in LAIA's total exports to the region. This reflected the LAIA's comparative advantage in the export of these products and the potential of the Asia-Pacific markets.

LAIA is an important regional grouping in Latin America, perhaps having larger trade opportunities than Mercosur. The region exported bilaterally to an extent of USD 15.4 billion and imported to the tune of USD 12.4 billion in 2017, as represented in Table 4.12. Though marginal, still India registered a trade deficit with the region. The region has several members which are appearing in India's priority list of countries in the LAC for trading. While some of them have maintained a protective trade policy regimes, others are having, rather, liberal policies.

Selected sectors were emerging as important for exports of LAIA and they were prepared foodstuffs (4); minerals (5); and gems and jewellery (14) in 2017. Other minor sectors, having export interest for LAIA, were plastics (7); chemical (6); base metals (15); machinery & mechanical appliances (16) in the same years. Some sectors afford to maintain increased share in exports during the entire period of recession (2008-17), and they were jewellery (14), prepared foodstuff (4), wood articles (9) and textile (10). However, export share declined for several important sectors during that period and these sectors were minerals (5); chemicals (6); base metals (15); machinery & mechanical appliances (16); and automobiles (17).

Table 4.12: Trade Performance of LAIA with India

Sec	Description	Value ($Mn)		Share (%)				CAGR (%)			
		Imp.	Exp.	Imports		Exports		Imports		Exports	
		2017	2017	2008	2017	2008	2017	08-12	12-17	08-12	12-17
1	Animal Prod	6	4	0.1	0.1	0.0	0.0	-15.9	19.4	-22.3	40.0
2	Fruits & Veg.	173	176	1.4	1.4	1.9	1.1	6.4	4.9	0.3	12.3
3	Fats & Oils	43	2573	0.2	0.3	17.0	16.6	18.1	4.9	12.9	12.3
4	Prep. Food	59	962	0.4	0.5	1.7	6.2	-4.7	21.5	54.3	14.2
5	Mineral Prod	186	7503	23.8	1.5	53.0	48.5	14.1	-42.6	40.3	-6.9
6	Chemicals	3175	377	23.7	25.4	8.4	2.4	8.5	5.5	-13.8	9.2
7	Plastics	607	183	4.2	4.9	0.8	1.2	15.3	2.3	18.6	16.2
8	Leather	80	58	0.7	0.6	0.8	0.4	15.9	-2.3	5.9	1.4
9	Wood	9	138	0.1	0.1	0.3	0.9	6.8	1.7	47.5	11.5
10	Pulp of wood	27	100	0.2	0.2	0.3	0.6	6.9	4.8	25.9	18.3
11	Textile	1557	26	15.0	12.5	0.4	0.2	10.4	-1.1	19.4	-8.6
12	Footwear	72	5	0.2	0.6	0.0	0.0	32.8	9.2	1.5	25.5
13	Cement	228	19	0.6	1.8	0.2	0.1	24.2	18.2	6.3	8.2
14	Jewellery	99	2304	1.6	0.8	0.2	14.9	1.3	-5.1	103.9	72.6
15	Base Metals	1289	331	9.6	10.3	6.5	2.1	6.4	7.2	3.6	-3.4
16	Machinery	1501	543	9.8	12.0	5.8	3.5	19.1	0.5	4.1	8.9
17	Automobiles	3066	143	7.0	24.6	2.2	0.9	26.1	18.5	23.3	-11.6
18	Photography	190	23	0.8	1.5	0.4	0.1	14.1	14.2	8.8	-2.4
19	Arms	1		0.0	0.0	0.0	0.0	35.8	-18.8		
20	Misc Mfg	109	3	0.6	0.9	0.1	0.0	10.9	10.3	-5.3	-4.2
21	Art Work	0	0	0.1	0.0	0.0	0.0	-42.7	-24.2		
	Total	12476	15470								

Source: ComTrade, UN, 2018.

LAIA's import basket is more diversified than its export basket. Major import sectors reported in 2017, were chemicals (6); automobiles (17), textile & clothing (11); machinery & mechanical appliances (16) and base metals (15). In the same year, a few sectors remained important but relatively small were minerals (5); plastics (7), cement (13) and photography (18). Certain import sectors showing increase in their import share were chemicals (6); metals (15); machinery & mechanical appliances (16); and automobiles (17) during 2008-16. However, a few sectors displayed decline in the sectoral share and they were minerals (5) and textile & clothing (11) during the same period.

India's total potential in region is large, which is to the tune of USD 14.21 billion with a conservative estimate. The magnitude may go up in case of any formal trade agreement with the region like FTA/CECA/CEPA. In such a situation, the most important sectors from the point of trade creation would be minerals (5); chemicals (6); plastics (7); base metals (15); machinery & mechanical appliances (16); and automobiles (17). Other minor sectors in this category would be textile & clothing (11) and precision instruments (18). Since the potential trade sectors are evenly spread in the region, India can consider some deeper form of trading arrangement with the region.

4.6.4 The South-American Union of Nations (UNASUR)

UNASUR was formed by the signing of a free trade agreement between MERCOSUR and the Andean Community, along with Chile, Guyana and Suriname in 2004. It was till 2007 was called South-American Community of Nations (CASA). Its members include Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Suriname, Paraguay, Peru, Uruguay and Venezuela. Its objective is to gradually form a free trade area in South America, as well as to provide economic complementarities among the countries in the region. UNASUR represents a new model of regionalism that is not predominantly focused on trade issues but comprises other issues as well, such as energy integration, infrastructure, and social and cultural themes. Together with LAIA, the two integration schemes comprise all the South American countries (Baumann, 2011).

ECLAC (2014) estimated that intra-UNASUR trade as a share of the world exports of the member countries as a whole was around 20 per cent in 2013 and had remained stable since 2009. Trade among member countries of UNASUR experienced a steep fall in 2009 as a result of the global economic crisis. However, it surpassed its pre-crisis level in 2011 but has stagnated since then. Many UNASUR countries export a significant share of their total exports to other member countries. This has been particularly been observed in the case of Bolivia and Paraguay. The composition of intra-regional trade among UNASUR members differs considerably from South America's extra-regional trade composition. The region's exports to the world, to the U.S. and the EU and a major share of exports to Asia were dominated by primary products, while the share of primary products in its intra-regional trade was much lower and the share of manufactured products, especially mid-technology goods, was much higher.

UNASUR faces a number of challenges in relation to trade with infrastructure being a major issue. Transportation infrastructure in the region is not properly maintained and the principal road corridors lack sufficient capacity and there are no competitive rail freight services. Infrastructure is extremely important for economic growth, productivity and development and its expansion would reduce regional and local inequalities (ECLAC, 2014).

UNASUR is emerging as an important regional grouping in South America where there are large number of countries which are in India's priority list of countries in the LAC region for trading. The region exported to the extent of $ 12.1 billion and imported $ 7.3 billion in 2017, thus, maintained a substantial amount of trade surplus against India. The region mainly exports minerals (5), fats & oils (3), and jewellery (14) to India. Other sectoral exports include prepared foodstuffs (4), base metals (15), fruits and vegetables (2), chemicals (6), plastics (7), articles of wood (9), machinery & mechanical appliances (16) and automobiles (17). Between 2008 and 2017, bilateral exports share of UNASUR increased in sectors like jewellery (14), prepared foodstuffs (4), plastics (7) and articles of wood (9). However, deceleration in export share was noticed in sectors like minerals (5), chemicals (6), base metals (15), machinery & mechanical appliances (16) fats and oils (3) and automobiles (17).

Table 4.13: Trade Performance of UNASUR with India

Sec	Description	Value ($Mn)		Share (%)				CAGR (%)			
		Imp.	Exp.	Imports		Exports		Imports		Exports	
		2017	2017	2008	2017	2008	2017	08-12	12-17	08-12	12-17
1	Animal Prod	5	3	0.1	0.1	0.1	0.0	-15.9	23.6	-26.0	33.0
2	Fruits & Veg.	97	167	0.9	1.3	2.6	1.4	13.7	2.4	-4.3	15.6
3	Fats & Oils	29	2573	0.2	0.4	24.2	21.2	23.5	3.7	12.9	12.3
4	Prep. Food	41	959	0.3	0.6	2.3	7.9	-0.4	19.6	55.2	14.4
5	Mineral Prod	168	4926	29.5	2.3	52.8	40.6	9.7	-41.9	42.1	-9.0
6	Chemicals	2491	279	23.6	33.8	3.6	2.3	8.3	5.3	10.2	7.3
7	Plastics	440	168	4.3	6.0	0.8	1.4	13.0	1.1	6.4	33.5
8	Leather	52	54	0.7	0.7	1.1	0.4	16.3	-6.6	5.2	1.2
9	Wood	4	130	0.1	0.1	0.5	1.1	10.0	-1.9	33.2	15.9
10	Pulp of wood	14	99	0.1	0.2	0.5	0.8	10.6	3.9	25.9	18.7
11	Textile	1170	24	14.4	15.9	0.5	0.2	12.0	-2.8	23.2	-9.3
12	Footwear	52	5	0.1	0.7	0.0	0.0	44.4	7.6	1.6	26.1
13	Cement	99	12	0.4	1.3	0.1	0.1	28.1	7.5	2.9	15.7
14	Jewellery	12	2222	0.2	0.2	0.2	18.3	4.2	-2.9	103.9	71.4
15	Base Metals	758	280	10.2	10.3	3.4	2.3	3.2	1.9	30.3	-4.7
16	Machinery	744	120	8.2	10.1	5.1	1.0	18.3	-5.0	-6.6	-3.1
17	Automobiles	1024	81	5.7	13.9	1.7	0.7	24.0	5.1	35.2	-17.0
18	Photography	108	20	0.7	1.5	0.4	0.2	14.2	9.0	5.5	0.9
19	Arms	1		0.0	0.0	0.0	0.0	35.8	-18.8		
20	Misc Mfg	68	2	0.3	0.9	0.0	0.0	25.9	7.8	-15.9	28.5
21	Art Work	0	0	0.1	0.0	0.0	0.0	-51.5			
	Total	7375	12123								

Source: ComTrade, UN, 2018.

Import of UNASUR from India declined disproportionately with respect to its bilateral exports. Most of its imports from India was confined to sectors like chemicals (6), clothing & textile (11), automobiles (17), machinery & mechanical appliances (16) and base metals (15). Other sectors include plastics (7), minerals (5), cement (13), photography (18) and fruits and vegetables (2). During the period of recession (2008- 17), surge in import share was noticed in sectors like footwear (12), cement (13) and automobiles (17). In certain sectors, significant decline in import share was observed and these sectors were minerals (5) and jewellery (14).

India has large trade potential with the region to the extent of $7.2 billion per annum. The size of trade potential is much higher than what India exported to the region in 2016. Partial realisation of export potential may enable India to register trade surplus with the region in the medium term. India can gradually cover up the existing trade potential over a period of time. India has large export potential in sectors like minerals (5), chemicals (6), plastics (7), base metals (15), machinery & mechanical appliances (16) and automobiles (17). In other sectors, India can have additional market access such as prepared foodstuffs (4), T&C (11) and precision instruments (18). India needs to deal with non-tariff barriers issues with the region while negotiating for a comprehensive trade arrangement with the region.

4.6.5 Andean Community of Nations

The Andean Community is a customs union formed in 1969 under the Andean Sub-regional Integration Agreement or the Cartagena Agreement comprising the South American countries of Bolivia, Colombia, Ecuador and Peru. It was called the Andean Pact till 1996 and evolved into the Andean Community of Nations (CAN). Initially, Chile and Venezuela were also members of Andean Community but Chile left the Community in 1974 to adopt a more open multilateral approach and the latter left in 2006 because it believed that the negotiations of Colombia and Peru with the United States would affect the essence of the Community. Argentina, Brazil, Chile, Paraguay and Uruguay are associate members of the Community. Objectives of Andean Community are to promote the harmonic development of the member countries in equal conditions. The difference between the Andean Community and MERCOSUR is that Andean Community members do not benefit from exceptions among the products affected by preferences. The Community has common norms with regard to trade mechanisms such as anti-dumping and safeguards policies, and adopts common norms for trade in services, investment, intellectual property and competition. It also has a free trade area for all goods produced in the region. (Baumann, 2011)

The U.S. market is the main export destination of the Andean Community, followed by the intra-regional market. Thus, the Community's dependence on the hemispheric market is high and was above 70 per cent in 2004. A similar dependency is observed in its import pattern as well with US being the leading supplier to most countries of the Andean Community (Monteagudo *et al.*, 2004). Andean exports are highly resource-intensive. The composition of intra-regional exports varies between countries with capital intensive products being the main exports of Colombia and Peru, crude oil for Ecuador and labour-intensive food products for Bolivia (Giordano *et al*, 2010). Intra- Andean trade increased by 10 per cent between 2016 and 2017 and was USD 8.4 billion in 2017. This was much lower than intra-regional trade in other LAC RTAs such as MERCOSUR, and Pacific Alliance (ECLAC, 2017a). Presently, the common external tariff is not binding on Andean Community member countries and its application has been suspended till the flexibility of each member is ensured in applying the common tariff levels. Thus, member countries can set their tariffs with respect to their domestic policies (WTO, 2017c). Bolivia has the lowest and most uniform tariffs among the Andean countries. Other members have established higher protection for a number of products, particularly labour intensive goods. The member countries may negotiate trade agreements with third countries on a community, individual or joint basis. The Andean Community has negotiated a trade agreement with the European Union and negotiations between MERCOSUR and the Andean Community had completed in 2004. They are also negotiating bilateral trade agreements with the U.S. (WTO, 2017c; Giordano et al, 2010; Baumann, 2011)

India has low level of trade potential with Andean. In case India's total trade potential to the region is fully realised, India can have an additional market access to the extent of $1.8 billion per annum. Deeper integration can further enhance India's exports to the region. At present, trade potential is existing in sectors like minerals (5), chemicals (6), plastics (7), base metals (15), machinery & mechanical appliances (16) and automobiles (17). In certain other sectors, India's export can be strengthened such as prepared foodstuffs (4), T & C (11), articles of wood (9), and precision instruments (18). India can enter in to a formal trade agreement with the region, but it can be deferred as long as other agreements are not firmed up for implementation.

4.6.6 Central American Integration System (SICA)

The Central American Integration System (SICA) was established in December 1991 with the signature of the Protocol of Tegucigalpa and came into force in 1993. Guatemala, El

Salvador, Honduras, Nicaragua, Costa Rica, Panama and Belize are the founding members of SICA and the Dominican Republic became a full member in 2013. Its overall objective is to achieve regional integration and transform Central America into a region of peace, liberty, democracy and development. The member countries can participate in all organs and institutions of SICA, which include intergovernmental decision-making bodies, community organizations, and specialized agencies (WTO, 2017a).

The SICA member countries have an outward looking development model which is dominated by the negotiation of FTAs individually or collectively. They also actively promote foreign investment in key sectors such as tourism, textiles and services. Between 1997 and 2000, the Central American economies showed weak progress at the regional level as exports did not grow at a sufficient rate and imports decreased from 15 per cent of GDP in 1997 to 10 per cent in 2000. Their performance was affected by severe natural disasters that affected the region, and also by external factors such as the financial crisis of 1998-99 that affected emerging economies, the huge fall in the coffee, banana and sugar prices, the rise in the cost of petroleum and its derivatives and the rise of interest rates in international markets (Solís and Solano, 2001). There are approximately no tariffs for trade within SICA (SELA, 2016). India started establishing linkages with SICA in 2004 and signed a declaration for the Establishment of a Mechanism for Political Cooperation and Dialogue between SICA and India (Ministry of External Affairs, 2013).

SICA is a small but vibrant as well as a liberal market. India's trade potential is to the extent of $1.8 billion per annum. These export potentials are mostly concentrated in sectors like prepared foodstuffs (4), minerals (5), chemicals (6), and plastics (7), articles of wood (9), T&C (11), base metals (15), machinery & mechanical appliances (16) and automobiles (17). Other small sectors include vegetable products (2) and animal products (1). Like Pacific Alliance, SICA could be an appropriate region to undertaker comprehensive trading arrangement. Region's priority with North America and South America could be useful in promoting trade in the value chain sector. Panama offered space to build warehousing facility to strengthen India's supply capability in the American region. India should capitalise on such offer.

4.7 Trade Potential of India in LAC: Trade Creation

Trade creation is the outcome of relative competitiveness of the exporting country with suppliers in the export destination of a product as discussed in section 3.6.1. While estimating

trade creation of India in a country, two types of trade potentials are estimated. At a time when India is trading with another country, some products are exported to the country whereas set of competitive commodities enter in to the market gradually after examining feasibility of the market. We have estimated export potential of commodities which are currently exported to the market and those which can be exported to the destination country at a later stage, having trade potential in the market separately. Therefore, India's trade potential in a market is the sum of trade potentials of products which are exported at present and those products which are likely to be exported in future to the export destination.

One the basis of latest trade and tariff data from United Nation and using the methodology presented in chapter 3, India's trade creation is estimated for 25 LAC countries separately for the year 2015, as shown in Table 4.16. Latin America and Caribbean region provides a huge potential for trade for Indian economy to the extent of USD 17.3 billion in 2015. It may be noted that total potential has two components where first element is referring to trade potential of products which are already being traded with the country at present and the second to trade potential of those which are to be traded in future. At present, trade potential of currently traded products is estimated to be around USD 11.4 billion, constituting 66.1 per cent of the total potential whereas future potential is USD 5.8 billion amounting for 33.9 per cent of the total.

Table 4.16: India's Trade Potential in LAC countries, 2015

(in USD Million)

Country	Present	Future	Total
Brazil	3579.3	1148.3	4727.6
Argentina	1377.7	674.4	2052.1
Chile	1521.8	484.7	2006.5
Colombia	1049.3	428.8	1478.2
Venezuela	507.1	931.6	1438.7
Peru	765.4	327.1	1092.6
Ecuador	428.3	181.4	609.7
Dominican Republic	356.7	213.4	570.0
Guatemala	311.9	209.9	521.7
Costa Rica	324.3	158.2	482.5
Panama	217.8	166.9	384.7
Paraguay	191.3	142.1	333.4
Bolivia	182.0	136.3	318.3
El Salvador	191.1	117.0	308.1
Uruguay	130.0	120.7	250.7
Trinidad and Tobago	113.0	91.8	204.8
Nicaragua	87.8	64.5	152.4
Jamaica	55.6	59.4	115.0
Bahamas, The	13.4	79.1	92.6
Barbados	18.6	32.0	50.6
Guyana	13.7	35.0	48.7

Bermuda	4.3	24.0	28.3
Antigua and Barbuda	2.3	12.4	14.7
Belize	4.4	8.3	12.7
St. Vincent and the Grenadines	1.4	9.2	10.5
Total	**11448.4**	**5856.7**	**17305.1**

Source: RIS estimation based on ComTrade, UN, 2018.

The above Table provides estimates of trade potential for India in case of 25 LAC countries. These countries can be broadly classified into three groups on the basis of levels of trade potential generated in these markets as: a) high, b) medium and c) low level of trade potential. In case of group with high trade potential, six countries cover 73.9 per cent of the total export potential, followed by middle level group with 21.8 per cent and low level group with just 4.2 per cent of the total export potential of the region. Among these 25 countries in the LAC region, India's largest trade potential is in Brazil, amounting to 27 per cent of the total trade potential, and covering 31.2 per cent of present as well as 19.6 per cent of future trade potential.

India showed varying levels of trade potential in Chile, Argentina, Colombia, Peru to the extent of USD 1.5 billion, USD 1.3 billion, USD 1.04 billion and USD 0.7 billion respectively in 2015. Brazil held the lion's share in India's total trade potential in the LAC region to the extent of USD 3.5 billion. Further, in case of future potential, India has also the largest trade potential in Brazil, followed by Venezuela, amounting to 931 million, Argentina with 11.5 per cent, Chile with 8.28 per cent and Colombia with 7.3 per cent of the total export potential of the region.

Table 4.17: India's Sectoral Trade Potential in LAC Countries by HS, 2015

(in USD Million)

Sec	Description	Potential	Share (%)
1	Live Animals and Animal Products	312.0	1.80
2	Vegetable Products	446.5	2.58
3	Animal or Vegetable Fats & Oils	53.8	0.31
4	Prepared Foodstuff, Beverages, etc.	695.0	4.01
5	Mineral Products	1910.2	11.03
6	Products of Chemicals	2737.0	15.81
7	Plastics & Articles thereof	1246.1	7.20
8	Raw Hides & Skins, Leather, etc.	30.9	0.18
9	Wood & Articles of Wood	45.8	0.26
10	Pulp of wood or of other fibres	440.6	2.55
11	Textile & Textile Articles	628.3	3.63
12	Footwear, Headgear and Umbrella	211.4	1.22
13	Articles of Stone, Plaster, Cement	209.4	1.21
14	Natural or cultured pearls, Jewellery	11.1	0.06
15	Base Metals & Articles of Base Metal	1370.9	7.92
16	Machinery & Mechanical Appliances	4088.7	23.62
17	Vehicles, Aircraft and Vessels	2207.3	12.75

18	Optical, Photograph & Cinematography	437.3	2.53
19	Arms and Ammunition	0.4	0.00
20	Miscellaneous Manufactured Articles	227.6	1.31
21	Works of Art Collectors' Pieces	2.3	0.01

Source: RIS estimation based on ComTrade, UN, 2018.

While looking at the composition of the trade potential on the basis of sectors, major chunk of trade potential is in the manufacturing sector whereas agricultural sector can contribute only less than 9 per cent of the total, particularly in the processed food sector. India's deep trade interest is in the manufacturing sector where potential in the machinery and appliances (section 16) is at the top followed by chemical products (6), vehicles (17), minerals (5), base metals (15) and plastics (7) in the order of export potential as shown in Table 4.17. In these key sectors, Brazil, Argentina, Chile, Colombia, Peru and Venezuela share more than 65 per cent of the total trade potential of India in the LAC region. These are the countries which are identified as the most important trading partners of India in the region, sharing large trade opportunities in the region. Therefore, by focusing on these countries and five HS sections, India can cover around 70 per cent of its trade potential from the region. A detailed analysis of trade creation for top 50 products in 10 major LAC countries is given in Appendix VIII.

For analysing India's competitive products in the 10 identified LAC countries, Bilateral Revealed Comparative Advantage (BRCA) methodology[3] have been used in this study, to identify top 50 products in each of the 10 countries bilaterally for 2017[4]. The share of these top 50 Indian exports ranges from 50-80 per cent of the total exports to these 10 countries bilaterally, with highest in case of Costa Rica with share of 82.2 per cent and lowest with Ecuador with 49.3 per cent in 2017. While looking at the BRCA of the top 50 exports from India, it has been observed that for countries like Argentina, Brazil, Chile, Guatemala and Venezuela, all the top 50 products have BRCA greater than 1, implying that India has a revealed comparative advantage of these products in these countries in comparison to the world. However, there are some products where BRCA is less than 1 but still they are in the top 50 Indian exports to the LAC country. Such kind of product where BRCA is less than one are maximum in Dominican Republic with four products (t-shirt, medical instruments and plastics), followed by Costa Rica with two products (insulated electric conductor and plastics) and Colombia, Ecuador and Peru with one product each, products which are related to propylene, petroleum and t-shirts respectively. A detailed table of such products with their BRCA has been presented in appendix IX.

[3] Methodology explained in Chapter 3, section 3.6.2.

[4] For Guatemala, 2016 data has been used and for Venezuela 2013 data has been used in analysing BRCA.

4.8 India's Competitors in LAC

As is known from the literature and empirical findings of the present study, four major trading partners including United States, the EU, China and India dominate trade scenario of LAC region in the recent decade. Many of the LAC countries are contingent on these traditional partners not only for trade but also for finance and other development areas, including investment. India has to compete primarily with the major players in the region. Furthermore, India is also to face daunting challenges from the local LAC countries as competitors to Indian exports in the region along with the U.S., the EU and China.

In major product groups, the top five competitors of India in selected RTAs and broad export sectors in the LAC are presented in Table 4.18. Competitors of India are classified into three groups. They are: a) the U.S., the EU and China are considered as traditional competitors (T), b) those coming from the LAC region are local competitors (LAC), and c) rest of the competitors are grouped into the third group (NT). Results demonstrate specialisation of different group of countries in specific sectors. For example, agriculture sector is highly dominated by competition from the LAC countries. In four broad agriculture sectors (section 1-4), competition is very much evident from regional economies in major RTAs. For animal products in Mercosur and UNASUR, regional economies like Brazil, Uruguay, Colombia, Argentina, Nicaragua and Paraguay are among the top competitors of India, whereas for the remaining RTAs, the U.S. stands out as the traditional competitor in the region. In products related to prepared foodstuff, beverages, etc. (HS section 4), the United States is coming out to be the lead competitor to India in the LAC region followed by other regional countries. In the vegetable products and fats and oils (section 2 and 3), India is encountering competition from both non-LAC and LAC countries, but the competition is exclusively emanating from LAC countries in SICA. In fats and oils (section 3), India is witnessing competition from non-traditional competitors such as Malaysia and Spain in RTAs like UNASUR, Mercosur, LAIA. While completion in this sector is steep with Malaysia in LAIA, it is Spain in DR-CAFTA.

While looking at the manufacturing sector, in machinery and appliances, which provides largest trade potential to India in the region, India faces formidable competition exclusively from local LAC countries in Andean, non-traditional countries in Mercosur, Pacific Alliance and LAIA, and both from LAC and non-traditional countries in SICA and UNASUR. In case of Andean, out of five top competitors of India, two of them are from LAC region. Similarly,

India countenances competition in the chemical sector from traditional and LAC competitors in regional groupings like Andean and SICA.

Table 4.18: India's Competitors in various LAC RTAs by Sector

(Number of Countries)

		Mercosur			P. Alliance			Andean			SICA			Unasur			LAIA		
Sec	**Description**	**T**	**NT**	**LAC**	**T**	**NT**	**LAC**	**T**	**NT**	**LAC**	**T**	**NT**	**LAC**	**T**	**NT**	**LAC**	**T**	**NT**	**LAC**
1	Animal Prod.			5	1		4	1		4	3		2			5	1		4
2	Fruits & Veg	2		3	2	1	2	1	1	3	1		4	2		3	2		3
3	Fats & Oils	2	1	2	2		3	1		4	2		3	2	1	2	2	1	2
4	Prep. Food	1		4	1		4	1		4	1		4	1		4	1		4
5	Minerals	1		4	2	2	1	1	1	3	1	2	2	1		4	1	1	3
6	Chemicals	5			5			3		2	2		3	4		1	5		
7	Plastics	3		2	3	2		2		3	2		3	3	1	1	3	1	1
8	Leather	3	1	1	3		2	3	1	1	2	2	1	4		1	3		2
9	Wood	4		1	3		2	2		3	2		3	4		1	3		2
10	Pulp of wood	3		2	3	1	1	2		3	1		4	2		3	3		2
11	Textile	3		2	4	1		3		2	2	1	2	3		2	3	1	1
12	Footwear	1	3	1	2	2	1	1	3	1	2	1	2	2	2	1	1	3	1
13	Cement	3		2	4		1	3		2	3		2	3		2	4		1
14	Jewellery	1	2	2	1	3	1	2		3	4		1	1	1	3	1	3	1
15	Base Metals	3		2	2	3		2		3	3		2	3		2	2	2	1
16	Machinery	4	1		3	2		3		2	3	1	1	3	1	1	3	2	
17	Vehicles	2		3	3	2		1	2	2	1	3	1		2	3	1	2	2
18	Photography	4	1		3	2		4	1		5			4	1		3	2	
19	Arms	4		1	4	1		2	2	1	3		2	5			5		
20	Misc Mnf	2		3	4	1		3		2	2		3	2		3	4		1
21	Art	4		1	4		1	2	2	1	2	1	2	4		1	4		1

Source: RIS estimation based on ComTrade, UN, 2018.

Note: LAC: LAC Partners, T: Traditional Partners (the U.S., EU countries, China), NT: countries from RoW.

It may be noted that competition from traditional countries of LAC for India is somewhat expected, but strong competition from native LAC countries, particularly in the manufacturing sector, is not very much cited in the literature. This is a new evidence from the present study which is not in the present literature. For instance, in SICA, LAC countries like Mexico, Panama and Colombia are among the major competitors for India in chemical products; similarly in Andean, Mexico and Brazil emerge as major competitors for India in the same sector. A detailed list of competitors in each RTA by HS section is presented in Appendix VI.

However, in the minerals, LAC countries appear to be most formidable competitors for India, leaving behind traditional competitors in almost all RTAs which are identified in the study, except in case of Pacific Alliance. In certain regional caucuses like UNASUR and Mercosur, Argentina, Peru, Brazil and Chile are the top 5 competitors for India in the mineral sector, but

the U.S. is emerging as a competitor, somewhat closer to native LAC competitors in the sector in certain other regional groupings.

Apart from these, certain sectors related to footwear and jewellery, India faces competition from non-traditional countries from South East Asia, like Thailand, Indonesia, Vietnam and Singapore, in almost all important RTAs in LAC. Hence, in the manufacturing sector, there is a set pattern of competitors in each product groups. In some sections, traditional competitors dominate along with other LAC countries in extending daunting challenge to Indian exports in the region. Therefore, India exporters should expect competition from traditional countries, native LAC countries and number of non-traditional countries in the LAC region. Recent surge of regionalism in LAC is the outcome of such trend. As regional trade is propelled by preferential trade areas, countries outside such arrangement would face daunting task to compete with others which are galvanised by preferential treatment through various trade agreements.

4.9 Export Potential with Possibility of Trade Preference: Trade Diversion

As discussed earlier in Chapter 3 section 3.6.1, trade diversion takes place following exchange of tariff preferences among regional partner countries as shown in equation 3. The ten important countries of LAC identified in this study would provide wide export opportunities to India because of trade creation and trade diversion effect, assuming India would prefer to undertake bilateral/regional arrangements, in any form like PTA/FTA/CECA/CEPA, with these countries. On the basis of latest trade and tariff data from the United Nation with the methodology presented in Chapter 3, trade creation and diversion for India in LAC countries have been estimated for selected number of countries. India's trade creation in 10 major countries of LAC is to the extent of USD 15.4 billion as shown in Table 4.19. Among these key contributors to India's total trade creation, Brazil accounted for 30 per cent, Argentina for 13.2 per cent and Chile and Colombia for 12.5 per cent each of the total trade creation estimated for these 10 important countries in 2015. In the event of any form of trade arrangement with trade preference schemes, trade potential is likely to expand further by accommodating effects of trade diversion. While estimating trade diversion for LAC countries, one can observe that reduction of tariff by 25 per cent, 50 per cent and 100 per cent would further increase India's exports in each of these countries in terms of both, quantity and value of exports.

For a reduction of tariff by 25 per cent from the present tariff rates in partner countries, India would be able to increase its export potential to the extent of USD 257 million in case of these 10 countries. The largest gain would be from Brazil (USD 96.27 million), followed by Argentina (USD 24.5 million). However, further reduction of tariff by 50 per cent in these identified countries would increase trade diversion to the tune of USD 458.7 million (i.e., $257.2 mn + $201.47 mn) along with trade creation of $15.5 billion, wherein the highest gain would be accrued from Brazil, followed by Argentina, Colombia and Venezuela.

Table 4.19: India's Trade Potential in LAC with Margin of Preference

(in USD Million)

Country	Trade Creation	Incremental Value Trade Diversion			No. of Products (Unit)	
		TD25	TD50	TD100	TC	TD
Argentina	2046.74	24.05	27.28	66.45	3647	861
Brazil	4651.45	96.27	78.41	222.51	4070	1396
Chile	1948.62	11.78	17.45	43.00	3389	663
Colombia	1955.50	40.59	24.67	35.54	4006	576
Costa Rica	485.04	4.03	3.72	6.61	3081	394
Dom. Rep	570.68	4.33	0.42	0.11	2172	23
Ecuador	475.40	14.22	7.06	13.74	3461	571
Guatemala	520.84	3.08	12.56	15.41	3009	380
Peru	1449.73	3.81	6.29	9.99	3786	279
Venezuela	1361.63	55.04	23.62	25.05	3032	701
Total	15465.64	257.20	201.47	438.41		

Source: RIS estimation based on ComTrade, UN, 2018.

The empirical estimate represents incremental gains that India is likely to have if tariffs in partner countries are reduced at different levels. Similarly reduction of tariff by 100 per cent would have incremental increase in trade for India to the extent of USD 897.1 million (i.e., $257.2 mn + $201.47 mn + $438.41 mn) along with trade creation of $15.5 billion. In a situation where tariff rates are reduced by 100 per cent in the identified countries, maximum incremental trade gains would be from Brazil, followed by Argentina, Chile, Colombia, Venezuela, etc. as show in Table 4.17.

While examining number of lines falling under trade creation and trade diversion, India's experience would be different in specific important partner countries. It is invariably observed that the numbers of lines under trade creation are higher than that of trade diversion in all identified countries in LAC. While looking at the number of product lines in which India could avail trade creation, Brazil comes at the top with 4070 lines followed by Colombia (4006), Peru (3786), Argentina (3647), etc. among others.

In these 10 countries, number of products under trade creation, exceeds 3000 except for Dominican Republic. Product lines under trade creation are 2172 in case of Dominican Republic. While examining number of lines for trade diversion in the identified countries, product lines vary extensively across countries. Among these countries, Brazil ranks at the top with 1396 product lines, where India is likely to gain by requesting trade preference from the country. Among important and inward oriented countries of India, Brazil, Argentina and Venezuela have large number of tariff lines, where India can request them for tariff preference for having further market access in these countries. Similarly, tariff preferences can be requested from certain outward oriented economies including Chile, Colombia, Ecuador, Costa Rica and Guatemala under any mutually agreeable form of trading arrangement. These results are indicative and important for specific policy considerations like PTA/FTA/CECA/CEPA with the LAC countries. India's strategy to expand existing PTA with Chile is a positive initiative where India stands to gain. India's present trade initiatives with Peru, Colombia, Pacific Alliance and Mercosur are consistent with the results of the present study.

As is discussed in the above analysis, India has large competitiveness in several sectors on the basis of trade creation, but the process of realisation of these advantages has been incredibly slow. For realising these potentials, exporters of India need not to seek any trade preference from the export destination, because exporters have already endowed with natural cost competitiveness. There is a need for tweaking of domestic policies of these India's export destinations to translate India's export competitiveness in to actual exports. Very often non-price factors play a major role in promoting exports. In this regard, diplomatic and political interventions are required in these countries. China has been very successful in blending local diplomacy with increasing political connects with in the region. This is often important in regions, where Indian diaspora is not very strong. Similarly product specific approach should be initiated as to understand the reasons for not accessing market in certain destination despite having large trade potential by consulting various stakeholders.

To sum up, the LAC region passed through three phases of regionalism during the last five decades of its journey in dealing with regionalism. In the first phase, regional countries organised themselves in to several splinter groups to form RTAs of different features. The second phase of regionalism coincided with the period of the global buoyancy where regional economies preferred to form regional grouping with countries outside the LAC region. The move towards forming RTAs with countries outside the region delivered rich dividends to the

LAC region in firming up regional flow of trade and improving their IRT ratios. The third phase began with the onset of global recession where LAC countries were encouraged by their experiment during buoyancy and made integrated efforts to push regionalism within the countries in LAC and emerging countries outside the LAC region. The massive initiatives in promoting regional process in LAC did not yield much result in either contributing to IRT or regional flow of trade with the world.

Since the LAC region has gone into the mood of pursuing regionalism further to foster trade, India has to be cautions in identifying appropriate set of partner countries in the region and these regional partners can be helpful in India's smooth entry in selected RTAs of the LAC region. It is observed that regional grouping in LAC have strong preference for comprehensive trade arrangement like CEPA/CECA with emerging countries. Most of the RTAs in LAC have been formed by invoking WTO provisions together with Article 24 and GATS Article 5, involving emerging countries from LAC and outside the region. With the emergent of RTAs in the region, some of them have grown exceptionally big with large flow of trade and services through RTAs with moderate level of IRT ratio like Mercosur, UNASUR, LAIA and CELAC. Several vibrant RTAs are likely to follow the footprints of aforesaid RTAs including those of Pacific Alliance and SICA. Some of these vibrant regional economies can compete with India in future. India would be more convenient in trading with the LAC region in manufacturing products, but LAC countries are seriously engaged with trade in manufacturing products among themselves through various RTAs.

India has identified ten partner countries in the LAC region, based on certain criteria. While some of those countries are inward oriented, others are outward oriented countries, but most of them are important from the point of view of India's long term trade interest in the region. These countries are Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Paraguay and Venezuela. These countries represent all sub-regional and trade regions of the countries including South America, Central America and Caribbean. We observed that these countries have strong presence in six RTA and these RTAs are turning out to be India's priority areas to operate in the medium term. The study has examined details of six RTAs namely Pacific Alliance, Mercosur, UNASUR, LAIA, Andean and SICA, including their trade relationship with India and also future trade prospects with these regions. In these RTAs, India has large trade potential which it can be explored over years. While examining trade potential in individual countries, we have observed that India can have trade potential to the extent of USD 17.3 billion in 25 countries. Nearly two-third of

India’s trade potential can be realized in the medium term based on currently traded products in the region. Remaining trade potential can be realized in due course because India has competitiveness in these products in the region, but Indian exporters have not tried those products in the specific regional grouping before. India has high trade potential in manufacturing sectors, in sectors like chemical, pharmaceuticals, plastics, base metal, machinery, automobiles, T&C, etc. among others. India is likely to face competition from traditional partners like the U.S., the EU and China and also several other countries from LAC. India’s competition in LAC from outside the region, other than traditional trade competitors, is less in number. But presence of these countries can be seen in multiple sectors like leather, footwear, gems & jewellery and machinery. India can assess the possibility of having a CEPA/CECA/PTA/FTA with bilateral and regional economies, involving these important trade partners in the LAC region. India can consider entering into bilateral regional arrangement involving trade preference in countries like Argentina, Brazil, Chile, Colombia, Dominican Republic, Guatemala, etc. among others where India stands to gain through exchange of margin of preference. For strengthening this assessment, India’s trade prospects in investment and trade in services are examined in the next chapter.

Chapter 5
Investment and Trade in Services

5.1 Introduction

LAC countries embarked upon deep regional integration during the period of recession. They formed not only regional alliance with their fellow countries from the LAC continent but also chose to formalise trade agreements with countries outside the region. The strong urge for regional grouping among LAC countries is a great opportunity for India to have more comprehensive trade agreements with a number of regional countries. With proliferation of RTAs in the region, substantial trade with the region is taking place on the basis of trade preferences; particularly during the period of global buoyancy. The same process continued since then. Countries which are not linked to LAC countries through preferential arrangement for trade, find it difficult to go too far in achieving high trade targets with the region. Moreover, LAC countries are aggressively pursuing comprehensive trading arrangements with emerging countries, involving trade, investment and services as a single undertaking. In chapter 4, some efforts have been made to examine India's trade interest with specific countries and RTAs for CEPA/CESA class of arrangements. Results in regard to the trade sector have shown that the situation in both the regions is ideal for undertaking suitable arrangements concerning trade.

There is a need for examining preparedness of India for undertaking similar type of initiatives for investment and trade in services. India has formulated recently a new policy on Bilateral Investment Treaty (BIT) under which careful consideration has been taken up to engage with selected countries. Apart from the sensitivities with BIT, the possibility of cooperation between India and selected countries/RTAs for CEPA/CECA/FTA can be examined. Considering data constraints, bilateral analysis may not be possible, but one can examine investment policies and global competitiveness of partner countries to bring out some meaningful analysis for deeper form of regional integration. LAC is lately passing through a phase of slowdown in its investment activities, and diversification of investors is not evident in the region. Chinese investment is very much concentrated in the region, mostly led by public sector investment.

Investment scenario in the LAC region is mostly dominated by inward FDI and most of the countries in the region receive FDI in specific sectors. Irrespective of trade orientation of

countries, policies in the investment sector in most of them are liberalised. Inflow of investment is specific to certain sectors, and is mostly in the mining sector, followed by services, manufacturing and agriculture sector. Liberalisation of primary sector is important for India, followed by services and manufacturing. In terms of inflow of FDI, services sector is accorded priority in the region. This indicates that there is a great deal of complementarity between India and LAC in the investment sector, particularly in investment in the services sector. However, outward FDI from LAC to India is very poor. A few countries are engaged in outward FDI; including Brazil, Chile and Colombia. Therefore, prospects of receiving OFDI from the LAC region are seemingly poor.

Trade in services of the LAC region in relation to the world is relatively weaker than its goods and investment sectors. In that sense, India in the recent years is much better placed than countries in the LAC region. LAC countries have small sector in trade in services, but many of they are relatively robust in diversified traditional services sector such as transport and travel. In these sectors, several important countries are emerging as competitors globally. India is not competitive globally in many of these traditional sectors, rather it is a net importer from the rest of the world. In some of those sectors where India is a global leader in exports, regional economies are either less competitive or small players in comparison to India. Both in the case of trade in services of imports and exports, India is likely to gain from the region. If the region seems to be suitable for investment and services trade, India may evolve a radical strategy to have deeper regional cooperation at the bilateral and the regional level. Empirical evidences can enable India to take a firm view concerning this.

5.2 Investment

In the recent years, LAC countries are better off in the size of inflow of investment than several countries in other continents. Despite economic downturn engulfing the entire region, the ratio of inward FDI to GDP is very high for the region. This has been the outcome of the sweeping reforms undertaken by the regional economies in the investment sector, leading to spur of FDI flows to the region. India is interested in the liberalisation of services sectors in the LAC region, particularly in the non-traditional services sector where LAC countries have adapted liberal approach.

China factor has created a compelling situation in the region to invest. It has raised aspirations of the regional economies for high investment in the region with or without having strong economic performance. For example, China had huge investment in Venezuela,

and was locked into legal battle with the country for deciding on outstanding dues. With adverse conditions, China has been undertaking the risk of investment with public sector enterprises. In order to push investment in the region, India has to invoke private sector to take the lead and for that conducive investment environment has to be created by the Indian government in the host countries. It is important to have level playing field which may be assured through various agreements with the host countries. Such level playing can be achieved by undertaking more liberal approach toward comprehensive economic cooperation with important countries/RTAs. India has to project its twin targets for goods and investment for the region. It should target for countries and sectors to elicit better trade outcomes from the region. The section would focus on various dimensions of investment issues from the point of view of possible CEPA/CECA/FTA/PTA with the regional partners.

5.2.1 Trend in Investment in LAC

Over the last decade, FDI inflows increased significantly and steadily in LAC, as many developed countries, including those in North America, Europe and Asia, are now targeting LAC as a key component of their growth strategy. FDI inflows increased in sectors other than traditional natural resource extraction, large- scale telecommunication and financial services. There were two major waves in which FDI inflows increased significantly in LAC. The first occurred in 1990s as the result of the privatisation process and the greater openness to foreign participation. The major share of foreign investments during this period was directed towards services sectors, such as financial, telecommunication and public utilities. FDI inflows to the manufacturing sector also increased due to greater economic liberalisation in certain economies such as Argentina, Brazil, Costa Rica, Mexico and Venezuela. The second wave of increase in FDI inflows in LAC had started in early 2000s, and was accompanied with productivity benefits such as innovative product manufacturing in response to rising purchasing power of middle class, reinvested earnings as the main source of FDI, rise of FDI in R&D activities and venture capital funds, rise of multilatinas and FDI inflows from within the region. This point out that FDI can further enhance productivity in the region. Previous economic reforms in LAC attracted more FDI inflows into the region, and it is expected that further reforms in the areas of trade liberalisation, infrastructure deepening and human capital strengthening would attract more foreign capital inflows (Penfold *et al.*, 2013).

LAC region is a FDI friendly region for the last several decades. However, FDI inflows are sensitive to the global trade regimes, irrespective of any region. From the perspective of LAC countries, such sensitivities are different for inward and outward FDI. Table 5.1 examines

LAC's overall foreign direct investment flows as well as those of greenfield investment. The overall FDI inflows of the region were USD 221 billion in 2016 which grew from USD 153.6 billion in 2007 at a CAGR of 4.1 per cent. FDI inflows, however, experienced a mild slowdown in 2016 as compared to the previous year. During the first phase of recession (2007-12), the total FDI inflows in the region were not affected, except for a marginal slowdown in 2009 and it grew at a CAGR of 10.5 per cent over the period. But the region's FDI inflows were adversely affected by the second episode of recession (2012-16), and decreased by a negative CAGR of 3.3 per cent. Overall outward FDI from LAC increased substantially between 2007 and 2016 from USD 73.6 billion to USD 122.5 billion, respectively. It grew at a CAGR of 5.8 per cent. FDI outflows from LAC in the initial years of the first phase of recession were not affected but decreased subsequently with the region registering a negative CAGR of 0.9 per cent during the period. Unlike FDI inflows, which decreased during the second episode of recession, the region performed well in terms of FDI outflows with some fluctuations in the middle and recorded a CAGR of 14.9 per cent.

Table 5.1: Trends in Overall and Greenfield FDI in LAC: 2007-16

(in USD Billion)

Year	Overall		Greenfield	
	Inflow	Outflow	Inflow	Outflow
2007	153.6	73.6	44.0	12.9
2008	185.2	97.5	90.5	19.4
2009	131.9	48.1	86.1	19.1
2010	204.1	109.8	94.3	22.2
2011	244.6	103.0	100.0	11.4
2012	253.0	70.4	58.4	8.2
2013	291.8	135.9	120.4	15.2
2014	203.5	113.1	56.3	6.6
2015	225.4	175.2	47.4	12.2
2016	221.0	122.5	47.6	7.2
2007-16	2114.1	1049.2	745.0	134.4

Source: World Investment Report, IMF, 2018

The greenfield investments remained more sensitive than overall FDI of LAC. This trend of greenfield investments is applicable to both inward and outward FDI. The region's inflows of greenfield investments fluctuated greatly over years and were estimated at USD 47.6 billion in 2016 as shown in Table 5.1. During the first phase of recession, inflows of greenfield investment increased in the initial years except for a slight fall in 2009. However, there was a significant decrease in inflows in 2012, and it grew by a CAGR of 5.8 per cent during the period. The second episode of recession witnessed a number of fluctuations in the inflows of greenfield investment and the CAGR was a negative 5 per cent growth for the period. The CAGR for the overall period (2007-16) for greenfield inflows in LAC was 0.9 per cent.

Outflows of greenfield investment from the region were USD 7.2 billion in 2016, and had decreased from USD 12.9 billion in 2007 at a negative CAGR of 6.2 per cent with a number of variations over years. The greenfield investment outflows from the region were adversely affected during the first and second phases of recession, and recorded a negative CAGR of 8.7 and 3.1 per cent, respectively.

Flow of FDI has been highly skewed to the region. Large flow of FDI is going to 'tax havens' like British Virgin Islands and Cayman Islands. This is applicable to both inflow and outflow of FDI to the region. In case of greenfield investment, the flow of investment is low to 'tax havens' in the region. From Table 5.2, it can be observed that the cumulative FDI inflows between 2007 and 2016 were the largest in Brazil, and were equal to USD 610.7 billion. This was followed by British Virgin Islands, which was also the country with the largest share of overall FDI inflows in 2016 of 26.7 per cent. Brazil had the second largest share of 26.6 per cent and was followed by Cayman Islands with the share of 20.3 per cent. Other LAC countries receiving a relatively large share of FDI inflows between 2007 and 2016 were Chile, Colombia, Argentina, Peru, Panama, Venezuela, Costa Rica, Dominican Republic and Uruguay. The top 10 identified emerging LAC economies received a substantial share of 54.8 per cent of the cumulative FDI inflows of the region. In the case of inflows of greenfield investment, Brazil had the highest cumulative investment of USD 276.6 billion between 2007 and 2016, and it also had the largest share of 26.9 per cent in 2016, followed by Argentina with a share of 25.3 per cent, Chile with 13.1 per cent and Colombia, Peru, Venezuela, Dominican Republic and Ecuador with relatively larger shares. The top recipients of FDI and greenfield investment in the region were consistent over the years with some readjustments in their shares.

Table 5.2: LAC Foreign Direct Investment by country: 2007-16

(in USD Million)

Country	Inflow		Outflow	
	Greenfield	Overall	Greenfield	Overall
Argentina	66412	90104	7168	11687
Bahamas	921	11424	191	3082
Barbados	705	3713	51	1080
Belize	456	1148	84	12
Bermuda	300	973	26700	516
Bolivia	8770	7235	89	-43
Brazil	276636	610683	54250	36968
Br. Virgin Island		551301		678625
Cayman Island	1897	282914	3887	153749
Chile	89575	173293	13966	100411
Colombia	59899	121299	7738	41450
Costa Rica	12032	23660	632	1925

Cuba	7250		180	
Dominica	66	412		
Dom. Rep.	17169	22956	562	-1012
Ecuador	5972	6503	962	1176
El Salvador	4856	4552	735	-179
Falkland Island		0		
Grenada	59	802		
Guadeloupe	523			
Guatemala	6501	10262	1109	516
Guyana	1631	1882	0	26
Haiti	1451	1082	17	0
Honduras	5647	10168	551	675
Jamaica	4368	6611	2113	590
Martinique	274		25	
Montserrat		49		
Netherlands Antilles		0		0
Nicaragua	44603	7174	397	409
Panama	25265	32121	924	1555
Paraguay	3307	3444		295
Peru	57904	75804	2566	3071
St. Kitts & Nevis	59	1173		
Saint Lucia	820	1241	0	
St. Vin. & Gren.	31	1180		
Suriname	643	276		2
Trinidad & Tobago	3823	2977	30	683
Uruguay	13312	19745	104	53
Venezuela	19204	24582	9327	11882
Total	745028	2114148	134358	1049206

Source: World Investment Report, IMF, 2018

The only outlier was Nicaragua which received a substantially large share of greenfield investment in 2013, which made it the top destination for that year, but this trend did not continue in the subsequent years. Also, the share of greenfield investment directed towards Argentina increased substantially to 25.3 per cent in 2016 from just of 6.7 per cent in the previous year. FDI outflows during the period were concentrated in a small number of LAC countries with the largest share belonging to British Virgin Islands, followed by Cayman Islands, Chile, Colombia and Brazil. British Virgin Islands had the largest share of the outward FDI in LAC consistently over the period. A similar situation of high concentration was observed outflows of greenfield investment. Brazil had the largest cumulative amount of USD 54.3 billion between 2007 and 2016; followed by Bermuda with less than half of cumulative FDI as that of Brazil, and share of other countries of the region was much smaller.

Sectoral FDI flows in LAC

FDI inflows remained stable in LAC after the global economic crisis but decreased in the subsequent years. FDI, however, as the percentage of GDP remained stable. Brazil replaced Mexico as the main destination of foreign investment in LAC (CEPAL, 2016), and still receives the largest share of FDI in LAC (ECLAC, 2017; CEPAL, 2016). FDI inflows in various LAC sub-regions and countries were heterogeneous (ECLAC, 2017). FDI inflows in LAC decreased in 2015 and 2016 but LAC's FDI inflows as the percentage of GDP were higher than the global average. This highlights the importance of transnational corporations in LAC (ECLAC, 2017). The share of FDI as the percentage of GDP was higher in Central America and the Caribbean than that of South America. The Caribbean countries are strongly dependent on FDI as the source of international funding. Many Central American countries are also dependent on FDI to finance their balance of payments (CEPAL, 2016).

a) Extractive Sector and Renewable Energy

The share of investment received by LAC's extractive industries sector has been falling since 2010, after the end of the commodity price boom, and the share of the manufacturing and services has grown steadily. The new investments are mainly concentrated in renewable energy, telecommunications and automotive industry. The renewable energy sector attracted most of the investment in the region, and Chile and Mexico received the maximum. A similar trend has been observed in the sectoral share of announced investment projects and greenfield investment projects in LAC. Investments in renewable energy are expected to continue in LAC, especially in smaller markets like Uruguay; where the wind power market is close to saturation, and also in Chile, where low prices offered at solar energy auctions make it difficult to secure funding (ECLAC, 2017; CEPAL, 2016). India can be a strategic partner of LAC in renewable energy sector (CEPAL, 2016).

b) Services Sector

Countries with large extractive sector which traditionally attracted the major share of foreign capital are experiencing sectoral structural changes due to the fall in FDI inflows to extractive industries. Their share of FDI in services sectors is now increasing. This has been the case in Colombia and Dominican Republic. The largest recipients of FDI in the services sector in LAC are financial service, trade, electricity, gas and water services and telecommunication services (ECLAC, 2017).

As discussed in the literature, bulk of regional inflow of FDI is in the services sector, followed by the primary sector among high ranking countries in the region. Interestingly,

preference for sub-sectors for inflow of FDI has been almost similar across top ranking destinations of the region. Table 5.3 presents details for 2012 of sector-wise inflows of FDI of top performing LAC economies. These LAC countries received largest inflows of FDI in the tertiary sector, which had a share of 60.9 per cent of the total FDI received by them. This was followed by the primary sector with a share of 33.5 per cent and the manufacturing sector with a relatively smaller share of 5.6 per cent. Within the tertiary sector, the highest share of FDI was directed towards the Finance Sector, followed by Wholesale and Retail Trade, and Transport, Storage and Communication. The largest recipient of FDI in the primary sector was Mining and Quarrying, and in the manufacturing sector, it was Chemicals and Products.

Table 5.3: Sectoral Inflows of FDI in Selected LAC Countries: 2012

(in USD Million)

Sector		BOL	CHL	COL	CRI	DOM	ECU	HND	NIC	PRY	LAC
12	Agri & Forestry	1	67	75	0		18	18	49	3	232
13	Mining & Quarrying	219	2838	2263		1168	225	23	158		6893
14	Extract of cr petrol & gas	946									946
21	Mnf food products		448		-18					-24	407
22	Textiles & clothing							164		1	166
23	Wood & products		84							0	84
26	Chemical & products		606							31	637
28	Non-metal mineral prod									20	20
35	Other manufacturing		42								42
41	Electricity, gas and water	12	904	819		305	47	33	194		2313
42	Construction		5	175			31	5	0	0	217
43	Wholesale & retail trade	37	49	1363	151	1384	83	157	234	-25	3433
44	Hotels & restaurants	0			143	162			14	-5	314
45	Transport & comm.	50	738	2023		54	4	295	127	-97	3194
46	Finance	133	2309	1479	73	161			105	216	4475
47	Business activities		97		432	203	40			-2	769
51	Cmnty & personal serv			-50			2				-48
52	Other services	1									1
	Total	**1397**	**8187**	**8147**	**781**	**3437**	**449**	**696**	**881**	**119**	**24094**

Source: Investment Trade Statistics, 2017

Chile received the highest FDI inflows in LAC in 2012 of USD 8187 million, and was closely followed by Colombia, which received USD 8147 million. In all the LAC countries under the study, except Bolivia and Ecuador, the largest share of FDI inflows were directed towards tertiary sector with top sub-sectors varying among countries with respect to their sectoral priorities. On the other hand, Bolivia and Ecuador, two South American countries, received the largest FDI inflows in the primary sector in 2012; highest share of extract of crude petrol and gas in Bolivia and mining and quarrying in Ecuador. FDI inflows for secondary sector were low in all the LAC economies. However, Chile received a relatively large amount of USD 1180 million, which constituted 87 per cent of the total inflows received by LAC in the secondary sector and 14.4 per cent of total inflows received by Chile. The major shares of the inflows were towards chemicals products and manufactured food

products. In the primary sector, mining and quarrying sub-sector received largest amount of FDI in the region. In the services sector, a few sub-sectors covered more than 90% of the total FDI flows to the regional services sector, and these sectors were electricity, gas & water; wholesale & retail trade; transport & communication and finance.

The top performing LAC economies' sector-wise outward FDI flows to the world in 2012 are detailed in Table 5.4. The total outward FDI from the three LAC economies was USD 12.1 billion; out of which Brazil had the largest share. Outward FDI flows from Brazil, Chile and Colombia were mainly directed towards the tertiary sector; and were having different sectoral priorities with different countries. For instance, 38.9 per cent of Brazil's total outward FDI was in the finance sector; and other sub-sectors received smaller investment shares. Another important area receiving FDI from Brazil was the secondary sector and within that for the manufactured food products, metal and products and chemicals products sub-sectors.

Table 5.4: Sectoral Outflow of FDI from Selected LAC Countries: 2012

(in USD Million)

Sector		Brazil	Chile	Colombia	Total
Primary		1179	214	-2829	-1435
12	Agri & Forestry		1	-2	-2
13	Mining & Quarrying	845	214	-2826	-1768
14	Extraction of cr petrol & Natural Gas	334			334
Secondary		3967	17		3984
21	Mnf food products	1498			1498
23	Wood & products	97			97
25	Coke, petrol products & nuclear fuel	14			14
26	Chemical & products	820			820
29	Metal & products	958			958
31	Machinery & equipment	103			103
34	Motor vehicles	477			477
35	Other manufacturing		17		17
Tertiary		6808	990	1728	9525
41	Electricity, gas and water	438	590	317	1345
42	Construction	380	225	94	700
43	Wholesale and retail trade	130	5		135
44	Hotels and restaurants			55	55
45	Transport, storage & comm.	767	103	561	1431
46	Finance	4652	43	711	5406
47	Business activities	177	0		177
50	Health activities	49			49
51	Community, social & personal service	103	24	-11	115
52	Other services	113			113
Total		11954	1221	-1101	12074

Source: Investment Trade Statistics, 2017

Brazil's outward FDI in the primary sector was smaller in comparison to the other major sectors but was the highest among the three LAC economies under study. Within the primary

sector, Brazil invested mainly in the mining sub-sector and not in the agriculture. Chile prioritised outward investment in the tertiary sector, and in that too in electricity, gas and water sub-sectors, which accounted for 48.3 per cent of the country's total outward FDI in 2012 to the world. Chile's FDI outflows in the secondary sector were quite small; but a relatively large share of FDI of 17.5 per cent was directed towards the primary sector that to mining sub-sector. In the case of Colombia, out of its total outward FDI in the tertiary sector, 41.1 per cent was towards the Finance sector.

5.2.2 Investment Policy in LAC

The existing literature on FDI in LAC presents a plethora of determinants which are critical for the flows of investment in to the region, and some of these factors, important for the flow of inward FDI, are domestic market size and growth potential. Other determinants include previous stock of FDI, trade openness, low short-term debt levels, balance of payments deficits, macroeconomic management and political stability, low risk of expropriation, well-educated labour force, strategic infrastructure and trade openness, efficient regulations, predictable policy environment, physical security, and historical or cultural ties (Sánchez-Martín *et al.,* 2014; Penfold *et al.,* 2013). Foreign investors also tend to invest more in countries with a sound legal framework and a low risk of expropriation. LAC economies, which improved their institutions over time, such as Chile, Costa Rica and Peru, received larger FDI flows. In contrast, countries that made frequent changes, like Argentina, Ecuador and Venezuela, received foreign inflows far below their potential as investors perceived them as greater risks (Sánchez-Martín *et al.,* 2014). Hence, it is important to analyse domestic policies and regulation in LAC countries for various FDI sectors. A detailed overview of FDI policies and regulation in LAC countries is presented below.

The LAC countries under consideration are open to and encourage inward FDI. Brazil is the most attractive investment location in LAC due to its huge available market opportunities. There are, however, several sector specific foreign ownership prohibitions like in postal services and nuclear energy. Moreover, there are also certain sector specific limitations, like in air transport, financial institutions, health services, rural land acquisition, broadcasting and publishing media, fishing, and mining and hydrocarbon exploration. New investment undertakings in Brazil are cumbersome, bureaucratic and expensive in terms of the rigidity involved in both of starting and closing of a business. This is mainly due to many procedures required and their high cost. Tax burden and labour market rigidities also remain an issue in

the country. Brazil had launched an Innovate in Brasil Program in 2015 to attract investment in innovation by developing R&D centres and projects. To achieve this, Apex-Brasil was established to act as a one-stop shop in the Federal Government for investment in innovation. It provides information about the Brazilian market, technological infrastructure, skilled human resource and governmental incentives, and offers customized packages for each investor with essential beneficial information while investing. Argentina which is also inward oriented like Brazil is open to foreign investment in all sectors without restrictions and prior approval, except in fisheries, mass media, purchase of land and real estate in certain areas and cabotage services. There is a reciprocity requirement in the insurance sector. Investment law guarantees the right to repatriate investment at any time, but Argentina has introduced various requirements for the purchase and the transfer of foreign currency. The country also has number of incentive schemes at the national level and at the provincial level to promote investment; such as horizontal and sectoral programmes to stimulate investment in capital goods and technological innovation. Ecuador has introduced three classes of tax incentives, including income tax holidays to promote investment in domestic production activities.

Outward oriented economy, Colombia grants national treatment to foreign investment in all sectors, except in a few where it maintains limitations or prohibitions. In Colombia, no prior authorization is required for foreign investment, subject to some exceptions (financing in hydrocarbons and mining sectors, and portfolio investment); such investment must be registered with the Bank of the Republic to make it possible for earnings to be repatriated and/or reinvested. Chile, in general, grants national treatment to foreign investors and allows them to own up to 100 per cent of firm's equity in most economic sectors, except in a few sectors such as coastal shipping, air transport and communications media, where there are certain laws that impose restrictions on national treatment or market access. The mining sector is the main destination of foreign investment in Chile. The State plays a limited role in Chile's economy but there are certain strategic activities that are reserved to it. However, both national and foreign firms can participate in these sectors under certain circumstances subject to presidential authorisation. The energy sector in Guatemala has expanded in the recent years with investment flows into the sector playing a major role. Domestic and foreign enterprises are free to participate in hydrocarbon-related operations by concluding contracts with the State and paying royalties. The State holds an equity stake in each oil project. Outward oriented economy, Costa Rica, has relatively few restrictions on FDI related to energy, mining, fishing and certain services sectors, such as communications, advertising,

transport, some professional services, and recreational and sporting services. In Peru, foreign investors receive the same legal treatment as the local investors but the foreign investment is restricted to some activities, such as maritime services, air transport and broadcasting. In Dominican Republic, foreign investors receive national treatment, and no prior approval is required for foreign investment but it needs to register once it is made. All activities are open to foreign investment in the country, except related to management of toxic, hazardous or radioactive waste produced abroad; public health; the environment; and weapons production. At the sectoral level, there are restrictions in the mining, broadcasting, energy and air transport sectors, besides number of professional services.

By examining the investment policies for services in LAC countries under consideration, it has been observed that Brazil has opened certain health-care services to FDI, but some audio-visual and broadcasting services are still subject to foreign investment limitations and local content requirements or preferences. Foreign entry into wholesale trade services is allowed except for solid, liquid and gaseous fuels and related products unless domestic requirements are met with. Commercial presence in retail services and franchising is unrestricted. Peru has waived of the restrictions on foreign participation in radio broadcasting services, and there are no restrictions on foreign investment in the telecommunications sector in the outward oriented economy of Guatemala. It gives for freedom of entry into the market, freedom to amalgamate, free pricing and free use of technologies, and interconnection contracts are freely negotiated between operators. While in Colombia, foreign companies are required to establish a subsidiary in the country to operate in the national telecommunications market. In 2009, Colombia introduced a new law to promote investment in the sector, which established a general approval regime and abolished subsidy regime for low-income populations, subject to a transition period. Colombia offers a range of incentives for investment in tourism sector, mainly for renovation or construction of hotels and provision of ecotourism services. Argentina does not impose any restrictions on the nationality of investors to participate in the local financial system. Foreign owned financial institutions operating in Argentina receive national treatment, and foreign insurance companies receive such treatment subject to reciprocity. Guatemala has no restrictions on foreign investment in banking and also authorises entry of branches of foreign insurance and reinsurance companies into the domestic market. The financial sector in Chile has a significant level of foreign participation, both in banking and in insurance and pension funds. Access to the market is free of restrictions except some conditions or requirements are imposed in certain areas, for instance,

foreign insurance companies may market international maritime transport, international commercial aviation and transit goods insurance directly, but only if they are established in countries with which Chile has an international treaty that allows such an insurance to be effective. The financial sector in Colombia is open to foreign investment and there are no legal limitations on foreign capital holdings in commercial banks or insurance companies. Costa Rica has liberalised its insurance sector, certain telecommunication services and also lifted restrictions on foreign investment in airlines. In the financial sector, Costa Rica places no restrictions on foreign capital participation in insurance companies. Its banking sector is dominated by State banks, and foreign banks may establish a presence through subsidiaries set as joint stock companies but not through branch offices. Once established, the foreign banks are granted national treatment.

Brazil has designed a new model of investment agreements to replace bilateral investment agreements (BITs); based on the UNCTAD and OECD guidelines. The process had led to the drafting of the Cooperation and Facilitation Investment Agreement (CFIA), which was for a balanced outcome combining the promotion of an attractive environment for investors while preserving space for public policies. This was used to negotiate and sign a series of bilateral investment, promotion and protection treaties. Most of Chile's FTAs included a chapter on investment, and in January 2015, the presentation of a draft law defining a new legal framework for foreign investment in Chile was announced. Under this law, a specialised institution was ought to be set up to promote Chile as a foreign investment destination. In Colombia, domestic and foreign direct investors may sign a legal stability contract with the State, which guarantees that for the duration of the contract, there would be no change in the legal rules under which the investment is made. Colombia uses fiscal incentives as an instrument to promote national and foreign investments.

As discussed in this section, there have been variations in the FDI policy within each LAC country. Some countries are restricted and some are open for investment in various sectors. Countries like Brazil and Argentina have opened up some sectors in FDI but have restricted sectors like air transport, land acquisition, media, fishing among others. Brazil has been criticized by the foreign investors for making the business process cumbersome, expensive due to bureaucratic delays, tax burdens and labour market rigidities. However, there is emphasis on increasing the FDI inflows in these countries where many government schemes have been introduced to attract FDI.

On the other hand, countries like Colombia, Chile, Dominican Republic provides national treatment to foreign investment in most of the sectors, except a few including hydrocarbons, mining for Colombia, coastal shipping, ait transport and communication media in Chile, whereas it attracts highest FDI in mining. A major trend focusing on the entire region is that whether the country is inward oriented or outward oriented, sectors like fishing, broadcasting media and air transport are excluded from the list of open FDI sectors. LAC countries have shown improvement in opening up to FDI sectors in many countries, yet further liberalisation is expected and required in FDI sector to increase investment in these countries.

5.2.3 Issues with FDI sector in LAC

Slowdown of FDI inflows in LAC

In 2016, the average FDI inflows in the LAC region deceased mainly owing to weak investment in natural resources, particularly, metal mining and slowing economic growth (ECALC, 2017). The diversity of the region is a major reason for fluctuation in FDI; it decreased in the mining countries (Chile, Colombia, Peru), owing to a fall in demand and price of oil, while increased in the manufacturing countries of Central America (CEPAL, 2016). FDI inflows into LAC have slowed down due to a number of reasons — the rapid technological transition; increase in interest in keeping production at home; businesses being redirected towards more technologically intensive markets due to growing competitive pressures. There are major differences between the performances of the countries and the sub-regions. The largest economies are more attractive destinations for transnational companies. Brazil received the largest share of FDI, followed by Colombia and Chile. At the sub-regional level, FDI inflows into South America decreased while towards Central America and the Caribbean increased. With respect to FDI components, capital contributions and reinvested earnings experienced largest decline in LAC; suggesting adoption of a defensive wait-and-see strategy by transnational corporations in the region due to less attractive prices of natural resources and contraction of several countries' domestic markets (ECLAC, 2017).

Investors in the LAC region: Lack of diversification

There is not much diversification in terms of countries investing in LAC. The major share of FDI comes from US and EU, followed by Canada. Within the EU, the major share is from Netherlands and Luxembourg. They offer tax advantages which are used as a base by transnational corporations from third countries. If value of mergers and acquisitions are taken into consideration, then FDI inflows from China are substantial and the country becomes the

4th largest investor in LAC; but if are not taken into account, China has a negligible share of total FDI inflows in LAC, which is an underestimation of the amount of Chinese capital in the region (ECLAC, 2017). There is a lack of diversity among countries investing in the LAC region as a whole but there is some diversity across the sub-regions. For instance, European investors are more prevalent ones in South America while in Central America and the Caribbean investment is mostly from US firms (ECLAC, 2017).

LAC investment linkages with China

China's investment till 2004 in LAC was negligible but has grown substantially since then (Kahn *et al.,* 2012). China aims to achieve USD 500 billion trade with LAC between 2015 and 2019 and USD 250 billion of direct investment. The major share of China's FDI in LAC goes to Virgin Islands and Cayman Islands but they are not the ultimate destinations for the investment. There is no LAC country in the top 10 destinations of Chinese overseas direct investment (ODI), but the investment still is significant and certain to grow in future. China's ODI pattern differs from the existing global norms and practices. Its ODI is uncorrelated or indifferent to governance and rule of law. This trend has been observed in LAC as well. There has been significant Chinese investment in Argentina, Ecuador and Venezuela, which ranked poorly on the rule of the law index. Total lending from Chinese banks to LAC was higher than what the region received from both World Bank and IDB. A possible explanation for China's indifference towards governance is that large investments are made by state enterprises, which do not face too much pressure to get good returns. Also, investments made in poor governance countries are part of the state-to-state deals, which makes Chinese enterprises to be insulated from the local economic environment. The second area where China differs from the global practices in investment is that it follows environmental regulations of the host country rather than international standards. The implementation of such regulations is weak in poor governance countries. Developing countries have welcomed Chinese funding for mining and infrastructure projects, since it is a more flexible and less bureaucratic funding option, and it help complete projects relatively faster. The Ministry of Commerce of the People's Republic of China (MOFCOM) has issued guidelines on environment and social policies for Chinese firms investing abroad. The guidelines include Chinese companies operating overseas to conduct environmental impact assessments, develop mitigation measures and identify potential negative impacts of investments by working with the local communities. The implementation of these guidelines has a bearing on to the individual investing countries; but this is an indication of China evolving in the

direction of global norms. The third area where China differs from global norms is reciprocity. The LAC countries are extremely open to direct investment from other countries. Their level of overall restrictiveness is similar to that of US. On the other hand, China is much more closed. It has a relatively open manufacturing sector but highly closed mining, transport, financial services and other services sectors. This creates problems for its partners (Dollar, 2017).

5.2.4 LAC investment linkages with India

Economic relations between India and LAC are at an emerging stage; with many investment opportunities for Indian companies and room for growth. Presence of Indian diaspora, mainly in some Caribbean countries, can help develop economic relationships. Announced investment projects from India to LAC constitute a minor share of India's total. India has more M&As in LAC then LAC has in India; and they are concentrated in a few sectors like oil and sugar factories but smaller acquisitions have also happened in manufacturing, chemicals, and pharmaceuticals (CEPAL, 2016). China is investing heavily in metal sector of LAC as it is interested in accessing natural resources, and India is investing mainly in the IT and software services as it specialises in them. Major sectors receiving LAC FDI in India are business services, leisure and entertainment, and IT and software. Major sectors that are receiving LAC FDI in China are food and tobacco, financial services, and IT and software (Kahn *et al.*, 2012). Trans-Latin companies do not play a significant role in India (CEPAL, 2016). In Asia, China and India are the dominant destinations for LAC investment, and services sector is the main one (Kahn *et al.*, 2012). A successful trans-Latin company in India is Cinepolis from Mexico. It came to India in 2009, and was the first international exhibitor (CEPAL, 2016).

Recent bilateral trend indicates that India's outward FDI is mostly flowing towards 'tax havens', which are dominated by British Virgin Island, Cayman Island, Bermuda and Bahamas. Nearly 80 to 98 per cent of India's total OFDI to the region was flowing to these countries each year, particularly during the period of recession. However, three countries namely Brazil, Chile and Panama received FDI persistently from India. These seven counties shared between 95 to 99.5 per cent of India's OFDI to the LAC region during the period of recession.

The LAC countries receiving considerable amount of outward FDI from India between 2008 and 2017 were British Virgin Islands (50.19 per cent), Cayman Islands (28.95 per cent),

Panama (12.45 per cent) and Bermuda (4.31 per cent); as can be seen in Table 5.5. The identified top 10 LAC emerging economies received an extremely small amount of outward FDI from India between 2008 and 2017; Brazil received the largest cumulative share of only 1.35 per cent. Like the trend witnessed in trade in goods, outward FDI from India to LAC grew despite the recession during the first phase (2008-12) at a CAGR of 5.5 per cent. The second phase of recession severely affected FDI flows from India to LAC, especially during the period 2013-17, in which the CAGR of outward FDI flows was a negative 34 per cent. The impact on FDI flows from India to LAC was negative for the overall period from 2008 to 2017; owing to intense impact of recession. In several LAC countries investment flows from India grew rapidly in double digits during the first phase of recession, despite global slowdown. These include Bahamas, Honduras, Cayman Islands, Bermuda and Brazil.

Table 5.5: Trends in India's Outward FDI to LAC Countries: 2008-17

(in %, Share)

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	08-17
Argentina	0.02	0	0.04	0	0	0	0	0	0.06	0.07	0.01
Bahamas	0.02	0	0	0.35	2.44	1.42	0.8	2.17	0.97	0	0.85
Barbados	0	0	0	0	0.01	0.01	0.01	0	0	0	0.00
Belize	0.01	0	0	0	0	0	0	0	0	0	0.00
Bermuda	5.74	24	1.6	0	21	2.4	0	0	4.64	4.67	4.31
Bolivia	0.35	0.26	0.09	0.17	0.07	0	0	0	0	0	0.08
Brazil	0.77	1.42	0.49	0.19	1.78	1.15	0.65	6.26	1.68	6.67	1.35
Br. Virgin Isl.	80.4	57.4	64.9	38.8	52.8	44.6	81.8	7.82	2.32	23.2	50.19
Cayman Isl.	4.92	10.2	13	12.5	18.9	48.1	15.3	79.3	88.4	48.6	28.95
Chile	0	1.74	3.75	0.37	0.54	0.16	0.2	1.34	0.57	1.79	0.67
Colombia	0	0	0.01	0	0	0	0.02	0.01	0.01	4.82	0.16
Costa Rica	0	0	0	0	0	0	0	0	0	0	0.00
Cuba	4.26	0.12	2.14	0	0	0	0	0	0	0	0.42
Dom. Republic	0	0	0	0	0	0	0	0	0	0	0.00
Ecuador	0	0	0	0	0	0	0	0	0.01	0.25	0.01
St. Kitts & Nevis	0	0	0	0.01	0	0	0.09	0.01	0	0	0.02
Guatemala	0	0	0.09	0.05	0.02	0	0	0	0.07	0.26	0.03
Guyana	0	0	0	0.13	0	0.22	0.09	0.27	0.25	0.16	0.12
Honduras	0.01	0	0.01	0	0.31	0	0.07	0	0	0	0.04
Panama	2.34	4.8	13.8	47.3	1.95	1.89	0.71	1.06	0.88	9.02	12.45
Paraguay	0	0	0	0	0	0.02	0	0	0.04	0.04	0.01
Peru	0	0.05	0	0.03	0.14	0.06	0.2	0.1	0.08	0.37	0.09
Trini. & Tobago	0	0	0	0	0	0	0	0	0	0	0.00
Uruguay	1.16	0	0	0	0.01	0	0	1.38	0	0	0.17
Venezuela	0	0	0	0.04	0.04	0.01	0.17	0.25	0.05	0.03	0.06
LAC ($Mn)	**1287**	**963**	**1157**	**4088**	**1595**	**3175**	**3502**	**1087**	**1341**	**604**	**19167**

Source: Data on Overseas Investment, Reserve Bank of India, 2008-17

Note: Sum of all country shares equal to 100 for each year. Appendix X also provides Bilateral Direct Investment of India and LAC countries for 2017.

FDI outflows from India also declined substantially for a number of LAC counties during the period, like Argentina, Belize, Colombia, Cuba and Uruguay. However, in the second phase of recession, decline of outward FDI from India was recorded in a large number of countries

in the region— Bahamas, Barbados, Bolivia, Uruguay, British Virgin Islands, Guyana and Cayman Islands. Minor increase in FDI flows was witnessed only in Chile, Peru, and Brazil. This indicates that investment was more severely affected in the second phase of recession as compared to the first one. The overall performance of the region was not as intense as compared to what was expected by examining the performance during the second phase of recession. The overall situation in the region was positive in the case of Colombia, Cayman Islands, Brazil, Argentina, Panama and many others. However, several other countries faced negative growth of FDI inflows from India during the entire period of recession in the LAC region. The largest slowdowns were witnessed by Bahamas, Belize, Bolivia, Cuba, Dominican Republic and Honduras. However, India's focus on outward FDI on primary sector remained robust despite considerable level of fluctuations noticed during the period of recession. Bilateral investment priority of India for the manufacturing and services sectors continued to be at the back seat during the said period.

LAC's Primary sector, consisting of Agriculture and Mining sub-sector, received the largest share of outward FDI from India between 2008 and 2017, as observed in Table 5.6. However, its share was very small to begin with and grew over the years, especially, and since 2011 has become the dominant sector. The Primary sector was followed by Services, Industry and Miscellaneous sectors in terms of the share of outward FDI received from India between 2008 and 2017. Within many sub-sectors, apart from Agriculture and Mining sub-sector, major recipients of FDI flows from India included Manufacturing, Wholesale, Retail Trade, Restaurants and Hotels, Community, Social and Personal Services, and Construction.

Table 5.6: Trends in India's OFDI to LAC Countries by Broad Sectors: 2008-17

(in %, Share)

Sectors	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1.Primary										
Agriculture & Mining	0.5	4.2	13.4	54.9	18.6	44.2	85.7	79.8	89.1	54.8
2.Industry										
Construction	41.1	2.3	3.1	0.8	2.5	1.5	1.5	2.4	1.0	0.3
Electricity, Gas & Water	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8
Manufacturing	40.6	19.3	17.8	18.9	21.3	21.5	3.6	11.6	2.8	16.9
3.Services										
Com, Social & Per. Serv.	0.0	4.6	0.1	0.0	2.8	21.2	0.1	1.1	5.2	1.8
Finance, Ins. & Busi. Serv.	11.2	34.0	14.2	1.0	23.7	7.4	4.9	4.4	0.8	17.6
Trans., Stor. & Com. Serv.	0.0	0.0	10.5	2.2	16.9	3.1	0.1	0.0	0.3	4.1
WS&R Tr, Rest. & Hotels	6.1	34.8	4.6	20.5	5.3	1.2	2.3	0.7	0.8	3.9
4. Miscellaneous										
Miscellaneous	0.5	1.0	36.3	1.7	8.9	0.0	1.8	0.0	0.1	0.0
LAC Total (USD Mn)	**1287**	**963**	**1157**	**4088**	**1596**	**3175**	**3502**	**1087**	**1341**	**604**

Source: Data on Overseas Investment, Reserve Bank of India, 2008-17

As discussed earlier outward FDI from India grew during the first phase of recession and was affected severely by the second phase, and thus resulted in an overall negative impact on FDI flows from India to LAC between 2008 and 2017. The same trend was observed in the sectoral composition of India's outward FDI to LAC. During the first phase of recession, there was rapid growth of investment from India in the Primary, Miscellaneous and Services sectors and several sub-sectors—Agriculture and Mining, Finance, Insurance and Business services, and Wholesale, Retail Trade, Restaurants and Hotels. FDI outflows to the Industry sector and its various sub-sectors, like Electricity, Gas and Water, Construction, and Manufacturing, declined during the period. However, during the second phase of recession, outward FDI from India to the region declined in all major sectors and sub-sectors with the largest decreases in Community, Social and Personal Services, Construction, Manufacturing, and Agriculture and Mining. Thus, investment was more severely affected in the second phase of recession. The overall impact on investment between 2008 and 2017 was not as severe as the second phase of recession; and an increase in outward FDI from India was recorded in Agriculture and Mining, and Electricity, Gas and Water sectors. However, several other sectors faced a fall in outflows of FDI from India during the overall period of recession with the miscellaneous sector being most adversely affected, followed by the Construction sector.

As discussed above, India's OFDI is targeted to seven countries including four 'tax haven' countries. Table 5.7 examines country -wise and sector- wise major recipient of outward FDI from India in LAC. India is engaged in a diverse number of sectors in different LAC countries as its investment is dependent on the opportunities available in different countries and regions. In almost all the sectors, British Virgin Islands received the largest share of FDI flows from India. Not taking British Virgin Islands into consideration, India's sectoral priorities in LAC can be examined. India prioritised the agriculture and mining sector for OFDI in Cayman Islands, Panama, Colombia and Guyana. Within the industry sector, Bahamas received the largest share of FDI from India in construction; Brazil in electricity, gas and water; and Panama, Cayman Islands, Brazil, Chile, and Cuba received equal share of FDI in the manufacturing sub-sector. India has also made minor investments in the manufacturing sector in many LAC countries.

Table 5.7: India's Outward FDI to LAC Countries by Sector: 2007-17

(in USD Million)

Country	Primary	Industry			Services				Misc	Total
	Agri & Mine	Constr	Elec, Gas & Water	Mfg	Com., Social & Pers. Serv.	Fin., Ins. & Busi. Serv.	Trans., Storage & Comm. Serv.	WS&R, Rest. & Hotels	Misc	Total
Argentina				1		1		0		2
Bahamas		157		6	0	1				164
Belize				0		0				0
Bermuda					68	720	37			825
Bolivia		16								16
Brazil	1	1	6	140		75	1	35		258
Barbados					1					1
Chile				126		3	0	1		129
Colombia	27			2		0		1		30
Costa Rica								0		0
Cuba				81						81
Cayman Isl	5014	31		176	18	2	73	234		5549
Dom rep				0						0
Ecuador				2				0		2
Guatemala				3		3		0		6
Guyana	23									23
Honduras				0		0		8		8
St. Kitts &Nevis						4				4
Panama	1845	24		243		1	267	7		2386
Peru	5			12		0		0		17
Paraguay				1				0		1
Trin&Tobago								0		0
Uruguay	0					32				32
Venezuela				12						12
Br. Virgin isl.	2627	573	0	2469	772	791	234	1429	725	9621
LAC Total	**9542**	**802**	**6**	**3274**	**860**	**1631**	**613**	**1714**	**725**	**19167**

Source: Data on Overseas Investment, Reserve Bank of India, 2008-17

A large share of OFDI from India is directed to the services sector in LAC and within that Bermuda and Cayman Islands received the largest share of investments in community, social and personal services. India invested in a number of LAC countries' financial, insurance and business services, like Bermuda, Brazil, Uruguay, St. Kitts and Nevis, Guatemala and Chile. OFDI in transport, storage and communication services was not so widespread and was mainly concentrated in Panama, Cayman Islands and Bermuda with a minor share going to Brazil. India also invested in a number of LAC countries' wholesale, retail trade, restaurants and hotels sector, such as Cayman Islands, Brazil, Honduras, Panama and Chile. The top 10 identified LAC economies did not receive the largest share of FDI from India. Within them,

Brazil and Chile received the largest amount, which was mainly directed towards the Manufacturing sector. India's focus in Panama, another major recipient of India's OFDI, was in the primary sector. Among the 'tax haven' economies, Cayman Island focused on primary sector, Bahamas on industry and Bermuda on services sectors, whereas British Virgin Island on multi-sectors for Indian OFDI. Thus the potential of India's outward FDI in LAC is not fully explored, and can be enhanced further by focusing on sectors in which LAC countries are rather more specialized.

Structural reforms are needed in LAC to improve labour productivity. Appropriate sector policy and science and technology policy are required to attract investment in R&D. Regulatory reforms are needed to attract more FDI as it lags behind other regions in terms of red-tape regulations, especially in the case of regulations related to foreign owned firms and FDI (Penfold *et al.,* 2013). LAC has to focus more on modernising the economy and diversifying production (ECLAC, 2017). Policies are needed to increase investment in LAC, such as liberalisation of FDI regimes through international investment agreements; regulatory policies like reduction in the number of procedures to set-up a business and the time taken; positive relationship between Bilateral Investment Treaties and FDI flows (Kahn *et al.,* 2012).

LAC region has experienced increase in FDI inflows and outflows both over the last decade. It has not only increased in value but has also expanded its sectors from traditional natural resources and extraction to telecommunication and financial services. Many countries have experienced economic liberalisation, which has led to spur in FDI. However, the region witnessed a slowdown in FDI inflows during the second phase of recession, whereas the outflows fluctuated. Similar is the case with greenfield investment. Different LAC countries have different level of openness in FDI sectors. Though Brazil has restricted a number of sectors in FDI, like in Argentina, still it attracts the largest FDI. Whereas, countries like Costa Rica, Chile and others have less restriction in FDI sectors.

Though British Virgin Islands stands out in FDI flows, yet it is not the ultimate destination for investment flows. There is not much diversification seen in FDI inflows in the region, where the major investors are from the U.S., the EU, Canada and more recently China. The ten important countries identified for India, do not receive much of the FDI from India. It can be seen that India's outward FDI to LAC has not reached its desired potential, and thus further steps needs to be taken up to enhance relation between India and LAC in FDI.

5.3 Services

In recent trade negotiations for CEPA/CECA/FTA, India has given priority to trade in services sector. This sector is blooming in India, particularly led by non-traditional modern services sectors. India's strong competitiveness has been in the IT and ITeS sector and a few other modern sectors within the broad sector of trade in services. At present, India is considering engaging seriously with the LAC countries in various forms of comprehensive regional groupings. Recent evidences indicate that LAC is competitive in traditional trade in services and increasingly competitive in travel and transport sectors. Most important countries in the region are having competitiveness in scores of sectors and sub-sectors lately. Several countries in the region are net importers of trade in services, particularly modern trade in services, including those of telecommunication, computers, financial services, other business services, etc. For promoting competitive sectors in services trade and meeting their own domestic import demand, many countries have embarked on sweeping reforms in the services sector. In this context, some of the broad sectors subjected to deep liberalisation are air and marine transport, financial sector, telecommunication, professional services sectors, etc. among others. However, these liberalisation initiatives are not uniformly spread across the countries in the region.

However, these developments are important from the standpoint of India. India is not only having large trade surplus in the trade in services sector but is also becoming an emerging global importer in the sector. India is known for its competitiveness in the IT and ITeS sector, but it is also competitive in a large number of non-traditional and traditional sectors. India has large trade in services sector, but it has competitiveness in small number of specific sub-sectors within broad sectors. In these sub-sectors, India is emerging competitive globally and also in the LAC region. Similarly, several countries in LAC have small trade in services sector, but many of them have competitiveness in large number of sub-sectors. India is import dependent on some of these sectors in services trade. Considering the trade in services sector of both the regions, complementarity exists in several sectors between India and LAC. However, these synergies can be tapped for mutual advantage, and this needs to be examined with empirical evidences. In this section, some of these issues are discussed in more details with empirical analysis.

5.3.1 Trend in Trade in Services

Exports of Trade in Services of LAC

LAC is a marginal player in global service trade. In 2016, the region's share in total global services exports was 3.1 per cent compared to a share of 6 per cent in global goods exports. LAC's total services exports have a larger share of traditional services than of modern services. Modern services are internet-enabled such as telecoms, computer and information services, financial services, insurance and pension services, royalties, and other business services. Traditional services include goods-related services, transport, travel, construction, personal, cultural and recreational services, and government services. In LAC, within the export of traditional services, the tourism sector has the largest share. Insurance and pension services have largest share of exports in the modern services sector. This is followed by other business services. The region is strongly specialized in tourism, which accounted for almost half of its services exports. South America is the largest exporter of services in LAC, and has a prominent position in export of other business services. Central America and the Caribbean have a relatively lower share in total services exports of LAC but they have a large share in the export of services such as travel, transport, telecommunication and computer services and financial services. They specialise in tourism services. Brazil had the largest total services trade in LAC and was followed by Argentina. Costa Rica was with the largest trade in modern services (ECLAC, 2017).

Based on the certain criteria[5], the study has chosen top 10 countries in the LAC region as India's important trading partners. They are also emerging important in the trade in services sector within the region. Combined total of exports of trade in services by these countries was lower than that of India in 2017, as shown in Table 5.8. However, export sectors were more evenly distributed in these countries than in India. In the total services export of these countries, share of transport, travel and other services was 16 per cent, 38.2 per cent and 44.3 per cent, respectively, in 2017. Within the exports of transport services, several top LAC partners were either important exporters of freight transports or postal and courier services. In travel service exports, lion's share was with personal travel. Some countries showed significant presence in business travel such as Brazil, Argentina, Costa Rica, and Ecuador. The largest contributor to exports was the other services. Some of the dominant countries in the sector were Brazil, Argentina, Costa Rica and Chile in 2017. In this broad sector, other business services contributed significantly to export of services.

[5] Refer Section 4.5

Table 5.8: Sectoral Services Exports of Selected LAC Countries: Share in 2017

(in %)

Sector	ARG	BRA	CHL	COL	CRI	DOM	ECU	GTM	PER	VEN
1 Mnfg serv. on physical inputs	0.0	0.0	0.0	0.0	1.7	0.7	0.0	0.0	0.0	0.0
2 Mainten. & repair serv. n.i.e.	0.6	1.3	0.0	0.0	1.2	0.0	0.3	0.6	0.0	0.3
3 Transport	13.0	16.8	28.9	20.4	5.2	6.9	17.9	14.1	21.2	45.8
3.1 Passenger	3.1	1.1	9.6	11.5	1.2	0.0	0.3	0.2	12.3	5.7
3.2 Freight	1.9	5.6	8.2	4.1	0.3	0.0	15.0	8.0	0.6	21.0
3.3 Other (incl. postal & courier)	8.0	10.1	11.1	4.8	3.9	6.9	2.7	5.9	8.3	19.1
4 Travel	36.4	16.8	36.0	57.8	42.8	81.6	71.9	54.9	52.9	36.8
4.1 Business travel	7.2	4.4	4.1	0.0	5.9	0.7	18.6	10.4	0.0	16.7
4.2 Personal travel	29.2	12.5	31.9	57.8	36.9	81.0	53.3	44.4	52.9	20.1
5 Other services	49.9	65.0	35.1	21.9	49.0	10.8	10.0	30.5	31.4	17.1
5.1 Construction services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0
5.2 Insurance & pension serv.	0.3	2.0	3.2	0.2	0.0	0.7	0.0	0.8	17.1	0.2
5.3 Financial services	1.1	2.0	1.3	1.0	1.0	0.5	1.6	1.8	0.8	1.2
5.4 Charges for use of IP n.i.e.	1.4	1.9	0.5	0.7	0.1	0.0	0.0	0.0	0.4	0.0
5.5 Telecom, comp & info. serv.	13.8	6.3	3.5	4.1	13.5	1.6	1.8	8.8	2.1	5.0
5.6 Other business services	29.3	49.5	23.0	12.6	34.0	3.9	0.0	15.5	8.5	6.9
5.7 Personal, culture & rec. serv.	2.5	0.9	0.3	1.4	0.0	0.5	0.9	0.0	0.1	0.5
5.8 Govt. goods & services n.i.e.	1.6	2.3	3.3	1.9	0.4	3.6	5.6	2.9	2.3	3.3
Total (USD Bn)	**14.8**	**34.5**	**10.1**	**8.4**	**8.7**	**8.8**	**2.3**	**2.9**	**7.0**	**1.3**

Source: Balance of Payment Statistics, IMF online, 2018.
Note: Sum of shares of a country equals to 100. Value for Venezuela is for 2016.

Imports of Trade in Services of LAC

India's top trading partners in LAC imported large amount of services trade from the rest of the world. These countries imported USD 106.8 billion of services as against USD 98.6 billion exports in 2017; thus becoming a net importer of services. Import structures of these countries are more heterogeneous than their exports to the rest of the world. Less than half of their imports were from other services and remaining imports were shared unevenly shared between travel and transport sectors, as shown in Table 5.9. In transport sector, freight imports dominated the scene, followed by passenger transport. Personal travel was the most dominant segment in the travel sector.

Table 5.9: Sectoral Services Imports of Selected LAC Countries in 2017

(in %, Share)

Sector	ARG	BRA	CHL	COL	CRI	DOM	ECU	GTM	PER	VEN
1 Mnfg serv. on physical inputs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2 Mainten. & repair serv. n.i.e.	1.2	0.3	0.0	0.1	0.1	0.0	0.2	0.2	0.0	0.3
3 Transport	20.8	15.8	34.4	22.6	30.2	45.5	44.6	43.6	31.3	28.2
3.1 Passenger	11.2	5.8	5.1	5.3	7.5	11.7	12.1	8.0	7.9	11.7
3.2 Freight	8.8	5.5	25.4	13.6	21.2	32.2	27.8	34.7	21.6	14.0
3.3 Other (incl. postal & courier)	0.7	4.4	4.0	3.7	2.5	1.6	4.7	0.8	1.7	2.6
4 Travel	45.7	27.8	17.6	35.7	24.2	15.1	20.8	22.9	25.1	19.1
4.1 Business travel	6.3	7.7	2.0	0.0	8.7	0.0	5.7	6.6	0.0	4.7
4.2 Personal travel	39.4	20.1	15.6	35.7	15.5	15.1	15.1	16.3	25.1	14.5
5 Other services	32.3	56.1	48.0	41.6	45.5	39.4	34.4	33.4	43.6	52.3
5.1 Construction services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0
5.2 Insurance & pension serv.	1.5	2.0	3.0	8.0	5.5	6.3	14.0	8.5	11.2	2.8
5.3 Financial services	1.2	1.0	5.7	9.0	5.6	9.0	4.0	7.9	1.2	1.0
5.4 Charges for use of IP n.i.e.	9.2	7.6	12.0	3.4	14.5	3.2	0.9	6.0	3.5	2.7
5.5 Telecom, comp & info. serv.	5.0	5.6	4.3	7.2	7.3	2.8	0.2	4.8	6.8	2.4
5.6 Other business services	11.3	35.6	19.9	12.2	12.2	12.6	2.4	3.0	18.5	16.3
5.7 Personal, culture & rec. serv.	3.1	1.3	0.3	0.7	0.0	1.0	9.8	1.0	0.3	22.8
5.8 Govt. goods & services n.i.e.	1.0	3.0	2.9	1.1	0.3	4.4	3.1	1.9	2.0	4.3
Total (USD Bn)	**24.9**	**68.3**	**13.2**	**12.5**	**3.7**	**3.5**	**3.3**	**3.3**	**8.8**	**9.5**

Source: Balance of Payment Statistics, IMF online, 2018

Note: Sum of shares of a country equals to 100. Value for Venezuela is for 2016.

Business travel remained important for certain countries like Brazil, Argentina and Venezuela. Other services dominated services imports in most of the top trading partners of India in LAC. In this sector, certain sub-sectors like other business services, IP services, telecommunication, computers and information services and insurance & pension services are emerging important. Interestingly, most of the economies registered high preference for imports of 'other services' but these countries showed different preferences within this broad sector. As LAC has large market in trade in services, and top countries of India have maintained trade deficit in the sector, India can have large trade opportunities in the sector.

Services Trade Balance in LAC

A number of LAC countries, such as Panama, the Caribbean, Costa Rica, Dominican Republic, Honduras, Nicaragua, Cuba, El Salvador and Uruguay, have a surplus in traditional services trade, which reflect their specialisation in tourism and transport. The dynamics of trade in tourism services is tied closely to economic cycles, and in the case of transport, it is related to trade in goods. Only Costa Rica and Panama have a surplus in modern services trade. Costa Rica specialises in the exports of computer services and other business services, which are intensive in increasingly skilled labour and foreign direct investment. Panama is

one of the region's most specialised economies in financial services. Peru, Venezuela, Colombia, Argentina, Chile, Brazil and Bolivia have a deficit in services trade in both the traditional and modern services. The size of Brazil's and Chile's deficit is smaller in relation to output in modern services (ECLAC, 2017).

Offshore Services in LAC

There are three broad types of offshore services— Information Technology Outsourcing (ITO), which covers software designing and development; Business Process Outsourcing (BPO), such as back office functions in call centres; and Knowledge Process Outsourcing (KPO), such as market and legal research (Gereffi *et al.*, 2016). LAC has steadily increased its participation in offshore services industry and is catching up with emerging Asia and Eastern Europe, which had penetrated this sector in 1990s. The region is strategically located to serve the North American market as has the same time zones and competitive wages (Hernández *et al.*, 2014). Despite entering IT-BPO industry almost a decade later, the size of the sector in LAC was USD 8 billion in 2010 which was higher than Eastern Europe's USD 5 billion (Tucci, 2011). The LAC governments have implemented a number of incentives to promote development of the sector and attract FDI. These include tax-related instruments, infrastructure support measures, training benefits and various promotional initiatives, including export promotion. The sector is highly human capital intensive and workforce skills are the main determinant of a developing country's participation and prospects for upgrading in the industry. Only a few LAC countries have been able to upgrade their participation in the offshore services value chain and provide higher value-added services such as KPO and R&D. For instance, Costa Rica, has a strong presence in the BPO services segment but has also upgraded into knowledge process outsourcing (KPO) and research and development (R&D) activities (Tucci, 2011). The outsourcing and offshoring industry in LAC is dominated by Brazil, Mexico and Argentina; Colombia, however, is emerging as a major regional challenger. Global and local companies are expanding their operations to mid-sized cities in the country. Colombia's outsourcing industry is moving towards higher value added, data and knowledge-based services. This has resulted from Colombia's competitive advantages in many outsourcing services such as voice and non-voice segments (Hernández *et al.*, 2014)

5.3.2 Trade Policies in the Services sector of LAC

Services sector is emerging as the driver of growth in many countries of the LAC region. Apart from significant contribution to growth, the role of the sector as a generator of the employment is not ignored as far as inward investment flow is concerned. Despite having structural weakness of the sector, many countries have made WTO plus commitment in services trade. State has a major role to play in balancing benefits of trade liberalisation and protecting domestic market in the country to optimize gains from the sectors, which are flourishing over years. The region has large number of liberal countries and small number of inward countries which happen to be large in their economic sizes. Therefore, we observe two streams of trade liberalisation policies in the region. This section examines various facets of trade policies pursued in different countries in the region.

Services sector plays an important role in Brazil; and is the key component of export competitiveness and main contributor to Brazil's GVA and job- creation, but the sector is structurally weak, and this affects its growth potential. Brazil has improved its GATS commitments and three of its RTAs now contain WTO-plus service commitments. In Argentina, commercial services and the real estate services have the highest share in the country's GDP. The services sector in Argentina is virtually open but with minor restrictions. The country applies MERCOSUR's Montevideo Protocol on Trade in Services. Both Chile and Colombia are net importers of services. The largest contributors to Colombia's GDP in services were financial and trade services. In the outward oriented economy, Guatemala, services accounted for 63 per cent of its GDP, and it has undertaken specific commitments in 5 of the 12 GATS services categories in the WTO. It has adopted the majority of commitments on the basic telecommunications services and has also accepted the WTO reference paper but did not take part in negotiations on financial services and did not ratify the Fourth Protocol of the GATS. However, it has continued to liberalise its services regime through unilateral action and commitments in connection to its RTAs. This has made the services regime as it is currently applied more liberal than the commitments undertaken in the context of GATS. A similar situation is found in Costa Rica as its services market regime is more open than the commitments adopted by the country under GATS; which are limited to a few sectors. The State plays an important role in certain services market segments in Costa Rica even after a number of services sub-sectors are opened to competition. Peru has made commitments in 7 of the 12 services sector under GATS but its services commitments in various RTAs go beyond the ones included in the GATS schedule. It is also a part of a group

of WTO members who are negotiating a new international agreement on services. The services sector is the largest contributor to the GDP of moderately open Ecuador, but the country has limited GATS commitments, and the State maintains a dominant position in a number of services sub-sectors. Though services sector is relatively small in Venezuela as the economy is dominated by the hydrocarbon sector, the country has made considerable progress in liberalisation of services, particularly of telecommunication and financial services.

Air Transport

Brazil has undertaken initiatives to address transport and related infrastructure bottlenecks. The domestic aviation market is highly concentrated and domestic public air transport services (cabotage) are reserved for Brazilian legal persons. The main commercial airports of Brazil are state owned and operated by a public enterprise. Similarly, in Colombia, Air cabotage services are the preserve of Colombian aircraft, and a nationality requirement is applied under which 90 per cent of the staff employed by Colombian airlines and agencies/subsidiaries of foreign airlines established in Colombia must be Colombian nationals. Domestic air transport services in Argentina are reserved for national companies though exceptions are allowed. Airports are State owned but the management of the major airports has been contracted out to private enterprises. On the other hand, Chilean commercial aviation policy works on the principles of free market entry, free pricing and minimum official intervention, and is designed to create optimum conditions of competition among all companies with an interest in Chile's air transport system. Foreign companies have open access to the Chilean air transport market, provided they comply with the technical requirements. In 2012, provisions were introduced to strengthen cabotage policy, allowing a foreign company free access without reciprocity. There are no restrictions on the participation of foreign investors in airport concessions. The main airports in Guatemala are owned and operated by the State but there are no legal restrictions on the participation of private investment in the sector. National air transport companies can be 100 per cent foreign-owned, but they must have their principal domicile in Guatemala and more than half of their directors and managers must be Guatemalan citizens or residents. With respect to international commercial air services, Guatemalan law grants all countries the third, fourth and fifth freedoms of the air; the remaining freedoms being subject to reciprocity, except for the ninth freedom, which is not granted. Guatemala currently has twelve bilateral air transport service agreements in force and there are no restrictions on the number of providers of computer

reservation systems. The air transport system in Costa Rica is relatively open and the country has concluded bilateral air transport agreements with a number of countries including some outside its traditional market, the Americas. Peru has been making regulatory progress in the air transport sector but infrastructure problems persist in certain activities. The country allows 49 per cent foreign participation at the start of operations in air transport firms established in Peru, which can be increased to 70 per cent after six months.

Maritime Transport

In Brazil, the national flag fleet remains concentrated and dominated by vessels of the state company PETROBRAS. Cabotage remains reserved for Brazilian flag vessels, except under certain conditions. Guatemala, on the other hand, does not have a merchant fleet or any legislation in that respect. International maritime transport is conducted by foreign vessels, which are allowed to provide domestic cabotage services. Domestic maritime transport services are reserved for national companies in Argentina. Most ports are managed by the private sector but six ports are still run by the State. In Colombia, access to the maritime transport market is based on the principle of reciprocity. Cabotage is reserved for Colombian-flagged ships, although the chartering/hire of a foreign-flagged ship may be authorized if no Colombian vessels are available or are suitable for the purpose. The captain, officers and 80 per cent of the crew on ships registered in Colombia must be Colombians. International maritime transport and cabotage companies set their own tariffs and freight rates but must notify them to the authorities, which may review them and raise objections. In Brazil, the main ports are either operated by state or municipal governments or are administered by a public-owned firm, although the majority of cargo movements are undertaken by private terminals. Foreign vessels in Brazil are subject to a lighthouse fee. Seaports in Guatemala are state-owned and only one of them operates under a private concession. There are, however, no restrictions on domestic and foreign investments in the operation of ports and provision of auxiliary services. Like the air transport sector in Peru, its maritime transport sector also faces infrastructure problems.

Financial Sector

Argentina's and Peru's financial sectors successfully overcame the world financial crisis in 2008-09. Peru had an appropriate regulatory framework which helped financial sector during the crisis. Chile has a diversified financial sector, with a high degree of financial intermediation and international integration. It has made a series of proposals to adapt its banking rules to the Basel III criteria, but the complete implementation of these criteria

would require amendments in the legislation. In Colombia, special authorization is required to take out insurance with companies domiciled abroad. Reforms were introduced in the regulatory framework and in prudential criteria which resulted in sound prudential indicators of financial institutions. Guatemala has further consolidated and deepened its financial system and has also experienced an expansion in banking assets and credit. It has strengthened its financial legislation by incorporating international standards of supervision. Costa Rica has witnessed a number of significant changes in the financial sector such as the end of state monopoly, enactment of a new legislation and creation of a regulatory authority for the sector.

Telecommunication

In Brazil, strong market competition has resulted in improvements in the quality and tariffs of telecommunication services. Local content requirements were used for auctioning radio spectrum frequencies. Argentina provides telecommunication services on a competitive basis. However, fixed telephony is dominated by two traditional operators. In Chile, the General Law on Telecommunications provides free and equal access to use radio frequency spectrum. Access is granted by means of concessions, permits or licences. Suppliers of telecommunications services in Colombia are allowed to set their tariffs freely, except in cases where competition is deemed inadequate or where the quality or supply of services is not acceptable. Some tariffs are monitored, and a tariff ceiling is currently imposed on calls from fixed to mobile telephones. Brazil has established a digital marketing law in 2014 that can set the framework for the use of the Internet. Virtually all international e-purchases are charged with a 60% flat equalization tax. In addition to the existing tax incentives, tourism-specific concessional or administered interest rate finance programmes have been introduced to cope with high demand from mega events hosted during the review period. Chile amended the Telecommunications Law in 2010 to include the rights for Internet users and obligations for Internet service providers. The government of Guatemala is working on a National Connectivity and Broadband Plan to reduce digital divide and promote technological development. The Costa Rican telecommunication sector has become highly dynamic with the end of the state monopoly on mobile telephony, internet and private networks. A new legal and institutional framework has also been introduced, and the presence of private operators has resulted in market competition, which has led to more diversified supply of services and lower rates. Peru has continued to liberalise its telecommunications services, still a single private firm controls over 70 per cent of all fixed telephone lines and almost 60 per

cent of mobile market. In the Dominican Republic, the telecommunications market is governed by rules of free and fair competition and operators are prohibited from applying unequal conditions for equivalent services.

Professional Services

In Brazil, bilateral arrangements regarding professional services were signed in 2014 (architects and urban planners, Portugal), in 2015 (engineers), and in 2016 (architects and urban planners, France). In 2013, More Doctors Programme has allowed foreign doctors to work in Brazil without meeting the standard working requirements. Argentina does not regulate the practice of the profession, but there are regulations governing the content of curricula for diplomas corresponding to professions where practice can compromise public interest or place, health, safety, rights, property or education of the population directly at risk. To exercise a profession in Argentina, professional qualifications obtained from abroad are revalidated at the national university. The country has made specific commitments regarding a number of professional services under the GATS, including legal, accounting, engineering and architectural services.

Tourism

In Colombia, provision of certain types of tourism services is subject to registration requirements. Providers of certain tourist services must pay a para-fiscal contribution for the promotion of tourism, which has also been applied to commercial centres since 2011. Guatemala grants national treatment to foreign investors in tourism related services, such as hotels, lodging services, tour operations and travel agencies. Though, they are required to register. But foreign nationals, who are registered, work independently and may reside in the country and may provide tourist guide services. However, community tourist guide services may only be provided by citizens of Guatemala. Argentina recognises tourism sector as of national interest. The Ministry of Tourism was created in 2010 in Argentina to strengthen and extend government's action in the sector. The tourism sector in Costa Rica is extremely important for its economy. The country has introduced new laws to promote rural community tourism to regulate certification of corporate social responsibility in the tourism industry, and to impose a fee on all passengers entering the country by air. The tourism sector in Dominican Republic is an important contributor to the country's GDP, and it benefits from a number of plans and incentives.

The above discussions clearly state that diversified countries in LAC have specialised in diversified services sector. For instance, commercial services and real estate provided largest share in services sector in Argentina, whereas in case of Colombia and Venezuela, financial and trade services and services related to hydrocarbon dominated, respectively. Services act as a main contributor to the GDP and job -creation in countries like Brazil, Ecuador and Guatemala. Many of the LAC countries have committed to GATS in WTO like Brazil and Ecuador, whereas others, like Guatemala and Peru have continued to liberalise their services sector more on a unilateral basis in RTAs as compared to GATS commitment. However, when one looks at the domestic policies regarding the services sector in different LAC countries, it is observed to be heterogeneous in nature. On the one hand we have countries like Brazil and Peru, where services sector is structurally weak and infrastructure in services sector is also weak. On the other hand, we have countries where services regime is open and liberalised, like Costa Rica and Argentina. However, many countries are still in the process of liberalising their services sector like Venezuela in telecommunication and financial services, Guatemala in telecommunication services. In sectors like air transport, maritime transport and other services, one can see different policy regimes in different countries as in case of air transport, Brazil, Argentina and Colombia have restricted it to national companies and their individual nationals. And in case of maritime services, these countries allow only national companies to operate, however, ownership ports are different among these countries too. Further liberalisation in various sectors may benefit Indian services export to these countries. Moreover, LAC countries are specialised in sectors like telecommunication, which can be traded with India. Therefore, one should particularly focus on specific services sector where India and LAC both can benefit from accessing each other market. A detailed analysis is followed in the next section.

5.3.3 Trends in Services Trade in India

Changing Dynamics of India's Exports of Trade in Services

Export performance of India's trade in services can be described as a miracle during global buoyancy, and the growth euphoria of the sector disappeared with the advent of global recession, especially in the second phase of recession. India's exports in trade in services reached the level of USD 170.9 billion in 2017 from USD 23.9 billion in 2003; registering almost a seven-fold rise in 14 years, despite having 9 years of prolonged global economy recession during the period, as shown in Table 5.10. India's exports of trade in service sector

became dynamic during the global buoyancy, spanning 2003-07, where the sector grew at the CAGR of 37.9 per cent per annum. Between 2003 and 2011, export of the sector grew by six times, and during these years export registered double-digit growth except in 2009. Following sustained recession, export expanded up by just 20 per cent during 2011-17 and export growth rate shrunk to a single digit in each of the years.

Table 5.10: India's sectoral Exports of Services to the World: 2008-17

Sectors	Value (USD Bn)		Share (%)		CAGR (%)			
	2008	2017	2008	2017	03-07	08-12	13-17	08-17
1 Mnfg services on physical input		0.1	0.0	0.1			20.6	
2 Maintenance & repair services n.i.e.		0.2	0.0	0.1			2.3	
3 Transport	12.8	17.0	12.1	9.9	30.6	8.1	0.1	3.2
3.1 Passenger	0.6	0.5	0.6	0.3	50.8	-12.6	-5.6	-2.3
3.2 Freight	7.9	13.7	7.5	8.0	28.4	8.2	-1.1	6.3
3.3 Other (including postal & cour.)	4.3	2.8	4.0	1.6	32.7	10.3	8.8	-4.7
4 Travel	11.8	27.4	11.2	16.0	24.5	11.0	10.4	9.8
4.1 Business travel	0.0	3.1	0.0	1.8			13.7	
4.2 Personal travel	11.8	24.2	11.2	14.2	24.5	9.5	10.0	8.3
5 Other services	81.4	126.2	76.8	73.9	42.5	6.8	3.0	5.0
5.1 Construction services	0.8	2.3	0.8	1.3	28.5	2.3	17.0	11.7
5.2 Insurance & pension services	1.6	2.5	1.5	1.4	38.6	9.7	3.5	5.2
5.3 Financial services	4.3	4.5	4.0	2.6	74.2	5.7	-8.4	0.5
5.4 Charges for the use of IP n.i.e.	0.1	0.7	0.1	0.4	61.3	21.4	10.3	18.1
5.5 Telecom, computer & info serv.	50.4	78.5	47.5	45.9	33.0	7.5	2.1	5.1
5.6 Other business services	23.1	35.7	21.8	20.9	73.8	5.5	6.1	4.9
5.7 Personal, cultural & recreation serv.	0.7	1.5	0.7	0.9		2.0	4.4	8.4
5.8 Government goods and services n.i.e.	0.4	0.6	0.4	0.4	4.2	6.5	7.8	5.4
Total	106.1	170.9	100.0	100.0	37.9	8.2	3.5	5.4

Source: Balance of Payment Statistics, IMF online, 2018

Booming of the export sector of trade in services came to an end and remained flat during the first phase of the global recession where the sector grew at the CAGR of 8.27 per cent per annum during 2008-12. The situation aggravated further with the onslaught of the second phase of the global recession, pushing CAGR to the rock bottom level of 3.5 per cent per annum during 2013-17. However, during the entire period of recession, beginning from 2008 till 2016, India's export of trade in services sector expanded at the CAGR of 5.4 per cent; perhaps posting a much better performance than the merchandised export sector.

Performance of disaggregated sub-sectors remained crucial while examining overall export performance of India in the services sector. Among major export sectors of India in trade in services, broad sectors like travel and other services registered high growth during the entire period of recession. Some of the sub-sectors such as personal travel and telecommunication, computer and information services maintained high growth despite recession. Some other sectors had small share in trade in services, but performed impressively in terms of CAGR.

These sub-sectors having high growth performance during the period 2008-17 were construction services, IPR and personal, cultural and recreational services.

Distribution of trade in services is highly skewed in the export sector but India is witnessing certain level of structural changes which can be seen in specific broad sectors. Looking at changing composition of the sectors, the whole of export of trade in services is spread into transport, travel and other services sectors. Importantly, services in manufacturing services and maintenance & repair services were almost non-existence in India in 2017, and even before. Nearly 74 per cent of export of services was contributed by other services led by telecommunication, computer & information services, which were followed by other business services. While transport sector contributed 9.9 per cent, travel sector contributed to 16 per cent of the total services of exports.

In the export of travel services, bulk of India's travel services were in the sub-sector of personal travel, but export shares in business and personal travel showed an increase in the recent years. Export share of travel services, however, has declined since 2003 due to fall of export share of personal travel. There has been a perceptible declining trend in the export share of different components of transport services. Following which export share of transport declined from 14.7 per cent in 2003 to 9.9 per cent in 2017. Share of other services sector in the export of trade in services sector has been accelerating since 2003, though certain level of fluctuations was noticed. While share of financial services and other business services were expanding during the decade, the share of telecom declined in 2003-17.

Imports Trend of India's Trade in Services

India's import in trade in services expanded significantly during the last one and half decades with differentiated growth phases during 2003-17. Like exports, trade in services imports grew rapidly at the CAGR of 29.6 per cent during 2003-07, representing the period of global buoyancy, as shown in Table 5.11. Between 2003 and 2007, imports registered almost a three-fold rise, and then started declining significantly. During the first phase of recession (2008-12), imports grew much faster than exports and similar trend continued during the second phase of global recession. There was a significant upturn between 2015 and 2016 when imports increased by 20 per cent after a prolonged stagnancy. It can be noted that imports of services were more equitably distributed than export sector during 2003-17. In the transport sector, largest exports took place in freight transport segment where the share of the

sub-sector declined significantly from 31 per cent in 2003 to 6.2 per cent in the total imports in 2017.

Table 5.11: India's Sectoral Imports of Services from the World: 2008-17

Sectors	Value (USD Bn)		Share (%)		CAGR			
	2008	2017	2008	2017	03-07	08-12	13-17	08-17
1 Mnfg services on physical inputs	0	0.04	0.0	0.0			5.4	
2 Maintenance & repair services n.i.e.	0	0.51	0.0	0.3			13.8	
3 Transport	14.2	16.4	13.4	9.6	34.3	2.5	4.0	1.6
3.1 Passenger	2.48	3.41	2.3	2.0	32.6	-8.1	10.7	3.6
3.2 Freight	4.65	10.6	4.4	6.2	33.4	16.4	1.0	9.6
3.3 Other (including postal & courier)	7.1	2.32	6.7	1.4	39.8	-6.6	11.3	-11.7
4 Travel	9.61	18.4	9.1	10.8	23.1	6.5	12.3	7.5
4.1 Business travel	0.96	6.2	0.9	3.6			4.2	
4.2 Personal travel	8.65	12.2	8.2	7.2	57.7	-8.7	17.8	3.9
5 Other services	31.7	59.6	29.9	34.9	27.3	10.0	6.7	7.3
5.1 Construction services	0.7	1.22	0.7	0.7	-11.9	11.6	-3.2	6.3
5.2 Insurance & pension services	1.11	1.77	1.1	1.0	28.6	6.6	11.5	5.3
5.3 Financial services	3.55	5.8	3.3	3.4	60.5	10.8	-0.4	5.6
5.4 Charges for the use of IP n.i.e.	1.53	6.52	1.4	3.8	20.5	27.1	13.7	17.5
5.5 Telecom, computer & info services	4.31	6.07	4.1	3.6	41.9	-5.2	12.8	3.9
5.6 Other business services	19.7	35.4	18.6	20.7	25.9	11.0	6.0	6.7
5.7 Personal, cultural & recreational serv.	0.33	2.14	0.3	1.3		13.6	31.1	23.3
5.8 Government goods and services n.i.e.	0.5	0.64	0.5	0.4	20.3	8.9	-12.2	2.7
Total	55.6	94.9	52.4	55.6	29.6	7.7	7.2	6.1

Source: Balance of Payment Statistics, IMF online, 2018.

Travel was the second largest importing sector in services sector where its share in total imports rise from 2008 to 2017. Contribution of business travel was significant during the period, but its share declined over years with high degree of volatility in terms of its contribution to imports of service. In other services imports, largest contributing sector was in other business services. It is interesting to note that import share of services, particularly of certain sub-sections grew steadily including personal, cultural and recreational services, IP services, and other business services during the period 2008-17.

5.3.4 LAC countries' and India's Global Export Competitiveness in TiS

Emergence of New Sectors

Though India is emerging as a strong player in trade in services (TiS), its competitiveness has been restricted to a selected number of sectors. Among the competitive sectors, some of them are robust and are sustaining over a period of time and a few others are struggling to maintain global competitiveness. Using RCA, we have estimated export competitiveness of India in specific sectors, as shown in Table 5.12. India maintained export competitiveness in broad sectors, like transport and other services in 2017. In the transport sector, India's

competitiveness was demonstrated in the freight transport, the same in other services in the telecommunication, computer and information sector.

Table 5.12: India's Global Competitiveness in Trade in Services: Estimation of RCA

Sectors	2003	2005	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 Mnfg serv. on physical i/t	-	-	-	-	-	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0
2 Mainten. & repair serv.	-	-	-	-	-	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
3 Transport	0.7	0.6	0.6	0.6	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.5
3.1 Passenger	0.1	0.1	0.2	0.2	0.0	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1
3.2 Freight	1.4	1.1	1.0	1.0	0.3	0.0	0.0	1.1	1.5	1.6	1.3	1.4	1.8
3.3 Other (incl. post & cou.)	0.9	0.9	0.9	1.0	2.6	2.9	3.5	1.2	0.4	0.4	0.4	0.5	0.6
4 Travel	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
4.1 Business travel	0.0	-	-	0.0	0.0	0.0	0.0	0.3	0.5	0.6	0.6	0.7	0.8
4.2 Personal travel	1.2	1.0	0.9	0.9	0.9	1.0	1.0	0.9	0.8	0.8	0.9	0.9	0.9
5 Other services	1.5	1.6	1.6	1.6	1.5	1.5	1.4	1.5	1.4	1.4	1.4	1.5	1.2
5.1 Construction services	0.9	0.4	0.5	0.4	0.4	0.2	0.3	0.3	0.4	0.5	0.5	0.8	0.8
5.2 Ins. & pension serv.	0.8	0.7	0.7	0.6	0.6	0.6	0.7	0.6	0.5	0.6	0.5	0.5	0.5
5.3 Financial services	0.2	0.3	0.4	0.5	0.4	0.6	0.5	0.4	0.5	0.4	0.4	0.4	0.3
5.4 Charges for use of IP	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1
5.5 Telecom, comp & info.	8.8	6.4	6.3	6.4	6.4	5.7	5.5	5.3	5.3	5.0	4.9	5.4	3.9
5.6 Other business serv.	0.5	1.3	1.3	1.2	0.7	1.0	0.9	1.0	0.9	0.8	0.9	0.9	0.9
5.7 Personal, culture & rec.	-	0.3	0.9	1.0	3.6	1.1	0.3	0.7	1.0	1.0	1.0	1.0	0.8
5.8 Govt. goods & serv.	0.5	0.3	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.3

Source: RIS based on Balance of Payment Statistics, IMF online, 2018.

India had global export competitiveness in personal, cultural and recreational services in 2016, which has been fluctuating since 2011. Though India has been maintaining sectoral competitiveness in these sub-sectors for a pretty long time, the level of export competitiveness has thinned down and has dwindled drastically over the time. Robust competitiveness was observed in telecommunication, computer and information services. India has been maintaining its steady competitiveness in the sub-sector since 2000s. Export competitiveness of telecommunication, computer and information services was so strong that the broad sector of 'other services' became competitive.

It may be noted that export competitiveness can be acquired or can go if cannot be retained. Similar situation happened in case of India where several sectors including postal and courier, personal travel, other business services and personal, cultural and recreational services were

competitive at some point of time, but are uncompetitive in the recent years. There are a few sectors emerging fast towards achieving global competitive and they are business travel, personal travel, construction services and other business services. India has great potential to acquire competitiveness in numerous sectors, and this requires some policy push. Several countries in LAC are having small trade in services sector, but they have competitiveness in sizable number of sectors. Very soon, global turnaround is on the horizon, and India should strengthen its services sector to be competitive globally.

Concentration of Competitive Countries in TiS LAC Sector: Lopsided Sectoral Performance

LAC countries are competitive in diverse services sectors. Based on their competitiveness one can draw certain stylised facts about the sector in the region. In certain sectors, large number of regional countries are competing and emerging competitive. It is observed that the size of trade in services sector is small in many of the countries, and often is disproportionate to size of their economies, as shown in Table 5.13. In several sectors, competition from LAC countries has been less and a few countries have competitiveness in large number of sectors. Moreover, the global recession has some impacts on the competitiveness of the countries in selected sectors, particularly after the first phase of recession.

Table 5.13: Number of LAC Countries having Export Competitiveness in TiS (RCA>=1)

Sector	**'03**	**'05**	**'07**	**'08**	**'09**	**'11**	**'12**	**'13**	**'14**	**'15**	**'16**	**'17**
1 Mnfg serv. on physical inputs	7	8	7	7	7	7	7	6	6	6	5	6
2 Mainten. & repair serv. n.i.e.	3	3	2	2	2	1	1	1	1	1	1	1
3 Transport	15	16	11	11	10	11	10	11	10	11	12	10
3.1 Passenger	14	14	13	13	13	12	11	11	10	11	11	11
3.2 Freight	7	7	7	6	8	9	6	7	5	7	8	7
3.3 Other (incl. post & courier)	13	17	17	19	18	20	18	20	20	20	19	25
4 Travel	30	31	32	31	30	31	30	31	30	31	31	29
4.1 Business travel	11	9	13	13	13	16	16	15	14	14	14	13
4.2 Personal travel	24	24	26	26	26	24	25	25	24	24	25	22
5 Other services	3	5	5	4	4	4	3	2	2	2	2	2
5.1 Construction services	1	1	2	2	1	1	1		1			
5.2 Insurance & pension serv.	12	11	14	11	10	10	7	7	6	9	7	6
5.3 Financial services	2		1	1	1	1	2	2	1	3	2	2
5.4 Charges for use of IP n.i.e.	1	1	1	1	1	1	1					
5.5 Telecom, comp & info. serv.	17	16	16	11	11	11	8	7	5	5	5	4
5.6 Other business services	5	8	9	7	7	6	5	6	7	6	7	7
5.7 Personal, culture & rec. serv.	4	4	4	4	3	5	6	6	6	5	6	4
5.8 Govt. goods & services n.i.e.	16	22	20	20	19	20	20	22	20	20	20	19

Source: RIS based on Balance of Payment Statistics, IMF online, 2018

Considering distribution of countries on the basis of export competitiveness in trade in services sectors, there are four groups of emerging countries in the LAC region—firstly, in certain sectors large number of countries have export competitiveness (and these sectors are postal and courier services, personal travel and government goods & services); secondly, in

sectors like passenger transport, and business travel, fairly large number of countries have export competitiveness; thirdly, number of competitive countries have declined significantly during the first phase of recession in insurance and pension services, and telecommunication, computer and information services sectors; and lastly, a few sectors have witnessed very thin competition from among LAC countries such as manufacturing services and physical inputs owned by others, maintenance and repair services, freight transport, construction services, financial services, charges for the use of intellectual property, business services and personal, cultural and recreational services.

India can take advantage of the realities existing in the region. It is a mere coincidence that the sectors where India has global competitiveness, number of competitors are either lesser or are declining after the first phase of recession. India has competitiveness in freight and personal, cultural and recreational services, and these two sectors face little competition, since only a few countries have global competitiveness in them. In telecommunication, computer and information services, several LAC countries had global competitiveness, but many of them have become uncompetitive after the first phase of global recession. India's strong competitiveness in the sector would enable its exporters to have wider market access in the region.

Sectoral Export Competitiveness: Competitiveness in Multiple Sectors with less Trade

Even though India's export in trade in services was higher than the combined exports of India's top 10 trading partners in LAC; these trading partners are competitive in a wide spectrum of sectors, and individually in more sectors than those of India, as shown in Table 5.14.Among these countries, Brazil was having largest trade in services to the extent of USD 34.4 billion in 2017; other couldn't come closer to it. Despite small volume of trade in services in each of these top trading partners of India, each of them has more number of export competitive sectors than India. There are certain regional countries which are having competitiveness in the entire range of sub-sectors within a broad sector. From Latin American experience, it is evident that size of trade in services has no relationship with the number of competitive sectors in the country. For example, Brazil had five competitive sectors with USD 34.4 billion trade in services in 2017 whereas Argentina had eight competitive sectors with USD 14.7 billion trade in services and Chile had eight such sectors with total services trade of USD 10.1 billion.

Table 5.14: RCA for Trade in Services of LAC Top 10 Countries and India, 2017

Sector	Arg.	Brazil	Chile	Col.	Costa Rica	Dom Rep	Ecu.	Guat.	Peru	Ven.	India
1 Mnfg serv. on physical i/t	0.00	0.01			0.94	0.36					0.03
2 Mainten. & repair serv.	0.38	0.80		0.00	0.73		0.15	0.34		0.19	0.07
3 Transport	0.76	0.98	1.69	1.19	0.31	0.40	1.05	0.82	1.24	2.70	0.54
3.1 Passenger	1.16	0.39	3.57	4.26	0.44		0.10	0.06	4.58	1.69	0.10
3.2 Freight	0.47	1.37	1.99	1.00	0.08		3.66	1.96	0.14	3.94	1.81
3.3 Postal & cour., oth.	3.40	4.33	4.76	2.05	1.67	2.94	1.14	2.51	3.54	6.64	0.64
4 Travel	1.55	0.72	1.53	2.46	1.82	3.48	3.06	2.34	2.25	1.51	0.63
4.1 Business travel	3.50	2.12	1.97		2.83	0.33	8.97	5.04		6.73	0.82
4.2 Personal travel	2.10	0.90	2.30	4.16	2.66	5.83	3.84	3.20	3.81	1.42	0.94
5 Other services	0.91	1.18	0.64	0.40	0.89	0.20	0.18	0.55	0.57	0.34	1.24
5.1 Construction services	0.00	0.03						0.36			0.76
5.2 Ins. & pension serv.	0.10	0.79	1.26	0.08	0.01	0.26		0.32	6.76	0.06	0.52
5.3 Financial services	0.12	0.23	0.15	0.11	0.12	0.06	0.19	0.21	0.10	0.14	0.28
5.4 Charges for use of IP	0.22	0.29	0.08	0.11	0.01			0.00	0.06		0.05
5.5 Telecom, comp & info.	1.25	0.57	0.32	0.37	1.22	0.15	0.17	0.80	0.19	0.57	3.85
5.6 Other business serv.	1.31	2.22	1.03	0.56	1.52	0.18		0.70	0.38	0.32	0.86
5.7 Persnl, culture & rec.	2.55	0.93	0.30	1.45		0.48	0.88		0.10	0.54	0.81
5.8 Govt. goods & serv.	1.25	1.84	2.63	1.47	0.29	2.84	4.45	2.29	1.84	2.50	0.27

Source: RIS based on Balance of Payment Statistics, IMF online, 2018.
Note: Value for Venezuela is for 2016.

These trading partners have covered almost all disaggregated sectors of trade in service where they have export competitiveness, except in manufacturing services on physical inputs owned by others; maintenance & repair services, construction services and financial services. In several sectors where India is lacking competitiveness, in many sub-categories and is banking on imports of services, partners in LAC can be dependable to supply these services to India in sectors like freight transport and business services. In this regard, LAC partners can be important providers of specific services in India. In the freight transport, India can be dependent on Chile, Ecuador, Venezuela, Guatemala and Brazil. Similarly, personal travel services can be provided efficiently by most of the top partners of LAC, except Brazil. India can import other business services from Argentina, Brazil, Chile and Costa Rica. It is also likely to face formidable competition from LAC countries where India has global competitiveness. India has strong competitiveness in telecommunication, computer and information services, and is likely to face competition from Argentina and Costa Rica. In personal, cultural and recreational services, competition is expected from Argentina, Brazil, Colombia and Ecuador. It is understood from the present analysis that India can have a brisk business in the LAC region in selected areas of trade in services. In the sectors, such as freight transport, personal travel and business services, where India needs competitive suppliers, there exists a strong competition in the region, and India can gain from such a competitive environment. In India's competitive sectors, there are lesser number of

competitors in the region. Size-wise also they are very small exporters as compared to India in the global market.

The challenges posed by the distance between India and LAC can be overcome by increasing the trade in services between them. The service sectors of both countries are growing rapidly. In India, the services sector is the driver of growth for the economy and it can also drive the country's engagement with the LAC region. Some important sectors for trade, for both the countries, include agriculture to form partnerships with agronomists and agri-producers in LAC region for the purpose of raising productivity and building missing cold chain in India (CII, 2009).

However, it may be noted that, LAC is a vibrant region for India to trade in the services sector. It is advantageous for India to engage with selected Latin American countries for both exports and imports in trade in services. India's services export is much higher than the combined total of India's top trading partners in the Latin American region. Individually, several LAC countries are competitive in large number of sectors than those in India. In certain sectors such as postal and courier services, business and personal travel and government goods and services, top Latin American countries are invariably competitive. In most of these sectors, India is not globally competitive. India stands to benefit from these sectors if the import requirement for the country rises in future. In selected areas, India is globally competitive; where competition from top LAC countries is rather low. In these sectors, India is likely to gain market access if conducive trading environment is established with different forms of trading and investment arrangements at the bilateral level and at the regional level. Strategy for imports and exports in trade in services may be necessary to optimise India's economic gains from the continent.

In summing up, large investment flow swept the region during global buoyancy and recession. The ratio of investment to GDP ratio remained very high for most of the countries and the region as a whole. Therefore, cursory view on investment sector performances of different continents would suggest less impact of recessionary situation on the region. High expectation of LAC countries for investment flow is looming large in the region, and regional economies expect their trading partners to infuse more investment to gain market access in trade. For enhancing market access in trade, investment may be thoroughly linked with trade targets. Investment and trade targets may be set together through a strategy document. India has large space to invest in agricultural and services sectors, but has to face daunting tasks from traditional investors since the structure of investors has not changed and old investors

are still very much in the region. While the U.S. and the EU are traditional investors, China is emerging as a new investor in the region. India can have opportunities to pump more of OFDI than the present level to cover -up in the investment gap in the region with respect to other major competitors in the region. India's investment would induce trade flows to rise. Therefore, India stands to gain by fostering investment cooperation with the region. India has changed its BIT policy recently, but acceptance of this policy by LAC countries needs to be seen.

India's engagement with the selected LAC countries should be made consistent with its domestic requirements. Import requirement of India in the services trade is large from the rest of the world, and simultaneously is globally competitive in exports in selected number of modern sectors. India would prefer to engage with those countries/regional groupings which can complement India's endeavour to promote trade in services. This study has identified ten important regional countries which are considered as important for India in the trade sector. The empirical evidences in the present study demonstrate that these important countries can offer significant market access to India's services exports, and can also be efficient provider of trade in services in the selected sectors. These countries may provide markets in sectors like freight transport and telecommunication and computers.

Similarly, LAC countries have intense competition among themselves in these sectors, where they are globally competitive, and happen to be India's important trading partners. India is dependent on several of them for trade in services for imports and also from the rest of the world. Healthy competition among India's most important trading countries in the region can help in availing these services at a globally competitive rate. In sum, investment and trade in services sectors are complementing India's trade interest to undertake some forms of arrangement like CEPA/CECA/FTA with countries/regional groupings in the region. Considering trade, investment and trade in services structures of India and LAC, the empirical analysis suggests that both the regions have potential to engage with some forms of regional arrangement which can mutually benefit both.

Chapter 6
Conclusion and Recommendations

6.1. Macroeconomic Settings in the Region

Since the last few decades, LAC region has emerged as a vibrant economic space with high per capita income with a strong stake in the global trade and investment. And during the period of 'debt crisis', the region developed resilience with-standing pressure of repeated global economic shocks. In the recent episode of the global recession, the regions could evade the pressure of the first phase of recession but continued pressure of recession has led to major setback in the region. Gradually buoyancy has returned to the region in the first quarter of 2018; but sustainability of the growth has been an issue for debate. LAC region comprises three major regions — South America, Central America and Caribbean—having certain common features among them and some were of divergent types.

South America was the most dynamic sub-region of LAC between 2003 and 2013, and it had continued to perform well despite presence of exogenous shocks, including global recession in 2008. This was reflected in terms of its rising global share in the world economy in terms of gross world product from 5.2 per cent in 2003 to 6 per cent in 2013. Growth profile of South America was adversely affected by the second phase of recession. The Central American and Caribbean sub-regions also displayed a greater degree of resilience during both the recessions. The global share of the Caribbean remained almost unchanged between 2003 and 2017, and Central America showed even some signs of improvement. The trend followed by LAC region as a whole was greatly influenced by South America as it is the largest segment of the region, and the strong growth performance of Central America and Caribbean could not reverse declining trend of LAC's real GDP.

Moreover, FDI inflows in LAC region remained robust as many countries followed liberal policies and undertook major reforms over e years to attract FDI. South America received the major share of FDI inflows in the region during 2007-17. FDI inflows in LAC grew rapidly between 2008 and 2012 and declined during 2012-17 owing to mounting pressures of recession. There was marginal improvement in Caribbean region contrary to South America and Central America in 2017. Thus, examining the macroeconomic performance of LAC region along with its various sub-regions gives the impression that India has to chalk out a differentiated strategy to deal with different LAC sub-regions as they are not homogenous.

Secondly, growth performance of the region has picked up fast during the period of the global buoyancy. India may take advantage from the region when buoyancy returns to the region in the coming months.

Trade Policies in LAC

On the basis of trade policies, Latin American countries can be broadly divided into two groups in terms of trade orientation. It has been observed that most countries in the western flange of Central America are liberalised and have trade agreements with leading global economies. And the countries on the eastern side of South America generally are inward - oriented with specific ideologies undertaking trade negotiations. While a few large countries like Brazil, Argentina and Venezuela pursue inward- oriented policies, a large number of other countries, like Chile, Peru and Costa Rica, are with the varying degree of liberal policies. The differences in trade policies are reflected in the levels of tariffs, non-tariff measures and FDI policies. These countries have a system of licences for imports and are also significant users of SPS, TBT and anti-dumping measures. The average MFN tariff rate was 6 per cent in outward- oriented Chile, 6.9 per cent in Costa Rica and 3.05 per cent in Guatemala. Many of these countries do not use any or use non-trade restrictive anti-dumping and countervailing measures. Services and investment play an important role in LAC, and they have undertaken a number of policy reforms. Inward-oriented economies have strengthened their regional economic integration by negotiating RTAs under the framework of MERCOSUR and LAIA. Outward-oriented LAC economies have intensified their open trade strategy by focusing on comprehensive trade agreements. Thus for improving trade engagement with Latin America, India should follow regional approach to deal with two groups of countries in the region. Without preferential trading arrangement, prospects of augmenting bilateral trade seem to be limited.

Tariff Liberalisation in LAC

LAC region as a whole has maintained a moderate level of tariff protection during the last two and a half decades despite passing through the phases of global buoyancy and of recession. The average tariff of the whole LAC region has remained lower than 10 per cent since 2003. The average level of tariff for the region as a whole had declined marginally during the period of buoyancy and more sharply between 2007 and 2008. However, protectionism increased during 2008-12 owing to continuation of recessionary business cycles and some level of protectionism that remained till 2015. There were differences

between the tariff profiles of the sub-regions during different phases of the global recession; with the tariff rate of Central America being lower than that of other two sub-regions since 2003. On the basis of their tariff regimes, LAC countries were grouped into three categories with 13 being outward oriented (tariff of 2-6 per cent), 14 countries moderately protected (tariff of 6-9 per cent) and 7 countries inward- oriented economies (tariff rate of 10 per cent or more).

While examining sectoral tariff profile of LAC countries it was observed that in the primary sector, it was highly protected. India can take advantage of liberal trade regimes in fruits and vegetables, and animal fats and oil sectors in certain liberalised as well as in some highly protected economies like Argentina, Brazil, Cuba and Bermuda. The mineral sector is fully liberalised in LAC, except for a few countries. The non-metallic manufacturing sector faces somewhat liberal tariff protection in chemicals, plastics, wood pulp and cement. Certain other sectors, such as leather, wood, textile and clothing sector, face invariably high protection in highly and moderately protected LAC economies. The metal -based manufacturing sector receives mixed level of protection. Open economies have lower levels of protection for base metal mechanical machinery, electrical appliances and precession instruments. The automobile sector is generally protected in inward and moderately protected economies. Such information about country specific tariff performance may improve India's understanding about inter-country variations in the level of average and sectoral tariffs to evolve an appropriate domestic trade strategy.

Several regional groupings in the region follow somewhat harmonious trade policy strategy. With respect to RTAs, MERCOSUR and UNASUR have maintained protected tariff regimes since 2003, whereas SICA and CACM have continued with low average tariff during the period of global buoyancy and recession. Moreover, LAIA, Andean and Pacific Alliance significantly lowered their average tariff during the period of recession as compared to the period of global buoyancy. In the primary sector, fats and oils attracted low tariffs in SICA, CACM and Pacific Alliance but other agricultural sub-sectors were subject to high tariffs in all RTAs. Thus India has little space to trade in the agricultural sector unless there is a preferential trade agreement with certain regional groupings. The Mineral sector, on the other hand, is substantially liberalised and India can fulfil its interest in the export of processed petroleum products. MERCOSUR has high tariff rates on all light non-metal manufacturing sectors except chemicals and on all metal -based manufacturing sectors, except gems and jewellery. The automobile sector is protected in MERCOSUR, UNASUR, LAIA and

Andean. The tariff rates are low in India's preferred RTAs in certain sectors such as chemicals, plastics, wood, wood pulp, and cement. Empirical findings of the study have brought out certain stylized facts suggesting that India can come up with long- term strategies based on the regional dynamics at the region, sub-region, country, RTA and sector levels.

Non-Tariff Barriers

As the average tariff is declining world over, NTBs are the key trade barriers to restrict market access. LAC countries impose a large number of non-tariff barriers on almost all sectors of trade, and India is also subject to a number of NTBs imposed by them. Between 2007 and 2016, nearly 46,000 product lines, at different levels of product aggregation, were subjected to NTBs by 29 LAC countries. The number of NTBs imposed varied among countries. For instance, Suriname had NTBs on only 4 product lines while Brazil imposed NTBs on 8140 product lines during 2007-16. LAC countries apply different types of NTBs including SPS, TBT, price control measures and export -related measures to protect their sectors. Brazil, Peru and Ecuador imposed the maximum number of NTBs; making them some of the most restricted economies in the region. India is subject to a substantial number of trade barriers in LAC, both in the form of tariff and non-tariffs. The NTBs that India faces in the region are highly diversified and cover a substantial number of products in agriculture and manufacturing sectors. India faces both bilateral and multilateral NTBs in LAC. Certain countries, including Argentina, Brazil, Chile, Colombia and Ecuador which are expected to be India's top trading partners in the region are imposing bilateral NTBs, such as anti-dumping measures and countervailing duties against it.

Logistics

The distance factor between India and LAC is important which makes logistics one of the most determining factors in bilateral trade. Trade barriers like tariffs and non-tariffs are relatively carrying less weight than overall transaction costs. LAC exports to India consist of natural resources, which have high weight-to-value ratios and have a direct bearing on the freight cost leading to higher overall CIF price of imports. The existing literature shows that the average import freight duty of LAC countries from India and China are comparable and are in fact, lower in case of Indian imports. The rise in freight cost from India to LAC is on account of lack of direct shipping services and excessive dependence on transhipment hubs. These bottlenecks can be evaded with the use of direct ship liners and reduced dependence on transhipment hubs. It is a matter of great respite that excess capacity in the world shipping

sector is undergoing owing to recession and low freight charges might continue for some more years. And India can make use of this period to its advantage by building its shipping industry and developing warehousing facilities in certain geo-strategic locations like Panama, Ecuador, Argentina, Peru and (Cape Town in) South Africa. Moreover, cooperation agreements between India and LAC countries can be to strengthen air and sea connectivity between the two. This would facilitate maritime and air transport services and give a lift to bilateral trade.

6.2. Bilateral Trade Engagement between India and LAC

Trade Trends

External sector performance of LAC region is highly sensitive to global trade regime. The region exhibited high growth in the trade sector during global buoyancy and withstood the adverse impact of the global financial crisis but has started succumbing to the pressure of the second phase of global recession since 2012. Sub-regions of LAC have displayed varying experiences during the global downturn. For instance, Central America performed appreciably despite continuation of recession by improving its global export and import shares in 2015. On the other hand, South America registered high rates of growth of exports and imports during buoyancy but suffered considerably during the second phase of recession. The Caribbean witnessed a declining trend during the entire period of recession. Being the largest sub-region, South America influenced trade pattern of the entire LAC region. India has substantial trade interest in South America, especially for import of raw materials, and export of manufacture goods in the selected sectors.

The trade basket of the region is highly lopsided. While the region is specialised in the export of primary commodities, including agriculture and minerals, it imports mostly technology-intensive products, covering all manufacturing sectors. The export of the region is concentrated in a few sectors, but its imports are much more diverse and include almost all manufacturing sectors. The three LAC sub-regions have a differentiated sectoral composition of trade; specialise in different sectors depending on their factor endowments but generally follow a pattern common to the entire region.

Trade with Major Destinations

LAC countries have strong trade linkages with specific countries outside LAC region. The traditional top trading partners of LAC have been the U.S. and the EU. More recently, China

and India have become top trading partners of the continent. China is competing with the European Union to become the second largest trading partner of LAC. India is the fourth largest trading partner of the region but the gap between the third and fourth position is quite substantial. Even though India lags behind the U.S., EU and China in terms of absolute volume of trade with LAC, it has performed much better than the three in terms of the growth rate of the bilateral trade between 2003 and 2017. India maintained double digit growth in exports and imports with the all LAC sub- regions during 2003-17, and performed better than the top trading partners of LAC, including China and India started trading with LAC at a time when the other top countries had established themselves into mature players in the region. Thus, India has to develop a well-defined strategy to grow faster and catch up with the major players in the region.

Trade of India with the Region

The bilateral exports of LAC region to India grew faster than its imports from India since the last one and a half decades, resulting in LAC having trade surplus with India in all years except 2001. South America had the largest share of bilateral trade between India and LAC between 2000 and 2017, but the share declined over years. Its share rose during the first phase of recession but lost momentum during the second phase. These signs of recovery are positive development for both India and LAC. Bilateral exports between India and the entire LAC region grew during 2008-17 despite some setbacks in the second phase of recession. The composition of the bilateral trade basket of India to LAC is different from that of LAC to India. Trade complementarities exist between both the regions in sectors like minerals, chemical products, base metals and machinery items. It can be observed that rapid structural changes have taken place in the bilateral trade baskets in e agriculture and manufacturing sectors during 2007-17.

Various dimensions of trade of important regional economies with India were examined, and it was observed that the top 10 identified countries can be considered as the most important trading partners of India in e future. The continuation of recession has affected negatively India’s trade with its top trading partners but still India’s export growth has remained robust with most of the partners. India’s export growth remained positive with Peru, Chile and Argentina despite recession. A similar experience was observed in bilateral imports. The return of global buoyancy is expected to improve India’s trade linkages with the region. Further, an analysis of LAC’s top commodity trade with the world has revealed that top 50 export items of LAC were worth $416 billion in 2017 and top 50 import items were $199.1

billion. In 2017, top 50 products had a share of 52.2 per cent and 94.7 per cent of India's bilateral imports and exports from LAC, respectively. The present trade pattern between the two indicates that India is mainly exporting light weight products to LAC, and is thus able to deal with the infrastructure bottlenecks; and LAC is actively engaged in the export of agriculture, mining and base metal products to India, the heavy weight products. Thus, they require better transport infrastructure and direct ship liners to reduce transportation costs. These issues need to be taken into consideration to strengthen trade ties with the region.

Devaluation

With the deepening of global recession, many countries have adopted devaluation strategies to increase their competitiveness and correct their growing trade imbalances. Devaluation leads to a fall in export prices and that increases competitiveness. At the same time, imports become more expensive in local currency terms, which would create opportunity for domestic suppliers to substitute foreign suppliers. The net effect on the trade balance would depend on the price elasticity. Devaluation by one country can result in competitive devaluations by trading partners that are concerned about the negative impact on their own export industries. Like other countries, LAC countries have also been adversely affected by recession and resorted to different forms of devaluation. India may instead adopt policies of reducing the cost of its exportable items: firstly it can support exporters with certain incentives to reduce their production cost domestically; secondly, landing cost of exports in the importing country can be lowered by extending export support; India may wait for some time till the impact of devaluation in the importing country is fully reduced. However, these policies are not WTO consistent and may be contested by the importing country. During the Asian Financial Crisis, China followed the third option highlighted above, and was able to remain insulated from the region wide crisis.

Global Value Chains

World trade and production are increasingly structured around global value chains. LAC's GVCs participation is lower than other developing regions but it is a part of a number of value chains and is participating in a range of sectors, including low-value added sectors like providing natural resources and high value added, non-traditional sectors like medical devices, aerospace and offshore services. GVCs participation across LAC region and sub-regions is very heterogeneous. Countries in Central America specialise in assembly and processing of inputs and thus have strong backward linkages and are more active in the

downstream segment of the value chain in which import inputs are for processing and further export. South American and Caribbean countries are rich in primary commodities and have strong forward linkages. They are more active in upstream segments of the value chain. LAC countries can have comparative advantages in a number of sectors, and India should engage with these high value-added segments for augmenting it trade.

LAC's GVCs trade with the world is very dynamic and has shown resilience to exogenous shocks. Both GVC export and imports grew during the first phase of recession but declined with the onset of the second episode of recession owing to its mounting pressure. The share of GVC exports of LAC to the world in its total exports was around 3.3 per cent in 2017 but the share of GVC imports in LAC's total imports from the world was 13.2 per cent, which was comparatively large. The major P&C exports of LAC were machinery and mechanical appliances, vehicles, aircrafts and vessels, and plastics accounting for 97.5 per cent of total P&C exports in 2017. High level of concentration of a few sectors in P&C imports of LAC was also observed. LAC's bilateral exports of GVC to India ($109.6 million in 2017) were a very small proportion of their total bilateral exports. However, the sector was crucial in terms of LAC imports from India ($859.8 million in 2017). The GVC trade surplus was consistently in favour of India and increased between 2007 and 2017. Moreover, the region's share of bilateral GVC imports from India with respect to its total GVC imports from the world increased consistently over the years from 0.5 per cent in 2007 to 1.1 per cent in 2017. To increase trade between LAC and India, the potential of global value chains between the two largely untapped is thus an important area to focus on. Both regions are heavily engaged in industrialization which can act as the basis for future trade. India needs to focus on a number of important areas to enhance its GVCs trade, such as developing SMEs, enhancing productivity growth, greater engagement with the trade sector, technology enhancement and working with transnational corporations.

Project Goods

India has large untapped potential to expand its trade with LAC and one way to achieve this is by expanding trade through project goods. A special classification for Project Imports, Baggage and Postal Imports a single tariff heading of 9801 has been introduced in the Customs Tariff Act, 1975 to facilitate smooth and fast assessment of goods imported under the Project Import Scheme. Project imports are an Indian innovation to facilitate the setting up and expansion of industrial projects, however, project good trade has not picked up in India. There has not been any substantial change in the quantum of trade in this sector over a

decade. During 2005-11, total trade in project goods rose mainly due to a surge in imports, while export of project goods from India is almost non-existent. India's export of project goods to LAC countries grew significantly during pre-recession years. There are no records of India's project goods exports to LAC countries for the period 2013-17. India's imports of project goods from LAC countries reached a peak of $61.8 million in 2009 but witnessed a volatile trend thereafter falling to $1 million in 2017. India's export of project goods to LAC countries is limited to only three national lines and imports from LAC to six national lines. Moreover, the top destinations of India's project goods export in LAC are Brazil and Argentina. India's top import sources of project goods from LAC include irrigation and mining projects from Brazil and exploration of oil from Colombia.

6.3. India and Regional Groupings in LAC- Approach towards Trade Convergences

Regionalism

Among the developing countries, LAC countries have first mover's advantage with respect to regionalism. They have been dealing with regional trade agreements since 1960s and have experienced three waves of regionalism since then. In the global economy, regional consolidation rose during recession and there was a proliferation of regional grouping across the various sub-regions of the world. LAC has 85 RTAs in force since 1961 under various types of trading arrangements. Over two-thirds of LAC RTAs focus on comprehensive trade agreements. Like the global economy, they are also signing comprehensive trade agreements with countries outside the region either individually or by forming groups. India needs to evolve a robust strategy to engage in comprehensive trade agreements with its top trading partners in LAC region.

Intra-regional Trade in LAC

The pattern of intra-regional trade in LAC has remained relatively stable since 1990 despite proliferation of RTAs and expansion of bilateral agreements. The intra-regional trade ratio of LAC reached a peak value of 21.5 per cent in 2008 but declined due to the pressure of recession to reach 15.9 per cent in 2017. The value of intra-regional trade in LAC grew at an unprecedented rate of 27 per cent during global buoyancy but faced a slowdown with the beginning of the global recession, and was severely affected by the second phase of recession. The trend observed for the sub-regions differed. LAC's efforts to promote regionalism within the region and also with the countries outside the region did not help in

increasing its intra-regional trade during recession. The situation is likely to improve with the return of buoyancy to the region.

The intra-regional trade performance of many RTAs from LAC was better than those of some top regional groupings of Asia, Africa and Europe. On an average, RTAs from LAC had moderate to high intra-regional trade ratio. Thus, RTAs from LAC may pose significant competition to the main trading partners, including India. LAC countries exports to the world are concentrated in a few primary products and natural resource -based manufacturers but the intra-regional trade performance of LAC countries highlighted that they traded in diverse manufacturing sectors among themselves, and the intra-regional market was the key market for their manufacturing products. India's interest lies in manufacturing and services sectors, thus, LAC countries can be significantly competitive. Presence of a number of RTAs in LAC has resulted in lowering of intra-regional tariff rate but LAC countries apply a significant number of non-tariff barriers, which hamper their intra-regional trade. India needs to be cautious about the presence of non-tariff barriers in LAC when working out a strategy to enhance its trade with the region.

Identification of Important Trade Partners in LAC

It is essential to determine which LAC countries India should focus on to partner in a long run. The credibility of potential partners needs to be examined on the basis of certain benchmarks. Using four criteria, top ten trading partners of India in LAC region are identified. These are Brazil, Mexico, Argentina, Chile, Colombia, Costa-Rica, Dominican Republic, Ecuador, Guatemala, Panama, Peru, and Venezuela. They are potential countries with which India can establish long-term economic relationship. They are ideal partners for trade, investment and trade in services.

Identification of Important RTAs

The study also identified the important regional groupings in LAC region with which India should focus on deepening its linkages in the near future. These RTAs are determined by examining the presence of top ten countries in different RTAs in the region. In some RTAs, these countries are found more predominantly present than others. On this basis, six RTAs were identified as India's important focused RTAs in the region. These are Andean, LAIA, MERCOSUR, Pacific Alliance, SICA and UNASUR. In future, India may focus on other RTAs where the representation of these countries can be moderate or low, such as CACM, CAFTA-DR, Rio-Group, etc.

Regional Groupings Key to India

Pacific Alliance

Pacific Alliance is one of the fastest growing regional groupings in LAC, and showed an average growth rate of 2.3 per cent in 2016. This was much higher than the average growth performance of LAC region as a whole. The rising GDP share and performance of other macroeconomic indicators like trade, FDI, remittances, etc. demonstrated the prowess of the region. It is also one of the most outward oriented groupings in the region and has strong trade ties with the U.S., EU, and China; but its intra-regional trade is extremely low. India is emerging as the fourth most important partner of Pacific Alliance but the gap is large. It has strong economic engagements with each of the individual members of the RTA, which are likely to expand further in 2018 when buoyancy returns to the region. India's trade with Pacific Alliance countries grew very fast before the formation of the regional grouping in 2011. Bilateral trade growth continued to remain robust during the first phase of recession but suffered a major setback during the second episode of recession, mainly owing to decline of exports. During 2008-17, exports of Pacific Alliance to India and China grew at a significant rate of 24 per cent per annum, while it remained lower than 10 per cent for other major partners. A similar trend was observed in imports. India's bilateral exports to the region were highly diversified ranging from automobiles, chemicals (particularly, pharmaceuticals), machinery, T&C, base metals, plastics, optical instruments, etc. among others.

Investment, GVCs and trade in services are important areas where India has long -term strategic interest in the region. The region is performing well in all these areas in the global economy but bilaterally with India their performance has been low and below the potential. The present trend indicates that India's priority for outward FDI should be in the order of Mexico, Chile, Colombia and Peru. India can also expect to receive greenfield investment from Pacific Alliance countries, with largest share from Chile, followed by Mexico and Colombia. India's bilateral trade in GVCs with the region has grown fast during the last decade. The GVCs sector is critical in terms of India's export to the region. The region specializes in backward GVCs linkages and is dependent on intermediate imports for further processing. India should tap existing opportunity by substituting some of its close competitors in the sector. India has economic interest to increase trade in services with the region. Trade potential of India in the region based on trade creation of currently traded products is $11.25 billion. If trade potential of the future traded products is added to the existing trade potential, it increases to $13.56 billion in 2016. India's export potential has

been estimated to be more than double of its current trade with the region; the largest potential in Mexico and Chile. India should consider entering into comprehensive trade agreement with the region to exploit synergies existing between them.

MERCOSUR

MERCOSUR was established in 1991, and is a large but inward- oriented regional grouping in South America. Its main trading partners include the EU, China and the U.S. It has recorded large intra-regional trade flows in the recent years. The region has strong trade ties with India but they are lopsided in favour of MERCOSUR. India's trade potential in the region is around $4.4 billion per annum which is much larger than its current bilateral exports. If this potential is fully realised, India would be able to reverse its current trade deficit into a surplus in a medium term. Export potential would increase further if the region enters into a deeper trade agreement involving margin of trade preference. India also needs to negotiate for lowering NTBs against Indian manufacturing products as such measures are being extensively used by the regional partners. To further boost trade, the dependence on sea liners needs to be reduced as the absence of direct shipping routes and heavy weight-to-value products adds to the transaction cost. Construction of warehouses to accommodate bulk exports from India should be considered. Recently, Argentina and Panama have offered India space to develop warehousing facilities, and these opportunities may be explored.

LAIA

Latin American Integration Association (LAIA) is the oldest RTA in South America. It is an important regional grouping and has larger trade opportunities than MERCOSUR. India had registered a trade deficit with the region in 2017. A number of LAIA members are among the top ten priority LAC countries, identified for India. Important exports sectors of LAIA include foodstuffs, mineral and, gems and jewellery. Its import basket is more diversified and includes a range of manufacturing sectors. India has large potential in the region of approximately $14.21 billion; this magnitude would increase if a formal comprehensive trade agreement with the region is worked out. The most important sectors from the point of trade creation include minerals, chemicals, plastics, base metals, machinery & mechanical appliances, and automobiles.

UNASUR

The South-American Union of Nations (UNASUR) was formed in 2004, and is emerging as an important regional grouping in South America for India. In 2016, the region's exports to

India were $8.4 billion, and its imports from India were $ 6.4 billion, thus maintaining a substantial trade surplus against India. India has a large trade potential with the region of $7.2 billion per annum. The size of the trade potential is much higher than what India exported to the region in 2016, and even a partial realisation of this may enable India to register a trade surplus with the region in a medium term. India has large export potential in sectors like minerals, chemicals, plastics, base metals, machinery & mechanical appliances and automobiles. India may negotiate a deeper trade arrangement with the region but needs to deal with non-tariff barrier issues present in the region during negotiations.

Andean Community of Nations

The main export destination of Andean is the U.S., followed by its intra-regional market. Even for its imports, the region is largely dependent on the U.S. India has a low level of trade potential with Andean and if its total trade potential is fully realised, it would have additional market access to the extent of $1.8 billion per annum. Entering into formal deeper trade agreement with the region can enhance India's trade potential but this can be deferred to the future till after other agreements are firmed up for implementation. At present, India's trade potential is in sectors like minerals, chemicals, plastics, base metals, machinery & mechanical appliances, and automobiles.

SICA

Central American Integration System (SICA) member countries are outward oriented promoting actively regionalism by negotiating FTAs individually or collectively. It has a small but a vibrant and liberal market. India has a trade potential of $1.8 billion per annum in the region; with export potential concentrated in prepared foodstuffs, minerals, chemicals, plastics, articles of wood, T & C, base metals, machinery & mechanical appliances and automobiles. Like Pacific Alliance, SICA can be an appropriate region to undertake comprehensive trading arrangement. The region's integration with North America and South America can be used to promote trade in value chains.

India's Export Potential in the Region

India's trade in LAC countries has been examined by taking the sum of the trade potentials of products currently exported, and those products which are likely to be exported in future. India has a huge trade potential in the region. Its export potential based on the trade creation was estimated at around $17.3 billion in 2015 for 25 LAC economies. Trade potential of the currently traded products constitutes 66.1 per cent of the total potential, and future potential

has a share of 33.9 per cent. Among the 25 countries under study, Brazil provides the largest trade potential to India of $3.5 billion, constituting 27 per cent of the total. Other important countries include Chile, Argentina, Colombia and Peru, with total trade potential of $1.5 billion, $1.3 billion, $1.04 billion and $0.7 billion, respectively. With respect to future export potential of India, the largest is of Brazil, followed by Venezuela, Argentina, Chile and Colombia. India's export potential is mostly in the manufacturing sector. The major sectors include machinery and appliances (section 16), followed by chemical products (6), vehicles (17), minerals (5), base metals (15) and plastics (7). The top six trade potential countries for India in LAC, namely Brazil, Argentina, Chile, Colombia, Peru and Venezuela have a share of more than 65 per cent of the total trade potential in these top sectors. Thus, by just focusing on these countries and products India can cover around 70 per cent of its total potential in the region.

India's Competitor in LAC

Apart from India, LAC is dependent on its top traditional trading partners, the U.S., the EU and China, for trade and also for finance and other development areas. India not only faces competition from these major players but also from the local LAC countries and non-traditional suppliers to the region. The major competitors of India have been analysed at the product level by classifying them into tradition, non-traditional and local competitors. Specialization of different groups of countries in different areas has been observed; for instance India faced major competition from local LAC countries in agriculture sector along with competition from non-LAC countries in some agricultural products. In the manufacturing sector, particularly in machinery and appliances which is the largest trade potential sector of India, there is substantial competition from local LAC countries in Andean, non-traditional countries in MERCOSUR, Pacific Alliance and LAIA, and both from LAC and non-traditional countries in SICA and UNASUR. In the chemical sector too, India faces competition from local LAC countries along with traditional competitors. In the minerals sector, LAC countries pose as the largest competitors to India. Besides, India also faces competition from non-traditional countries from South East Asia, like Thailand, Indonesia, Vietnam and Singapore, in almost all important RTAs in LAC in the footwear and jewellery sectors. Thus, to enhance its trade with LAC region, India has to compete with local countries in the region along with the traditional and in some sectors non-traditional competitors.

Trade Diversion

Trade within the region is driven by preferential trade, and trade diversion is the key driver of preferential trade. Trade diversion takes place following exchange of tariff preferences among regional partner countries. India's trade creation in the top ten LAC countries is $15.4 billion. If any form of trade agreement is worked out with trade preference then India's trade potential in the region would expand further in the form of trade diversion. India's increased exports to LAC countries by reducing tariff at three levels of 25 per cent, 50 per cent and 100 per cent have been estimated. By reducing tariff by 25 per cent, India would be able to increase its export potential by $257 million in the top ten major trading countries. Further reduction in tariff by 50 per cent would make additional increase in trade diversion to $201.4 million. Finally, a reduction of tariff by 100 per cent would increase trade diversion for India by another $438.4 million. The maximum incremental gain in all the three cases would be in Brazil, followed by Argentina, both inward-oriented countries. Tariff preferences can also be requested from outward -oriented economies like Chile, Colombia, Ecuador, Costa Rica and Guatemala; as they show large gains from trade diversion. The number of product lines falling under trade creation and diversion differ from one partner country to another. Number of lines, under trade creation, is higher than those under the trade diversion in all the top ten identified countries. Brazil has the most number of product lines (1396) where India would gain from trade diversion. These results support India's strategy to expand existing PTAs with Chile, and its present trade initiatives with Peru, Colombia, Pacific Alliance and MERCOSUR. India needs to engage with a few important regional groupings to augment its trade with the regional economies under the cover of trade preferences to compete with close competitors.

6.4. Invigorating Investment Initiative to Complement Bilateral Trade

Investment trends in LAC

Despite considerable level of growth imbalances experienced in the region, flows of FDI have remained robust and consistent within the region from the rest of the world. FDI inflows in LAC have increased significantly and steadily over the last decade as many developed countries in North America, Europe and Asia are considering LAC as the key component in their growth strategy. However, FDI flows in LAC are sensitive to global trade regime. Overall FDI inflows in LAC were $221 billion and FDI outflows were $122.5 billion in 2016.

FDI inflows were not affected by the first phase of recession but were adversely affected by the second episode of recession. FDI outflows from LAC were not affected during the initial years of the first phase of recession but decreased in the subsequent years. Unlike FDI inflows, the region performed well in terms of FDI outflows during the second phase of recession with minor fluctuations. Greenfield investments were more sensitive to global regimes than overall FDI in LAC. Total inflows of greenfield investment in 2016 were $47.6 billion and outflows were $7.2 billion. Outflows of greenfield investment were adversely affected during the entire period of recession.

FDI flows of the region from the world were highly skewed towards tax havens like British Virgin Islands and Cayman Islands. However, this was not the case in greenfield investments, and its share in tax haven countries was low. Brazil received the largest cumulative share of FDI inflows between 2007 and 2016. This was followed by British Virgin Islands and other major countries such as Chile, Colombia, Argentina, Peru, etc. The top ten identified LAC economies received a share of cumulative FDI inflows of 54.8 per cent. Both overall FDI outflows and greenfield investment outflows were concentrated in a small number of LAC countries. The largest share of FDI outflows was from British Virgin Islands and that of greenfield investment was from Brazil. The bulk of FDI inflows were towards the service sector in LAC, followed by the primary sector. The manufacturing sector had a relatively small share in top LAC economies. Within the services sector, the financial sector received the largest share of FDI inflows, followed by wholesale and retail trade, and transport, storage and communication. FDI outflows from Brazil, Chile and Colombia were mainly directed towards the tertiary sector with different sectors having different priorities in each country. The largest share of Brazil's and Colombia's outward FDI was directed towards the financial sector and of Chile towards the electricity, gas and water sector. Manufactured food products, metals and chemical products which are a part of the secondary sector also received substantial share of Brazil's outward FDI.

LAC investment linkages with India

Not much diversification has been observed in terms of FDI inflows in the region. The major investors are the U.S., the EU, Canada, and more recently is China. Similar to the trend witnessed in trade in goods, outward FDI from India to LAC grew during the first phase of recession but was severely affected by the second phase of recession; resulting in a negative growth of FDI flows from India to LAC during the period of recession (2008-17). However, the overall situation was positive in the case of Colombia, Cayman Islands, Brazil, Argentina

and Panama among others. FDI flows from India to LAC were mainly directed towards 'tax havens' like British Virgin Island, Cayman Island, Bermuda and Bahamas. Brazil, Chile and Panama consistently received FDI from India as well but their share was comparatively much smaller. Outward FDI from India to LAC was directed mainly towards the primary sector consisting of agriculture and mining sub-sectors. Flows to the sector remained robust despite considerable fluctuations during the period of recession, and the sectors grew over years to become the most dominant sector with a share of 54.8 per cent in 2017. India's investment priority in industry and services sectors was less in LAC during the second phase of recession. Sector-wise priorities differ among countries, for instance British Virgin Island received the largest share of FDI in almost all sectors, and India prioritised primary sector in Cayman Island, Panama, Colombia and Guyana. Different LAC countries were prioritised for investment in services sectors. It has been observed that the top ten LAC countries did not receive substantial quantum of investment from India in any of these sectors.

Investment policy in LAC

The investment policies of the top ten identified LAC countries were analysed and found that they are open to inward FDI. They showed many variations between the domestic policies and regulations of FDI flows in different sectors among these countries. Each country has different sector specific foreign ownership prohibitions. Brazil is the most attractive investment destination in LAC on account of its large market but it applies restrictions on FDI inflows in sectors like air transport, land acquisition, media, and fishing, among others. Moreover, undertaking new investments is cumbersome, bureaucratic and expensive because of the large number of procedures and costs much due to increase in rigidity of starting and closing of business. Inward-oriented Argentina is open to foreign investment in all sectors without restrictions and prior approval except in fisheries, mass media, purchase of land and real estate in certain areas and cabotage services. Outward-oriented countries, like Colombia, Chile, Peru, Costa Rica, and Dominican Republic, etc. encourage FDI inflows, and have relatively more open investment regimes than Brazil and other inward- oriented countries. However, FDI prohibitions and regulations are also applied by the outward- oriented countries on certain sectors. Both types of economies emphasise on the importance of FDI, for instance Brazil had launched the Innovate in Brasil Program in 2015 to attract investments in innovation and established Apex-Brasil to act as a one-stop shop. Argentina also has a number of incentive schemes at the national level and at the provincial level to promote investments. Brazil, Chile and Colombia are modifying their institutional structure to

promote investments. Brazil has designed the Cooperation and Facilitation Investment Agreement (CFIA) to replace the Bilateral Investment Agreements (BIT), Chile had announced a draft law defining a new legal framework for foreign investment in 2015, and Colombia uses fiscal incentives as an instrument to promote national and foreign investments.

6.5. Complementarities in Trade in Services Sector

Trends in trade in services in LAC

LAC's share in global services trade has been marginal. It contributed only 3.1 per cent in global services exports in 2016. LAC's total service exports have a larger share of traditional rather than modern services. The tourism sector accounts for almost half of its total services exports. South America has the largest share of service exports in LAC region, and is a major exporter of other business services. The share of Central America and the Caribbean has been relatively lesser but had substantial exports in travel, transport, telecommunication and computer services and financial services. Brazil showed the largest trade in services in LAC, followed by Argentina. Costa Rica had the largest share of modern services trade. The top ten identified LAC economies are emerging as important players in trade in services. They have more evenly distributed export sectors than India, and the share of transport, travel and other service was 16 per cent, 38.2 per cent and 44.3 per cent, respectively, in the total services export of these countries in 2016. Imports of services by the top ten LAC countries were more heterogeneous than exports. Around 45 per cent of their services imports were in other services sector with the remaining share spread unevenly across sectors in different countries. The major sectors within other services were other business services, telecommunication, computer and information services, government goods and services, insurance and pension and IP services. These p ten LAC countries had a trade deficit in services. LAC has a large trade in services market in which India has many trade opportunities that need to be explored.

Trends in Services Trade in India

India experienced unprecedented growth in export of services during global buoyancy but this did not continue with the emergence of global recession. The situation became worse during the second phase of recession but still the country continued to witness positive growth in service exports over the period. India's total services exports were $170.9 billion in 2017 with the distribution highly skewed towards other services which had a share of 73.9 per cent in the total service exports in 2017. Certain level of structural change was observed

in specific broad sectors. India's imports of services expanded significantly over the last one and a half decades. They were very sensitive to the global regimes. Imports of services registered a three-fold increase between 2003 and 2007 but significantly declined during the recession. Imports of services were more equitably distributed than exports. Import shares of certain sub-sectors, including IP services, construction services, personal, cultural and recreational services and personal travel grew during 2008-17.

LAC and India's Global Competitiveness in Trade in Services

India is emerging as a strong global player in services trade. In 2017, India was globally competitive in the export of freight transport and telecommunication, computer and information services. India has maintained export competitiveness in these sectors for many years but its level has come down and even drastic fluctuations could be observed over years. For instance, sectors such as postal and courier, personal travel and other business services were competitive earlier but lost competitiveness over time. India has the potential to acquire global competitiveness in a number of sectors but it requires some policy support. LAC countries are competitive in a diverse range of services sectors. The size of services trade is small in the majority of LAC countries but they are competitive in a large number of sectors. India is likely to face competition in telecommunication, computer and information services from Argentina and Costa Rica. In personal, cultural and recreational services, Argentina and Colombia would be posing as competitors. Only a few LAC countries are competitive in freight transport and telecommunication, computers and information services, and thus India may not face severe competition in these sectors. Several LAC countries were globally competitive in telecommunication, computer and information services but lost it after the first phase of recession. India can also partner with LAC countries which can provide specific services. For instance, India can import other business services from Argentina, Brazil, Chile and Costa Rica. Personal travel services can be provided by almost all the top LAC countries, except Brazil. Thus, India would be able to have wider market access in the region for exports of services in its competitive sectors, and rely on LAC countries for import in the sectors where it lacks competitiveness. India has large trade complementarities with LAC region in trade in services.

Services policies in LAC

LAC region has a number of liberal economies but also some inward -oriented countries, resulting in two types of trade liberalisation policies exist in the continent. The services sector

plays an important role in both inward- and outward- oriented LAC countries. LAC economies specialise in diversified services sectors. In Brazil, the services sector is the key component of export competitiveness and is the main contributor to gross value added and job creation but its growth potential has not been fully realised owing to structural weaknesses. Brazil has improved its GATS commitments, and three of its RTAs have WTO-plus service commitments. Inward -oriented Argentina has a virtually open services sector with minor restrictions. Services play a major role in outward-oriented economies like Chile, Colombia and Guatemala. Both Costa Rica and Guatemala have liberalised further their services regime through unilateral action making it more liberal than commitments adopted by them under GATS. Peru's services commitments in various RTAs were beyond its GATS schedule. Inward-oriented Venezuela is still in the process of liberalising its services sector and considerable progress has been made, for instance it has been able to liberalise further its telecommunication and financial services sector.

The different policy regimes adopted by LAC countries can be observed in different services sectors. In case of air transport, Brazil has undertaken initiatives to address infrastructure bottlenecks but domestic public air transport services are reserved for Brazilian legal persons. Air transport services are also restricted to national companies and individual nationals in Argentina and outward -oriented Colombia. On the other hand, the air transport sector is open to foreign investment of varying degree in Chile, Guatemala, Costa Rica and Peru. Domestic maritime transport services are reserved for national companies in Brazil and Argentina. While, in outward-oriented Guatemala, international maritime transport is conducted by foreign vessels which are also allowed to provide domestic cabotage services. Most ports in Argentina are managed by the private sector while seaports in Guatemala are mainly state -owned but without any restrictions on domestic and foreign investment. The financial sector of LAC is resilient and diversified. Many LAC economies, including Colombia, Guatemala, and Costa Rica, have undertaken major reforms in their financial sectors. The telecommunication services sector is performing well in LAC owing to strong market competition, for instance the quality and price of telecommunication services in Brazil have improved, Argentina provides telecommunication services on a competitive basis and Colombia allows suppliers of telecommunication services to set their tariffs freely. Similar cases have been observed in Costa Rica, Peru and the Dominican Republic. LAC countries have also established new laws or amended the existing ones to include rights for internet users. Professional services and tourism services are performing well in LAC, and a number of reforms have been undertaken by different countries. Brazil has allowed foreign doctors to

work in the country without meeting the standard working requirements. Argentina has made specific commitments regarding a number of professional services under GATS. Further liberalisation in various services sectors of LAC countries would facilitate India in exporting services to these very countries. Sectors where India and LAC can benefit by accessing each other's markets should be focused on, for instance LAC countries are performing well in telecommunication sector and India should focus on this sector for expanding its bilateral trade.

6.6. Policy Recommendations

Takeaways in the short run

- Market imperfection is continuing with prolonged phase of recession, which has entered into its eleventh year. SME export sector is adversely affected due to restricted domestic policies. Apart from developing a scheme for providing concessional credit to exporters to the region, other non-monetary benefits in the form of reduction of production or transaction cost should be granted to them.

- Export exposures of SMEs are very much limited in India. Size and scale of SMEs in other emerging countries like China are much larger than India. Therefore, engagement of intermediaries for marketing is required. The involvement of 'star houses' to market products of SMEs is being emphasised. Similar bodies in different states may be promoted to augment export activities.

- India's manufacturing export basket is relatively small than many other emerging countries. For these products, buyers are also restricted to select countries. There is a need for facilitating the process of matchmaking between the buyers and the sellers in India and abroad for selected sectors.

- Often Indian SME exporters face multifarious difficulties in importing countries. Failure to execute any export contract by a small firm terminates its contract for any future possibility of export to a country. Such small firms in distress need to be provided legal aid on the foreign land for immediate redressal. Such support in the import destinations to SMEs may be arranged through commercial attaches in various Indian missions abroad.

- Several foreign importers approach Indian missions abroad for executing specific export orders. The procedures to communicate such commercial information to Indian exporters

are very cumbersome and success rates of such commercial dealings are also meagre. Procedural reforms are required to tap such export orders to augment exports.

- Loss of bilateral competitiveness at the product level is a common feature among different pairs of countries. As margin in trade is low, any policy changes in two countries may push a competitive product to the domain of being non-competitive. SMEs are often affected adversely in this process. They may be provided with financial and non-financial support to maintain their competitiveness. Even if some of these measures are incompatible with the regulations of WTO, India can still invoke some of these provisions in the short run despite risk of intervention in the multilateral body.

- India may consider taking membership of IDB to avail credit facilities for its exporters/importers to promote trade. In certain areas, facilities of export credit are not available by the Exim-bank. And in those very areas, IDB can provide credit to Indian firms for initiating joint ventures. As India's trade with LAC countries is skyrocketing over years, old perception of Indian authorities on taking membership in IDB should be changed. This would give immediate relief to Indian traders in availing credit facilities for initiating Joint Ventures.

- India has introduced new policies on Bilateral Investment Treaty (BIT) to streamline investment flows. In several cases, such treaties are pursued within the ambit of CEPA/CECA. With such a practice, efficacy of comprehensive economic policy has declined in recent years. This has been a case with the recently negotiated India-Mauritius JSG study for a CESPA. In this regard, earlier practices should be restored with regard to investment negotiations under CEPA/CECA.

- India has competitiveness in several sectors of Trade in Services (TIS) but many of them lost it in the past. As is known that competitiveness can be acquired and foregone if not handled with precision. For avoiding further damage to certain sectors in terms of their competitiveness, some *ad hoc* rescue mechanism need to be adopted to keep these sectors on the competitive track. Regular short- term recovery plan for SMEs may help in turning uncompetitive sectors to be competitive.

Takeaways for the Long-run

- LAC has been a dynamic region with high resilience to withstand intermittent exogenous shocks, but sub-regions within LAC demonstrated considerable divergences between

them. The region has displayed its internal dynamism in combating adverse effects of recession for a short duration, but failed to absorb burden of persistence of recession for a long duration. India should factor in these considerations while engaging with LAC, particularly for the opportunities that were created during the period of buoyancy.

- India needs to target the phase of global buoyancy to expand its trade with the region since the region has been observed to be expansionary during this period. Since buoyancy is expected to return to world economy in 2019, India can strategize to take advantage of the expected opportunity that would likely be created in LAC economies.

- LAC region has four major partners including India (others are the U.S., the EU and China) and trade of the region with India is expanding much faster than with other major partner countries/region of LAC. India has not only to maintain high growth momentum in future but has also to accelerate process of minimising the gap with both China and the EU in LAC.

- India has faced steep competition from three major players - the U.S., the EU and China —during the past two decades. Besides these countries, intense competition has been posed by certain regional economies in LAC and also another set of countries from Asia. Since LAC countries are mostly in the middle- income group, their demand pattern for imports, particularly product quality, timely delivery, etc. has to be examined minutely.

- Indian strategy to have market access in LAC region should focus on ten identified countries to begin with and their strong presence in 6 RTAs. This would be over a large spectrum of the regional trade with India. The identified countries are Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Peru and Venezuela and the six identified RTAs in the region are, Andean LAIA, MERCOSUR, Pacific Alliance, SICA and UNASUR. Future comprehensive bilateral trade negotiation of India should focus on these selected countries and RTAs.

- Continuation of recession has induced LAC countries to pursue protectionist policies, though responses of individual countries have been different. In the region, agricultural sector is rather more protected than manufacturing sector. Countries in the region pursue diverse trade regimes, especially some of the inward-oriented countries, including Brazil, Argentina, etc., which enforced multilateral and bilateral NTBs. These NTBs were subjected to a large number of product lines where many of them were also part of the

India's export items to these countries. Negotiation with these countries for bilateral/regional trade liberalisation needs specific focus to deal with these NTBs.

- LAC is further sub-divided into a few regions on the basis of the level of trade liberalisation. While countries in western flange of South America and Central America have experienced considerable level of trade liberalisation, large countries in the eastern side of South America are pursuing mostly inward-oriented policies. India needs to follow a two-pronged strategy to deal with these two groups of countries while opening up negotiations for comprehensive trade and investment.

- India needs to develop comprehensive strategy to promote manufacturing exports to selected regions/RTAs since intra-regional region trade ratios in many LAC RTAs are small. Still India is expected to face formidable competition not only from large trade players (like the U.S., the EU and China) in the region but also from the native countries of the region. NTM regime in various RTAs is also very strong and selected countries impose both multilateral and bilateral NTMs on India. India's negotiating strategy with these countries should be focused on these issues.

- Transaction cost involving trade logistics is a major impediment for fostering trade between India and LAC countries. It has been observed that China has higher trade with the region than India, in spite of having relatively higher transaction cost. By evolving a strategy to use its own domestic sea liner, reducing dependence on transhipment hubs and building warehousing facilities in certain key geo-strategic locations in LAC, India can reduce significantly its transaction cost with LAC region and can prove to be competitive effectively with China, the EU and the U.S.

- India should initiate developing warehousing facilities in LAC region to reduce transaction cost and rely on other ship liners for transportation. India may capitalise on the offers made by Panama and Argentina to build warehousing facilities in a Public-Private Partnership manner.

- India can explore possibility of improving its market access in GVCs trade in LAC region, where the region has large sectoral trade deficit with the world. On the other hand, India has significant edge in several of these products/sectors at the regional level. India has to strategize different regions on the basis of its competitiveness in different sub-regions. While Southern LAC and Caribbean regions are better off with backward GVC linkages, Central America is, however, competitive with forward GVC linkages. In parts

and components sector, India has significant advantage in certain sectors like machinery, automobiles and plastics and can significantly meet sectoral import requirements of specific countries in LAC region.

- Project goods can be beneficial for India in augmenting its exports to LAC region because it is in its sub-optimal level. Indian firms are relatively small as compared to its competitors from other major competing countries in LAC region. Registration fee of IADB is very high and a separate committee may have to look into the rationale of paying such a high registration fee and evaluating possibility of securing tenders by the Indian firms.

- It may be advantageous for India to pursue preferential trade route with LAC region. Most of the major trading partners of the region are having thriving trade through the preferential trading route. India can improve its market access with the region using preferential trade route.

- India should aim at materialising agreements like FTA/CEPA/CECA with selected regional groupings, where it has competitiveness with the member countries because the trend in the region is to have more comprehensive trading arrangement with trading partners than having shallow level of regional arrangement. LAC countries had experienced the 'first mover's advantage' in regionalism among developing countries, and have shown keenness in engaging themselves in higher order of trade preferences through FTA/CEPA/CECA with their partners outside the region. Evidences show that India is likely to gain from such kind of deeper trade arrangement with LAC RTAs.

- India should tweak its trade strategy further for translating its existing export potential of US$ 17.3 billion (plus another US$1 billion with a conservative estimate) to actual exports through deeply engaging with identified countries/ RTAs through CEPA/CECA.

- India has primarily two forms of trade potentials in the region. One set of commodities that India is currently exporting to the region where India's trade potential has not yet been fully exploited. There are other set of products which acclaim global export competitiveness but have not entered into the markets of the region. India should focus on both sources while strategizing its trade policies for LAC region.

- Export focus of India in LAC region for TiS would be in specific sectors such as freight transport and telecom where India has global competitiveness, and has an edge over from the region economies.
- India can depend for importation of services from LAC countries due to their competitiveness in Trade in Services, especially in sectors like courier & freight transport, business & personal travel and other business services. India may gain in the era of global overcapacity in the shipping sector.
- The Latin American region had remained an attractive destination for inward FDI even during the second phase of recession. Inflow of FDI to selected ten countries in 2016 constituted 54.8 per cent of the total inwards FDI to LAC region. The rising trend of FDI is somewhat similar to both overall and Greenfield inward FDI in LAC. India's outward FDI policy should focus on LAC region, particularly to the tertiary sector.
- India should put its medium term trade and investment targets to set its strategy for the region. India can set a trade target of US$ 125 (i.e. US$ 65 as India's exports and US$ 60 as imports) with the region. Similarly, investment target can be evolved to attract the regional economies of LAC as China could do for the region.
- LAC countries have clear preference for undertaking trade and investment activities simultaneously with its trading partners. For this reason, LAC countries have strong trade ties with a few trade partners including the U.S., the EU, China and India. India's trade policy should consider rationalising its outward FDI to the region to promote its exports to the region.

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Appendix

Appendix I:

List of Latin America and Caribbean Countries

Anguilla*
Antigua and Barbuda
Argentina
Aruba*
Bahamas
Barbados
Belize
Bermuda
Bolivia
Brazil
British Virgin Islands
Cayman Islands
Chile
Colombia
Costa Rica
Cuba
Curaçao*
Dominica
Dominican Republic
Ecuador
El Salvador
Falkland Islands (Malvinas)
French Guiana
Grenada
Guadeloupe
Guatemala
Guyana
Haiti
Honduras
Jamaica
Martinique
Mexico*
Montserrat
Netherlands Antilles
Nicaragua
Panama
Paraguay
Peru
Puerto Rico*
Saint Kitts and Nevis

Saint Lucia
Saint Vincent and Grenadines
Saint-Barthélemy*
Saint-Martin (French part) *
St. Maarten*
Suriname
Trinidad and Tobago
Turks and Caicos Islands
Uruguay
Venezuela
Virgin Islands, US
Note: * Countries not included in Latin America and Caribbean region in this study.

Appendix II:

Table A: Chapter-wise NTMs imposed by Top LAC countries to India, (1990-2016)

Chp	Description	NTM	ARG	BRA	CHL	COL	CRI	DOM	ECU	GTM	PER	VEN
01	Live Animal	SPS	240	435	159	730	86	93	172	268	560	118
01	Live Animal	TBT		6		2	12	38		10		
01	Live Animal	Others			12					3		
02	Meat & edible meat	SPS	315	312	190	568	99	79	99	615	611	322
02	Meat & edible meat	TBT	6	36	3	4	69	94	174	48	6	
02	Meat & edible meat	Others		4	4	20	64	8	4	4		4
03	Fish & molluscs	SPS	14	115	53	80	84	3		20	6	
03	Fish & molluscs	TBT	2	26	1	7	42	63		27	12	
03	Fish & molluscs	Others					40					
04	Diary produce	SPS	127	447	61	211	159	104	83	324	117	5
04	Diary produce	TBT	2	15	3	4	307	343	66	115	60	
04	Diary produce	Others		6	36	5	5	3	3	6		9
05	Prod- animal origin	SPS	81	95	80	30	34		3	214	103	66
05	Prod- animal origin	TBT	2	9			2				6	
05	Prod- animal origin	Others										2
06	Live trees	SPS	63	284	239	52	95	76	145	66	583	5
06	Live trees	TBT	2	8	1		12	60		5	6	
06	Live trees	Others		3		1	11					6
07	Edible vegetables	SPS	17	286	102	23	234	2	18	169	59	47
07	Edible vegetables	TBT	2	13	1	2	56	67		25	11	
07	Edible vegetables	Others		2		13	12	5		15		21
08	Edible fruits	SPS	35	549	137	56	240	8	38	154	81	11
08	Edible fruits	TBT	2	27	1	7	80	67	29	25	8	
08	Edible fruits	Others		23		13				3		19
09	Coffee, tea & spices	SPS	2	24	8	8	144		24	45	30	
09	Coffee, tea & spices	TBT	11	8	15	2	64	176	144	86	19	
09	Coffee, tea & spices	Others		4		1	20					2
10	Cereals	SPS	16	173	48	17	55	8	23	87	91	40
10	Cereals	TBT	4	10	4	2	56	77	13	28	12	
10	Cereals	Others			3	6	18	2	3	7		16
11	Prod- milling ind.	SPS	4	7	3		108		6	31	2	15
11	Prod- milling ind.	TBT	3	12	2	2	57	64	16	32	18	
11	Prod- milling ind.	Others		10	11	5			3	1		7
12	Oil seeds	SPS	37	361	156	18	229		71	84	427	72
12	Oil seeds	TBT	18	14	1	2	42	40	18	25	77	
12	Oil seeds	Others				7				2	4	8
13	Lac; gums, resin	SPS								6	2	
13	Lac; gums, resin	TBT	6				2		3		13	
14	Veg plaiting	SPS		17	10					15	23	
14	Veg plaiting	TBT					2					
14	Veg plaiting	Others										2
15	Veg. fats & oils	SPS	5	15	16	43	139	7		63	7	
15	Veg. fats & oils	TBT	4	17	1	5	84	39	92	21	78	
15	Veg. fats & oils	Others		25	60	14				2		14

16	Prep- meat & fish	SPS	22	36	11	54	51	6		185	12	
16	Prep- meat & fish	TBT		18	1	7	49	55		22	28	
16	Prep- meat & fish	Others		3			3					
17	Sugars	SPS				30	8			2	2	
17	Sugars	TBT	2	13	2	4	39	31	24	21	42	
17	Sugars	Others		8	12	6	10	1	3	1		3
18	Cocoa	SPS	2	8		13	76			8	6	
18	Cocoa	TBT	2	7	1	2	33	49	58	21	22	
18	Cocoa	Others		4		3						1
19	Prep. of cereals	SPS	3	9			47	12		30	6	
19	Prep. of cereals	TBT	3	9	3	2	57	71	137	34	46	
19	Prep. of cereals	Others		10								1
20	Prep. of vegetables	SPS	3	15	1	5	117			37	2	
20	Prep. of vegetables	TBT	6	21	2	3	111	323	200	67	42	
20	Prep. of vegetables	Others	2	25		2						
21	Misc. edible prep	SPS	14	10		4	38			31	11	
21	Misc. edible prep	TBT	6	19	3	3	114	132	102	63	55	
21	Misc. edible prep	Others		8		1	1					1
22	Beverages	SPS	14	101		39	8	5		2	2	
22	Beverages	TBT	46	89	6	21	134	201	61	165	30	
22	Beverages	Others		8		1						
23	Residues- food ind.	SPS	40	80	77	65	106	6	5	100	125	
23	Residues- food ind.	TBT		21	1	2	36	29	7	25		
23	Residues- food ind.	Others		2		7			4	2		5
24	Tobacco	SPS	2	19						18		
24	Tobacco	TBT		6		2	2			12	48	
24	Tobacco	Others		3		1				3		4
25	Salt, sulphur	SPS		5		6					2	
25	Salt, sulphur	TBT	9	4	3	2	38	63	18	6	17	
25	Salt, sulphur	Others					20					
26	Ores, slag and ash	SPS		2								
26	Ores, slag and ash	TBT	5	3	2	2	10	4		6		
26	Ores, slag and ash	Others									12	
27	Mineral fuels & oils	SPS		6							4	
27	Mineral fuels & oils	TBT		27	10	5	31	57	58	54	12	
27	Mineral fuels & oils	Others					20					
28	Inorganic chemicals	SPS		6		3				20		
28	Inorganic chemicals	TBT	15	17	8	22	38	22	13	18	73	
28	Inorganic chemicals	Others		2			88				36	
29	Organic chemicals	SPS	7	28	3	14			9	20		
29	Organic chemicals	TBT		18			2	50		1	144	
29	Organic chemicals	Others					58					
30	Pharmaceutical Prod	SPS	7	75	4	32	16	16		72	7	
30	Pharmaceutical Prod	TBT	3	43	1	15	37	18	3	20	35	
30	Pharmaceutical Prod	Others					38					
31	Fertilisers	SPS		33		12	7			12		
31	Fertilisers	TBT		14			16		3	3		
31	Fertilisers	Others					20					

32	Tanning extracts	SPS		6						5		
32	Tanning extracts	TBT		14	2	12	3	1	65		40	
32	Tanning extracts	Others	6				10					
33	Essential oils	SPS		6						23		
33	Essential oils	TBT	30	26	12	18	50	24	126	36	51	1
33	Essential oils	Others		11								
34	Soap, organic agents	SPS		2		30						
34	Soap, organic agents	TBT	10	16	4	58	59	41	81	18	53	
34	Soap, organic agents	Others										
35	Albuminoidal subst.	SPS	7	23	8					35	5	
35	Albuminoidal subst.	TBT		6			2		4		8	
35	Albuminoidal subst.	Others		1		1						1
36	Explosives	SPS		2								
36	Explosives	TBT	6	17	2	2	10	4	10	6	1	
36	Explosives	Others					40		6			
37	Photographic goods	SPS		2								
37	Photographic goods	TBT		4								
38	Misc chemical prod	SPS		29		11	50	7		28		
38	Misc chemical prod	TBT	10	32	7	32	45	26	34	31	39	
38	Misc chemical prod	Others	1			1	38					
39	Plastics	SPS	45	55	28	58	16					
39	Plastics	TBT	8	12	5	59	11	38	142	8	18	
39	Plastics	Others	1	13		2						
40	Rubber	SPS		2						17		
40	Rubber	TBT	2	80	4	25	7	45	99	3	23	3
40	Rubber	Others		2	4		4		2		2	2
41	Raw hides & skins	SPS		2	3					29	8	
41	Raw hides & skins	TBT							12			
42	Leather	SPS		2						5	5	
42	Leather	TBT		2		11	4	36	126			1
43	Furskins & artif. fur	SPS								5	5	
43	Furskins & artif. fur	TBT							1			
44	Wood	SPS	7	40	30	3	25	3	15	8	44	3
44	Wood	TBT	3		1	5	2	2	12			
44	Wood	Others							30			
45	Cork	SPS								5		
45	Cork	TBT							8			
46	Mnf of straw	SPS								5	1	
46	Mnf of straw	TBT	1		3		3	12		8		
47	Pulp of wood	SPS								5		
48	Paper	SPS	5	4								
48	Paper	TBT	2	1		14		8	11		13	
48	Paper	Others						2	5			22
49	Printed books	TBT									10	
50	Silk	SPS								5		
50	Silk	TBT		5			3	3				
51	Wool	SPS			1					5	8	
51	Wool	TBT		7			3	3				

52	Cotton	SPS		28		2			15	10	24	
52	Cotton	TBT		16			3	3				
52	Cotton	Others		1		4					2	
53	Other textile fibers	SPS	3							5	1	
53	Other textile fibers	TBT		5			3	3				
54	Man-made filaments	TBT		8			3	3				
54	Man-made filaments	Others						2	2			
55	Man-made S. fibres	TBT		6			3	3				
55	Man-made S. fibres	Others		9							1	
56	Wadding	TBT		3			3	3			12	
57	Carpets	TBT		1			3	3	144			
58	Woven fabrics	TBT		3			6	6				
59	Textile fabrics	TBT		1			3	3				
59	Textile fabrics	Others					20					
60	Knitted fabrics	TBT		1			3	3				
61	Apparel	SPS			3							
61	Apparel	TBT		3		1	3	3	22			
61	Apparel	Others			4			8			2	
62	Apparel-not knitted	SPS			3							
62	Apparel-not knitted	TBT		3		1	3	3	74			
62	Apparel-not knitted	Others									2	
63	Other textile articles	SPS			3							
63	Other textile articles	TBT	4	2	2	4	4	6	7			
63	Other textile articles	Others					12	2	2		2	
64	Footwear	TBT	3	5		16	10	16	114	13	68	
64	Footwear	Others	50						14			40
65	Headgear	TBT		4					20			
67	Prepared feathers	SPS								16		
68	Cement	TBT	1	24	1	11		72	12		2	1
68	Cement	Others					10					
69	Ceramic products	SPS				5						
69	Ceramic products	TBT	2	8	2	22	5	15	84			
69	Ceramic products	Others							6			
70	Glass and glassware	SPS				5						
70	Glass and glassware	TBT		35		22	1	8	88			
70	Glass and glassware	Others		1				2	2			
71	Jewellery	TBT		4					93		1	
72	Iron and steel	SPS	3									
72	Iron and steel	TBT	6	17		12	6		81			2
72	Iron and steel	Others		4	84	30						6
73	Articles- Iron/steel	SPS	24			14						
73	Articles- Iron/steel	TBT	7	51	2	75	11	36	307	2	13	3
73	Articles- Iron/steel	Others		3	13							
74	Cooper	SPS	6									
74	Cooper	TBT	5	6	1	8	6		33			
75	Nickel	TBT	2	3			2					
76	Aluminium	TBT	4	6		10	6	11	94	1	3	
78	Lead	TBT	2	7			2		1			

79	Zinc	TBT	2	3		3	2	2				
80	Tin	TBT	2	3			2					
81	Other base materials	TBT		4								
82	Tools	SPS			3		8			2		
82	Tools	TBT	2	4	4	1	36	24	134	16		
82	Tools	Others	4			1						
83	Misc- base metal	TBT	2	5		2	2	9	34			
84	Nuclear reactors	SPS			15		16			4		
84	Nuclear reactors	TBT	14	120	22	49	95	80	552	50	79	1
84	Nuclear reactors	Others					18				184	
85	Electrical machinery	SPS	24									
85	Electrical machinery	TBT	26	143	12	46	25	9	437		56	5
85	Electrical machinery	Others	7	4		2					39	
86	Railway	SPS				3						
86	Railway	TBT	1	3		2						
87	Vehicles	TBT	1	169	15	11	3	2	153	2	1	5
87	Vehicles	Others	6			4					234	
88	Aircraft	SPS			7							
88	Aircraft	TBT		2		2	3					
89	Ships & boats	SPS			6				5			
89	Ships & boats	Others					10					
90	Photography	SPS				7						
90	Photography	TBT	3	95		26	33	18	102		65	
90	Photography	Others									64	
92	Musical instruments	TBT	1		2		1				1	
93	Arm & ammunition	TBT			12							
93	Arm & ammunition	Others					30					
94	Furniture	SPS			3							
94	Furniture	TBT	6	59	5	4	8	11	49		16	
95	Toys	TBT	6	30	10	2	4		62		14	
95	Toys	Others	18	57			10					
96	Misc Mnf articles	SPS			6							
96	Misc Mnf articles	TBT	8	13	2	3	8	4	28	6	16	
96	Misc Mnf articles	Others			2							
97	Art work	SPS			6						5	
97	Art work	TBT	1									

Source: RIS estimation based on WTO Online

Note: The products are drawn from WTO database at the level of chapter, heading and sub-heading

Table B: Number of NTMs imposed by LAC countries, (2007-16)

Country	NTM	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	CAGR (%) 07-16
Argentina	ADP	28	10	118	51	17	28	15	31	22	22	-2.6
Argentina	SG	3										
Argentina	SPS	43	15	36	46	63	162	40	15	26	57	3.2
Argentina	TBT	45	174	32	4	17	22	13	6	30	37	-2.2
Barbados	SPS	8							100	25		
Barbados	SSG	2	9	2								
Belize	SPS	7				99						
Belize	TBT				1	14						
Bolivia	TBT								27		172	
Brazil	ADP	19	26	50	58	44	46	79	70	137	29	4.8
Brazil	CV		1			12	4				6	
Brazil	SG		4				1					
Brazil	SPS	529	798	676	544	471	441	595	544	798	552	0.5
Brazil	TBT	45	346	86	171	175	206	140	165	119	153	14.6
Chile	ADP	3		2	1		2			5		
Chile	CV	1										
Chile	SG			8			1	3		27		
Chile	SPS	43	80	127	124	192	202	120	207	139	107	10.7
Chile	TBT	10	121	39	99	88	103	119	94	87	132	33.2
Colombia	ADP	57		14		15	5	4	9	23	9	-18.5
Colombia	SG							18	12			
Colombia	SPS	214	151	283	244	280	68	61	22	26	14	-26.1
Colombia	TBT	40	195	117	56	40	165	68	55	38	98	10.5
Costa Rica	ADP	6		2						1	1	-18.1
Costa Rica	QR				90		460					
Costa Rica	SG						1			4		
Costa Rica	SPS	32	169	97	84	186	190	53	80	93	158	19.4
Costa Rica	TBT	105	153	277	38	599	107	45	17	13	260	10.6
Costa Rica	TRQ											
Cuba	QR				36			385	108			
Cuba	SPS		4									
Cuba	TBT	12		56			80	6	40			
Dominica	TBT		49							4		
Dom. Rep.	ADP								2		7	
Dom. Rep.	SG			3	13							
Dom. Rep.	SPS		38	83	113	5	5	12	126	9	53	
Dom. Rep.	TBT	280		328	625	780	297	331		5	2	-42.3
Ecuador	ADP				2							
Ecuador	SG				6				3			
Ecuador	SPS	34	472	16	6	23	196	330	190	84	113	14.3
Ecuador	TBT	33	10	150	54	343	518	1234	693	1537	173	20.2
El Salvador	SPS	23	78	29	69	108	42	15	22	32	13	-6.1
El Salvador	TBT	38	57	81	39	322	98	33	27	9	258	23.7
Grenada	TBT	8					15		2			
Guatemala	ADP								2			
Guatemala	SPS		8	48	21	71	12		62	88	9	
Guatemala	TBT	43	2	19	32	283	92	12	5		380	27.4
Guyana	SPS						7					

Haiti	SPS								6			
Haiti	TBT								3			
Honduras	SPS	175	5	3	19	240	28	3	24		4	-34.3
Honduras	TBT	49	28	21	22	117	86	17	10	2	17	-11.1
Jamaica	ADP			1								
Jamaica	SPS	15			39	8						
Jamaica	TBT	4	25	4	46	98	84	54	12	19	4	
Mexico	ADP	5		2	8	3	6	8	40	162	107	40.5
Mexico	CV						2		1			
Mexico	SG				2							
Mexico	SPS	17		68	23	70	81	106	218	170	124	24.7
Mexico	TBT	12	160	15	60	85	496	341	18	77	224	38.4
Nicaragua	QR				9			11	72			
Nicaragua	SPS	3	59	4	39	111	99	32	32	51	22	24.8
Nicaragua	TBT	42	143	8	28	201	60	64	27	5	163	16.3
Panama	ADP			12								
Panama	SG	4										
Panama	SPS	6	25		15		9		13		4	-4.4
Panama	TBT	18			4			30	93		174	28.7
Paraguay	SPS	15	65			4		14				
Paraguay	TBT	15	126	11	12	59	25	14	30	8	10	-4.4
Peru	ADP	4		27	1	2		4		4		
Peru	CV	2			4		1				2	
Peru	QR		434									
Peru	SG			2								
Peru	SPS	156	344	368	199	226	245	149	1861	973	363	9.8
Peru	TBT	22	28	70	210	335	77	126	134	296	139	22.7
Saint Lucia	TBT		17	1	2							
St. Vin. & Gren.	TBT			163	302							
Suriname	TBT								4			
Trin. & Tobago	ADP										8	
Trin. & Tobago	TBT	19	184	602	558	183	113	70	9	5	75	16.5
Uruguay	ADP						2			1		
Uruguay	QR								71			
Uruguay	SPS		17	6		21	2	17	34		4	
Uruguay	TBT		10	4						6	5	

Source: RIS estimation based on WTO Online

Appendix III:

India's Trade with Latin America and Caribbean countries

(in USD Million)

Country	2003			2007			2008			2012			2017		
	Imp.	Exp.	Tr Bal	Imp.	Exp.	Tr Bal	Imp.	Exp.	Tr Bal	Imp.	Exp.	Tr Bal	Imp.	Exp.	Tr Bal
Antigua & Barbuda	0	4	3	0	2	1	0	3	3	0	2	1	0	2	2
Argentina	494	81	-413	899	270	-629	603	381	-221	1222	501	-721	2487	661	-1826
Bahamas	0	3	3	3	29	25	41	15	-25	0	2425	2425	40	7	-33
Barbados	0	2	2	0	3	3	0	4	4	0	7	7	0	12	12
Belize	0	2	2	12	5	-7	14	7	-7	0	25	24	1	15	14
Bermuda		1	1	0	1	1	0	1	1	0	1	1	0	4	4
Bolivia	2	3	2	3	7	4	6	10	4	3	50	46	598	99	-499
Brazil	314	327	12	959	2251	1292	1166	3194	2028	5406	6129	724	5100	2874	-2226
Chile	159	80	-79	1862	281	-1581	1791	418	-1373	2498	647	-1851	1700	745	-956
Colombia	9	87	78	82	712	630	23	411	389	1382	927	-455	646	912	266
Costa Rica	21	18	-3	77	29	-48	61	39	-22	224	78	-146	69	134	65
Cuba	2	5	3	11	21	10	15	37	23	5	35	31	2	46	44
Dominican Republic	1	13	12	3	41	39	10	55	46	10	109	98	595	196	-399
Dominica	0	2	2	1	3	2	1	3	2	0	3	2	0	2	1
Ecuador	5	14	9	175	55	-120	60	94	34	758	172	-586	329	265	-64
El Salvador	1	6	5	5	14	9	6	17	11	8	51	44	9	66	57
Falkland Islands		0	0	0	0	0	0	0	0	1	1	0			0
Grenada	0	1	0	0	1	1	0	1	0	0	1	1	0	3	3
Guatemala	1	24	24	3	75	71	4	93	89	6	222	216	18	282	265
Guyana	10	5	-5	16	14	-2	11	13	2	5	21	16	9	23	14
Haiti	0	9	9	2	25	24	2	45	43	2	61	59	7	93	86
Honduras	0	14	14	2	100	98	4	85	81	15	110	96	15	142	127
Jamaica	1	9	9	18	24	6	1	21	20	3	31	28	4	50	46

N. Antilles	0	16	16	1	11	10	1	15	13	19	55	36	8	41	33
Nicaragua	0	6	5	0	44	44	1	53	52	1	53	52	4	79	75
Panama	11	58	47	264	93	-171	266	116	-150	104	252	148	135	234	99
Paraguay	1	10	9	1	42	41	1	42	41	8	71	63	155	150	-4
Peru	29	41	12	150	247	97	298	408	110	424	635	211	2069	729	-1339
St. Kitts & Nevis		0	0	0	1	1		1	1		1	1		3	3
St. Lucia		0	0	3	1	-2	0	1	1	1	1	1	0	4	4
St. Vincent & Gren.		0	0		0	0	41	1	-40		1	1		1	1
Suriname	1	3	2	1	13	12	1	10	9	10	20	10	84	15	-69
Trinidad & Tobago	6	20	15	143	129	-14	91	378	287	5	83	77	102	92	-10
Uruguay	9	19	10	12	47	36	17	70	53	25	138	113	24	189	165
Venezuela	3	26	23	484	139	-344	4116	160	-3956	12057	252	-11805	5898	82	-5816

Appendix IV:

Export Competitiveness and Revealed Comparative Advantage

It must be noted that there are difficulties in measuring the comparative advantage, and the issue remains complex till today. Balassa (1989) observed that relative prices under autarky are not observable. Balassa (1965) argued that it may not be necessary to include all constituents affecting a country's comparative advantage. Instead, the comparative advantage of a country is 'revealed' by its observed trade patterns, and for this purpose, one may not require pre-trade relative prices which are not observable. Thus he proposed a derived index to estimate the comparative advantage from observed data, and the index is known as "Balassa Index". During the last four decades, there have been attempts to develop new indices to overcome the deficiencies in the Balassa Index. However, the Balassa Index still remains a commonly accepted measure to analyse trade data.

The trade competitiveness of a country shows whether it has specialization in the production of a good (Tam, 2001). A country has a comparative advantage when it can produce the good more cheaply than other suppliers in the market. As indicated by Kannapiran and Fleming (1999), a country has a comparative advantage over the others if that country can do so at a lower cost. Gain from exporting products continues for a country so long as it enjoys a *margin* over the world price (Leishman *et al*., 2002).

Indices on the revealed comparative advantage (RCA) are commonly used as proxies to measure trade competitiveness. RCA assumes that the comparative advantage of a country is reflected or revealed in a market over a selected set of prospective products (Tam, 2001). The RCA provides a rough indicator of the strength of a product in terms of its comparative advantage in the world market, relative to others (Fatimah and Alias, 1997).

The Balassa Index was developed in an evolutionary process. Liesner (1958) is the first to contribute to the empirical study in the area of RCA to examine the competitiveness of the UK in the European Common Market. Since then, the definition of RCA has been revised and modified over the last four decades. The Balassa index is used in varieties of situations to examine the competitiveness of a country in different lines of products/ industries. For example, while Balassa, (1965) used this approach to estimate the competitiveness at the sub-global/regional

level, Vollrath (1991) used it to analyse the specialisation in trade at the global level. In a related study, Dimelis and Gatsios (1995) used this approach to examine the competitiveness at the bilateral level.

A simple measure of RCA used in the study is as follows:

$RCA1^{i6} = Xij / Xnj$ .....(1)

where *X* denotes exports, *i* for country, *j* for product (or industry), and *n* for a set of countries (e.g. any RTA).

Balassa (1965) presented a comprehensive measure of the relative comparative advantage index. The RCA has gained wider acceptance among the applied international trade economists, as it is a more comprehensive indicator of the concept of specialisation. It provides a better measure of the overall specialisation pattern of a country. Kunimoto (1977) provides a statistical framework in which the Balassa Index can be interpreted as the ratio between actual and expected trade. The RCA Index is expressed as follows:

$$RCA2_j = \left(\frac{X_{ij}}{\sum_j X_{ij}} \right) \Bigg/ \left(\frac{\sum_i X_{ij}}{\sum_i \sum_j X_{ij}} \right) \text{.....(2)}$$

where *X* stands for exports, *i* for i^{th} country, *j* for j^{th} product (or industry). RCA2j measures ith country's exports of the j^{th} product (or industry) relative to its total exports and to the corresponding exports of a reference group or World.

When $RCA2_j > 1$, it may be interpreted that the reference country has a revealed comparative advantage in the export of jth product to a reference group or World. If RCA2j is less than unity, the country is said to have comparative disadvantage in the product/industry. Greenaway and Milner (1993) have argued that the RCA2 index is lopsided due to exclusion of imports from the index. In order to correct the export bias in the RCA index, several indices are proposed in the literature by introducing imports in the modified indices. Greenaway and Milner

[6] Different variants of RCA are discussed in this section. We have numbered these measures to maintain their identities.

(1993) have proposed "own" country trade performance. A number of other transformed indices are also seen in the literature, and most of them are very similar to Balassa Index.

Some significant improvement is suggested by Vollrath (1991) to transform the RCA index. He has proposed three alternative ways of measuring a country's RCA using both export and import variables. These alternative specifications of RCA are called *the relative trade advantage* (RTA), *the logarithm of the relative export advantage* (ln RXA), and *the revealed competitiveness* (RC). One of the advantages of presenting Vollrath's three alternative measures is that the positive value of revealed comparative advantage reveals a comparative/ competitive advantage, whereas the negative values indicate comparative/ competitive disadvantage. This condition is applicable to all the three alternative measures of Vollrath (1991).

The aforesaid measures are effective so long as trade practices are carried out in a distortion free environment. However, the trade patterns of countries are very often distorted on account of intervention of Governments in the form of import restrictions, export subsidies and other protectionist policies. Such anomalies in trade practices also affect the effectiveness of the RCA index as a sound instrument to measure the comparative advantage of domestic tradable products/sectors. Several studies have proposed a number of measures to remove the prevailing anomalies in trade practices, on account of Government intervention. For example, the study of Fertö and Hubbard (2003), uses nominal assistance coefficients (NACs) estimated by the OECD for country and commodity sectors to filter the effects of possible distortions in measuring Hungarian Agri-food sector RCAs vis-à-vis the EU. Greenaway and Milner (1993), on the other hand, suggest the advantage of a price-based measure of RCA called "implicit revealed comparative advantage" (IRCA) to remove the distortion caused by the post-policy intervention. Vollrath (1991) suggests that the Revealed Competitiveness (RC) index is preferable since supply and demand balance is embodied in the index. It may be noted that although the use of Balassa and Vollrath indices are very much in vogue to examine the competitiveness of a country, they are not strictly comparable.

The existing literature presents a range of RCA alternative indices to measure the comparative advantage, and sometimes the use of different RCA indices may lead to inconsistent results and interpretational difficulties. Moreover, a number of studies have raised apprehensions about the

stability and the consistency of alternative measures of RCA (e.g. Balance et al., 1987; Yeats, 1985; Hinloopen and Van Marrewijjk, 2001).

Appendix V:

Appendix V.1: Top 50 Products Imported by LAC from World, 2016

Rank	HS	Description	Imports ($Bn)
1	271019	Oils; petroleum oils and oils obtained from bituminous minerals, not crude; preparations n.e.c., containing by weight 70% or more of petroleum oils or oils obtained from bituminous minerals, (excluding waste oils), other than light oils and preparations	24.1
2	271011	Petroleum oils and oils from bituminous minerals, not crude or waste oils; preparations n.e.c. with 70% or more (weight),of petroleum oils or oils from bituminous minerals; being the basic constituents of the preparations: light oils and preparations	15.0
3	870323	Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1500cc but not exceeding 3000cc	13.0
4	270900	Oils; petroleum oils and oils obtained from bituminous minerals, crude	13.0
5	300490	Medicaments; consisting of mixed or unmixed products n.e.s. in heading no. 3004, for therapeutic or prophylactic uses, packaged for retail sale	11.8
6	852520	Transmission apparatus; for radio-telephony, radio-telegraphy, radio-broadcasting or television, with reception apparatus, with or without sound recording or reproducing apparatus	11.7
7	870322	Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1000cc but not exceeding 1500cc	6.2
8	870421	Vehicles; compression-ignition internal combustion piston engine (diesel or semi-diesel), for transport of goods, (of a gvw not exceeding 5 tonnes), nes in item no 8704.1	5.9
9	851790	Line telephony or telegraphy apparatus; electrical, parts of the apparatus of heading no. 8517	5.1
10	854221	Electronic integrated circuits and microassemblies; monolithic integrated circuits, digital	4.5
11	270112	Coal; bituminous, whether or not pulverised, but not agglomerated	4.4
12	100590	Cereals; maize (corn), other than seed	3.8
13	852812	Television receivers; colour, whether or not combined, in the same housing, with radio-broadcast receivers or sound or video recording or reproducing apparatus	3.4
14	300290	Toxins, cultures of micro-organisms (excluding yeasts) and similar products	3.3
15	847130	Data processing machines; portable, digital and automatic, weighing not more than 10kg, consisting of at least a central processing unit, a keyboard and a display	3.2
16	100190	Cereals; meslin and wheat other than durum	3.0

17	310420	Fertilizers, mineral or chemical; potassic, potassium chloride	2.9
18	852990	Reception and transmission apparatus; for use with the apparatus of heading no. 8525 to 8528, excluding aerials and aerial reflectors	2.9
19	271111	Petroleum gases and other gaseous hydrocarbons; liquefied, natural gas	2.8
20	210690	Food preparations; n.e.s. in item no. 2106.10	2.8
21	230400	Oil-cake and other solid residues; whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil	2.8
22	870840	Vehicles; parts, gear boxes	2.7
23	271121	Petroleum gases and other gaseous hydrocarbons; in gaseous state, natural gas	2.5
24	271112	Petroleum gases and other gaseous hydrocarbons; liquefied, propane	2.4
25	392690	Plastics; other articles n.e.s. in chapter 39	2.4
26	870899	Vehicles; parts and accessories, n.e.s. in heading no. 8708	2.3
27	380810	Insecticides; put up in forms or packings for retail sale or as preparations or articles	2.1
28	310210	Fertilizers, mineral or chemical; nitrogenous, urea, whether or not in aqueous solution	2.1
29	870829	Vehicles; parts and accessories, of bodies, other than safety seat belts	2.0
30	380830	Herbicides, anti-sprouting products and plant-growth regulators; put up in forms or packings for retail sale or as preparations or articles	1.9
31	401120	Rubber; new pneumatic tyres, of a kind used on buses or lorries	1.9
32	848180	Taps, cocks, valves and similar appliances; for pipes, boiler shells, tanks, vats or the like, including thermostatically controlled valves	1.8
33	310540	Fertilizers, mineral or chemical; ammonium dihydrogenorthophosphate (monoammonium phosphate) and mixtures thereof with diammonium hydrogenorthophosphate (diammonium phosphate)	1.8
34	880240	Aeroplanes and other aircraft; of an unladen weight exceeding 15,000kg	1.8
35	390110	Ethylene polymers; in primary forms, polyethylene having a specific gravity of less than 0.94	1.8
36	382490	Chemical products, preparations and residual products of the chemical or allied industries, n.e.s. or included in heading no. 3824	1.7
37	850300	Electric motors and generators; parts suitable for use solely or principally with the machines of heading no. 8501 or 8502	1.7
38	901890	Medical, surgical or dental instruments and appliances; n.e.s. in heading no. 9018	1.7
39	870431	Vehicles; spark-ignition internal combustion piston	1.7

		engine, for transport of goods, (of a g.v.w. not exceeding 5 tonnes), nes in item no 8704.1	
40	401110	Rubber; new pneumatic tyres, of a kind used on motor cars (including station wagons and racing cars)	1.6
41	380820	Fungicides; put up in forms or packings for retail sale or as preparations or articles	1.6
42	847330	Machines; parts and accessories of automatic data processing, magnetic or optical readers, digital processing units	1.6
43	230990	Dog or cat food; (not put up for retail sale), used in animal feeding	1.6
44	870210	Vehicles; public transport type (carries 10 or more passengers), compression-ignition internal combustion piston engine (diesel or semi-diesel)	1.6
45	120100	Soya beans; whether or not broken	1.6
46	950390	Toys; n.e.s. in heading no. 9503	1.5
47	844390	Printing machinery; parts thereof	1.5
48	847160	Data processing machines; input or output units, whether or not containing storage units in the same housing	1.5
49	870422	Vehicles; compression-ignition internal combustion piston engine (diesel or semi-diesel), for transport of goods, (of a g.v.w. exceeding 5 tonnes but not exceeding 20 tonnes), nes in item no 8704.1	1.5
50	390120	Ethylene polymers; in primary forms, polyethylene having a specific gravity of 0.94 or more	1.5

Source: ComTrade Database, United Nations, 2018

Appendix V.2: Top 50 Products Exported by LAC to World, 2016

Rank	HS	Description	Exports ($Bn)
1	270900	Oils; petroleum oils and oils obtained from bituminous minerals, crude	109.6
2	260300	Copper ores and concentrates	32.5
3	120100	Soya beans; whether or not broken	31.8
4	260111	Iron ores and concentrates; non-agglomerated	18.3
5	710812	Metals; gold, non-monetary, unwrought (but not powder)	17.3
6	740311	Copper; refined, unwrought, cathodes and sections of cathodes	16.8
7	230400	Oil-cake and other solid residues; whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil	15.2
8	271011	Petroleum oils and oils from bituminous minerals, not crude or waste oils; preparations n.e.c. with 70% or more (weight),of petroleum oils or oils from bituminous minerals; being the basic constituents of the preparations: light oils and preparations	14.0
9	170111	Sugars; cane sugar, raw, in solid form, not containing added flavouring or colouring matter	11.0
10	90111	Coffee; not roasted or decaffeinated	10.8

11	100590	Cereals; maize (corn), other than seed	8.7
12	271019	Oils; petroleum oils and oils obtained from bituminous minerals, not crude; preparations n.e.c., containing by weight 70% or more of petroleum oils or oils obtained from bituminous minerals, (excluding waste oils), other than light oils and preparations	7.4
13	470329	Wood pulp; chemical wood pulp, soda or sulphate, (other than dissolving grades), semi-bleached or bleached, of non-coniferous wood	7.0
14	20230	Meat; of bovine animals, boneless cuts, frozen	7.0
15	270112	Coal; bituminous, whether or not pulverised, but not agglomerated	6.8
16	80300	Fruit, edible; bananas, (including plantains), fresh or dried	6.7
17	30613	Crustaceans; shrimps and prawns, frozen (whether in shell or not, whether or not cooked by steaming or by boiling in water)	5.2
18	150710	Vegetable oils; soya-bean oil and its fractions, crude, whether or not degummed, not chemically modified	5.2
19	20714	Meat and edible offal; of the poultry of heading no. 0105, of fowls of the species gallus domesticus, cuts and offal, frozen	5.1
20	870323	Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1500cc but not exceeding 3000cc	5.0
21	870421	Vehicles; compression-ignition internal combustion piston engine (diesel or semi-diesel), for transport of goods, (of a gvw not exceeding 5 tonnes), nes in item no 8704.1	3.9
22	271111	Petroleum gases and other gaseous hydrocarbons; liquefied, natural gas	3.7
23	880240	Aeroplanes and other aircraft; of an unladen weight exceeding 15,000kg	3.6
24	260800	Zinc ores and concentrates	3.5
25	300490	Medicaments; consisting of mixed or unmixed products n.e.s. in heading no. 3004, for therapeutic or prophylactic uses, packaged for retail sale	3.5
26	281820	Aluminium oxide; other than artificial corundum	3.1
27	170199	Sucrose; chemically pure, not containing added flavouring or colouring matter, in solid form	2.9
28	841191	Turbines; parts of turbo-jets and turbo-propellers	2.8
29	260112	Iron ores and concentrates; agglomerated (excluding roasted iron pyrites)	2.8
30	720712	Iron or non-alloy steel; semi-finished products of iron or non-alloy steel; containing by weight less than 0.25% of carbon, of rectangular (other than square) cross-section	2.7
31	271121	Petroleum gases and other gaseous hydrocarbons; in gaseous state, natural gas	2.7
32	100190	Cereals; meslin and wheat other than durum	2.6
33	20130	Meat; of bovine animals, boneless cuts, fresh or chilled	2.5
34	870322	Vehicles; spark-ignition internal combustion reciprocating	2.5

		piston engine, cylinder capacity exceeding 1000cc but not exceeding 1500cc	
35	740200	Copper; unrefined, copper anodes for electrolytic refining	2.4
36	220421	Wine; still, in containers holding 2 litres or less	2.4
37	240120	Tobacco; partly or wholly stemmed or stripped	2.4
38	271600	Electrical energy	2.3
39	60310	Flowers, cut; flowers, buds of a kind suitable for bouquets or for ornamental purposes, fresh	2.3
40	710813	Metals; gold, semi-manufactured	2.3
41	80610	Fruit, edible; grapes, fresh	2.0
42	230120	Flours, meals and pellets; of fish or of crustaceans, molluscs or other aquatic invertebrates	2.0
43	20712	Meat and edible offal; of the poultry of heading no. 0105, of fowls of the species gallus domesticus, (not cut in pieces), frozen	1.9
44	290511	Alcohols; saturated monohydric, methanol (methyl alcohol)	1.8
45	281410	Ammonia; anhydrous	1.8
46	20329	Meat; of swine, n.e.s. in item no. 0203.2, frozen	1.7
47	260700	Lead ores and concentrates	1.7
48	610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	1.7
49	261610	Silver ores and concentrates	1.7
50	720293	Ferro-alloys; ferro-niobium	1.6

Source: ComTrade Database, United Nations, 2018

Appendix V.3: Top 50 Products Imported by LAC from India, 2016

Rank	HS	Description	Imports ($Mn)
1	300490	Medicaments; consisting of mixed or unmixed products n.e.s. in heading no. 3004, for therapeutic or prophylactic uses, packaged for retail sale	535.6
2	870322	Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1000cc but not exceeding 1500cc	381.4
3	540233	Yarn; textured, (not sewing thread), of polyesters (including synthetic monofilament of less than 67 decitex), not put up for retail sale	251.6
4	871120	Motorcycles (including mopeds) and cycles; fitted with an auxiliary motor, reciprocating internal combustion piston engine, of cylinder capacity exceeding 50cc but not exceeding 250cc, with or without side-cars; side-cars	237.7
5	870323	Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1500cc but not exceeding 3000cc	214.6
6	870321	Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity not exceeding 1000cc	194.2
7	380810	Insecticides; put up in forms or packings for retail sale or as preparations or articles	182.0
8	271019	Oils; petroleum oils and oils obtained from bituminous minerals, not	142.5

		crude; preparations n.e.c., containing by weight 70% or more of petroleum oils or oils obtained from bituminous minerals, (excluding waste oils), other than light oils and preparations	
9	380820	Fungicides; put up in forms or packings for retail sale or as preparations or articles	135.3
10	390760	Poly(ethylene terephthalate); in primary forms	122.4
11	760110	Aluminium; unwrought, (not alloyed)	102.6
12	520523	Cotton yarn; (not sewing thread), single, of combed fibres, 85% or more by weight of cotton, less than 232.56 but not less than 192.31 decitex (exceeding 43 but not exceeding 52 metric number), not for retail sale	101.0
13	300220	Vaccines; for human medicine	92.0
14	300390	Medicaments; (not containing antibiotics, hormones, alkaloids or their derivatives), for therapeutic or prophylactic uses, (not packaged for retail sale)	90.6
15	293499	Nucleic acids and their salts, other heterocyclic compounds, n.e.c. in heading number 2934	87.9
16	292690	Nitrile-function compounds; other than acrylonitrile, 1-cyanoguanidine (dicyandiamide) and fenproporex (INN) and its salts - methadone (INN) intermediate (4-cyano-2-dimethylamino-4,4-diphenylbutane	84.8
17	300420	Medicaments; containing antibiotics (other than penicillins, streptomycins or their derivatives), for therapeutic or prophylactic uses, packaged for retail sale	79.7
18	293090	Organo-sulphur compounds; n.e.s. in heading no. 2930	79.2
19	721061	Iron or non-alloy steel; flat-rolled, width 600mm or more, plated or coated with aluminium zinc-alloys	78.7
20	550953	Yarn; (not sewing thread), of polyester staple fibres, mixed mainly or solely with cotton, not put up for retail sale	78.4
21	320416	Dyes; reactive dyes and preparations based thereon	69.4
22	293399	Heterocyclic compounds; n.e.c. in headings no. 2933	64.7
23	293339	Heterocyclic compounds; containing an unfused pyridine ring (whether or not hydrogenated) in the structure, n.e.c. in 2933.3	60.5
24	293359	Heterocyclic compounds; containing a pyrimidine ring (whether or not hydrogenated) or piperazine ring in the structure, (other than malonylurea (barbituric acid) and its derivatives),and loprazolam, mecloqualone, methaqualone, zipeprol and salts thereof	58.2
25	520522	Cotton yarn; (not sewing thread), single, of combed fibres, 85% or more by weight of cotton, less than 714.29 but not less than 232.56 decitex (exceeding 14 but not exceeding 43 metric number), not for retail sale	57.6
26	730820	Iron or steel; structures and parts thereof, towers and lattice masts	56.6
27	293500	Sulphonamides	54.2
28	401120	Rubber; new pneumatic tyres, of a kind used on buses or lorries	52.5
29	721049	Iron or non-alloy steel; flat-rolled, width 600mm or more, (not corrugated), plated or coated with zinc (not electrolytically)	51.9
30	320417	Dyes; pigments and preparations based thereon	49.4
31	840734	Engines; reciprocating piston engines, of a kind used for the propulsion of vehicles of chapter 87, of a cylinder capacity exceeding 1000cc	48.3
32	540242	Yarn; (not sewing thread), single, of polyesters, partially oriented (including synthetic monofilament of less than 67 decitex), untwisted or	45.8

		with twist not over 50 turns per metre, not for retail sale, not textured, not high tenacity	
33	380830	Herbicides, anti-sprouting products and plant-growth regulators; put up in forms or packings for retail sale or as preparations or articles	42.5
34	871419	Motorcycles (including mopeds); parts, other than saddles	40.9
35	761490	Aluminium; stranded wire, cables, plaited bands and the like, (not electrically insulated), other than steel core	39.6
36	721041	Iron or non-alloy steel; flat-rolled, width 600mm or more, corrugated, plated or coated with zinc (not electrolytically)	39.4
37	293410	Heterocyclic compounds; containing an unfused thiazole ring (whether or not hydrogenated) in the structure	37.8
38	291890	Acids; carboxylic acids, with additional oxygen function and their anhydrides, halides, peroxides and peroxyacids, n.e.s. in heading no. 2918	35.5
39	620640	Blouses, shirts and shirt-blouses; women's or girls', of man-made fibres (not knitted or crocheted)	35.4
40	382490	Chemical products, preparations and residual products of the chemical or allied industries, n.e.s. or included in heading no. 3824	34.9
41	722220	Steel, stainless; bars and rods, cold-formed or cold-finished	33.7
42	401161	Rubber; new pneumatic tyres having a herring-bone or similar tread, of a kind used on agricultural or forestry vehicles and machines	33.1
43	840999	Engines; parts for internal combustion piston engines (excluding spark-ignition)	31.8
44	320412	Dyes; acid, whether or not premetallised and preparations based thereon, mordant dyes and preparations based thereon	30.4
45	732591	Iron; grinding balls and similar articles for mills, other than of non-malleable cast iron	30.2
46	630260	Kitchen and toilet linen; of terry towelling or similar terry fabrics, of cotton	30.1
47	294190	Antibiotics; n.e.s. in heading no. 2941	30.1
48	720230	Ferro-alloys; ferro-silico-manganese	29.9
49	690790	Ceramic flags and paving; unglazed	29.8
50	293329	Heterocyclic compounds; containing an unfused imidazole ring (whether or not hydrogenated) in the structure, other than hydantoin and its derivatives	29.2

Source: ComTrade Database, United Nations, 2018

Appendix V.4: Top 50 Products Exported by LAC to India, 2016

Rank	HS	Description	Exports ($Mn)
1	260300	Copper ores and concentrates	2937.0
2	710812	Metals; gold, non-monetary, unwrought (but not powder)	2561.8
3	150710	Vegetable oils; soya-bean oil and its fractions, crude, whether or not degummed, not chemically modified	2480.4
4	270900	Oils; petroleum oils and oils obtained from bituminous minerals, crude	1548.0
5	170111	Sugars; cane sugar, raw, in solid form, not containing added flavouring or colouring matter	924.1

6	710813	Metals; gold, semi-manufactured	156.9
7	260111	Iron ores and concentrates; non-agglomerated	136.4
8	390410	Vinyl chloride, other halogenated olefin polymers; poly(vinyl chloride), not mixed with any other substances, in primary forms	122.0
9	270400	Coke and semi-coke; of coal, lignite or peat, whether or not agglomerated; retort carbon	93.9
10	720260	Ferro-alloys; ferro-nickel	90.8
11	151211	Vegetable oils; sunflower seed or safflower oil and their fractions, crude, not chemically modified	86.2
12	440399	Wood; in the rough, whether or not stripped of bark or sapwood, or roughly squared, untreated, n.e.s. in heading no. 4403	67.0
13	440349	Wood, tropical; (as specified in subheading note 1, chapter 44, customs tariff), n.e.s. in item no. 4403.41, in the rough, whether or not stripped of bark or sapwood, or roughly squared, untreated	65.4
14	270112	Coal; bituminous, whether or not pulverised, but not agglomerated	56.0
15	880230	Aeroplanes and other aircraft; of an unladen weight exceeding 2000kg but not exceeding 15,000kg	48.1
16	470321	Wood pulp; chemical wood pulp, soda or sulphate, (other than dissolving grades), semi-bleached or bleached, of coniferous wood	47.9
17	720712	Iron or non-alloy steel; semi-finished products of iron or non-alloy steel; containing by weight less than 0.25% of carbon, of rectangular (other than square) cross-section	47.2
18	291819	Acids; carboxylic acids, (with alcohol function but without other oxygen function), other than lactic, tartaric, citric, and gluconic acids and their salts and esters	43.8
19	470329	Wood pulp; chemical wood pulp, soda or sulphate, (other than dissolving grades), semi-bleached or bleached, of non-coniferous wood	39.3
20	100300	Cereals; barley	31.0
21	252400	Asbestos	30.2
22	720293	Ferro-alloys; ferro-niobium	29.3
23	251010	Natural calcium phosphates, natural aluminium calcium phosphates and phosphatic chalk; unground	27.9
24	271111	Petroleum gases and other gaseous hydrocarbons; liquefied, natural gas	27.6
25	720449	Ferrous waste and scrap; n.e.s. in heading no. 7204	26.4
26	760200	Aluminium; waste and scrap	22.6
27	292610	Nitrile-function compounds; acrylonitrile	20.5
28	380510	Terpenic oils; gum, wood or sulphate turpentine oils	20.0
29	180100	Cocoa beans; whole or broken, raw or roasted	19.4
30	71333	Vegetables, leguminous; kidney beans, including white pea beans (phaseolus vulgaris), dried, shelled, whether or not skinned or split	18.8
31	80231	Nuts, edible; walnuts, fresh or dried, in shell	18.8
32	261310	Molybdenum ores and concentrates; roasted	18.6
33	80810	Fruit, edible; apples, fresh	18.4
34	380610	Rosin and resin acids	17.8
35	270119	Coal; (other than anthracite and bituminous), whether or not pulverised but not agglomerated	17.2
36	410441	Tanned or crust hides and skins; bovine or equine, without hair on, in the dry state (crust), full grains, unsplit; grain splits	17.1

37	330112	Oils, essential; of orange (terpeneless or not), including concretes and absolutes	16.5
38	440799	Wood; sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, thicker than 6mm, n.e.c. in heading no. 4407	15.4
39	71339	Vegetables, leguminous; n.e.s. in item no. 0713.30, dried, shelled, whether or not skinned or split	15.3
40	271311	Petroleum coke; (not calcined), obtained from bituminous minerals	14.9
41	440729	Wood, tropical; (as specified in subheading note 1, chapter 44, customs tariff), n.e.c. in item no. 4407.2, sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, thicker than 6mm	14.5
42	280120	Iodine	14.4
43	410792	Leather; further prepared after tanning or crusting, including parchment-dressed, of bovine (including buffalo) or equine animals, without hair on, other than leather of heading 41.14, not whole hides and skins, but including sides,grain splits	13.7
44	330190	Oils, essential; concentrates in fats, fixed oils, waxes and the like, terpenic by-products, aqueous distillates and solutions, extracted oleoresins, n.e.s. in heading no. 3301	13.3
45	281820	Aluminium oxide; other than artificial corundum	12.1
46	90411	Spices; pepper (of the genus piper), neither crushed nor ground	11.1
47	840999	Engines; parts for internal combustion piston engines (excluding spark-ignition)	11.0
48	720421	Ferrous waste and scrap; of stainless steel	10.5
49	711291	Waste and scrap of precious metals; of gold, including metal clad with gold but excluding sweepings containing other precious metals	10.4
50	320120	Tanning extracts of vegetable origin; wattle extract	10.4

Source: ComTrade Database, United Nations, 2018

Appendix VI:

Table VI.1: India's Competitors in Andean

Sec	Description	Competitors
1	Live Animals and Animal Products	United States, Brazil, Chile, Ecuador, Peru
2	Vegetable Products	Chile, Canada, United States, Uruguay, Argentina
3	Animal or Vegetable Fats & Oils	Bolivia, United States, Argentina, Brazil, Ecuador
4	Prepared Foodstuff, Beverages, etc.	United States, Colombia, Mexico, Brazil, Chile
5	Mineral Products	United States, Argentina, Chile, Panama, Korea Rep.
6	Products of Chemicals	United States, Germany, China, Mexico, Brazil
7	Plastics & Articles thereof	United States, Brazil, China, Colombia, Mexico
8	Raw Hides & Skins, Leather, etc.	China, Colombia, Italy, Vietnam, Brazil
9	Wood & Articles of Wood	Chile, China, Brazil, United States, Argentina
10	Pulp of wood or of other Fibres	United States, Brazil, Colombia, Chile, China
11	Textile & Textile Articles	China, United States, Colombia, Peru, Mexico
12	Footwear, Headgear and Umbrella	China, Vietnam, Brazil, Indonesia, Cambodia
13	Articles of Stone, Plaster, Cement	China, Brazil, United States, Mexico, Spain
14	Natural or cultured pearls, Jewellery	United States, Colombia, Peru, Germany, Brazil
15	Base Metals & Articles of Base Metal	China, Brazil, United States, Mexico, Peru
16	Machinery & Mechanical Appliances	United States, China, Mexico, Brazil, Germany
17	Vehicles, Aircraft and Vessels	Japan, Mexico, Korea Rep., Brazil, United States
18	Optical, Photograph & Cinematography	United States, Germany, China, Japan, Switzerland
19	Arms and Ammunition	United States, Israel, United Kingdom, Austria
20	Miscellaneous Manufactured Articles	United States, China, Brazil, Mexico, Germany
21	Works of Art Collectors' Pieces	United States, Brazil, Canada, China

Source: RIS estimation based on ComTrade, UN, 2018

Table VI.2: India's Competitors in DR-CAFTA

Sec	Description	Competitors
1	Live Animals and Animal Products	United States, Nicaragua, Costa Rica, Denmark, Norway
2	Vegetable Products	United States, Brazil, Mexico, Chile, Honduras
3	Animal or Vegetable Fats & Oils	United States, Guatemala, Colombia, Honduras, Spain
4	Prepared Foodstuff, Beverages, etc.	United States, Mexico, Costa Rica, El Salvador, Guatemala
5	Mineral Products	United States, Venezuela, Bahamas, Trinidad & Tobago, Spain
6	Products of Chemicals	United States, Mexico, Panama, Germany, Colombia
7	Plastics & Articles thereof	United States, China, Mexico, Colombia, El Salvador
8	Raw Hides & Skins, Leather, etc.	United States, Mexico, Hong Kong, China, Italy, Vietnam
9	Wood & Articles of Wood	United States, China, Brazil, Chile, Peru
10	Pulp of wood or of other Fibres	United States, Mexico, El Salvador, Guatemala, Brazil
11	Textile & Textile Articles	United States, China, Honduras, El Salvador, Guatemala
12	Footwear, Headgear and Umbrella	China, United States, Panama, El Salvador, Vietnam

13	Articles of Stone, Plaster, Cement	China, Mexico, Guatemala, United States, Spain
14	Natural or cultured pearls, Jewellery	United States, China, Belgium, Austria, Colombia
15	Base Metals & Articles of Base Metal	United States, China, Mexico, Guatemala, El Salvador
16	Machinery & Mechanical Appliances	United States, China, Mexico, Hong Kong, China, Germany
17	Vehicles, Aircraft and Vessels	United States, Japan, Korea Rep., Thailand, China
18	Photography	United States, China, Switzerland, Germany, Mexico
19	Arms and Ammunition	United States, Brazil, Mexico, Czech Republic, Italy
20	Miscellaneous Mnfg Articles	United States, China, Mexico, El Salvador, Guatemala
21	Works of Art Collectors' Pieces	Belgium, Canada, Chile, Colombia, Costa Rica

Source: RIS estimation based on ComTrade, UN, 2018

Table VI.3: India's Competitors in LAIA

Sec	Description	Competitors
1	Live Animals and Animal Products	United States, Brazil, Argentina, Paraguay, Uruguay
2	Vegetable Products	United States, Argentina, Chile, Brazil, China
3	Animal or Vegetable Fats & Oils	United States, Argentina, Uruguay, Malaysia, China
4	Prepared Foodstuff, Beverages, etc.	United States, Argentina, Brazil, United Kingdom, Colombia
5	Mineral Products	United States, Argentina, Peru, Brazil
6	Products of Chemicals	United States, Germany, China, France, Switzerland
7	Plastics & Articles thereof	United States, China, Brazil, Germany, Japan
8	Raw Hides & Skins, Leather, etc.	China, Brazil, United States, Italy, Argentina
9	Wood & Articles of Wood	United States, China, Chile, Portugal, Brazil
10	Pulp of wood or of other Fibres	United States, Brazil, China, Colombia, Spain
11	Textile & Textile Articles	China, United States, Brazil, Vietnam, Peru
12	Footwear, Headgear and Umbrella	China, Vietnam, Brazil, Indonesia, Free Zones
13	Articles of Stone, Plaster, Cement	United States, China, Brazil, Italy, Germany
14	Natural or cultured pearls, Jewellery	United States, Thailand, Colombia, Canada, Singapore
15	Base Metals & Articles of Base Metal	United States, China, Brazil, Japan, Korea Rep.
16	Machinery & Mechanical Appliances	United States, China, Germany, Japan, Korea Rep.
17	Vehicles, Aircraft and Vessels	United States, Brazil, Japan, Korea Rep., Argentina
18	Photography	United States, Germany, China, Korea Rep., Japan
19	Arms and Ammunition	United States, Austria, France, Italy, China
20	Miscellaneous Mnfg Articles	United States, China, Brazil, Spain, Germany
21	Works of Art Collectors' Pieces	France, Germany, United Kingdom, Italy, United States

Source: RIS estimation based on ComTrade, UN, 2018

Table VI.4: India's Competitors in MERCOSUR

Sec	Description	Competitors
1	Live Animals and Animal Products	Brazil, Uruguay, Colombia, Argentina, Nicaragua
2	Vegetable Products	Argentina, United States, Brazil, China, Chile

3	Animal or Vegetable Fats & Oils	Uruguay, Denmark, Malaysia, United States, Paraguay
4	Prepared Foodstuff, Beverages, etc.	United States, Argentina, Brazil, Colombia, United Kingdom
5	Mineral Products	United States, Argentina, Peru, Brazil, Chile
6	Products of Chemicals	United States, Germany, China, France, Switzerland
7	Plastics & Articles thereof	United States, Brazil, China, Germany, Argentina
8	Raw Hides & Skins, Leather, etc.	China, Italy, Argentina, South Africa, France
9	Wood & Articles of Wood	China, Brazil, Portugal, United States, Spain
10	Pulp of wood or of other Fibres	Brazil, United States, China, Argentina, Germany
11	Textile & Textile Articles	China, Brazil, United States, Peru, Colombia
12	Footwear, Headgear and Umbrella	China, Vietnam, Brazil, Indonesia, Hong Kong, China
13	Articles of Stone, Plaster, Cement	China, Brazil, United States, Colombia, Italy
14	Natural or cultured pearls, Jewellery	Thailand, Brazil, France, Colombia, Vietnam
15	Base Metals & Articles of Base Metal	China, United States, Brazil, Germany, Mexico
16	Machinery & Mechanical Appliances	United States, China, Germany, Korea Rep., Italy
17	Vehicles, Aircraft and Vessels	Brazil, Argentina, Mexico, Germany, United States
18	Photography	United States, Germany, China, Japan, Switzerland
19	Arms and Ammunition	France, United States, China, Italy, Brazil
20	Miscellaneous Mnfg Articles	United States, China, Ecuador, Brazil, Mexico
21	Works of Art Collectors' Pieces	United States, United Kingdom, Germany, Italy, Spain

Source: RIS estimation based on ComTrade, UN, 2018

Table VI.5: India's Competitors in Pacific Alliance

Sec	Description	Competitors
1	Live Animals and Animal Products	United States, Paraguay, Brazil, Argentina, Chile
2	Vegetable Products	United States, Chile, China, Canada, Argentina
3	Animal or Vegetable Fats & Oils	United States, Argentina, China, Brazil, Peru
4	Prepared Foodstuff, Beverages, etc.	United States, United Kingdom, Mexico, Brazil, Argentina
5	Mineral Products	United States, Korea Rep., Peru, China, Japan
6	Products of Chemicals	United States, Germany, China, Ireland, France
7	Plastics & Articles thereof	United States, China, Japan, Korea Rep., Germany
8	Raw Hides & Skins, Leather, etc.	Brazil, China, United States, Italy, Argentina
9	Wood & Articles of Wood	United States, China, Chile, Portugal, Brazil
10	Pulp of wood or of other Fibres	United States, China, Brazil, Canada, Spain
11	Textile & Textile Articles	United States, China, Vietnam, Italy, Turkey
12	Footwear, Headgear and Umbrella	China, Vietnam, Indonesia, Brazil, Italy
13	Articles of Stone, Plaster, Cement	United States, China, Brazil, Germany, Italy
14	Natural or cultured pearls, Jewellery	United States, Canada, Singapore, Thailand, Colombia
15	Base Metals & Articles of Base Metal	United States, China, Japan, Korea Rep., Canada
16	Machinery & Mechanical Appliances	United States, China, Japan, Germany, Malaysia
17	Vehicles, Aircraft and Vessels	United States, Japan, Korea Rep., China, Germany

18	Photography	United States, Korea Rep., China, Germany, Japan
19	Arms and Ammunition	United States, Austria, Italy, Israel, Spain
20	Miscellaneous Mnfg Articles	United States, China, Canada, Spain, Germany
21	Works of Art Collectors' Pieces	France, Germany, Italy, United Kingdom, United States

Source: RIS estimation based on ComTrade, UN, 2018

Table VI.6: India's Competitors in SICA

Sec	Description	Competitors
1	Live Animals and Animal Products	United States, Nicaragua, Costa Rica, Denmark, Norway
2	Vegetable Products	United States, Brazil, Mexico, Chile, Honduras
3	Animal or Vegetable Fats & Oils	United States, Guatemala, Colombia, Spain, Honduras
4	Prepared Foodstuff, Beverages, etc.	United States, Mexico, Costa Rica, El Salvador, Guatemala
5	Mineral Products	United States, Venezuela, Curatao
6	Products of Chemicals	United States, Mexico, Panama, Germany, Colombia
7	Plastics & Articles thereof	United States, China, Mexico, Colombia, El Salvador
8	Raw Hides & Skins, Leather, etc.	United States, Mexico, Hong Kong, China, Italy, Vietnam
9	Wood & Articles of Wood	United States, China, Brazil, Chile, Guatemala
10	Pulp of wood or of other Fibres	United States, Mexico, El Salvador, Costa Rica, Guatemala
11	Textile & Textile Articles	United States, China, Honduras, Free Zones, El Salvador
12	Footwear, Headgear and Umbrella	China, Free Zones, United States, Panama, El Salvador
13	Articles of Stone, Plaster, Cement	China, Mexico, United States, Guatemala, Spain
14	Natural or cultured pearls, Jewellery	United States, China, Austria, Belgium, Colombia
15	Base Metals & Articles of Base Metal	United States, China, Mexico, Guatemala, Italy
16	Machinery & Mechanical Appliances	United States, China, Mexico, Hong Kong, China, Germany
17	Vehicles, Aircraft and Vessels	United States, Japan, Korea Rep., Thailand, Mexico
18	Photography	United States, China, Switzerland, Germany, France
19	Arms and Ammunition	United States, Brazil, Mexico, Czech Republic, Italy
20	Miscellaneous Mnfg Articles	United States, China, El Salvador, Mexico, Guatemala
21	Works of Art Collectors' Pieces	United States, Belgium, Canada, Chile, Colombia

Source: RIS estimation based on ComTrade, UN, 2018

Table VI.7: India's Competitors in UNASUR

Sec	Description	Competitors
1	Live Animals and Animal Products	Brazil, Argentina, Paraguay, Uruguay, Colombia
2	Vegetable Products	Argentina, United States, Brazil, Chile, China
3	Animal or Vegetable Fats & Oils	Argentina, Uruguay, United States, China, Malaysia
4	Prepared Foodstuff, Beverages, etc.	United States, Argentina, Brazil, Colombia, Mexico
5	Mineral Products	United States, Argentina, Peru, Brazil, Chile
6	Products of Chemicals	United States, Germany, China, France, Brazil
7	Plastics & Articles thereof	United States, Brazil, China, Germany, Korea Rep.

8	Raw Hides & Skins, Leather, etc.	China, Italy, Argentina, France, South Africa
9	Wood & Articles of Wood	China, Portugal, Brazil, United States, Spain
10	Pulp of wood or of other Fibres	Brazil, United States, China, Colombia, Chile
11	Textile & Textile Articles	China, United States, Brazil, Peru, Colombia
12	Footwear, Headgear and Umbrella	China, Vietnam, Brazil, Indonesia, United States
13	Articles of Stone, Plaster, Cement	China, Brazil, United States, Colombia, Italy
14	Natural or cultured pearls, Jewellery	United States, Colombia, Brazil, Peru, Thailand
15	Base Metals & Articles of Base Metal	China, United States, Brazil, Germany, Mexico
16	Machinery & Mechanical Appliances	United States, China, Germany, Mexico, Korea Rep.
17	Vehicles, Aircraft and Vessels	Brazil, Argentina, Japan, Mexico, Korea Rep.
18	Photography	United States, Germany, China, Japan, Switzerland
19	Arms and Ammunition	United States, France, China, Austria, Italy
20	Miscellaneous Mnfg Articles	China, United States, Brazil, Ecuador, Mexico
21	Works of Art Collectors' Pieces	United States, United Kingdom, Germany, France, Italy

Source: RIS estimation based on ComTrade, UN, 2018

Appendix VII:

Regional Grouping	Members
ACS\ AEC	Antigua and Barbuda, Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guinea, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Suriname, Trinidad and Tobago, Venezuela
ALBA	Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Nicaragua, Saint Lucia, Saint Vincent and Grenadines, Venezuela, Grenada, Saint Kitts and Nevis
Andean	Bolivia, Colombia, Ecuador, Peru
CACM	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
CAFTA-DR	Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Palestinian Territory, USA, Nicaragua
CARICOM	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Suriname, Trinidad and Tobago
CELAC	Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venezuela
G-3	Colombia, Mexico, Venezuela
LAIA\ ALADI	Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, Venezuela
MERCOSUR	Argentina, Brazil, Paraguay, Uruguay, Venezuela
OAS	Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Suriname, Trinidad and Tobago, Uruguay, USA, Venezuela
OECS	Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Anguilla, British Virgin Islands, Martinique
Pacific Alliance	Chile, Colombia, Mexico, Peru
Rio Group	Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Uruguay, Venezuela
SICA	Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama
UNASUR\ CSN	Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela

Appendix VIII:

India's Trade Potential in LAC countries

India's Trade Potential in Argentina based on Trade Creation

Rank	HS04	TC ('000 US$)	Share	Cum.Share
1	870323	116808.0	5.7	5.7
2	271019	103354.0	5.0	10.8
3	271111	99132.2	4.8	15.6
4	851770	88788.3	4.3	19.9
5	870322	39494.7	1.9	21.9
6	300490	39106.2	1.9	23.8
7	300210	37771.8	1.8	25.6
8	870840	30009.1	1.5	27.1
9	870829	22302.1	1.1	28.2
10	870899	19328.1	0.9	29.1
11	870422	17431.9	0.9	30.0
12	851762	17044.9	0.8	30.8
13	840734	15922.9	0.8	31.6
14	870120	15839.9	0.8	32.4
15	841199	15739.4	0.8	33.1
16	840820	14883.5	0.7	33.9
17	870850	14690.1	0.7	34.6
18	841430	14631.9	0.7	35.3
19	293190	14262.1	0.7	36.0
20	260112	13823.7	0.7	36.7
21	870431	13462.5	0.7	37.3
22	840999	13024.6	0.6	38.0
23	310540	11253.8	0.5	38.5
24	870421	11126.7	0.5	39.0
25	392690	10792.2	0.5	39.6
26	382490	10221.2	0.5	40.1
27	851761	9873.4	0.5	40.6
28	390120	9544.8	0.5	41.0
29	843049	8722.6	0.4	41.5
30	390110	8692.8	0.4	41.9
31	300439	8528.2	0.4	42.3
32	854231	8449.7	0.4	42.7
33	870600	8448.0	0.4	43.1
34	848180	7999.0	0.4	43.5
35	380893	7709.6	0.4	43.9
36	260111	7575.9	0.4	44.3
37	732690	7503.7	0.4	44.6
38	853710	7487.8	0.4	45.0
39	380891	7457.6	0.4	45.4
40	854430	7432.3	0.4	45.7
41	390690	7340.0	0.4	46.1
42	401120	7336.7	0.4	46.4
43	870321	7237.8	0.4	46.8
44	481029	6983.0	0.3	47.1
45	850213	6965.2	0.3	47.5
46	293339	6778.8	0.3	47.8
47	300220	6759.5	0.3	48.1
48	870894	6681.7	0.3	48.5
49	730210	6562.2	0.3	48.8
50	380892	6520.0	0.3	49.1
Rank	HS04	TC ('000 US$)	Share	Cum.Share

India's Trade Potential in Brazil based on Trade Creation

Rank	HS04	TC ('000 US$)	Share	Cum.Share
1	271019	158711.1	3.4	3.4
2	870323	156237.0	3.4	6.8
3	851770	138353.3	3.0	9.7
4	300490	105276.7	2.3	12.0
5	841191	97363.1	2.1	14.1
6	300210	91700.9	2.0	16.1
7	870421	79468.8	1.7	17.8
8	870840	73677.7	1.6	19.4
9	270112	61212.3	1.3	20.7
10	271111	56296.8	1.2	21.9
11	310540	54022.2	1.2	23.1
12	740311	51134.9	1.1	24.2
13	260300	48665.7	1.0	25.2
14	380892	48558.7	1.0	26.2
15	854231	46632.6	1.0	27.2
16	380891	44592.0	1.0	28.2
17	870829	34515.3	0.7	28.9
18	870321	31819.1	0.7	29.6
19	854232	29907.8	0.6	30.3
20	847330	29401.4	0.6	30.9
21	840991	29114.7	0.6	31.5
22	300220	29067.3	0.6	32.2
23	293339	28550.3	0.6	32.8
24	880330	28085.2	0.6	33.4
25	870899	26483.9	0.6	33.9
26	293190	26461.0	0.6	34.5
27	392690	25455.2	0.5	35.1
28	760110	24573.3	0.5	35.6
29	870322	23495.6	0.5	36.1
30	300439	21689.3	0.5	36.6
31	853690	21463.3	0.5	37.0
32	840734	20688.3	0.4	37.5
33	901890	20349.6	0.4	37.9
34	310310	20324.8	0.4	38.3
35	840999	20034.9	0.4	38.8
36	851762	19958.0	0.4	39.2
37	390120	19677.9	0.4	39.6
38	848340	19426.3	0.4	40.0
39	840820	19177.9	0.4	40.5
40	848180	19036.9	0.4	40.9
41	841430	18663.8	0.4	41.3
42	870333	18585.7	0.4	41.7
43	870894	17981.3	0.4	42.0
44	390690	17921.2	0.4	42.4
45	903289	17764.4	0.4	42.8
46	110710	17472.9	0.4	43.2
47	380893	17347.7	0.4	43.6
48	382490	17288.1	0.4	43.9
49	731815	16188.3	0.3	44.3
50	853710	15995.1	0.3	44.6

India's Trade Potential in Colombia based on Trade Creation

Rank	HS04	TC ('000 US$)	Share	Cum.Share
1	271019	211289.3	10.8	10.8
2	870323	86201.0	4.4	15.2
3	851712	83270.8	4.3	19.5
4	300490	46137.0	2.4	21.8
5	100590	46098.5	2.4	24.2
6	880240	40461.3	2.1	26.3
7	852872	38690.7	2.0	28.2
8	100199	27720.0	1.4	29.7
9	300210	23403.5	1.2	30.9
10	870421	18316.1	0.9	31.8
11	870423	16856.4	0.9	32.6
12	851762	16019.5	0.8	33.5
13	870422	15704.1	0.8	34.3
14	740811	13281.2	0.7	35.0
15	401120	12985.9	0.7	35.6
16	390120	12252.1	0.6	36.2
17	870600	12144.3	0.6	36.9
18	870324	11521.8	0.6	37.5
19	901890	10951.5	0.6	38.0
20	230400	10459.8	0.5	38.5
21	390760	10052.3	0.5	39.1
22	870333	9954.0	0.5	39.6
23	290250	9724.8	0.5	40.1
24	382490	9650.5	0.5	40.6
25	210690	9260.4	0.5	41.0
26	870120	8835.9	0.5	41.5
27	845020	8548.2	0.4	41.9
28	160414	7714.1	0.4	42.3
29	720839	7673.0	0.4	42.7
30	848180	7299.2	0.4	43.1
31	722530	6971.6	0.4	43.4
32	842952	6885.6	0.4	43.8
33	847150	6778.6	0.3	44.1
34	390690	6678.6	0.3	44.5
35	851770	6590.3	0.3	44.8
36	390110	6548.2	0.3	45.2
37	401194	6543.2	0.3	45.5
38	840999	6081.4	0.3	45.8
39	392690	5912.1	0.3	46.1
40	330210	5866.3	0.3	46.4
41	300290	5859.3	0.3	46.7
42	080810	5838.3	0.3	47.0
43	730429	5783.0	0.3	47.3
44	850239	5710.6	0.3	47.6
45	841480	5708.3	0.3	47.9
46	382200	5613.9	0.3	48.2
47	640299	5496.5	0.3	48.4
48	721391	5303.4	0.3	48.7
49	300420	5241.3	0.3	49.0
50	720918	5241.0	0.3	49.3

India's Trade Potential in Chile based on Trade Creation

Rank	HS04	TC ('000 US$)	Share	Cum.Share
1	271019	179362.7	9.2	9.2
2	870323	83498.3	4.3	13.5
3	851712	78381.3	4.0	17.5
4	870421	47192.0	2.4	19.9
5	020130	37428.6	1.9	21.9
6	870322	30351.9	1.6	23.4
7	852872	24230.5	1.2	24.7
8	850134	23039.6	1.2	25.8
9	271012	20111.2	1.0	26.9
10	870899	18633.5	1.0	27.8
11	851762	18411.5	0.9	28.8
12	870210	17598.0	0.9	29.7
13	870332	16872.9	0.9	30.5
14	870120	12762.5	0.7	31.2
15	847150	11481.9	0.6	31.8
16	401194	11437.6	0.6	32.4
17	390120	11424.5	0.6	33.0
18	870423	11066.3	0.6	33.5
19	843149	10709.8	0.5	34.1
20	401120	10656.0	0.5	34.6
21	870422	10486.7	0.5	35.2
22	290919	10146.2	0.5	35.7
23	382490	10065.3	0.5	36.2
24	330300	9915.4	0.5	36.7
25	392690	9738.4	0.5	37.2
26	690890	9727.8	0.5	37.7
27	640399	9529.6	0.5	38.2
28	281410	8900.3	0.5	38.7
29	640299	8652.2	0.4	39.1
30	620342	8487.7	0.4	39.5
31	260300	8035.5	0.4	39.9
32	170199	7760.8	0.4	40.3
33	842952	7439.2	0.4	40.7
34	842121	7377.0	0.4	41.1
35	100199	7312.4	0.4	41.5
36	220300	7266.1	0.4	41.8
37	620462	7242.2	0.4	42.2
38	848180	6929.2	0.4	42.6
39	842951	6476.3	0.3	42.9
40	851770	6413.2	0.3	43.2
41	610910	6337.0	0.3	43.6
42	730890	6180.4	0.3	43.9
43	847490	6158.5	0.3	44.2
44	261390	6138.1	0.3	44.5
45	721061	6084.6	0.3	44.8
46	640391	5815.1	0.3	45.1
47	870410	5746.0	0.3	45.4
48	382200	5657.0	0.3	45.7
49	840999	5629.9	0.3	46.0
50	870431	5626.2	0.3	46.3

India's Trade Potential in Costa Rica based on Trade Creation

Rank	HS04	TC ('000 US$)	Share	Cum.Share
1	271019	52469.0	10.8	10.8
2	851712	17708.0	3.7	14.5
3	870323	15890.8	3.3	17.7
4	300490	15711.0	3.2	21.0
5	853400	11817.3	2.4	23.4
6	100590	8524.9	1.8	25.2
7	392690	8400.4	1.7	26.9
8	210690	7144.1	1.5	28.4
9	160414	6174.3	1.3	29.7
10	740811	6077.6	1.3	30.9
11	852872	5392.9	1.1	32.0
12	870421	5190.0	1.1	33.1
13	480411	5162.7	1.1	34.2
14	300210	4752.3	1.0	35.1
15	870322	4399.2	0.9	36.0
16	732690	4042.6	0.8	36.9
17	870333	3435.1	0.7	37.6
18	851770	3379.0	0.7	38.3
19	853710	3295.3	0.7	39.0
20	100199	3226.8	0.7	39.6
21	854290	2793.7	0.6	40.2
22	481810	2478.3	0.5	40.7
23	382490	2385.4	0.5	41.2
24	392020	2239.9	0.5	41.7
25	690890	2201.7	0.5	42.1
26	720839	2201.2	0.5	42.6
27	380892	2172.4	0.4	43.0
28	871120	2170.6	0.4	43.5
29	401120	2130.2	0.4	43.9
30	870324	2035.1	0.4	44.3
31	390120	2031.1	0.4	44.7
32	841810	1937.2	0.4	45.1
33	853690	1901.3	0.4	45.5
34	271490	1856.5	0.4	45.9
35	391732	1844.2	0.4	46.3
36	440710	1840.1	0.4	46.7
37	830990	1810.2	0.4	47.1
38	390210	1737.7	0.4	47.4
39	330499	1683.5	0.3	47.8
40	481151	1677.3	0.3	48.1
41	760110	1668.8	0.3	48.4
42	382200	1658.5	0.3	48.8
43	391000	1637.8	0.3	49.1
44	640299	1634.2	0.3	49.5
45	390690	1603.5	0.3	49.8
46	870332	1580.6	0.3	50.1
47	722300	1550.3	0.3	50.4
48	392410	1502.9	0.3	50.7
49	190590	1479.2	0.3	51.1
50	490199	1470.7	0.3	51.4

India's Trade Potential in Dom. Rep. based on Trade Creation

Rank	HS04	TC ('000 US$)	Share	Cum.Share
1	271012	91074.6	16.0	16.0
2	870323	23220.2	4.1	20.0
3	392690	18858.7	3.3	23.3
4	100590	10345.9	1.8	25.1
5	851712	9295.4	1.6	26.8
6	271111	8868.9	1.6	28.3
7	271112	8768.2	1.5	29.9
8	720711	8456.5	1.5	31.3
9	520710	6348.7	1.1	32.5
10	870421	5661.5	1.0	33.5
11	240110	4831.2	0.8	34.3
12	230990	4711.9	0.8	35.1
13	520511	4353.0	0.8	35.9
14	220830	4290.3	0.8	36.6
15	120810	4268.4	0.7	37.4
16	730890	4169.1	0.7	38.1
17	330210	3999.4	0.7	38.8
18	961900	3976.6	0.7	39.5
19	701090	3900.5	0.7	40.2
20	690890	3853.4	0.7	40.9
21	190110	3700.4	0.6	41.5
22	854449	3523.5	0.6	42.1
23	040221	3400.3	0.6	42.7
24	270112	3296.7	0.6	43.3
25	841290	3289.5	0.6	43.9
26	853690	3072.1	0.5	44.4
27	240120	3026.0	0.5	45.0
28	090111	3007.8	0.5	45.5
29	392310	2908.0	0.5	46.0
30	390110	2867.2	0.5	46.5
31	871120	2777.8	0.5	47.0
32	620342	2733.7	0.5	47.5
33	440710	2720.8	0.5	47.9
34	852872	2682.2	0.5	48.4
35	640319	2523.6	0.4	48.9
36	240319	2511.6	0.4	49.3
37	392020	2396.5	0.4	49.7
38	848180	2365.2	0.4	50.1
39	390120	2302.9	0.4	50.5
40	240391	2205.2	0.4	50.9
41	271500	2165.2	0.4	51.3
42	401120	2004.6	0.4	51.6
43	030551	1999.0	0.4	52.0
44	870422	1989.1	0.3	52.3
45	610910	1980.4	0.3	52.7
46	850710	1948.8	0.3	53.0
47	020714	1939.7	0.3	53.4
48	390319	1900.0	0.3	53.7
49	480255	1887.1	0.3	54.0
50	721320	1881.6	0.3	54.4

India's Trade Potential in Ecuador based on Trade Creation

Rank	HS04	TC ('000 US$)	Share	Cum.Share
1	271019	66484.6	14.0	14.0
2	300490	15247.7	3.2	17.2
3	870323	7693.5	1.6	18.8
4	851712	7474.2	1.6	20.4
5	210690	6803.0	1.4	21.8
6	100119	6146.3	1.3	23.1
7	380892	5809.2	1.2	24.3
8	850164	5513.9	1.2	25.5
9	852872	5181.5	1.1	26.6
10	300210	4935.6	1.0	27.6
11	390120	3936.5	0.8	28.4
12	390210	3707.4	0.8	29.2
13	870421	3571.5	0.8	30.0
14	847989	3302.5	0.7	30.7
15	870210	3275.5	0.7	31.4
16	870600	3140.6	0.7	32.0
17	870422	2998.5	0.6	32.7
18	854460	2928.9	0.6	33.3
19	230990	2906.8	0.6	33.9
20	730429	2763.1	0.6	34.5
21	851660	2567.3	0.5	35.0
22	300450	2562.6	0.5	35.5
23	720839	2455.2	0.5	36.1
24	851761	2347.8	0.5	36.5
25	382490	2313.4	0.5	37.0

Rank	HS04	TC ('000 US$)	Share	Cum.Share
26	901890	2309.8	0.5	37.5
27	300420	2308.9	0.5	38.0
28	854449	2063.5	0.4	38.4
29	390760	2044.0	0.4	38.9
30	401120	1965.7	0.4	39.3
31	300220	1925.3	0.4	39.7
32	847150	1891.2	0.4	40.1
33	840999	1855.9	0.4	40.5
34	870390	1846.9	0.4	40.9
35	490199	1833.5	0.4	41.3
36	841090	1800.4	0.4	41.6
37	481159	1777.2	0.4	42.0
38	330499	1769.8	0.4	42.4
39	480256	1731.9	0.4	42.7
40	841810	1722.2	0.4	43.1
41	190110	1686.1	0.4	43.5
42	850434	1576.8	0.3	43.8
43	080810	1523.8	0.3	44.1
44	850239	1510.1	0.3	44.4
45	380891	1498.3	0.3	44.7
46	300439	1488.3	0.3	45.1
47	901839	1482.1	0.3	45.4
48	330510	1480.5	0.3	45.7
49	640299	1474.2	0.3	46.0
50	730890	1453.3	0.3	46.3

India's Trade Potential in Guatemala based on Trade Creation

Rank	HS04	TC ('000 US$)	Share	Cum.Share
1	271019	46080.5	8.8	8.8
2	271012	42270.3	8.1	17.0
3	851712	20953.0	4.0	21.0
4	300490	15980.9	3.1	24.1
5	870323	15974.1	3.1	27.1
6	870421	8826.9	1.7	28.8
7	210690	8635.9	1.7	30.5
8	480411	7769.7	1.5	32.0
9	330210	6002.9	1.2	33.1
10	600622	5697.8	1.1	34.2
11	852872	5255.5	1.0	35.2
12	100199	4616.8	0.9	36.1
13	630900	4429.8	0.9	37.0
14	871120	4321.6	0.8	37.8
15	390210	4318.4	0.8	38.6
16	100119	3943.1	0.8	39.4
17	847490	3933.8	0.8	40.1
18	390120	3744.9	0.7	40.8
19	401120	3419.0	0.7	41.5
20	481810	3194.4	0.6	42.1
21	870322	3167.1	0.6	42.7
22	760612	2951.2	0.6	43.3
23	392690	2852.5	0.5	43.8
24	870431	2832.2	0.5	44.4
25	520512	2736.2	0.5	44.9
26	190410	2710.8	0.5	45.4
27	600632	2646.1	0.5	45.9
28	392410	2557.4	0.5	46.4
29	870422	2548.5	0.5	46.9
30	190590	2399.5	0.5	47.4
31	830990	2287.2	0.4	47.8
32	380892	2230.2	0.4	48.2
33	520100	2173.6	0.4	48.7
34	392020	2145.6	0.4	49.1
35	720839	2143.4	0.4	49.5
36	020230	2027.5	0.4	49.9
37	330499	1996.1	0.4	50.3
38	841810	1983.5	0.4	50.6
39	190531	1960.3	0.4	51.0
40	870333	1912.5	0.4	51.4
41	330290	1868.5	0.4	51.7
42	300220	1776.9	0.3	52.1
43	540233	1773.0	0.3	52.4
44	870120	1760.3	0.3	52.8
45	842952	1740.7	0.3	53.1
46	850300	1653.9	0.3	53.4
47	230990	1651.1	0.3	53.7
48	390760	1651.0	0.3	54.0
49	850710	1635.0	0.3	54.4
50	490199	1619.5	0.3	54.7

India's Trade Potential in Peru based on Trade Creation

Rank	HS04	TC ('000 US$)	Share %	Cum
1	270900	150877.7	10.4	10.4
2	271019	118608.7	8.2	18.6
3	851712	56313.4	3.9	22.5
4	870323	46294.2	3.2	25.7
5	100199	27534.8	1.9	27.6
6	100590	27082.3	1.9	29.4
7	852872	22786.4	1.6	31.0
8	870322	18395.4	1.3	32.3
9	271012	18012.9	1.2	33.5
10	847490	16081.2	1.1	34.6
11	842952	14293.2	1.0	35.6
12	390210	14205.6	1.0	36.6
13	870421	13012.2	0.9	37.5
14	870120	12602.8	0.9	38.4
15	300490	12440.9	0.9	39.2
16	730890	11122.4	0.8	40.0
17	870423	11066.5	0.8	40.7
18	390120	9955.0	0.7	41.4
19	390760	8883.5	0.6	42.0
20	210690	8246.2	0.6	42.6
21	870422	7594.7	0.5	43.1
22	870410	7115.7	0.5	43.6
23	520100	6772.4	0.5	44.1
24	870324	6515.5	0.4	44.5
25	401163	6333.4	0.4	45.0
26	271020	6311.9	0.4	45.4
27	851770	6127.6	0.4	45.8
28	870210	5950.9	0.4	46.3
29	871120	5920.1	0.4	46.7
30	847150	5849.3	0.4	47.1
31	843149	5625.9	0.4	47.5
32	040210	5487.1	0.4	47.8
33	382490	5416.4	0.4	48.2
34	392690	5360.0	0.4	48.6
35	842951	5152.8	0.4	48.9
36	640299	5149.5	0.4	49.3
37	841199	5144.4	0.4	49.6
38	721012	5117.3	0.4	50.0
39	480255	4927.7	0.3	50.3
40	841480	4867.7	0.3	50.7
41	390230	4824.1	0.3	51.0
42	848180	4813.5	0.3	51.3
43	845020	4800.4	0.3	51.7
44	851762	4690.7	0.3	52.0
45	950430	4569.1	0.3	52.3
46	853720	4233.1	0.3	52.6
47	853710	4098.8	0.3	52.9
48	310230	4098.5	0.3	53.2
49	170199	4051.5	0.3	53.4
50	842959	4003.4	0.3	53.7

India's Trade Potential in Venezuela based on Trade Creation

Rank	HS02	TC ('000 US$)	Share	Cum.Share
1	300490	73848.6	5.4	5.4
2	020230	43172.5	3.2	8.6
3	230400	37359.2	2.7	11.3
4	100590	36999.3	2.7	14.1
5	730890	35110.4	2.6	16.6
6	852520	34005.9	2.5	19.1
7	010290	30137.1	2.2	21.3
8	730429	26248.7	1.9	23.3
9	940600	23385.6	1.7	25.0
10	020712	21925.0	1.6	26.6
11	300210	15165.3	1.1	27.7
12	090111	11866.6	0.9	28.6
13	310520	11592.5	0.9	29.4
14	841199	11560.3	0.8	30.3
15	040690	10674.8	0.8	31.1
16	210690	10665.5	0.8	31.9
17	390760	9930.9	0.7	32.6
18	841391	9885.0	0.7	33.3
19	160414	9747.5	0.7	34.0
20	170490	9589.3	0.7	34.7
21	848180	9413.2	0.7	35.4
22	190110	9349.2	0.7	36.1
23	852812	8720.7	0.6	36.7
24	330210	8705.4	0.6	37.4
25	847130	8667.4	0.6	38.0
26	401120	8607.9	0.6	38.7
27	300420	8539.3	0.6	39.3
28	100610	8005.0	0.6	39.9
29	853710	7581.9	0.6	40.4
30	843041	7318.9	0.5	41.0
31	730610	6957.0	0.5	41.5
32	270740	6834.8	0.5	42.0
33	690890	6639.3	0.5	42.5
34	300439	6590.8	0.5	42.9
35	840219	6437.8	0.5	43.4
36	300450	6309.4	0.5	43.9
37	220830	6250.1	0.5	44.3
38	300432	6061.8	0.4	44.8
39	330510	6061.0	0.4	45.2
40	841810	5951.0	0.4	45.7
41	732690	5854.3	0.4	46.1
42	382490	5746.6	0.4	46.5
43	381121	5417.3	0.4	46.9
44	100190	5324.4	0.4	47.3
45	392690	5006.1	0.4	47.7
46	843143	4921.1	0.4	48.0
47	843890	4777.5	0.4	48.4
48	040221	4595.8	0.3	48.7
49	841490	4573.2	0.3	49.1
50	840999	4553.5	0.3	49.4

Appendix IX:

India's Bilateral RCA in major LAC Countries

India's Bilateral Revealed Comparative Advantage (RCA) in Argentina for Top 50 Exports, 2017

SNO	HSCODE	RCA	EXPORTS
1	871120	4710.3	62623.5
2	870323	6.8	34147.7
3	380830	20.0	26988.1
4	271019	12.0	24930.6
5	294200	266816.9	15749.6
6	540233	42318.2	15153.1
7	550953	3580.9	13052.1
8	130232	10435.6	12006.6
9	721049	1447.3	11643.5
10	871130	20779.5	9713.0
11	870899	22.7	8138.4
12	380820	7.3	7602.3
13	380810	5.3	7292.8
14	620443	2337.5	6100.4
15	293399	122.1	5976.8
16	320412	828.0	5895.5
17	401161	384.6	5890.6
18	870190	589.2	5445.9
19	320417	462.7	5297.8
20	300220	802.0	5082.3
21	380890	279.8	4573.8
22	90111	59203.7	4557.0
23	840999	4.8	4446.4
24	690790	133.2	4302.8
25	293499	110.8	4143.1
26	294190	1541.6	3794.3
27	620640	428.2	3762.1
28	841480	15.7	3700.4
29	401194	602.2	3575.4
30	722220	6683.6	3487.4
31	320416	3514.6	3465.6
32	870810	21.7	3454.4
33	293339	13.8	3084.7
34	620630	747.1	2865.3
35	720241	2173.5	2843.6
36	621143	888.8	2540.8
37	282749	654.6	2529.5
38	842951	2045.3	2484.3
39	520522	10163.2	2466.1
40	392049	17.5	2408.3
41	722211	95414.7	2365.9
42	621490	37370.0	2349.8
43	620444	1233.4	2342.4
44	842959	467.6	2308.9
45	760410	1628.9	2296.9
46	520523	110.5	2153.7
47	293299	429.9	2111.3
48	732690	3.2	2032.0
49	390760	10.9	2014.3
50	640419	42.7	2003.0

Note: Bilateral Exports in Thousand US$

India's Bilateral Revealed Comparative Advantage (RCA) in Brazil for Top 50 Exports, 2017

SNO	HSCODE	RCA	EXPORTS
1	540233	3627.1	184946.7
2	380810	194.0	164705.4
3	870899	21.7	153340.7
4	300490	21.3	135914.5
5	380890	481.6	80252.6
6	380820	44.2	78166.4
7	840734	13.4	55757.4
8	760110	10.0	52051.8
9	380830	42.7	50476.2
10	294200	417.0	48845.6
11	540242	306223.5	43351.4
12	300220	120.7	36316.9
13	271019	1.6	32593.2
14	293399	778.5	30565.8
15	320416	1140.0	29195.2
16	550953	19772.4	26654.0
17	290243	292.1	25828.6
18	320417	109.5	25511.5
19	401120	4.4	24277.5
20	848340	20.3	22373.0
21	690790	4.9	22007.8
22	294190	28.3	21612.8
23	732591	115.8	21388.6
24	901839	83.8	20786.8
25	840710	2695.8	20728.9
26	520523	888.3	20528.7
27	722220	69.4	18474.1
28	300420	11.2	17059.7
29	293319	7230.6	16692.1
30	870894	13.3	16288.8
31	870810	38.8	16073.7
32	392690	10.2	15838.0
33	620443	725.7	15753.4
34	401410	40982.7	14221.1
35	293229	3225.8	14141.3
36	840999	1.1	13410.5
37	392190	12.9	13324.5
38	840890	29.4	13142.0
39	151530	1190.1	12845.1
40	293329	7236.4	12260.7
41	321519	78.5	12154.6
42	90930	290002.4	11668.2
43	300390	1449.0	11594.0
44	340211	43.8	11393.1
45	320412	399.7	11369.5
46	701090	39.4	11046.8
47	320419	264.1	10814.4
48	293339	10.2	10778.3
49	294150	2561300.0	10776.0
50	702000	117.5	10663.4

Note: Bilateral Exports in Thousand US$

India's Bilateral Revealed Comparative Advantage (RCA) in Chile for Top 50 Exports, 2017

SNO	HSCODE	RCA	EXPORTS
1	870322	526.7	147639.6
2	300490	46.6	48083.4
3	870323	31.0	31751.3
4	870321	2209.2	28114.4
5	420329	6405.7	19958.5
6	870332	31.7	17616.4
7	870421	162.2	16847.4
8	630260	165.1	15182.3
9	870899	120.5	14129.2
10	640391	667.8	9843.5
11	630492	5552.1	9479.9
12	150420	10.4	9420.0
13	630532	1724.9	9155.9
14	392329	462.3	8635.5
15	871120	251.6	8250.7
16	620520	182.1	6434.9
17	620443	140.0	5681.2
18	392690	17.0	5636.2
19	620640	88.8	5600.8
20	420310	2985.5	4759.6
21	720241	3104.2	4573.4
22	300390	907.3	4468.4
23	730890	18.6	4332.6
24	551511	280.1	4180.0
25	620342	59.1	4098.6
26	610910	39.8	4034.5
27	380820	6.5	3728.7
28	283329	184.5	3648.3
29	841090	197.0	3433.3
30	300410	63.4	3339.1
31	294200	45.1	3221.7
32	392062	35.5	3164.0
33	820713	33.0	3102.0
34	570500	84.0	3073.0
35	330741	9137.5	3025.7
36	722220	13630.7	3006.9
37	560900	1100.9	3005.7
38	621143	739.7	2951.0
39	550953	11725.5	2788.6
40	401161	1237.9	2781.3
41	690210	2081.4	2773.4
42	520523	2880687.6	2748.9
43	730820	1064.6	2725.4
44	570390	43.3	2669.7
45	520522	2748867.6	2623.1
46	130232	4672.8	2603.5
47	520512	761218.0	2530.1
48	620442	315.9	2498.8
49	850212	360.9	2471.9
50	620630	87.9	2457.2

Note: Bilateral Exports in Thousand US$

India's Bilateral Revealed Comparative Advantage (RCA) in Colombia for Top 50 Exports, 2017

SNO	HSCODE	RCA	EXPORTS
1	871120	3525.19	160594.2
2	730820	960.6	61767.32
3	761490	965.17	37617.43
4	760110	2301.08	35411
5	300490	6.05	27428.13
6	520523	19228.67	23441.88
7	871419	229.71	21852.39
8	870322	24.92	20766.49
9	540233	93.93	15205.91
10	520522	77672.66	13020.21
11	840734	5103.46	12641.59
12	550953	1125.98	12474.39
13	294200	828367.1	11629.73
14	870899	69.99	11553.35
15	401120	15.99	10472.69
16	870321	45.8	10198.34
17	380820	2.61	10009.51
18	380810	2.19	9083.128
19	721049	18.25	8356.779
20	300220	45633.09	8195.594
21	760120	3125.71	7814.542
22	300390	645.63	7476.144
23	380830	6.16	7069.303
24	520942	47.35	6555.552
25	521142	62.05	6396.805

SNO	HSCODE	RCA	EXPORTS
26	871130	274.33	6396.151
27	392020	5.49	6114.947
28	320417	46.67	5974.645
29	721041	155.56	4767.562
30	722220	2808.79	4009.774
31	960810	402.56	3866.913
32	390210	0.62	3632.838
33	392062	91.95	3442.533
34	630492	21745.83	3223.163
35	870894	603.86	3142.764
36	390760	21.93	3034.802
37	871499	678.76	3001.534
38	294110	791.25	2995.277
39	870810	56.98	2949.035
40	293499	269.61	2880.813
41	870829	36.44	2814.689
42	680223	111565.2	2812.896
43	293339	70.34	2789.497
44	320416	265.53	2692.348
45	291830	3191.43	2630.003
46	300420	2.89	2628.359
47	294190	3651.05	2622.616
48	870190	45.1	2565.386
49	551511	293.95	2466.784
50	293349	17064.55	2461.911

Note: Bilateral Exports in Thousand US$

India's Bilateral Revealed Comparative Advantage (RCA) in Costa Rica for Top 50 Exports, 2017

SNO	HSCODE	RCA	EXPORTS
1	870322	48153.82	30966.54
2	870323	3337.81	16365.74
3	380820	30.28	12726.38
4	871120	11048.57	7984.436
5	300490	3.99	7090.35
6	870321	9020.31	5833.966
7	380830	6.24	1783.282
8	482020	571.5	1686.593
9	870600	25481.69	1438.276
10	380810	6.06	1264.463
11	854449	0.99	1166.364
12	870899	62.06	1151.793
13	900110	855.31	1013.459
14	721090	31.16	969.431
15	300431	303400.1	934.952
16	392190	655.75	928.74
17	903300	118.22	914.204
18	401511	11470.64	779.997
19	640340	949.33	778.567
20	630260	2693.8	752.294
21	401161	6.22	741.643
22	330190	94.76	726.721
23	300420	5.08	692.018
24	850212	2294.73	665.237
25	761490	32.72	647.231
26	610910	112.21	573.488
27	392061	26.01	571.767
28	320649	159.86	513.345
29	722220	65350.82	457.047
30	540233	3.44	452.407
31	401519	109.54	450.564
32	871419	162.96	442.432
33	271019	10.61	440.29
34	392690	0.35	439.547
35	853669	1.67	433.817
36	482010	233.94	413.001
37	854460	752.48	408.666
38	320419	452.25	408.009
39	721069	1959100	400.903
40	121190	4.32	395.288
41	843830	4008.9	395.127
42	842490	10.78	393.549
43	392329	2.93	390.03
44	841989	213.3	376.829
45	610590	15190.9	374.496
46	320611	59.89	366.526
47	570500	893.03	350.968
48	722240	879.81	346.515
49	380890	11.71	329.592
50	300220	5426.19	312.805

Note: Bilateral Exports in Thousand US$

India's Bilateral Revealed Comparative Advantage (RCA) in Dominican Republic for Top 50 Exports, 2017

SNO	HSCODE	RCA	EXPORTS
1	300490	11.31	20463.84
2	840211	102832.8	13365.45
3	30613	1586.43	13185.91
4	240120	10.7	11925.33
5	390760	128054.2	9905.681
6	871120	1540.58	9165.471
7	320416	144	8169.989
8	870323	611.73	5779.844
9	520523	31581.4	3505.429
10	550953	548.52	2972.838
11	190531	4.58	2402.62
12	520522	1625.03	2140.218
13	300420	60.1	2077.387
14	850212	56.98	1857.855
15	391810	8139.64	1836.392
16	610520	164.11	1824.632
17	160520	2890.9	1715.622
18	670300	17.58	1586.494
19	853810	272.73	1539.267
20	721061	75.21	1415.201
21	900110	51677.91	1410.51
22	854449	2.98	1241.143
23	520942	637.83	1208.343
24	300450	1260.36	1122.934
25	610910	0.16	1112.042
26	721049	38.63	1016.535
27	560790	76706.7	1006.947
28	380890	702.2	942.141
29	870321	1213.81	875.581
30	300630	871.82	870.715
31	901890	0.06	858.031
32	300290	665.28	851.491
33	721070	130.51	803.681
34	300410	8212.75	774.245
35	30379	736.75	762.329
36	630260	331.15	755.78
37	401120	171.53	738.549
38	761490	58042.56	733.02
39	392690	0.11	689.828
40	392020	1.92	682.738
41	850211	15.38	635.487
42	300660	55923.31	633.571
43	520932	8349.7	632.329
44	870322	2003.72	622.86
45	520512	46335.14	620.297
46	590190	3.27	617.53
47	300439	26.43	591.933
48	392410	0.6	588.529
49	540233	254.74	571.032
50	870190	69.78	547.17

Note: Bilateral Exports in Thousand US$

India's Bilateral Revealed Comparative Advantage (RCA) in Ecuador for Top 50 Exports, 2017

SNO	HSCODE	RCA	EXPORTS
1	870323	9400.2	30686.6
2	300490	44.25	19370.61
3	390760	239.6	13949.7
4	390210	83.07	4398.7
5	630510	133540.1	3915.085
6	300220	554.2	3716.005
7	90930	471615.2	2811.764
8	380810	136.14	2756.701
9	401194	4464.97	2269.485
10	850213	3978.86	2143.408
11	300420	170.67	2095.11
12	540233	230.11	1956.258
13	721070	1423.2	1840.444
14	390110	1605.51	1665.553
15	950390	101.62	1533.413
16	521142	17.34	1454.794
17	300410	98.32	1450.703
18	380820	48.63	1431.252
19	401120	6.39	1422.389
20	550320	5084.35	1418.724
21	551511	6664.46	1205.854
22	401199	62612.63	1198.656
23	391810	5824910	1194.772
24	901890	891.03	1184.918
25	842952	14.54	1174.07

SNO	HSCODE	RCA	EXPORTS
26	901839	1211.67	1133.579
27	902139	1825.12	1123.448
28	560312	238.96	1121.252
29	520522	1723.29	1060.817
30	320649	1407.95	1045.691
31	271019	0.1	993.83
32	300432	290.64	919.461
33	300450	46.6	903.42
34	294190	1948.72	852.397
35	380890	130.35	821.401
36	521149	5.82	817.108
37	850212	1623.99	812.462
38	902110	832.9	797.229
39	520942	42.65	751.909
40	330741	169.95	732.111
41	850211	1494.79	731.083
42	850421	17.78	714.244
43	392049	6465.84	707.237
44	721550	1233.54	705.26
45	481159	9379.62	655.15
46	870899	46.24	625.138
47	320416	4043.14	586.54
48	853529	2622.31	572.692
49	844010	41674.87	569.874
50	380830	22.36	564.281

Note: Bilateral Exports in Thousand US$

India's Bilateral Revealed Comparative Advantage (RCA) in Guatemala for Top 50 Exports, 2016

SNO	HSCODE	RCA	EXPORTS
1	871120	105.53	47997.28
2	300490	3.29	18668.8
3	870321	402.94	10999.39
4	870322	253.23	7786.702
5	870323	91.27	7101.865
6	300220	1461.9	6359.552
7	520942	207.23	6042.511
8	520532	4975.33	4406.893
9	870899	79.44	3951.235
10	520624	93.73	3904.043
11	521142	2732.03	3692.698
12	520523	51.32	3610.957
13	871419	120.38	3519.609
14	410719	780.07	2984.647
15	390760	39.1	2706.158
16	870421	16.5	2372.899
17	401120	133.21	2201.755
18	850164	225.6	2078.936
19	380820	1.8	1896.876
20	550953	49.45	1826.229
21	380830	2.28	1757.446
22	390210	90.49	1631.939
23	520524	70.15	1595.31
24	300410	6.73	1514.074
25	294200	41.71	1511.894
26	380810	1.22	1504.964
27	340211	14.95	1313.907
28	520522	28.44	1294.944
29	320419	96.43	1287.275
30	410799	73575.87	1244.43
31	300420	3.72	1206.912
32	551329	13561.06	1195.165
33	520513	6.68	1126.097
34	540233	82.2	1120.424
35	840890	67.74	1069.583
36	300210	84.96	1036.508
37	330190	16.56	1022.814
38	551512	203.47	971.082
39	551219	74.8	948.085
40	392099	145.6	947.666
41	852390	13.18	929.442
42	320649	10.05	925.129
43	401199	599.08	923.573
44	380890	1.48	921.734
45	294190	36.32	909.462
46	630510	7081.19	887.249
47	401140	28.29	869.578
48	840290	1217.89	864.047
49	840991	49.35	839.699
50	721061	76.83	809.632

Note: Bilateral Exports in Thousand US$

India's Bilateral Revealed Comparative Advantage (RCA) in Peru for Top 50 Exports, 2017

SNO	HSCODE	RCA	EXPORTS
1	870321	62802.68	76738.43
2	870322	35525.19	58911.63
3	520523	1175.98	42680.94
4	721041	212211	31389.51
5	540233	1609.26	28240.93
6	390760	56.6	26752.96
7	300490	56.46	26581.01
8	520522	4083.53	24808.79
9	520513	64316.12	21874.45
10	871120	16524.97	21331.62
11	870323	1443.11	21209.63
12	520526	1266.1	18795.57
13	870600	666.13	15595.71
14	390210	130.65	14014.87
15	870899	313.52	9132.886
16	550953	637.66	7873.492
17	401120	32.92	6145.172
18	300220	1001.63	5541.866
19	320417	401.18	5454.992
20	520942	64.38	5137.732
21	550320	442.3	5112.524
22	90930	19756.61	5048.244
23	848180	79.77	4183.843
24	551512	4316.99	4022.532
25	520512	447.65	4001.762
26	620520	28.95	3825.546
27	320416	682.68	3761.539
28	871419	258.53	3757.739
29	520524	344.48	3578.427
30	820713	463.44	3575.383
31	392062	5.35	3386.94
32	294200	2585.47	3263.778
33	870421	18713.07	2904.126
34	551511	1727.43	2894.872
35	420329	890.77	2437.521
36	722220	8312.99	2435.796
37	401199	20710.58	2234.987
38	293690	1080.01	2165.204
39	843890	535.86	2133.052
40	761490	4174.43	2032.39
41	620640	218.07	1923.191
42	310430	1116.92	1913.925
43	630510	37185	1864.767
44	380210	936.35	1830.1
45	630260	71.15	1755.94
46	401140	1918.28	1725.844
47	610910	0.37	1723.781
48	300450	20.75	1646.518
49	901890	44.24	1605.655
50	380820	7.11	1575.993

Note: Bilateral Exports in Thousand US$

India's Bilateral Revealed Comparative Advantage (RCA) in Venezuela for Top 50 Exports, 2013

SNO	HSCODE	RCA	EXPORTS ('000 USD)
1	300490	69523529	59762.14
2	300420	62651.54	9506.983
3	841821	1781076	8460.572
4	520942	4692.27	8219.951
5	901839	44010.26	7329.909
6	251110	6226.16	6690.736
7	380820	772022.2	5431.533
8	521142	14437.82	5226.467
9	848180	498.3	3829.386
10	841370	4734.17	3048.099
11	841950	288978.5	2630.033
12	841381	1278.13	2419.954
13	294200	5751072	2327.294
14	300590	17362.15	1859.814
15	380890	831290.4	1765.547
16	380810	389.73	1730.408
17	330741	9282506	1546.738
18	610910	91418.15	1525.471
19	300450	74296.57	1465.555
20	843710	5317.17	1114.88
21	90930	82589.59	1059.881
22	330190	4175551	1049.176
23	610520	25940683	960.551
24	850300	1924.63	745.419
25	91099	21616145	743.246
26	847990	207.41	656.657
27	330300	3611.87	653.574
28	870899	174.22	638.709
29	520523	260153	633.035
30	901890	1469.42	630.934
31	902110	2083907	589.757
32	848190	156.46	574.268
33	741220	111630.2	573.084
34	840999	18419.21	480.546
35	851220	42937.84	442.456
36	842123	3156.41	420.36
37	480256	490179.6	412.281
38	846694	4980.08	395.722
39	854441	766.82	388.981
40	848140	964.63	384.242
41	401199	75787.95	382.864
42	380830	78.98	376.759
43	391290	43867.02	348.073
44	381230	9211.73	345.801
45	293379	666.5	340.818
46	520420	799904.2	332.161
47	630260	2211.37	326.659
48	843149	641.79	303.54
49	843143	8.12	301.734
50	940490	2730.88	294.71

Appendix X:

India's Bilateral Direct Investment with LAC Countries, 2017

(USD Million)

Partner Country	Inward Direct Investment	Outward Direct Investment	Net Direct Investment
Argentina	0	5	5
Bahamas	24	182	158
Barbados	6	0	-6
Belize	2	0	-2
Bermuda	166	1,406	1240
Bolivia	0	43	43
Brazil	12	181	169
British Virgin Isl.	902	1,087	185
Cayman Islands	810	92	-718
Chile	3	10	7
Colombia	1	7	6
Costa Rica	1	1	0
Dominica	4	0	-4
Ecuador	0	1	1
Guatemala	0	5	5
Guyana	0	13	13
Jamaica	4	0	-4
Netherlands Antilles	0		0
Panama	19	8	-11
Peru	5	1	-4
St. Kitts and Nevis	1	0	-1
St. Lucia	1	0	-1
St. Vin. & the Gren.	3	0	-3
Uruguay	4	211	207
US Virgin Islands	49	0	-49

Source: Coordinated Direct Investment Survey, IMF, 2018