

EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)

A Bridge Between India and Latin America

Policy Options for Deeper
Economic Cooperation



EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)

A Bridge Between India and Latin America

Policy Options for Deeper
Economic Cooperation



**Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library**

A bridge between India and Latin America: policy options for deeper economic cooperation / Paolo Giordano, Cloe Ortiz de Mendivil, Viswanath Jandhyala, Akshay Dutta; coordinator, Paolo Giordano.
p. cm. — (IDB Monograph ; 722)

Includes bibliographic references.

1. India-Commerce-Latin America. 2. India-Foreign economic relations-Latin America. 3. Latin America-Commerce-India. 4. Latin America-Foreign economic relations-India. 5. Investments, Indian-Latin America. 6. Investments, Latin American-India. 7. Exports-India. 8. Exports-Latin America. I. Giordano, Paolo. II. Ortiz de Mendivil, Cloe. III. Jandhyala, Viswanath. IV. Dutta, Akshay. V. Inter-American Development Bank. Integration and Trade Sector. VI. Export-Import Bank of India. VII. Series.

IDB-MG-722

JEL Codes: F02, F1, F10, F15

Key Words: India, Latin America, Commerce, Trade, Exports, Investment

<http://www.iadb.org>

Copyright © 2019 Inter-American Development Bank. This work is licensed under a Creative Commons IGO 3.0 Attribution-NonCommercial-ShareAlike (CC-IGO 3.0 BY-NC-SA) license (<http://creativecommons.org/licenses/by-nc-sa/3.0/igo/legalcode>) and may be reproduced with attribution to the IDB and for any non-commercial purpose in its original or in any derivative form, provided that the derivative work is licensed under the same terms as the original. The IDB is not liable for any errors or omissions contained in derivative works and does not guarantee that such derivative works will not infringe the rights of third parties.

Any dispute related to the use of the works of the IDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. The use of the IDB's name for any purpose other than for attribution, and the use of IDB's logo shall be subject to a separate written license agreement between the IDB and the user and is not authorized as part of this CC- IGO license.

Note that link provided above includes additional terms and conditions of the license.

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

<http://www.eximbankindia.in>

Exim Bank's research publications are an attempt to disseminate the findings of research studies carried out in the Exim Bank. The results of research studies can interest exporters, policy makers, industrialists, export promotion agencies as well as researchers. However, views expressed do not necessarily reflect those of the Exim Bank. While reasonable care has been taken to ensure authenticity of information and data, Exim Bank accepts no responsibility for authenticity, accuracy or completeness of such items.



This document is the product of a joint initiative of the Inter-American Development Bank (IDB) and the Export-Import Bank of India (Exim Bank).

The initiative was undertaken under the overall supervision of Fabrizio Opertti, Manager of the Integration and Trade Sector of the IDB, and of David Sinate, Chief General Manager of the Research and Analysis Group of Exim Bank. Technical oversight was provided by Mauricio Mesquita Moreira, Sector Economic Advisor of the of the Integration and Trade Sector (IDB).

The report was coordinated by Paolo Giordano, Principal Economist of the Integration and Trade Sector (IDB), and written in collaboration with Cloe Ortiz de Mendivil, Consultant of the Integration and Trade Sector (IDB), Dr. Viswanath Jandhyala, Chief Manager of the Research and Analysis Group (Exim Bank), and Akshay Dutta, Deputy Manager of the Research and Analysis Group (Exim Bank).

The team acknowledges the assistance of Vanlalruata Fanai, Assistant General Manager of Exim Bank and Sailesh Prasad, Resident Representative of Exim Bank in Washington D.C., as well as the analytical contributions of Martín Cicowiez and Ana Basco, the research assistance of María del Rosario Plazas, and comments from Ziga Vodusek at the IDB.

Silvia Badilla supported the team in the production and dissemination of the publication. Graziela Flor and Word Express designed and implemented the graphic design, respectively.

EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)

Foreword

Latin America and India are not yet on each other's radar screen and neither can afford it. The center of gravity of the world economy has moved eastward and the region's integration with Asia has reached unprecedented levels. Nevertheless, trade and investment flows with India have not kept pace with this breathtaking trend.

For Latin America, deepening ties with the fastest-growing economy of the world would be a huge leap forward in progress towards internationalization. Meanwhile, our vast endowment of natural resources and complementary time zones for services globalization are a strategic asset for India.

As this report suggests, there is a massive trade potential to be unlocked, and a myriad of commercial opportunities. However, bringing businesses of two distant regions together is not an easy task. An effective institutional framework as well as businesses and people-to-people networks are of paramount importance.

The IDB is deeply committed to make India part of our future prosperity. We hope that this joint report with Exim Bank will contribute to a fruitful exchange of ideas on the policy options ahead, and represents a step forward toward deeper South-South cooperation for a brighter future.

Fabrizio Opertti
Manager of the Integration and Trade Sector
Inter-American Development Bank

India and Latin America are emerging as major growth engines of the world economy and must reap the mutual benefits of a growing partnership with each other. With ever increasing challenges in the world economy, diversification of trade partners and access to new markets has become a priority for both sides.

Latin America has a young, educated, skilled workforce, and rich reserves of agricultural and natural resources. It is increasingly considered an important investment destination due to its growing industrial and manufacturing strength, and continuous improvements in the ease of doing business. India, on the other hand, offers immense opportunities for collaboration, trade, and investment for partner countries from Latin America.

For Exim Bank, Latin America has always been a focus region, to promote and support two-way trade and investment. As a partner institution to promote economic development in Latin America, Exim Bank has set in place various activities and programs.

I hope that this joint report published by the IDB and Exim Bank provides an important contribution to the existing knowledge pool on the subject and serves as a valuable reference for policy makers, businesses, and academia.

David Rasquinha
Managing Director
Export-Import Bank of India

Table of Contents

	Executive Summary	8
	How Does the LAC-India Relationship Fare?	12
	What Are the Costs of Trading?	32
	How Much Can Bilateral Trade Grow?	40
IV	Policy Options: What Can Be Done?	52

EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)

Executive Summary

The emergence of Asia as a major trading powerhouse has been so far one of the most salient economic developments of the 21st century. Driven by the complementarity between the factor endowments of Latin America and the Caribbean (LAC) and the importing needs of an immense resource-scarce region such as Asia, trade and investment flows between the two regions have exploded.

Against this backdrop, the true potential of the LAC-India relationship has yet to be realized. The strength of the partnership can be gauged observing that the combined GDP neared US\$ 8.4 trillion in 2018 and the cumulative population almost 2 billion people. Yet, the economic relations between LAC and India are still in a nascent stage and there are immense opportunities for trade, investment, and cooperation, that have hitherto remained unexplored.

The goal of this joint report published by the Inter-American Development Bank (IDB) and the Export-Import Bank of India (Exim Bank) is to discuss the outlook for bilateral trade and investment flows between LAC and India, signal the most salient business opportunities at hand, and highlight the contours of an institutional framework that policymakers may shape to harness the benefits of greater bilateral cooperation. It tackles four fundamental questions and highlights the following conclusions:

Where do we stand? With two-way commerce slightly below the US\$ 40 billion-mark, current trade is indeed still the business of just a handful of products. However, in the last decades trade has grown twentyfold and bilateral investment is on the rise. While pioneering companies started to build success stories in each other's markets, governments have not followed suit with the design of the regulatory infrastructure needed for deeper integration.

What is the potential? High economic complementarity between the two subcontinents bodes well for the future. It is estimated that in the medium-term, with a set of reforms geared towards the

reduction of trade costs, LAC exports to India may grow by 42% while Indian exports to the region may do so by 46%. In current value, such trade expansion represents US\$ 7.6 billion and US\$ 8.6 billion, respectively. This potential may stem not only from the facilitation of trade among well-established trade partners, but also from the discovery of new markets that are not yet on each other's radar screen.

Where are the business opportunities? For the private sector there is a goldmine of trade opportunities to tap into. A conservative measure of complementary products puts the frontier of export expansion in each other's market at US\$ 68.8 billion and US\$ 262.8 billion, for LAC and India, respectively. It is striking to note that current flows are well below this measure of the trade frontier, standing at 32% for LAC and 5% for India.

What can governments do? Government officials have a wide array of policy instruments at their disposal to reduce the cost of doing business between LAC and India. Increasing the coverage of trade and investment agreements, enhancing trade facilitation measures, undertaking proactive and targeted trade promotion activities, as well as boosting investment in infrastructure and promoting reforms in the logistics sector are the key pillars of a successful strategy. Meanwhile, deepening technical cooperation and developing business and people-to-people networks would go a long way in bringing the two subcontinents together.

In recent years, LAC and India have recognized the growing influence of each other in the world economy and the mutual benefits that could be derived from partnering together. Considering the vast geographic and cultural distance between them, the active support of development financial institutions, such as the IDB and Exim Bank, may help to cut the learning curve short and set the two subcontinents on a faster route towards shared prosperity.

EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)



How Does the LAC-India Relationship Fare?

Economic relations between Latin America and the Caribbean (LAC) and India are growing at a fast pace.¹ The comparison with China and other Asian nations suggests that there is still a massive potential for further expansion and diversification. However, to do so the institutional framework that shapes these relations needs to evolve accordingly. This chapter describes the trends in bilateral trade and investment flows and characterizes the underlying regulatory infrastructure to point the main opportunities for expansion.

Trade

In the last two decades trade between LAC and India has grown twentyfold, increasing from US\$ 2 billion to US\$ 39 billion between 2000 and 2018.² Bilateral flows started to take off in 2004 and peaked in 2014 at US\$ 45 billion. Despite a temporary fall in 2009, trade grew at an impressive average annual rate of 25.6% between 2004 and 2014 (Figure 1). While Indian exports to the region grew steadily to reach US\$ 16.0 billion in 2018, LAC exports climbed to US\$ 22.7 billion, following the ebb and flow of commodity prices, particularly of crude oil.

Within Asia, India is emerging as a key market for LAC. Exports to India have already surpassed those to Japan and Korea, and stand closely behind those to the ten members of the Association of Southeast Asian Nations (ASEAN) combined (US\$ 21.0 billion, US\$ 17.7 billion, and US\$ 27.5 billion in 2018, respectively).³ It is remarkable to note that until 2008 India ranked last among these four Asian destination markets for LAC, but has since then climbed ranks due to an upward trend in crude oil export volumes.

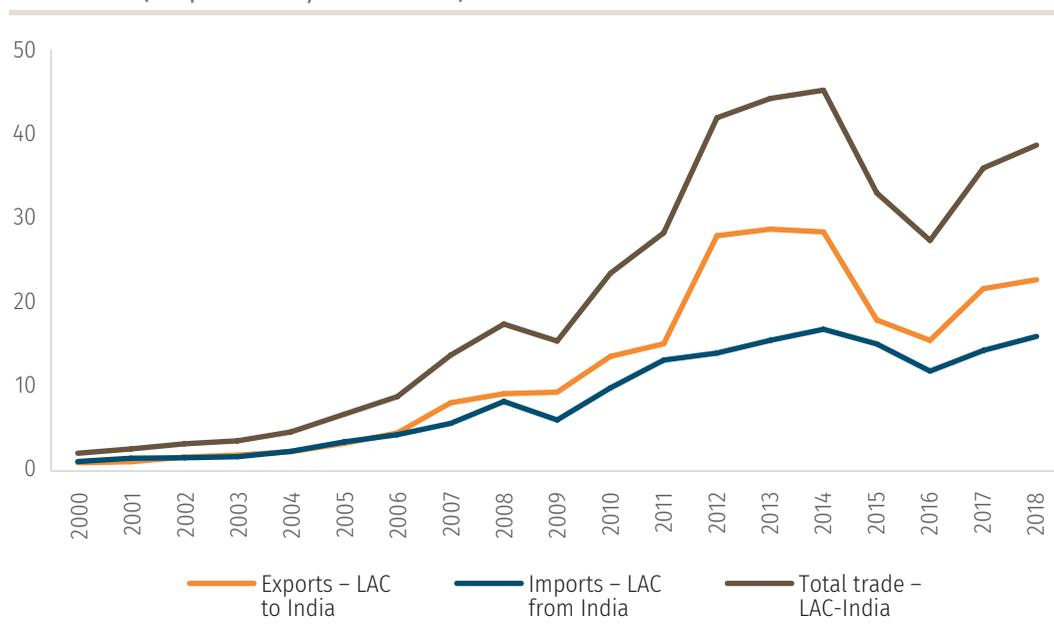
1 For an early appraisal see Moreira, M. (2010), *India: Latin America's Next Big Thing?*, IDB. For a recent comprehensive set of views from the institutional, private, and academic sectors see INTAL (2017), *LATINDIA: The Future of Cooperation between India and Latin America*, IDB.

2 Even though the importance of trade in services, especially in India, is undeniable, due to a lack of data from official sources this report focuses mainly on trade in goods.

3 The Association of Southeast Asian Nations (ASEAN) includes Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. Papua New Guinea, which is currently an observer, is not included in the statistics.

How Does the LAC-India Relationship Fare?

FIGURE 1: EVOLUTION OF LAC-INDIA TRADE IN GOODS
(US\$ billions, 2000–2018)



Source: IDB Integration and Trade Sector with data from IMF Direction of Trade Statistics (DOTS).

Note: Total trade is computed as the addition of exports and imports. Values might be underestimated as LAC exports from free trade zones are not included in some countries. Data for 2018 are estimated.

In contrast, imports of LAC from India have trailed those of other Asian competitors. Shipments to LAC from ASEAN, Korea, and Japan stood at US\$ 49.6 billion, US\$ 30.7 billion, and US\$ 34.4 billion, respectively.

Despite this boom, trade between LAC and India is still restricted to a handful of countries. In 2018, Venezuela, Mexico, and Brazil accounted for two thirds of total LAC shipments to the Asian giant (31%, 21%, and 17%, respectively). In 2000, the main players were different and the concentration was even higher, with Argentina, Brazil, and Chile adding to over four fifths of the total (45%, 30%, and 13% of LAC exports to India, respectively). Indian exports to LAC are also fairly concentrated in terms of destinations. In 2018, Mexico and Brazil absorbed 29% and 28% of exports from India to LAC, and Colombia and Chile followed with 7% and 6%.

Yet trade with India is on the rise for many LAC countries. Driven by oil sales, in 2018 Venezuela shipped to India 21% of its external sales, and Bolivia and Dominican Republic followed with 8% and 6% of their exports, mainly of gold (Figure 2, top panel). For thirteen LAC countries the Indian market accounts for an export share larger than 1%, whereas in 2000 this was the case only for Argentina. On the other hand, albeit still small, the average share of LAC imports from India has jumped from 0.3% to 1.3% in the same time span. Colombia, Nicaragua, and Uruguay display the highest import shares, buying mainly iron or steel, fabrics, and chemicals, respectively (Figure 2, bottom panel).

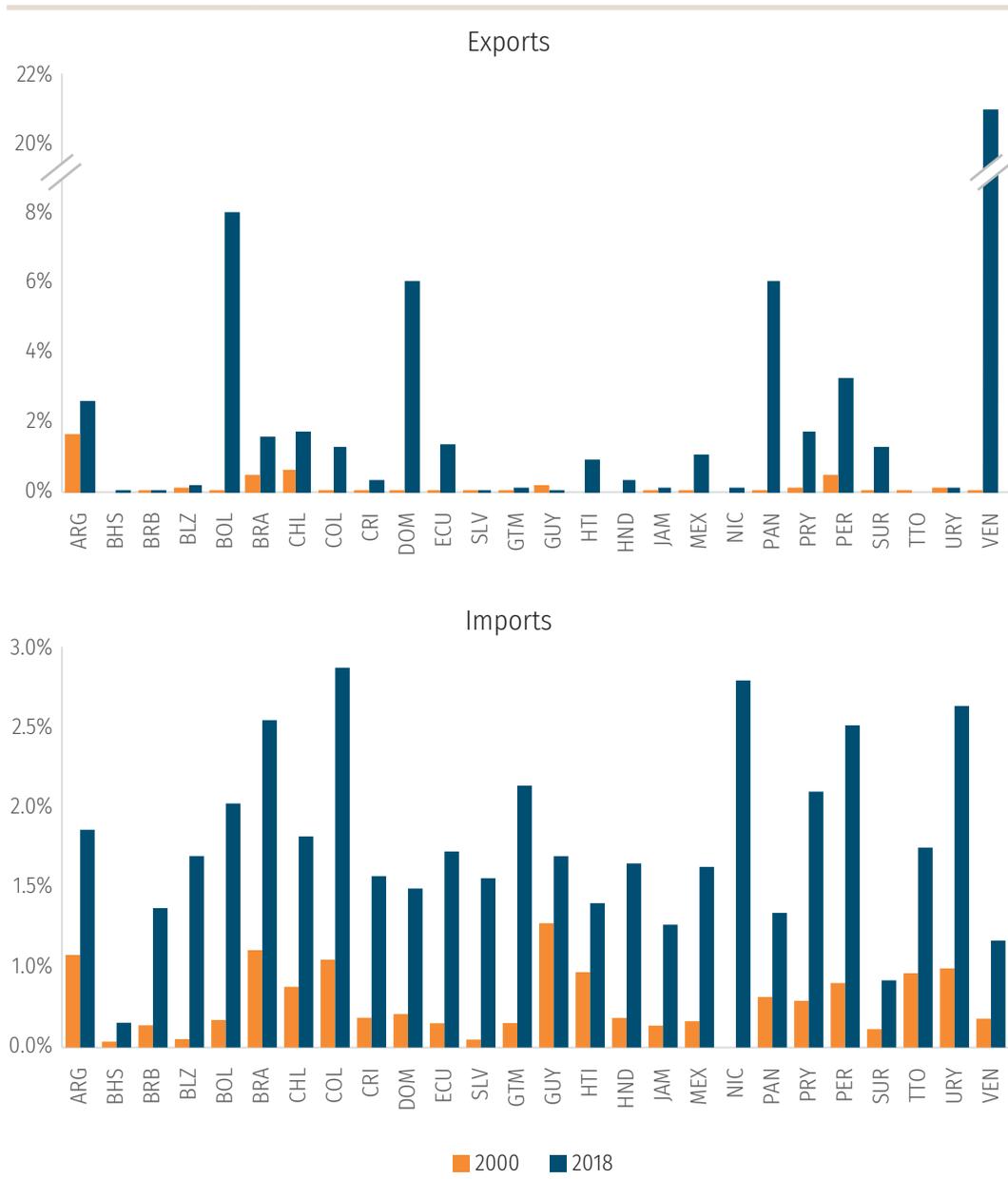
Trade between LAC and India has room to grow through diversification.⁴ LAC exports to India are heavily concentrated in extractive products, accounting for 72% of exports in 2017. Agricultural products followed with 19% and industrial manufactures only accounted for 9%. This structure is at odds with the composition of LAC exports to the rest of the world. Excluding Mexico, which skews the regional specialization pattern due to its industrial integration with the United States, agricultural and extractive products stand out with 39% each, and industrial manufactures follow with 22%. It is striking to note, for example, that in the last two decades LAC exports to the world have shifted towards agricultural products, while exports to India have been mainly driven by extractive products, and oil in particular.

Meanwhile exports from India to LAC are heavily dominated by a few industrial manufactures, which accounted for 85% of total exports to LAC in 2017, followed by extractive products with a share of 11%. The composition of exports from India to the world, albeit dominated by industrial manufactures, is more diversified. The latter account for 51% of total shipments, extractive products for 35%, and agricultural products for 14%.

⁴ Products are aggregated into three broad categories: agricultural products include primary agricultural products and their manufactures; extractive products include primary mineral products and their manufactures, as well as fuels and energy; and industrial manufactures.

How Does the LAC-India Relationship Fare?

FIGURE 2: SHARE OF TOTAL TRADE WITH INDIA BY LAC COUNTRY
(Percentage, 2000 and 2018)



Source: IDB Integration and Trade Sector with data from IMF DOTS.

Note: The share represents the weight of trade with India in total trade for each LAC country.

These patterns suggest that India and LAC have potential to break into each other's markets as they do in other parts of the world. Focusing on the top ten traded items reveals with even more clarity that trade between LAC and India is still limited to a few products. This is striking in the case of LAC, where two products (oil and copper) accounted for over half of total exports to India in 2017, and the top five items for more than 80% (Table 1). Most of them are extractive products. Crude oil exports shipped mainly by Venezuela, Mexico, and Brazil, account for a staggering 42.0% of the total. Copper, representing 12.8% of total exports, is mostly supplied by Chile, Peru, and Brazil. Unwrought gold sold by Peru, Bolivia, and the Dominican Republic follows with 12.1% of the total. Among agricultural products, soybean oil stands out with a share of 11.2%, shipped mostly by Argentina, but also from Brazil and Paraguay. Industrial manufactures only add 3.1% to the value of exports, and the result is mainly driven by transmission and reception devices sold by Mexico.

TABLE 1: TOP EXPORTS FROM LAC TO INDIA
(Percentage, 2017)

Product	Product Category	Share	Accumulated Share
Petroleum oils and oils obtained from bituminous minerals, crude	Extractive	42.0%	42.0%
Copper ores and concentrates	Extractive	12.8%	54.7%
Gold, non-monetary, unwrought (but not powder)	Extractive	12.1%	66.8%
Vegetable oils; soybean oil and its fractions	Agriculture	11.2%	78.0%
Cane sugar	Agriculture	4.2%	82.1%
Transmission and reception apparatus	Manufactures	1.5%	83.6%
Telephonic or telegraphic apparatus, n.e.s.	Manufactures	1.1%	84.7%
Gold, semi-manufactured	Extractive	0.7%	85.4%
Iron ores and concentrates, non-agglomerated	Extractive	0.6%	86.0%
Polyvinyl chloride	Manufactures	0.6%	86.6%

Source: IDB Integration and Trade Sector with data from the Database for the Analysis of International Trade (BACI) of the Center for Prospective Studies and International Information (CEPII).

Note: Products defined at the 6-digit disaggregation level of the Harmonized System (HS) 1996. Product categories defined in footnote 4. Comprehensive data to compute exports by product category are available only until 2017.

How Does the LAC-India Relationship Fare?

Indeed, for several LAC countries exports to India are often restricted to just one single dominant item. To name some examples, in 2017, crude oil explained 100% of sales to India from Venezuela and 65% from Mexico. Gold accounted for 99% of exports from Bolivia and 71% of those from Peru. Likewise, 94% and 86% of shipments from Paraguay and Argentina, respectively, corresponded to soybean oil.

India exports to LAC a more diversified basket of goods, with the top ten items accounting for a third of total sales to the region (Table 2). Industrial manufactures stand out, with motor vehicles representing 18.0% (of which Mexico receives 66%, Chile 9%, and Peru 7%). In second place, medicaments add 3.5% to total exports to LAC (Brazil represents 27%, Chile 11%, and Venezuela 7%). Among extractive manufactures, only unwrought aluminum

TABLE 2: TOP EXPORTS FROM INDIA TO LAC
(Percentage, 2017)

Product	Product Category	Share	Accumulated Share
Motor vehicles for the transport of persons (i)	Manufactures	18.0%	18.0%
Medicaments	Manufactures	3.5%	21.5%
Motorcycles of a cylinder capacity exceeding 50cc but not exceeding 250cc	Manufactures	2.1%	23.6%
Synthetic filament yarn (other than sewing thread) of textured polyesters	Manufactures	2.0%	25.7%
Aluminum, unwrought	Extractive	1.8%	27.4%
Insecticides	Manufactures	1.5%	28.9%
Petroleum oils and oils obtained from bituminous minerals, not crude	Extractive	1.2%	30.1%
Fungicides	Manufactures	1.1%	31.2%
Polyethylene terephthalate	Manufactures	0.9%	32.2%
Vaccines for human medicine	Manufactures	0.8%	33.0%

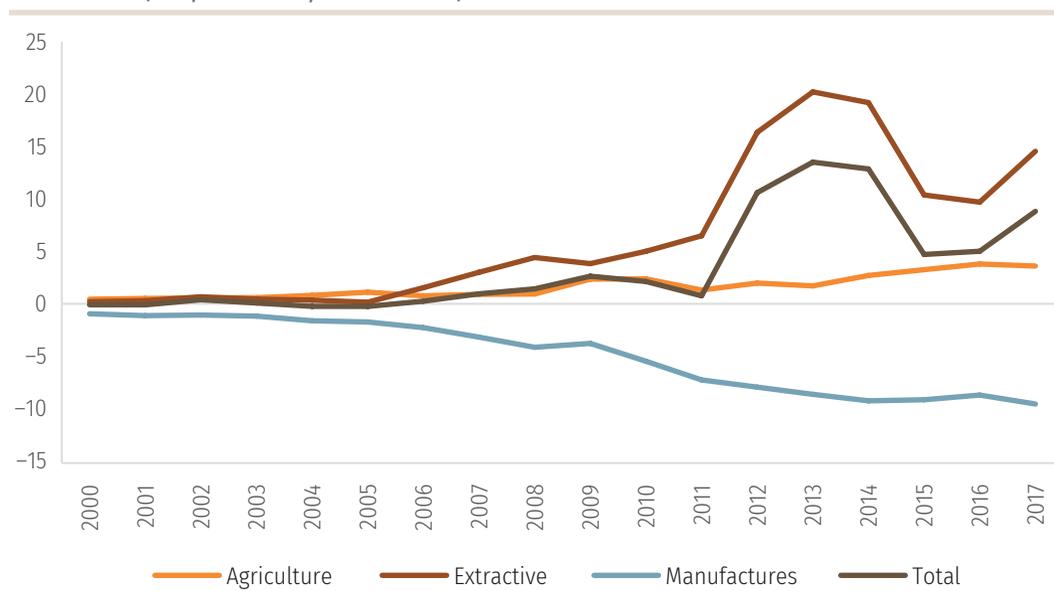
Source: IDB Integration and Trade Sector with data from BACI (CEPII).

Note: Products defined at the 6-digit disaggregation level of HS 1996. Product categories defined in footnote 4. Comprehensive data to compute exports by product category are available only until 2017. (i) Includes three items: motor vehicles for the transport of persons of cylinder capacity not exceeding 1000cc, exceeding 1000cc but not exceeding 1500cc, and exceeding 1500cc but not exceeding 3000cc.

with 1.8% of total exports (Mexico imports 57%, Brazil 26%, and Colombia 12%) and oil not crude with 1.2% appear on the top ten list (of which 30% is shipped to Mexico, 25% to Argentina, and 17% to Uruguay).

The concentration of commercial flows also explains the evolution of the bilateral trade balance. LAC's trade surplus with India reached US\$ 9 billion in 2017 (Figure 3). However, the net result was largely driven by the trend of growing oil imports of India, which in turn was amplified by the cyclical fluctuations of oil prices. Indeed, non-extractive trade flows are substantially balanced, with LAC displaying a growing surplus in agricultural products, and India a surplus in industrial manufactures.

FIGURE 3: TRADE BALANCE OF LAC WITH INDIA BY PRODUCT CATEGORY
(US\$ billions, 2000–2017)



Source: IDB Integration and Trade Sector with data from BACI (CEPII).

Note: Product categories defined in footnote 4. Comprehensive data to compute exports by product category are available only until 2017.

Investment

Like trade, foreign direct investment (FDI) flows between LAC and India have yet to rise to levels comparable to those witnessed with other Asian countries, although the scarce availability of data does not allow to construct a very sharp representation of the bilateral investment relations. According to official figures, in the ten years running from 2008 to 2018 Indian firms invested in LAC US\$ 704 million.⁵ This stock of FDI represents only 1% of total outward equity investment, although throughout the decade the annual share of flows directed to LAC is on an upward trend.

In that period, a third of Indian investment to LAC was directed to Brazil (Figure 4, top panel). Bahamas (23.5%), Panama (16.5%), Colombia (8.3%), and Mexico (6.9%) were also relevant destinations, whereas the rest of LAC recipients accounted together for a little over 10%. Sector-wise, most of the Indian investment targeted construction (28.8%), manufacturing (23.6%) and the financial sector (14.9%) (Figure 4, bottom panel). However, some selected success stories suggest that the scope of Indian interests in LAC are expanding at a fast pace (Box 1).

At the same time, the surge of LAC FDI seen in other parts of the world, due to the emergence of the so called *Multilatinas*, has eluded India. According to official figures, the total accumulated inflows from LAC between April 2000 and December 2018 stood at US\$ 505 million, representing a negligible 0.1% of total inward FDI during this period, and a comparable share of LAC global outward FDI (Table 3). Chile and Mexico have accounted for the lion's share of LAC investment in India, followed by far by Brazil and a few other countries. Despite these small aggregate figures, a growing number of success stories shows how LAC firms that managed to overcome multifaceted entry barriers thrived in the Indian market (Box 2).

⁵ Outward FDI as reported by the Reserve Bank of India includes three components: equity, loans, and guarantees issued. This figure for LAC amounted to US\$ 3.4 billion for the period between 2008 to 2018. However, this report only considers equity flows, that are more akin to the standard definition of FDI. It is also the only metric available for inward investment flows from LAC.

FIGURE 4: FDI EQUITY OUTFLOWS OF INDIA IN LAC
(Percentage, accumulated January 2008 to December 2018)



Source: IDB Integration and Trade Sector with monthly data from the Reserve Bank of India.

Note: Other LAC countries include: Argentina, Barbados, Belize, Bolivia, Chile, Dominican Republic, Ecuador, Guatemala, Honduras, Paraguay, Trinidad and Tobago, Uruguay, and Venezuela.

BOX 1: SELECTED INDIAN BUSINESS SUCCESS STORIES IN LAC

Mahindra – Driving to LAC

With India's emergence on the global manufacturing stage, *Made in India* products are increasingly gaining acceptance across geographies. The automobile sector is one of the key sectors of the *Made in India* initiative. Mahindra's journey in LAC began in the 1990s with shipments to Paraguay and has been expanding its presence across the continent since.

Chile, Peru, Colombia, Guatemala, Ecuador, Paraguay, Costa Rica, and The Caribbean are Mahindra's key markets in the region, with more than 100 dealerships and over 50 000 vehicles on the road. Chile represents Mahindra's largest market and has more than 50 dealerships and 30 000 vehicles. There are two key components to the company's success in Chile. On one hand, its partnership with Gildemiester Group—among the top automobile distributors in Chile—has proven fruitful as it has provided access to final consumers. On the other hand, a marketing campaign featuring Pablo Quintanilla, a Chilean motorcyclist specialized in Enduro and Rally Raid racing, has brought brand recognition. Mahindra is growing its national footprint and has an important customer base that is satisfied with the quality of its products.

Furthermore, Mahindra's farm equipment business also has a significant presence in LAC. It is well represented in Brazil, Mexico, Paraguay, The Caribbean, Bolivia, and Ecuador.

Glenmark – A Global Hub in Argentina

Glenmark's presence in LAC started by exporting products to Caribbean countries. Nowadays their presence in the region is wide. Glenmark's key markets are Brazil, Mexico, and Argentina, and the firm also caters to Colombia, Ecuador, Peru, and Venezuela.

Glenmark not only sells products in the region, it also owns a manufacturing plant. The company opened an oncology manufacturing center in the outskirts of Buenos Aires, Argentina, in 2011, which serves as its global hub for oncology products. The process began in 2005 with Glenmark's acquisition of an Argentine oncology company, Servycal S.A. The firm's strategic intent is to emerge as a formidable player in the global oncology segment and this facility is envisaged to serve as a global hub for the organization. Accordingly, Glenmark's product portfolio focuses on a mix of unique *first to file* opportunities as well as pure commodities to maximize market reach and return on investment.

(continued on next page)

BOX 1: SELECTED INDIAN BUSINESS SUCCESS STORIES IN LAC *(continued)*

Godrej – Expanding through Acquisitions

Godrej Consumer Products set foot in Argentina with the acquisition of two national cosmetics companies in 2010: Laboratorio Cuenca S.A. and Argencos S.A. Two years later they landed in Chile, acquiring Cosmética Nacional. They focus on home care, personal wash, and hair care products. In line with the Godrej Group’s goals, Latin America is expected to contribute to its growth by increasing its operations in dollars fivefold over the next five years. This expansion will be supported by an aggressive strategy of organic growth not only in Argentina, but also in Chile and other countries of the region.

Mahindra Comviva – Connecting the World

Its solutions are deployed by over 130 mobile service providers and financial institutions in over 90 countries. In January 2016, the company acquired a controlling stake in Advanced Technology Solutions (ATS), a leading provider of mobility solutions to the telecom industry in Latin America to strengthen its in-region presence.

TABLE 3: FDI EQUITY OUTFLOWS OF LAC IN INDIA
(US\$ millions, April 2000 to December 2018)

Country	Accumulated FDI	Share in total India Inward FDI
Chile	151.93	0.04%
Mexico	132.88	0.03%
Panama	45.74	0.01%
Bahamas	40.66	0.01%
Brazil	62.96	0.01%
Argentina	32.94	0.00%
Belize	22.65	0.00%
Other LAC countries	15.49	0.00%
Total	505.25	0.10%

Source: IDB Integration and Trade Sector with monthly data from the Ministry of Commerce and Industry of India.

BOX 2: SELECTED LATIN AMERICAN BUSINESS SUCCESS STORIES IN INDIA

Marcopolo – Exploring New Frontiers

Partnerships are one of the approaches that Latin American companies are exploring to enter foreign markets and position themselves there. This was the approach that Brazilian bus manufacturer Marcopolo decided to take in 2006, when it entered into a joint venture with Indian counterpart Tata Motors. The partnership has since grown and it now operates two plants with a production capacity of more than 12,000 vehicles per year.

“In the late 1990s, Marcopolo made a strategic decision to internationalize its operations by opening plants to manufacture buses and other transport solutions in major global markets. The sheer size of India and its population immediately pointed to it being a key destination for the company,” says André Armaganijan, Marcopolo’s director of international business strategy, in an interview with IDB.

Through the new agreement, Marcopolo, which owns 49% of the new company, and Tata Motors, which has a 51% stake, now manufacture urban and long-distance buses and minibuses that are not only sold in India but also exported. Marcopolo was already operating in Latin America, Europe, Africa, and the Middle East, but this deal has raised its global profile.

“India is one of the world’s largest vehicle markets by volume. Although most of the models we make there are small vehicles with low value-added, it’s an important market because it also supplies neighboring countries and helps build Marcopolo’s presence in other major markets,” Armaganijan adds.

According to Armaganijan, one of the key challenges to operating in India “are the cultural differences between the two markets and the people who work in them. Understanding the culture of the countries where you want to operate is fundamental to succeeding. It’s the only way you can hope to achieve your company’s global goals.”

Another challenge, he says, “was implementing Marcopolo’s concepts, technologies, and processes abroad. For us to use the same processes in all our factories and maintain high quality, efficiency, and productivity standards, we needed to standardize our operations around the globe.” Armaganijan adds that “getting to know the local market and customers’ needs and wishes is another key challenge.”

(continued on next page)

BOX 2: SELECTED LATIN AMERICAN BUSINESS SUCCESS STORIES IN INDIA

(continued)

Resemin – Mining the Export Market

Resemin was founded in Peru thirty years ago and has spent the last seventeen specializing in the manufacture of drilling rigs for underground mining. In 2006, it set an export strategy in motion that allowed it to reach the Indian market in 2017. Last year, Resemin began to expand its presence in the country after signing an agreement with Gainwell, Caterpillar's Indian distributor. Its main goal in India is achieving 50% annual growth in the coming years.

In a conversation with the IDB, Resemin's regional sales manager Alejandro Chávez explained the potential of the Indian market. "It's a country that's experiencing high, rapid growth rates," he says. "Many industries, including mining, are expanding. Our competitors are already operating in the country and there is demand, which makes it easier for us to enter the market."

Is there a secret to reaching international markets? Chávez said that what sets Resemin's machinery apart is innovation. "In 2015, we launched the narrowest drilling rig in the world, the Muki. Although we make the same products as our competitors, we provide greater value added. Our equipment is easy to operate and to maintain, two fundamental factors in underground mining, which takes place in a complex, hostile working environment: you might be operating 800 meters below the surface at very high temperatures."

The goal is steady growth. "What we do in each country is to find a dealer we can work with, because this reduces the cost and risk of entering a new market." Operating in India has brought some challenges, mainly due to language barriers, cultural differences, and time zones' distance.

Nevertheless, Chávez said that it was easy to reach an agreement with an Indian distributor. "The whole process only took a week, even though these things often take months. We found our counterparts to be friendly, open, and keen to do business," he explained. "The conference calls were at midnight or in the early hours of the morning, which was tricky, but we made it work. The experience has been extremely positive."

(continued on next page)

BOX 2: SELECTED LATIN AMERICAN BUSINESS SUCCESS STORIES IN INDIA

(continued)

Softtek – Nearshore Meets Offshore

Softtek is a leading Mexican software development, IT consulting, and business process outsourcing company. In 2013, it entered the Indian market after acquiring Systech Integrators. This strategic decision enabled Softtek to transform its business model by incorporating an offshore services scheme.

“Softtek’s SAP solutions capacities benefited significantly from Systech’s expertise and its delivery center in India. Through this acquisition, our workforce gained 2000 consultants who brought with them experience on over 800 implementations. It was a strategic step that brought an offshore component to our nearshore business model,” says Mauro Mattioda, CEO of Softtek Hispanic South America.

Founded in 1982 in Monterrey, Mexico, as a small IT services company, Softtek has grown substantially in North America, Latin America, Europe, and Asia. From its headquarters in Bangalore, Softtek India covers the entire range of IT solutions and services. This global solutions center primarily serves Softtek customers in North America, but also in Latin America and Europe.

The decision to expand into India has brought many positive outcomes, Mattioda said, although cultural integration was a challenge. “Bangalore is known as India’s Silicon Valley. The sheer quantity and diversity of the talent we gained was undoubtedly a challenge because of the cultural differences. However, six years on, I can also say that we found a lot of common ground. Our India office respects local identity but still reflects Softtek’s unique culture, which really transcends borders.”

Since Softtek set up its operations in India, the dynamics of the global software and IT services market have changed. “Fifteen years ago, the IT services industry shifted toward an offshore services model in which ‘offshore’ was synonymous with India. India’s success led other countries and companies, like Softtek, to position themselves as alternative or complementary solutions. Today, we tend to talk more about global services and less about offshoring, as the benefits of these alternative or complementary solutions are well-established.”

(continued on next page)

BOX 2: SELECTED LATIN AMERICAN BUSINESS SUCCESS STORIES IN INDIA

(continued)

Now that the initial growth phase is over, Softtek's Indian subsidiary recently moved to a new purpose-built facility. "Softtek India has experienced significant growth," Mattioda notes. "We hope to continue along this growth path and help the company reach unprecedented heights."

SalaryFits – Promoting Financial Inclusion and Employees Empowerment

This Brazilian company tackles the underbanked market. Its innovative infrastructure enables a different range of financial providers to digitally engage employees and offer them significant lower costs on their transactions. With employees' commitment in repaying the products via salary deduction, SalaryFits actually creates a win-win scenario in which employees have access to a pool of financially sustainable products that they would not otherwise have access to.

With operations in seven countries, SalaryFits has found a promising environment for promoting innovation and inclusion in India. "Since 2015, when we had the first interaction with the Indian market, we realized that we had an opportunity to reach significant scale and to improve the financial life of millions of people" said Renato Araujo, SalaryFits Chairman and Founder.

Through SalaryFits' platform, more than 20 million families worldwide have had access to fair finance, and to products such as loans, insurance, investment, and health care, among others. The company controls more than US\$ 19 billion in outstanding balance of products, from more than 80 different financial institutions in India, Brazil, UK, Mexico, Italy, Portugal, and Spain.

In India, the company is already at the forefront of the intersection between the Fintech and HRtech, and its innovative proposition has attracted the attention of the market. It has been nominated for various awards and has announced partnerships that already allow the company to reach more than 200 000 employees.

"We are extremely happy to see that our approach has been quite a fit for India. Our current footprint is a clear indication of that but no doubt that we will contribute even more significantly to the promotion of financial inclusion in India," concludes Mr. Araujo.

(continued on next page)

BOX 2: SELECTED LATIN AMERICAN BUSINESS SUCCESS STORIES IN INDIA

(continued)

Techint and Globant – Expanding the Argentinian Footprint in India

Argentinean companies are expanding quickly in the Indian market. Techint set up a new office at the end of 2009 to perform detail engineering, including 3D modeling engineering services for power plants, refineries and oil and gas projects. Currently, about 180 people are employed at the Mumbai office covering HSE-engineering, mechanical, piping, electrical, instrumentation, civil, and project engineering. Likewise, Globant signed an agreement to acquire Clarice Technologies in 2015 to reinforce its focus in user experience, design, and technology. By acquiring a company with operations in India, Globant expanded its delivery capabilities for the first time out of the Americas.

Regulatory Framework

The regulatory framework governing trade and investment relations between LAC and India is still relatively modest compared to the proliferation of free trade agreements between LAC and other Asian countries in the last two decades. The upward trend is nevertheless a testament of the political will to provide to the private sector a rules-based environment in which business can thrive.

The Preferential Trade Agreement (PTA) signed between India and MERCOSUR came into effect in 2009. Under the PTA, India and MERCOSUR have agreed to fixed tariff preference concessions ranging from 10% to 100% to the other side on 450 and 452 tariff lines respectively, equivalent to about 3% of the tariff lines.⁶ The two sides have raised their ambitions manifold and are now aiming at providing preferential access to about 3 000 items and at updating trade regulatory standards.

⁶ The major product groups covered in the offer of MERCOSUR are food preparations, organic chemicals, pharmaceuticals, essential oils, plastics and articles thereof, rubber and rubber products, tools and machinery items, electrical machinery and equipment. The major products covered in the Indian offer list are meat and meat products, inorganic chemicals, organic chemicals, dyes and pigment, raw hides and skins leather articles, wool, cotton yarn, glass and glassware, articles of iron and steel, machinery items, electrical machinery and equipment, optical photographic and cinematographic apparatus.

Negotiations with Chile reveal the mutual intention to deepen the limited scope of the trade agreements of the past. Under a PTA signed in 2006 India had offered fixed preferences ranging from 10% to 50% on 178 tariff lines, and Chile offered a similar range of tariff preferences on 296 items. However, under the terms of a new agreement that came into effect in 2017 after a five year-long negotiation, the coverage has been expanded to 2 099 tariff lines with preferences in the range of 30–100% in Chile and to 1 100 items with duties 10–100% lower than the multilateral import duties in India.⁷ The new negotiation also upgraded sanitary/phytosanitary and technical standards, and modernized the rules of origin.

Other LAC countries are now trying to follow suit. In the wake of granting to India the observer status in the Pacific Alliance, the negotiation of a full-fledged free trade area between Peru and India has started in earnest. Negotiations, which have already completed the fourth round, cover not only tariffs and trade regulations, but also investment, dispute settlement, trade facilitation, and the movement of people. Likewise, Colombia, Ecuador, and India have expressed interest in pursuing similar ambitious agreements, although no date has been set to start negotiations.

Specific instruments to promote bilateral investment are also relatively limited. The only Bilateral Investment Treaty (BIT) of India with a Latin American country is currently in force with Mexico since 2009. The BITs with Argentina and Uruguay have expired and have not been renewed, although the trade agreement with MERCOSUR contains some provisions on investment, whereas an agreement signed with Colombia in 2009 has not yet entered into force. Governments are aware of these limitations and have taken steps forward. For instance, India has recently approved a reform of the investment regime that widens the list of

⁷ The major product groups covered in India's offer are meat and meat products, fish and fishery products, vegetable oils, iron ore and copper ores and concentrates, organic and inorganic chemicals, pharmaceuticals, washing preparations, plastic and rubber articles, articles of iron and steel and articles of wood and paper. The major product sectors covered in Chile's offer are agricultural products, organic and inorganic chemicals, pharmaceuticals, plastic and rubber articles, textiles, apparel, articles of iron/steel and copper, machinery and equipment.

sectors in which incoming FDI does not require official approval (automatic route). Likewise, in countries such as Argentina and Brazil efforts to attract foreign capital in large investment projects are underway.

The pursuit of formal trade and investment arrangements is also complemented by several initiatives aiming at bringing the private sector together. For example, a cell in the India Trade Promotion Organisation has been created to act as a Centre for Trade Development with the LAC region. Likewise, the Federation of Indian Chambers of Commerce and Industry and the Associated Chambers of Commerce of India have increased interactions with their counterparts and now hold meetings of the Joint Business Councils at regular intervals. The Confederation of Indian Industry also has stepped-up the cooperation with their counterparts in LAC with whom they have signed Memoranda of Understanding.

As all these initiatives indicate, the awareness of the Indian private sector on LAC emerging markets is on the rise. This awakening has provided fresh incentives to policymakers to revive contacts at the official level. For example, the meetings of the Joint Commissions or Councils existing between India and eight countries in LAC are held on a regular basis. Efforts are now underway to set up consultative machineries with other major countries in the region with a view to enhancing two-way trade. These bilateral efforts are complemented with the recent revival of the India-Brazil-South Africa Trilateral Commission, known as the IBSA Forum, which clearly underscores the strategic importance of closer relations between India and LAC to strengthen South-South cooperation.

The review of the trade and investment flows and of the regulatory framework in which they have grown in the last two decades suggest that the two subcontinents have just scratched the surface of their potential. The next sections provide an estimate of such potential and highlights the low hanging fruits for the private sector.

EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)



What Are the Costs of Trading?

Despite the vibrant growth experienced throughout the last decade, the LAC-India commercial relation is still punching below its weight. This section provides an overview of the barriers that are currently holding back bilateral trade.

Overall Trade Costs

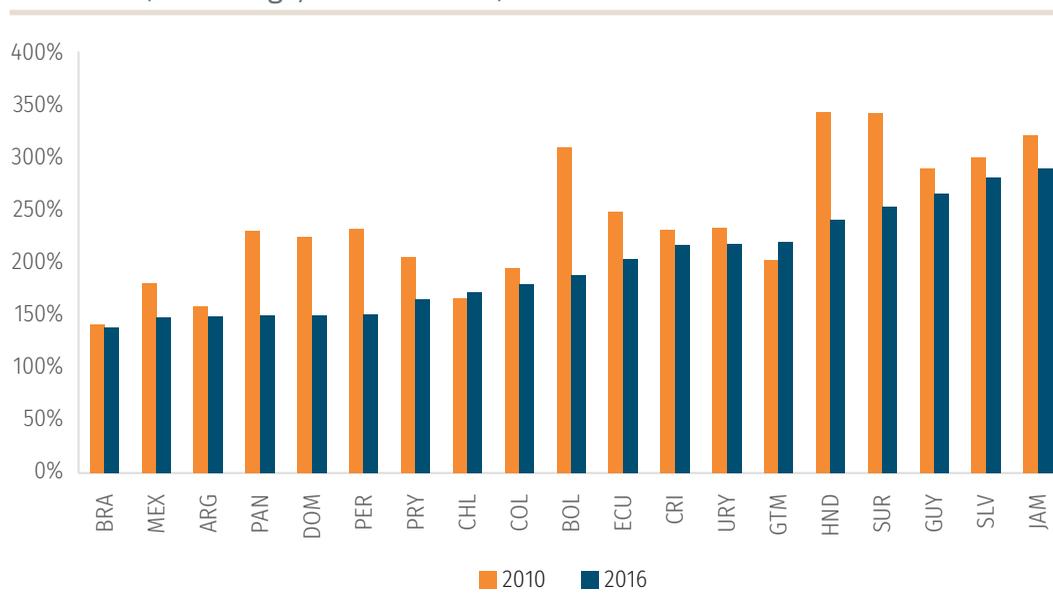
The costs of trading goods between LAC and India represent a hefty barrier that needs to be reduced in order to deepen economic ties and reap trade gains. Trade costs are driven by tariffs, non-tariff barriers (NTBs), and inefficiencies along transport and logistics routes. Fortunately, policymakers have tools at their disposal to reduce each and every trade cost component. For example, trade liberalization would help lower tariffs and lift NTBs, investing in infrastructure would bring down transportation costs, while trade facilitation may slash logistics costs.

Bilateral total trade costs between LAC and India averaged 198% in 2016.⁸ Since 2000, they have been steadily decreasing at an annual average rate of 2.7%, a much faster pace than elsewhere in Asia (Korea: -1.2%; ASEAN: -0.5%; Japan: +0.5%). However, there is wide country heterogeneity, driven by the weight-to-value ratios of the exported basket, differences in the transport modalities (sea or air), or the asymmetric incidence of trade barriers. The cost of trading between India and Brazil, Mexico, and Argentina is the lowest, at 138%, 147%, and 148%, respectively. In contrast, the cost of doing business with Jamaica, El Salvador, and Guyana is near to prohibitive (289%, 280%, and 265%, respectively), which might explain why trade between India and many LAC countries is virtually non-existent (Figure 5).

⁸ As comprehensive primary data on bilateral LAC-India costs are not available, this section relies on econometric estimates. Bilateral total trade costs expressed in *ad valorem* terms refer to the trade cost with respect to the value of the traded good. Total trade costs between India and LAC as a region reflect the average costs among country pairs. Estimations were performed by the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) and the World Bank based on a gravity model. For details see Arvis, J. *et al.* (2013), *Trade Costs in the Developing World: 1995–2010*, The World Bank.

What Are the Costs of Trading?

FIGURE 5: BILATAREAL TOTAL TRADE COSTS BETWEEN INDIA AND LAC SELECTED COUNTRIES
(Percentage, 2010 and 2016)



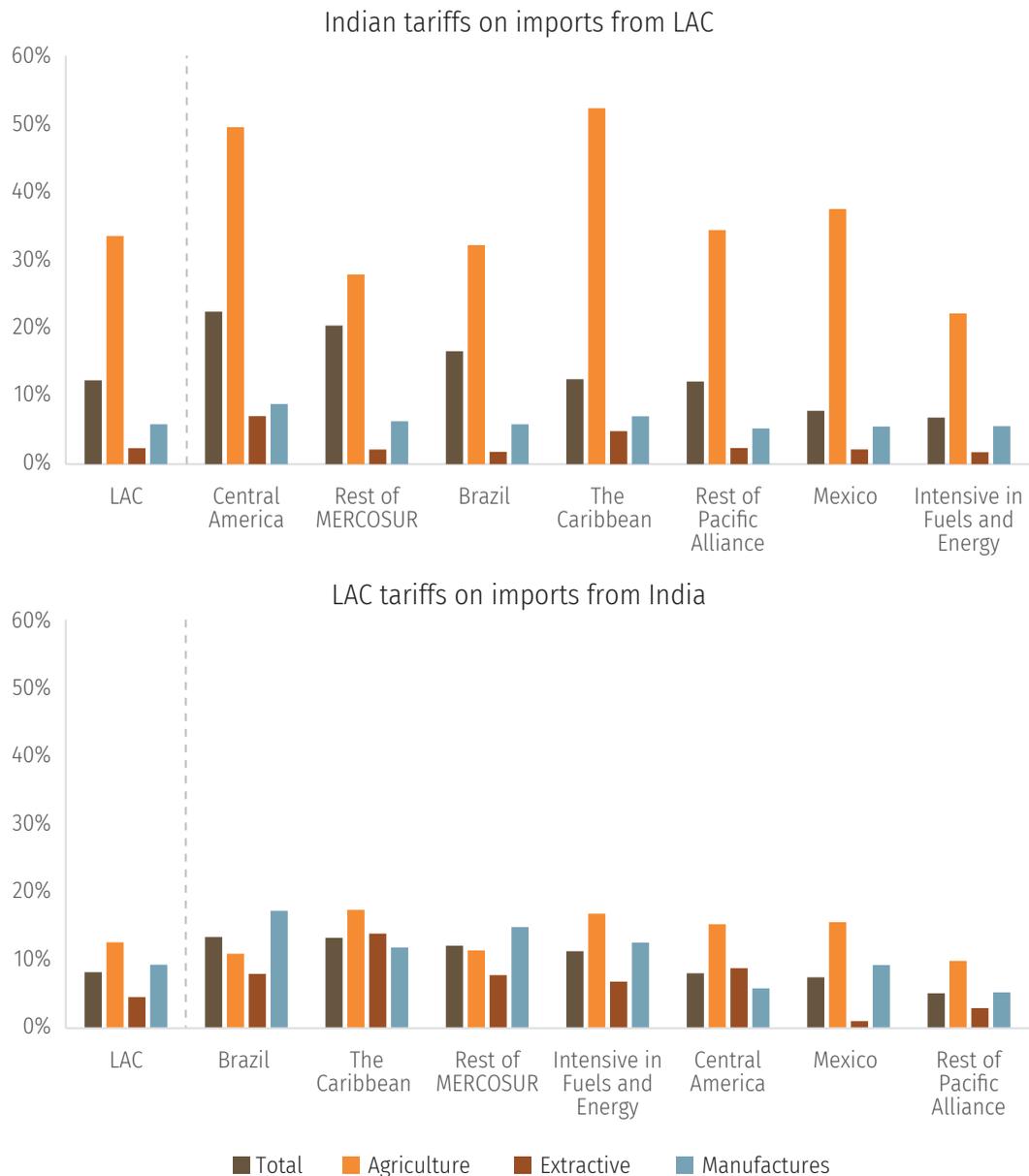
Source: IDB Integration and Trade Sector with data from UN ESCAP-World Bank Trade Cost Database.
Note: Total trade cost is *ad valorem*. Only LAC countries with data for both years are included.

Trade Tariffs

Tariff costs between LAC and India represent the most immediately visible part of total trade costs. Trade-weighted tariffs reflect the restrictiveness on the partner's export supply. Duties faced by LAC exporters in India are of 12.3% on average, whereas in LAC the corresponding average rate is lower (8.1%).⁹ Nevertheless, while average tariffs provide a general overview of market access barriers between LAC and India, there is wide variation at the bilateral and sectoral levels (Figure 6).

9 The tariff database used is a joint CESifo Group-World Bank effort following the methodology of Felbermayr, G. *et al.* (2018), On the Profitability of Trade Deflection and the Need for Rules of Origin, CESifo Working Paper No. 6929. This report considers only the *ad valorem* duties and does not take into account the *ad valorem* equivalents of other protection measures such as specific duties or tariff-rate-quotas, that are included in the database.

FIGURE 6: BILATERAL TARIFF COSTS BETWEEN LAC AND INDIA
(Trade weighted percentage, 2016)



Source: IDB Integration and Trade Sector with data from CESifo Group and World Bank.

Note: Tariffs are reported as trade-weighted averages across products and countries. Bilateral tariffs at the 6-digit level are aggregated taking into account: i) for each exporter, its export structure to the world, ii) for each group of exporters, the weight of each country into the group exports to the world; and iii) for each group of importers, the share of imports from the world of each country of the group over the total of imposing countries.

What Are the Costs of Trading?

Among LAC exporters, the group of countries intensive in fuels and energy (6.8%) and Mexico (7.8%) face the lowest average tariffs in India.¹⁰ The Rest of the Pacific Alliance and The Caribbean follow with tariffs of 12.1% and 12.5%, respectively. Brazil experiences rates higher than the average for LAC (16.6%), and the sub-regions where India imposes the highest tariffs are the Rest of MERCOSUR (20.4%) and Central America (22.4%).

India faces tariffs that range between 5.0% imposed by the Rest of the Pacific Alliance to 13.3% imposed by Brazil. Mexico and Central America are below average (7.4% and 7.9%, respectively), while countries intensive in fuels and energy, the Rest of MERCOSUR, and The Caribbean impose tariffs to India that are above the regional average (11.1%, 12.0%, and 13.2%, respectively).

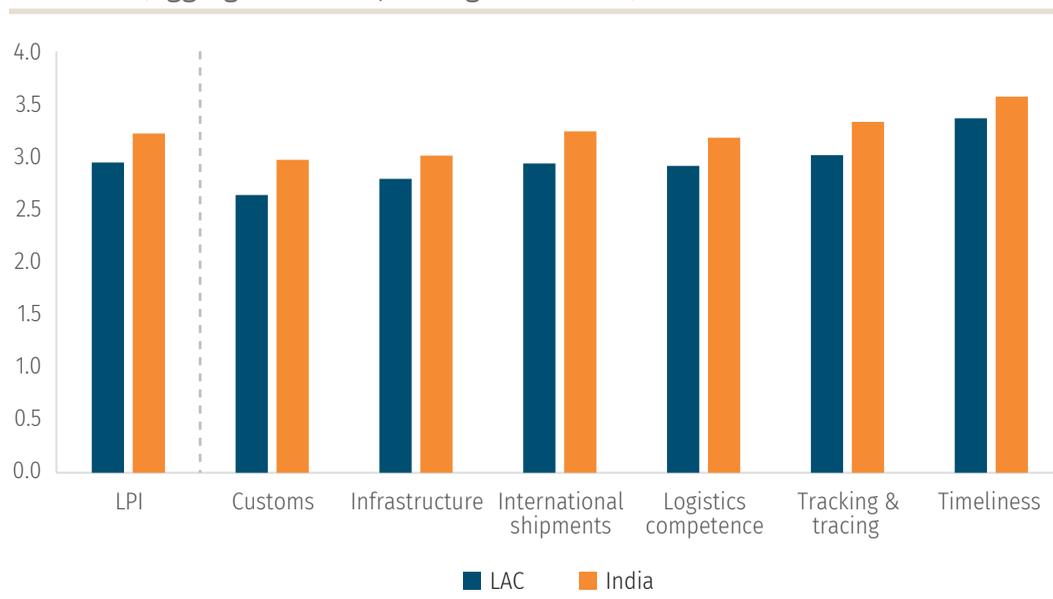
At the sectoral level, LAC countries face high tariffs in agriculture, where country-specific trade-weighted average duties range from 20% to 98%. Around two thirds of agricultural products face tariffs exceeding 30%, particularly in coffee, beverages, and spirits. Tariff-rate quotas are used on products such as corn, sunflower seed oil, rubber, and milk. Likewise, LAC exporters face a great deal of uncertainty as effective rates may be adjusted frequently, including due to the high frequency of *non-ad-valorem* rates. Conversely, in LAC, India faces a more uniform structure of protection by countries and sectors. While in countries such as Brazil, Argentina or Uruguay tariffs are relatively high in manufactures, in others—for example Mexico, Colombia or Central America—India faces tariffs particularly restrictive in agriculture.

Logistics Costs

In addition to trade tariffs, NTBs or transport and logistics costs are large components of total trade costs. There are no direct measures

¹⁰ For presentation purposes, indicators are reported separately for Brazil and Mexico, and the remaining economies in the region are grouped as follows: Central America (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama); Rest of MERCOSUR (Argentina, Paraguay, and Uruguay); Rest of the Pacific Alliance (Colombia, Chile, and Peru); Intensive in Fuels and Energy (Bolivia, Ecuador, and Venezuela); and The Caribbean (Bahamas, Barbados, Belize, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago).

FIGURE 7: TRADE LOGISTICS PERFORMANCE INDEX
(Aggregated index, average 2012-2108)



Source: IDB Integration and Trade Sector with data from the World Bank.

Note: Regions are constructed as weighted averages by total trade. Years include 2012, 2014, 2016, and 2018, and the aggregation is provided by the data source, giving higher weights to more recent years. LAC does not include Belize, Barbados, and Suriname, due to data availability.

available to quantify the impact of these factors on total trade costs but the Logistics Performance Index (LPI) offers some perspective on how different countries fare in terms of logistics.¹¹

India performs better than LAC on all components of the LPI index (Figure 7). On aggregate, the index for LAC is 91% of the corresponding to India. The largest gap is found in the efficiency of customs. Bureaucracy can be cumbersome, and containers can be grounded for several days, increasing storage costs and causing delays. Trade facilitation mechanisms, as the implementation of

11 The index combines six indicators, grouped into inputs and outputs of the supply chain. The first category includes three areas related to policy regulations, which are the efficiency of customs, the quality of infrastructure related to trade and transport, and the quality of logistics services. The second focuses on service delivery performance and consists of the ease of access to competitively priced international shipments, the ability to track and trace shipments, and the frequency with which shipments reach consignees within the expected delivery time. For more details see Arvis, J. *et al.* (2018), *Connecting to Compete: Trade Logistics in the Global Economy*, The World Bank.

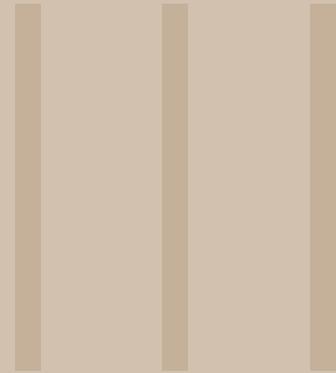
What Are the Costs of Trading?

trade single windows, may speed up customs formalities and, in turn, reduce trade costs. On the other hand, the narrowest gaps are found in timeliness and infrastructure. However, both regions are still far from the frontier set by the European Union and the United States, and there is still a lot to be done to enhance trade logistics.

At the country level, the logistics performance is quite heterogeneous. Chile and Panama rank 40 and 41 out of 167 countries, and India follows right after at 42. Mexico also performs well, at the top third of the world distribution, and countries like Brazil, Argentina, Ecuador, Colombia or Peru are at the top half. In contrast, countries intensive in fuels and energy as Venezuela and Bolivia perform poorly, at positions 135 and 136, respectively. Haiti is at the bottom of the list, placed at 166. The heterogeneity among countries shows that there is room for improvement within the region.

In sum, high trade costs represent a significant obstacle to a prosper trade relation between LAC and India. An essential question to ask is how a decrease in such costs would impact trade flows. The next section presents an estimation of the trade potential that can be unlocked with a mix of policy instruments at disposal of government officials and outlines some market opportunities that the private sector may pursue to upgrade current export patterns.

EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)



How Much Can Bilateral Trade Grow?

Slashing trade costs has the potential of expanding and diversifying bilateral commerce. In order to quantify such potential, a computable general equilibrium model simulation undertaken for this report allows to assess the impact on bilateral exports of three complementary drivers of trade cost reduction:¹² i) preferential tariff liberalization assumes the complete elimination of lower bilateral tariffs and non-linear reductions of tariff peaks in the most sensitive products; ii) the reduction of transport costs assumes a drop in the bilateral cost of shipping goods across the ocean; and iii) the contraction of logistics costs assumes a reduction of trade frictions due to inefficiencies in trade logistics and other regulatory red tape.¹³

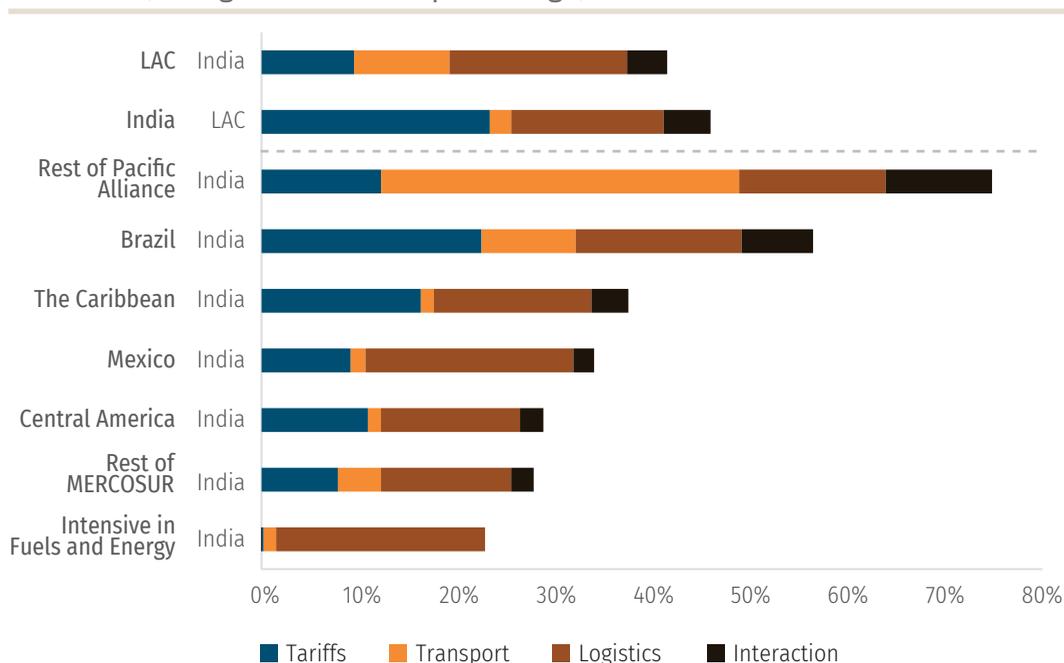
Export Potential

The simulated reduction of trade costs may significantly boost bilateral trade. LAC exports to India may grow by 42%, while Indian exports to the region may do so by 46% (Figure 8). In current value, such trade expansion represents US\$ 7.6 billion and US\$ 8.6 billion, respectively. LAC exports to India may grow from a minimum of 23% in the case of the energy exporters, to a maximum of 75% in Chile, Peru, and Colombia, which belong to the Rest of the Pacific Alliance. The largest export gains may be seen in Chile (+88% or US\$ 2.1 billion) and Brazil (+56% or US\$ 1.9 billion). On the other hand, the range of Indian export growth varies between 24% in The Caribbean and 76% in Mexico, with the largest gains to be accrued in Brazil (+42% or US\$ 3.7 billion) and Mexico (+76% or

12 Technical details and references are available upon request. The model does not capture all sources of trade gains, such as those arising from the removal of NTBs, of barriers to trade in services or from greater competition, innovation and productivity. As such, it should be considered as a lower bound to potential trade gains and is more illustrative of the variations of gains across different categories of trade costs than of their absolute value.

13 Technically, the reduction of trade costs is modeled with a static computable general equilibrium model that considers three simultaneous shocks. Trade liberalization assumes a complete phase-out of all tariffs below 50%, a 50% reduction of tariffs between 50% and 100%, and a 25% reduction of tariffs higher than 100%. The reduction of transport costs is modeled as a 15% reduction in the transport margin, reflecting a contraction in the cost of transport services required to ship a unit of a given good from the exporting to the importing country. The reduction of logistics costs is modeled as a 33% drop of the iceberg-type costs incurred by traders. Iceberg costs are modeled as a non-revenue generating wedge. For instance, if trade costs are equal to 15% in a given bilateral trade route, that means that if 100 units leave the origin, only 85 units will reach the destination. As these costs are set at 15% of the value of trade in the baseline, the simulations assume a reduction of 5 percentage points.

FIGURE 8: IMPACT OF THE REDUCTION OF TRADE COSTS ON BILATERAL EXPORTS
(Change from base in percentage)



Source: IDB Integration and Trade Sector own computable general equilibrium model estimates.

US\$ 1.3 billion). Notably, the simulations reveal that while trade liberalization may bring gains to both regions, investment in infrastructure and, particularly, trade facilitation reforms to reduce logistics costs are necessary complementary policies to seize these gains from trade, both in LAC and in India.

Bilateral trade expansion may be driven by different sectors in each country (Table 4). The mining and food sectors emerge as the main potential winners across LAC. In mining, the countries of the Rest of the Pacific Alliance lead the region with an expansion in exports of US\$ 2.3 billion, followed by the intensive energy exporters (US\$ 1.4 billion) and Brazil (US\$ 0.8 billion). In the food industry, Brazil is the main potential winner (US\$ 554 million), followed by the Rest of MERCOSUR (US\$ 271 million). In manufacturing

TABLE 4: IMPACT OF THE REDUCTION OF TRADE COSTS ON BILATERAL SECTORAL EXPORTS
(Change from base in US\$ millions and percentage)

	Mexico		Central America		Rest of Pacific Alliance		Brazil		Rest of MERCOSUR		Intensive in Fuels and Energy		The Caribbean		LAC		India	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Agriculture	9.86	263	55.36	55	88.77	223	23.83	125	44.25	111	14.19	40	16.29	70	252.55	96	85.39	48
Mining	304.34	25	0.28	26	2,298.44	80	810.76	56	3.67	89	1,384.42	23	114.15	57	4,916.07	41	26.90	83
Food	7.94	143	12.30	150	18.55	197	553.97	144	270.97	25	3.38	147	13.49	219	880.61	58	126.52	70
Textiles	2.15	101	2.44	127	4.69	92	3.86	112	12.63	73	0.19	56	1.52	124	27.48	87	1,489.83	95
Apparel	0.27	107	2.15	72	1.97	112	0.61	79	1.12	48	0.21	45	3.79	84	10.12	78	868.83	169
Petrochemicals	61.08	48	6.41	56	57.28	49	88.24	58	13.89	57	12.90	44	34.04	54	273.86	52	2,727.70	28
Vehicles	60.80	102	7.49	65	0.47	52	49.47	67	0.81	55	0.33	65	16.02	89	135.39	81	1,428.65	101
Machinery	156.78	47	26.67	30	7.38	62	108.19	65	18.64	68	0.28	69	29.80	65	347.74	52	876.49	68
Oth. Manufactures	96.99	58	15.82	60	43.61	51	215.53	53	32.61	58	9.83	52	33.95	61	448.34	55	765.18	65
Trade	0.39	13	2.39	13	2.92	12	4.52	13	2.50	13	0.38	13	4.89	13	17.99	13	10.21	10
Transport	2.04	12	22.07	12	17.33	12	10.45	12	8.25	12	3.07	12	15.80	12	79.02	12	46.86	10
Services	21.49	13	18.29	13	13.53	12	87.94	13	25.35	13	2.31	13	33.02	13	201.94	13	202.89	10
Total	724.13	34	171.68	29	2,554.95	75	1,957.37	57	434.71	28	1,431.50	23	316.77	38	7,591.11	42	8,655.44	46

Source: IDB Integration and Trade Sector own computable general equilibrium model estimates.

sectors, Brazil also stands out with an expansion of exports in other manufactures (US\$ 216 million) while Mexico leads in machinery (US\$ 157 million).

However, these figures reflect both the asymmetry in the relative size of LAC countries and the sectoral concentration of current export flows to India. The analysis of the trade impact in relative terms, reveals other significant trade opportunities ahead. For example, in the agri-food industry small exporters to India, such as Mexico or the countries of the Rest of the Pacific Alliance, may see their shipments grow up to 260%. Likewise, some LAC traders may see their exports of textiles and apparel to India double. In heavy manufactures, other LAC countries may experience export growth rates in excess of 50%.

India emerges as the country with the most significant overall boost to bilateral trade. The largest gains are in the petrochemicals (US\$ 2.7 billion) and vehicles (US\$ 1.4 billion) sectors, which already account for a large share of exports to LAC. However, in relative terms, the expansion in apparel (169%) and in textiles (95%) dwarfs the effects in any other industry. Meanwhile, albeit starting from a low base, trade expansions may be recorded in industries as diverse as mining (83%), other manufactures (65%), and machinery (68%).

Finally, although the focus of the analysis is placed on merchandise trade, it is worth noting that bilateral trade in services sectors would also grow, albeit slowly, in all country groups. While the impact is slightly larger in LAC (13%) than in India (10%), in absolute terms bilateral exports may grow by about US\$ 200 million in each direction.

Business Opportunities

These scenarios inform policymakers on the effects of the different components of a policy agenda to bolster bilateral trade relations. However, their aggregation prevents the identification of specific markets that may be relevant from a private sector perspective. An assessment of trade complementarity among LAC countries and India allows a more direct view of the most immediate business opportunities. Moreover, as opposed to the simulations

reported above, the complementarity analysis can reveal trade opportunities when current bilateral trade flows do not yet exist or are underdeveloped.

Trade complementarity measures the degree to which the sectoral export pattern of one country matches the sectoral import structure of a trading partner. Complementary products are those that are being exported by one country to the world, are concurrently imported by the partner from the world, but are not necessarily traded between them. Opportunities for LAC and India can be assessed with the number of products and the value of imports of the partner for which there is trade complementarity. In order to zero-in on the most salient business opportunities, several conditions are applied in sequence.¹⁴

The least restrictive condition allows to focus on products imported and exported by the two regions in significant amounts to and from any country of the world. This subset of *significant* complementary products includes 390 and 677 items with potential for LAC and India, respectively (Table 5). Taking into consideration the whole import market of the partner, these products are worth US\$ 290 billion and US\$ 580 billion, respectively.

An additional condition restricts the universe of complementary products to items that displayed above-average growth in the import market of the partner between 2012 and 2017. This group of *dynamic* complementary products includes 214 and 388 items with potential, worth US\$ 75 billion and US\$ 312 billion for LAC and India, respectively.

Considering that in the short run the demand of the partner may be set and that in order to increase trade flows exporters need to dispute

14 The complementarity measure is calculated at the product level (six digits of the Harmonized System 1996 for the year 2017). The conditions applied in sequence are the following: i) total products: only products that the importer imports (from somewhere in the world) and that the exporter exports (to somewhere in the world) in any positive amount; ii) “significant” products: only products that represent at least 0.01% of total imports/exports; iii) “dynamic” products: only products growing in the importing and exporting country (between 2012 and 2017) at a pace faster than the average; and iv) “attractive” products: only products where the share of the exporter in the destination market is lower than 5%, which implies that there is room to grow the market share.

TABLE 5: COMPLEMENTARY PRODUCTS FOR INDIA-LAC TRADE
(Number of products and US\$ billions, 2017)

	Opportunities for LAC		Opportunities for India	
	Imports of India		Imports of LAC	
	Number of Products	Value (US\$ billions)	Number of Products	Value (US\$ billions)
Actual Bilateral Trade	1,936	22.2	3,430	13.3
Total Complementary Products	4,509	416.3	4,624	880.7
<i>Significant</i> Complementary Products	390	290.4	677	579.6
<i>Dynamic</i> Complementary Products	214	74.6	388	311.7
<i>Attractive</i> Complementary Products	192	68.8	328	262.8

Source: IDB Integration and Trade Sector with data from BACI (CEPII).

Note: The definition of complementarity and details regarding the conditions applied are found in footnote 14.

markets to competitors, a third condition includes the market share dimension. *Attractive* complementary products thus restrict the universe to items in which the current market share is low, suggesting that there is scope for expansion in the foreseeable future. This group includes 192 and 328 products which are worth US\$ 69 billion and US\$ 263 billion for LAC and India, respectively. It is striking to note that current bilateral exports are well below this measure of the trade frontier, standing at 32% in the case of LAC and 5% in India.

A few examples of the top twenty *attractive* complementary products illustrate concrete trade opportunities from a business perspective. Among the items where LAC may expand its participation in the Indian market, electrical devices stands out (Table 6). For example, telecommunication devices represent a market of US\$ 7.5 billion, of which LAC only controls a share of 4.3%. LAC, Mexico in particular, exports to the world US\$ 12.8 billion of these items, which suggests that it has a large productive capacity and is potentially in a position to increase its participation in the Indian market. There are also opportunities within mineral fuels, with Indian coal imports of US\$ 5.0 billion, a LAC share of only 1.1%, and exports to the world of US\$ 6.9 billion (mainly from Colombia). Another example of

TABLE 6: TOP 20 ATTRACTIVE PRODUCTS FOR LAC
(US\$ billions and percentage, 2017)

HS Code	Description	Value of LAC Exports to the World	Value of India Imports from the World	LAC Share of India Imports
852520	Transmission apparatus; for radio-telephony, radio-telegraphy, radio-broadcasting or television, with reception apparatus, with or without sound recording or reproducing apparatus	12.8	7.5	4.3%
270112	Coal; bituminous, whether or not pulverised, but not agglomerated	6.9	5.0	1.1%
710813	Metals; gold, semi-manufactured	3.2	5.0	3.2%
880240	Aeroplanes and other aircraft; of an unladen weight exceeding 15,000kg	4.1	3.1	0.0%
270400	Coke and semi-coke; of coal, lignite or peat, whether or not agglomerated; retort carbon	0.6	2.6	4.0%
854213	Digital monolithic integrated units	4.6	2.1	1.0%
841112	Turbo-jets; of a thrust exceeding 25kN	0.7	1.8	0.0%
760200	Aluminium; waste and scrap	0.6	1.7	1.8%
847150	Digital processing units whether or not presented with the rest of the system which may contain storage units, input units or output units	18.5	1.4	3.2%
850440	Electrical static converters	1.2	1.2	0.6%
71320	Vegetables, leguminous; chickpeas, shelled, whether or not skinned or split, dried	0.4	1.1	0.7%
880330	Aircraft and spacecraft; parts of aeroplanes or helicopters n.e.s. in heading no. 8803	1.7	1.1	0.3%
390110	Ethylene polymers; in primary forms, polyethylene having a specific gravity of less than 0.94	1.1	1.1	0.2%
870840	Vehicles; parts, gear boxes	5.1	0.9	4.4%
852540	Still image video cameras and other video camera recorders	0.3	0.9	0.4%

(continued on next page)

TABLE 6: TOP 20 ATTRACTIVE PRODUCTS FOR LAC
(US\$ billions and percentage, 2017) *(continued)*

HS Code	Description	Value of LAC Exports to the World	Value of India Imports from the World	LAC Share of India Imports
740819	Copper; wire, of refined copper, of which the maximum cross-sectional dimension is 6mm or less	0.2	0.9	0.0%
710391	Stones; rubies, sapphires and emeralds, worked (other than simply sawn or roughly shaped), not strung, mounted or set	0.2	0.8	0.1%
392690	Plastics; other articles n.e.s. in chapter 39	2.4	0.8	0.5%
281820	Aluminium oxide; other than artificial corundum	3.2	0.8	1.6%
390120	Ethylene polymers; in primary forms, polyethylene having a specific gravity of 0.94 or more	1.0	0.7	0.2%

Source: IDB Integration and Trade Sector with data from BACI (CEPII).

Note: Products defined at the 6-digit disaggregation level of HS 1996. "Attractive" products, as defined in footnote 14, are ranked by the value of imports, that is, the current size of the market.

interest is that of aircrafts. LAC exports and Indian imports are quite significant (US\$ 4.1 and 3.1 billion, respectively) but there is no trade at all between the two parties.

Among the top twenty *attractive* opportunities for India in the LAC market, vehicles and vehicle parts and accessories stand out (Table 7). For example, LAC total imports of auto gear boxes in 2017 amounted to US\$ 7.5 billion but India only captured a 1.0% market share. Indian exports to the world of this product added to US\$ 0.5 billion, which suggests that it could potentially increase its participation in the LAC market. Within the electrical machinery and equipment sector there are also relevant opportunities, for example in electrical static converters, where LAC imported US\$ 3.3 billion from the world, but India only supplied 0.9% of the market. Total exports of India were valued at US\$ 0.7 billion, which gives room for a boost in its sales to LAC.

TABLE 7: TOP 20 ATTRACTIVE PRODUCTS FOR INDIA
(US\$ billions and percent, 2017)

HS Code	Description	Value of India Exports to the World	Value of LAC Imports from the World	India Share of LAC Imports
870840	Vehicles; parts, gear boxes	0.5	7.5	1.0%
870899	Vehicles; parts and accessories, n.e.s. in heading no. 8708	1.3	7.2	1.4%
870829	Vehicles; parts and accessories, of bodies, other than safety seat belts	0.2	6.6	0.6%
870421	Vehicles; compression-ignition internal combustion piston engine (diesel or semi-diesel), for transport of goods, (of a gw not exceeding 5 tonnes), n.e.s. in item no 8704.1	0.4	6.1	0.5%
392690	Plastics; other articles n.e.s. in chapter 39	0.4	6.1	0.5%
840820	Engines; compression-ignition internal combustion piston engines (diesel or semi-diesel engines), of a kind used for the propulsion of vehicles of chapter 87	0.2	5.6	0.1%
853690	Electrical apparatus; n.e.s. in heading no. 8536, for switching or protecting electrical circuits, for a voltage not exceeding 1000 volts	0.3	3.7	0.6%
840991	Engines; parts, suitable for use solely or principally with spark-ignition internal combustion piston engines (for other than aircraft)	0.3	3.7	1.1%
300290	Toxins, cultures of micro-organisms (excluding yeasts) and similar products	0.1	3.6	0.4%
854213	Digital monolithic integrated units	0.1	3.3	0.1%
850440	Electrical static converters	0.7	3.3	0.9%
870850	Vehicles; parts, drive-axles with differential, whether or not provided with other transmission components	0.6	3.3	3.3%
847989	Machines and mechanical appliances; n.e.s. in item no. 8479.8, having individual functions	0.4	3.2	0.6%

(continued on next page)

EMBARGOED UNTIL JUNE 10th 14:00 IST (GMT+5:30)

How Much Can Bilateral Trade Grow?

TABLE 7: TOP 20 ATTRACTIVE PRODUCTS FOR INDIA
(US\$ billions and percent, 2017) *(continued)*

HS Code	Description	Value of India Exports to the World	Value of LAC Imports from the World	India Share of LAC Imports
732690	Iron or steel; articles n.e.s. in heading no. 7326	0.6	3.2	0.6%
848180	Taps, cocks, valves and similar appliances; for pipes, boiler shells, tanks, vats or the like, including thermostatically controlled valves	0.8	3.1	0.8%
840734	Engines; reciprocating piston engines, of a kind used for the propulsion of vehicles of chapter 87, of a cylinder capacity exceeding 1000cc	0.2	3.0	1.7%
120100	Soya beans; whether or not broken	0.2	2.9	0.0%
853710	Boards, panels, consoles, desks and other bases; for electric control or the distribution of electricity, (other than switching apparatus of heading no. 8517), for a voltage not exceeding 1000 volts	0.4	2.9	0.2%
401110	Rubber; new pneumatic tyres, of a kind used on motor cars (including station wagons and racing cars)	0.1	2.8	0.5%
382490	Chemical products and preparations, n.e.s.	0.3	2.7	1.0%

Source: IDB Integration and Trade Sector with data from BACI (CEPII).

Note: Products defined at the 6-digit disaggregation level of HS 1996. *Attractive* products, as defined in footnote 14, are ranked by the value of imports, that is, the current size of the market.

EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)

A Bridge Between India and Latin America

Behind these figures there are stories of businesses that may make fortunes or miss valuable internationalization opportunities. The examples are, therefore, illustrative of the untapped trade potential among the economies of LAC and India. But they also suggest that an all-encompassing institutional framework is key to bring businesses of two distant regions such as LAC and India closer. Although distance is a natural barrier between LAC and India, efforts aimed at decreasing all components of trade costs are key to bridge the two subcontinents, as discussed in the next section.

EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)

IV

Policy Options: What Can Be Done?

In less than two decades, economic ties between LAC and India have grown at a fast pace, with trade at the present juncture being the anchor of the relationship. Even though bilateral trade is still in a nascent stage, the region remains a strategic source of natural resources for India, while Indian firms supply sophisticated manufacturing products and, most importantly, serve as a strategic partner for the development of a modern services sector in LAC. However, governments and firms cannot take the relationship for granted.

Trade costs between the two economies are still near to prohibitive and reducing them can unlock a considerable trade potential. The large distance between the two subcontinents is an inevitable barrier, but trade costs are also driven by restrictive trade policies and poor logistics connectivity. Trade and investment treaties between LAC and India are not widespread and a wide array of non-tariff barriers still restricts trade flows and prevents the discovery of new business opportunities. Moreover, under-investment in trade-related infrastructure compounded by all sorts of inefficiencies along the logistics chains put exporters at disadvantage with competitors in each other's markets.

Against this background, a number of strategic activities may set the stage for deeper engagement of government officials, businesses and people of the two subcontinents.

Expanding trade agreements – Expanding the web of trade agreements would help to abate tariffs and reduce the cumbersome stock of non-tariff barriers. The focus could perhaps be placed on negotiating comprehensive free trade agreements or, at least, on partial preferential agreements which could later be upgraded. A new set of trade rules governing market access would allow exporters to diversify sales in new markets that are bound to grow due to the emergence of a vibrant middle class in both economies. The wide web of trade agreements of LAC with partners around the globe may also serve India as a gateway to third markets.

Advancing trade facilitation – Advancing a trade facilitation agenda would not only result in a significant reduction in the cost of doing business across borders at a fast pace, it could also harness new technologies for maximum impact. Actions ranging from the expansion of mutual recognition agreements for Authorized Economic Operators, to the interoperability of Trade Single Windows, and to the promotion of bilateral cooperation to facilitate compliance with trade rules, are low hanging fruits to set the LAC-India trade relation on a new course.

Promoting trade and investment – Trade and investment promotion activities may help private sector representatives of both regions to lock-in business deals. Through capacity-building and information sharing, promotion institutions can help overcome market failures, and ultimately facilitate contacts among businesses and consumers from distant regions and cultures. In order to increase mutual awareness, business gatherings like the India-LAC conclave and other industry association engagements could help generate viable business propositions among interested parties.

Reducing transport and logistics costs – As shown by the estimates of the LAC-India trade potential, overcoming poor trade infrastructure and uncompetitive logistics may generate large potential gains and is emerging as an utmost priority. Fortunately, there are ample opportunities to reduce trade costs, unlock the trade potential, and magnify the development benefits stemming from deeper integration. Efforts should be made to reduce transaction and transport costs, streamline trade logistics, promote communication with trading partners, and enhance the international competitiveness and innovation capabilities of countries in both subcontinents. Shipping companies could also be incentivized to rationalize and reduce transport costs between India and LAC.

Deepening technical cooperation – India and LAC would also benefit from enhanced cooperation in education, science and technology, and innovation, as it would facilitate the transfer of

knowledge through the exchange of experts, students, and academics. Strengthening the modalities of technical cooperation in matters of mutual interest, such as renewable energy, information and communication technologies, healthcare, pharmaceuticals, higher education, mechanization, and new technologies applied to agro industry, animal and plant health, bio-technology, technological development for livestock production, ocean research, among others, could be a huge leap forward for both regions.

Bringing people together – People-to-people exchanges are crucial to undergird bilateral cooperation. Liberal visa regimes, particularly for professionals and tourists, would go a long way in easing business and increasing cultural exchanges. Improving air connectivity should also be given priority as there are currently no direct flights between India and LAC. Likewise, encouraging communication and cooperation between the authorities of public media systems in the production and exchange of audiovisual content would greatly contribute to deeper mutual knowledge. Finally, taking advantage of new technologies, for example through the expansion in India of ConnectAmericas.com, the first online network for businesses in the Americas, would provide a cost-effective digital bridge between Indians and Latin Americans.

However, solidifying the trade and investment relationship between LAC and India is especially daunting as businesses and government have not yet built a critical mass of working contacts. Development finance institutions, such as the IDB and Exim Bank, thus emerge as strategic partners that may help to cut the learning curve short. Both institutions stand ready to support a renewed commitment of LAC and India to foster ties between the two subcontinents, and to facilitate a joint step forward toward deeper South-South cooperation for a brighter future.

EMBARGOED UNTIL JUNE 10th
14:00 IST (GMT+5:30)

