

EXIM BANK: RESEARCH BRIEF

Business with Latin America



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Overview:

Latin America and the Caribbean (LAC) region is a market of 508 million people with a GDP of US \$ 1.7 trillion and a per capita income of US \$ 3300. As an extension of the Latin American market, there are 37 million Latinos in USA and their number is expected to double by 2020.

Latin America has undergone profound and irreversible political and economic transformation becoming more stable and prosperous; in addition, there is a paradigm-shift in the mind-set of Latin Americans.

The LAC region grew by 5.5% in 2004, the highest growth rate in the last ten years. The growth was based on robust macroeconomic developments in all sectors. Growth forecast for 2005 is 4%. Argentina, Venezuela and Uruguay have bounced back from the crisis of the last few years with an impressive growth in 2004. Average inflation of LAC region has stayed in single digit since 1999 except in 2002, when it was 12%. Imports of the region have

increased from US \$ 113 billion in 1991 to US \$ 398 billion in 2004. Its share of world imports went up from 3.7% in 1990 to 6.1% in 2004. Exports in 2004 were

US \$ 460 billion. The region achieved a trade surplus for the first time in 2002 and increased it to an impressive US \$ 62 billion in 2004.

Merchandise Trade of LAC								
(US \$ Bn)								
	1997	1998	1999	2000	2001	2002	2003	2004
Imports	268	280	270	359	352	330	366	398
Exports	254	247	259	348	343	343	378	460

Commercial Services Trade of LAC (2003)		
(US \$ Bn)		
Country	Exports	Imports
Mexico	12.6	17.7
Brazil	9.6	14.5
Chile	4.7	5.4
Argentina	3.8	5.1
Dominican Republic	3.4	1.1
Colombia	1.7	3.2
Venezuela	-	3.1

Foreign Direct investment (FDI) in the region in 2004 was US \$ 37.8 billion. It rose from US \$ 11 billion in 1991 to US \$ 79 billion in 1999 and thereafter declined. Total FDI in the period 1995-2004 was US \$ 506 billion.

The external debt situation of the region is improving. Total external

debt has come down to US \$ 723 billion in 2004 from US \$ 747 billion in 1999. There is a downward trend in the sovereign risk premium, which are now approaching record lows.

The major countries of Latin America have switched over to Floating Exchange Rate regime in recent years. This is a step

forward since this ensures the timely adjustment of the exchange rate during crisis and makes the exchange rate competitive. Panama, El Salvador and Ecuador have dollarised their economies. Although the region continues to be vulnerable to external shocks (decline in demand and prices of commodities, growth in developed markets and China, and increase in interest rates) the political and business leaders are better prepared to face crises and the economies have become more resilient and resistant.

Brazil and Mexico, the biggest markets, offer different platforms for entry into the region and they have become part of the global value chain for the Multi National Corporations. Mexico has emerged as a Latin American 'giant' in foreign trade (US \$ 195 billion imports and US \$ 189 billion exports in 2004) accounting for 44% of the total trade of Latin America. Mexico has replaced Japan as the second largest trading partner of USA. Chile is the most transparent and well-managed market with the least tariff and non-tariff barriers. Chile ranks first in investment grading in Latin America. It was the second largest recipient of FDI (US \$ 7.1 billion) and the third largest importer (US \$ 22.3 billion) in Latin America in 2004. The pharmaceuticals market of the top seven countries of Latin America is expected to reach total sales of US \$ 29 billion in 2005 from US \$ 20 billion in 2000.

Riding on the wave of anti neo-liberalism, leftist parties have come to power in a number of countries in South America. They seek to diversify their economic and commercial relations and establish partnership with countries like India. The political and socio-economic agenda of the region is driven by middle-class voters whose basic needs are affordable medicines and essential necessities.

Regional Integration

Integration continues to be an important driving force of the Latin American markets. All countries, except Cuba, are part of one or other trade blocs or have signed Free Trade Agreements with other countries and blocs. Mercosur and Andean Community signed a FTA and agreed (December 2004) to establish a South American Community of Nations including Guyana, Suriname and Chile. The Central American Integration System (SICA) has achieved a partial Customs Union and is moving towards greater integration. The 15-member CARICOM Community is working towards achievement of a Caribbean Single Market and Economy by 2005.

The on-going negotiations for Free Trade Area of the Americas (FTAA) initiated by USA are scheduled to be completed by December 2005. FTAA will become the largest trade bloc of 34 countries (except Cuba), a market of 800 million people and

a GDP of US \$ 13 trillion, when it materialises. Without waiting for FTAA, USA has gone ahead and signed FTAs with Chile, Dominican Republic plus five Central American countries, and is negotiating with Colombia, Peru, Ecuador, Bolivia and Panama. Mexico has signed the largest number of FTAs in the world with 33 countries and Chile has also done so with a number of countries.

Economic integration of the region is accompanied by integration of physical infrastructure including transportation, telecom and energy, connecting

- (i) the whole of South America, and
- (ii) Colombia to Mexico through Central America under "Puebla-Panama" Plan.

India's exports

India's exports to Latin America have increased from US \$ 124 million in 1991-92 to US \$ 1.77 billion in 2003-04. Mexico has become the leading destination of India's exports with US \$ 564 million in 2003. The exports are expected to reach US \$ 750 million in 2004 and cross the one billion dollar mark in 2006.

Indian pharmaceutical companies have made an impressive entry all over Latin America and some companies have established manufacturing facilities in Brazil and Mexico. The enhancement of India's image by the achievements in IT and the

The implications of Regional Integration for India's business

Some in India are worried by the 'trade diversion' caused by the trade blocs and FTAs. It is true that in some cases, Indian exporters are at a disadvantage vis-a-vis the supplier countries from within trade blocs and FTAs. For example, Indian exporters of rice to Brazil become less competitive vis-a-vis Uruguay whose rice goes duty-free. The Colombian textiles and pharma products enjoy duty-free advantage over Indian exports to Venezuela.

But the trade 'diversion' is compensated by the "trade creation" in Latin America as a whole, which has enhanced the scope for India's exports. The integration process has reinforced the strength and growth of the individual Latin American countries and made them larger and better markets in the long term. It is a fact that Latin America's external trade has increased more than the intra regional trade. In any case the

intra-regional trade of Latin America is only 17 percent of its total trade. The integration process has made the marketing job of Indian companies easier since they do not have to formulate individual strategies to the 33 countries of Latin America and Caribbean. Indian companies need to formulate only strategies for each regional group.

The FTAs signed by USA with Latin American countries and groups contain some elements which go beyond WTO norms and pose as non-tariff barriers for India's export of pharmaceuticals to those LAC countries.

India has signed Framework Agreements for Cooperation with MERCOSUR, Andean Community, SICA and CARICOM. India has signed a PTA with MERCOSUR and is in the process of negotiating a PTA with Chile.

(i) Mercosur, (ii) Andean Community, (iii) Mexico and (iv) Central America and Caribbean. Indian companies should consider investment and joint ventures in LAC region in areas such as petroleum, mining, chemicals and IT. Indian businessmen should draw inspiration from the Chinese, whose exports to Latin America were US \$ 18 billion in 2004. The Chinese are targeting US \$ 100 billion of trade by 2007 and investment of US \$ 100 billion in the next ten years.

The Government of India has signed a Preferential Trade Agreement with MERCOSUR, which will become effective from March 2005. PTA with Chile is expected to be concluded in 2005. The Government of India has started giving concessional Government-to-Government Lines of Credit to LAC countries to promote project and product exports. A total of US \$ 90 million LOCs have already been extended to Guyana, Suriname, Jamaica and Nicaragua. More countries are likely to be considered for LOCs.

Exim Bank, in tandem with the Government of India's 'Focus: LAC' initiative, has extended lines of credit to financial institutions in the LAC region, covering 15 countries involving credit amounts of US \$ 103 million, to support export of Indian equipment, goods and technology from India to LAC region. Exim Bank also brings out a quarterly bilingual (English and Spanish) publication

successful entry of Indian pharmaceuticals into Latin America have made the job of marketing of other products easier. Among other factors that favour increase in India's exports is the positive change in the mindset of Latin American political and business leaders, who have started realizing the importance of India and are actively seeking economic and commercial

partnership. Latin Americans have become more price-conscious after having gone through economic crises and have started looking at countries such as India more seriously for affordable imports.

Strategies

Indian exporters should have a four-pronged marketing strategy for Latin America targeting

Exim Bank Lines of Credit

Exim Bank has extended commercial Lines of Credit to Latin American countries as follows:

Sr. No.	Borrower	Amount of Credit (US\$ mn)
1	Banco Nacional De Comercio Exterior S.N.C. (Bancomext) Mexico	10
2	Central American Bank for Economic Integration – CABEI (Banco Centroamericano de Integreacion Economica-BCIE) – covering Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua	10
3	Banco de Comercio Exterior de Colombia (Bancoldex), Colombia	10
4	Banco Bradesco S.A., Brazil	10
5	Corporacion Andina de Fomento (Andean Development Corporation) – covering Bolivia, Colombia, Ecuador, Peru and Venezuela	10
6	Republic Bank Limited, Trinidad & Tobago	8.00
7	Unibanco – Uniao De Bancos Brasileiros S.A., Brazil	10.00

In addition, Government of India has routed the following LOCs through Exim Bank

1. Government of Guyana US \$ 19 million
2. Government of Suriname US \$ 16 million

The details about these credit lines are available on the website of Exim Bank i.e., “www.eximbankindia.com”.

Exim Bank has also offered US \$ 25.2 million Line of Credit to Government of Guyana for rehabilitation of sugar mills.

some cases even long-term visas. The Government of India is working with the Governments of LAC countries for easier and quicker visas for Indian business visitors. Indian embassies have become proactive in economic diplomacy and provide information, guidance and assistance to Indian exporters and businessmen.

Trade and Industry bodies and Export Promotion Councils should organise more promotional events such as BSMs, exhibitions, participation in Latin American fairs and visit of delegations and take full advantage of the “Focus-LAC” programme of the Ministry of Commerce, which provide financial support for export promotion activities.

The contents of the publication are based on information available with Export-Import Bank of India and primary desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupees are referred in crore and lakhs:

1 crore : 10 million

1 lakh : 100 thousand

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titled ‘Indo-LAC Business’ to help promote awareness of the trade potential in the LAC region.

The potential offered by the Latin American region is yet to be fully tapped by the Indian exporters. To achieve the objectives of ‘Focus: LAC’ of

Government of India and Exim Bank’s lines of credit initiatives, substantial awareness needs to be created about the potential of the region, amongst Indian exporters.

The LAC Embassies have started issuing visas promptly and in