

ENHANCING TRADE AND INVESTMENT RELATIONS BETWEEN INDIA AND CENTRAL AMERICA



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Enhancing Trade and Investment Relations between India and Central America

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CONTENTS

	Page No.
List of Tables	v
List of Figures	vii
Executive Summary	1
1. Macroeconomic Overview of Central American Economies	6
2. Recent Trends in Central America's Trade	9
3. India's Trade Relations with Central America	21
4. Investment Scenario in Central American Countries	29
5. Investment Opportunities in Central American Countries	34
6. Activities of Export Import Bank of India in Latin America and Caribbean Region	45
7. Key Observations and Recommendations	51

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LIST OF TABLES

Table No.	Title	Page No.
1	GDP at Current Prices and Average Inflation of Central America Countries	7
2	Central America's Top Exports- Product Wise (US\$ million)	11
3	Central America's Country Wise Top Export Items	12
4	Central America's Top Imports- Product Wise (US\$ million)	14
5	Central America's Country Wise Top Import Items	15
6	Major Export Destination for Central American Countries	17
7	Major Import Sources for Central American Countries	19
8	India's Major Exports to Central America (US\$ million)	23
9	India's Exports to Central America- Top Destinations, Product wise	24
10	India's Major Imports from Central America (US\$ million)	26
11	India's Imports from Central America- Top Sources, Product Wise	27
12	FDI Inflows in the Central America- Country Wise Share (US\$ million)	30
13	OFDI from India to Central American Countries (US\$ million)	32

LIST OF FIGURES

Figure No.	Title	Page No.
1	GDP of the Central American Countries (US\$ billion)	6
2	Real GDP Growth Rates of Central American Economies (%)	8
3	Central America's Trade Over the Years (US\$ billion)	9
4	Evolution of Central America's Top Exporters- Over the Years	10
5	Evolution of Central America's Top Importers- Over the Years	11
6	Central America's Top Export Destinations, (% Share 2021)	17
7	Central America's Top Import Sources, (% Share 2021)	19
8	India Trade with Central America (US\$ million)	22
9	Top Export Destinations in Central America for India's Exports (% , 2021)	22
10	India's Top Import Sources from Central America (% , 2021)	23
11	FDI Inflows in Central American Countries (US\$ billion)	29
12	Top Sector Attracting FDI in Central America (2003-2021)	30
13	Top Investing Countries in Central America (2013-2022)	31
14	India's OFDI to Central America - Sector Wise Share (2010-23)	32



Executive Summary

The study focuses on the Central American countries comprising of- Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Dominican Republic which together constitute the Central America Integration System (SICA). The GDP of Central American countries which stood at US\$ 35.3 billion in 1980 has grown more than twelve folds to reach US\$ 428.4 billion in 2022. Based on the GDP size, Dominican Republic, followed by Guatemala and Panama are the largest economies of the region. The global economic disruptions caused by of the pandemic severely affected the region. The countries in the region, however, immediately responded to the crisis by implementing a host of measures in response to the pandemic, including lockdowns and curfews, additional funding and equipment for public health services, direct payments to individuals and families, and stimulus packages for small and medium-sized businesses, all with varying degrees of success. In 2021-22, the economies witnessed a strong rebound as the impact of the pandemic reduced, and vaccination around the world aided gradual reopening of economies.

Central America Merchandise Trade

The economies of the Central American region rely heavily on exports of agricultural products like bananas, sugar, and coffee. However, the region has been moving away from its high dependency of agricultural exports as manufacturing exports have started to pick up. Total merchandise trade of the region has grown multi-fold in the last two decades from US\$ 44.1 billion in 2001 to US\$ 201.6 billion in 2021. Merchandise exports have grown more than 5 folds from US\$ 13.5 billion in 2001 to US\$ 70.5 billion in 2021, and merchandise imports have quadrupled from US\$ 30.6 billion to US\$ 131.1 billion during the same period.

Top Exporting Countries: Over the years, Costa Rica and Guatemala have remained as the top exporting countries in the region, while, Panama, and Dominican Republic have gained prominence in last two decades. The combined exports from Central America in 2021 amounted to US\$ 70.5 billion. Costa Rica with exports of US\$ 14.3 billion, (approximately 20.3% of total exports in 2021), was the top exporting country in the region, closely followed by Guatemala, which exported goods worth US\$ 13.6 billion (19.3% of total exports) and Panama with exported goods worth US\$ 13.4 billion (19% of total exports) in the same year.

Top Importing Countries: Dominican Republic, Guatemala, and Panama have been top importing countries in the Central American region in last two decades. While Panama's share in total imports has risen during the same period, El Salvador's share has moderated. In 2021, the combined imports of Central American countries amounted to US\$ 131.1 billion. Dominican Republic, with imports of US\$ 26.9 billion in 2021, was the largest importing country in the region. Its share in total imports stood at 21% in the same year. Dominican Republic was closely followed by Guatemala (share of 20% in total imports in 2021), Panama (16%), and Costa Rica (14%).

Central America's Top Exports: In 2021, the top exporting item was optical, photographic, cinematographic, measuring apparatus (9.3% of total exports; US\$ 6.5 billion), followed by electrical machinery and equipment (6.9% of total exports; US\$ 4.9 billion) and articles of apparel and clothing accessories, knitted, or crocheted (6.8% of total exports; US\$ 4.8 billion), among others.

Central America's Top Imports: In 2021, mineral fuels and oils amounted for 13.6% of total imports of Central America amounting to US\$ 17.9 billion, followed by electronics (8.1% of total imports; US\$ 10.6 billion), machinery and mechanical appliances (8.1%; US\$ 10.6 billion), plastics and its articles (6.1%; US\$ 8 billion), vehicles other than railway or tramway (6%; US\$ 7.9 billion) and pharmaceutical products (5.5%; US\$ 7.2 billion).

Top Export Destinations: The US has been the top trading partner for Central America. The US has been the largest export destination with a share of 36.6% of total exports of the region in 2021. In 2021, the region exported goods worth US\$ 1 billion to India, which amounted to 1.4% of region's overall merchandise exports globally. The region is also well integrated in terms of intra-regional trade which accounted for 26.1% of the region's total exports. Within Central America, Honduras (which accounted for 5.8%), El Salvador (4.6%), Guatemala (4.1%) and Nicaragua (3.7%) are the top export destination for the other Central American countries.

Top Import Sources: The US remains the top import source for the region, however, the share of the country (in total imports of the region) has declined from 41% in 2001 to 33% in 2021. In spite of the geographical distance, interestingly, China has emerged as the second most important source of imports for the region. China's share in the regions imports has increased from 1% in 2001 to 16.8% in 2021. Central America imported merchandise good worth US\$ 2.1 billion from India in 2021, which amounted to miniscule share of 1.6% of its total imports during the year. Central America's import from the region accounted for 12.4% of its total imports. Within the Central American region, Guatemala with the share of 3.4%, followed by Costa Rica (2.5%), El Salvador (2.1%), And Honduras (2%) are the top import sources for the other Central American countries.

India's Trade Relations with Central America

India and Central America's trade has shown remarkable growth since the turn of the century. Total trade which stood at US\$ 159.1 million in 2001, has grown to reach US\$ 2.9 billion in 2021. India's exports to Central America were at US\$ 147.4 million in 2001, and with consistent growth, the exports breached the US\$ 1 billion mark in 2014, and since then exports have been over US\$ 1 billion every year. Exports peaked at US\$ 1.9 billion in 2021. India's exports to Central America have shown resilience in the pandemic year as well, with export of US\$ 1.1 billion in 2020. India's imports from Central America were a paltry US\$ 11.7 million in 2001, crossed the US\$ 100 million mark in 2004. Since then, imports have also registered consistent growth, and merchandise imports peaked at US\$ 987.3 million in 2021.

India's Top Export Destinations in Central America: India's total merchandise exports to Central America in 2021 amounted to US\$ 1.9 billion. Guatemala, with a share of 27.7% was the largest market for India's exports in the region in 2021. Panama, with a share of 17.8% and Honduras, with a share of 16.2% and Dominican Republic, with the share of 16% were the second, third and fourth largest export markets for India's exports in 2021, respectively.

India's Top Import Sources in from Central America: India's imports from Central America in 2021 stood at US\$ 1 billion. Dominican Republic, with a share of 66.1% was the largest source of imports for India from Central America. Other major countries supplying to India in the same year were- Panama (with a share of 21.6%), Costa Rica (6.4%), and Honduras (2.3%).

India's Top Exports to Central America- Product wise: India's major export items to Central America in 2021 were transport vehicles, with a share of 21.7% in total exports to the region amounting to US\$ 408.2 million. Other major export categories for India were – pharmaceutical products (13.2% of total exports in 2021), cotton (8.6%), mineral fuel and oils (6.4%), tanning or dyeing extracts (5.9%), and machinery and mechanical appliances (4%).

India's Top Imports from Central America- Product wise: In 2021, natural or cultured pearls, precious or semi-precious stones constituted for 62.3% of India's total imports from the region. Other major import products in the same year were ore, slag and ash (16.3%), wood and articles of wood (9.4%), iron and steel (4.2%), pulp of wood (2.3%), and machinery and mechanical appliances.

Investment Scenario in Central American Countries

Post the financial crisis, FDI inflows witnessed a robust recovery, and the previous decade saw continued inflows at high-level. FDIs peaked at US\$ 14.9 billion in 2017. In 2020, on the back of Covid-19 related economic crisis, FDI inflows in the region almost narrowed to US\$ 7.4 billion, the lowest value post financial crisis. The FDI rebounded in 2021 with total inflow almost doubling from 2020, reaching US\$ 14 billion.

FDI Inflows- Top Countries: In 2021, Guatemala, Costa Rica, and Dominican Republic, were the top FDI attracting countries in the region. In 2020, Panama took the hardest hit in its FDI inflows, which fell from US\$ 4,062 million in 2019 to US\$ 606.7 million in 2020, mostly as a result of the Covid-19 pandemic.

FDI Inflows- Top Sectors: During January 2013 to December 2022, 38.4% of the total FDI inflows in the region were attributed to the business services sector. This was followed by 11% of investments being absorbed by hotels and tourism, 10.8% by renewable energy, 7.4% by metals, 6.3% by transport and warehousing, and 5.7% by communications.

Top Investing Countries in Central America: During the period January 2013 to December 2022, Hong Kong was the top investing country in Central America, with a share of 37.3% in total investment inflows into the region. Hong Kong was followed by the US (19.7% share in total FDI inflows during the same period), Canada (8.5%), Spain (6.2%), and Mexico (3%). India's investments in Central America during the same period amounted to US\$ 48.5 million, accounting for a minuscule 0.04% of total investment flows of the region. With this, India ranked the 46th largest investor in the region.

Indian Investments in Central America

As per the data provided by India's central bank i.e., Reserve Bank of India, India's investments in Central America during April 1996 to March 2023 amounted to US\$ 2.7 billion, with investments being concentrated in Panama.

Top Sectors: During April 2010 to March 2023, 77.8% of India's investments in Central America are in the agriculture and mining sector, followed by 11.5% in transport, storage and communication services, 9.6% in manufacturing, among others.

Investment Opportunities in Central American Countries

There lie immense opportunities for Indian investment in Central American countries. Potential sectors for investment in the countries are highlighted by their respective investment promotion agencies. Broad sectors which present opportunities for investment include, among others, agribusiness, agro-industry, fisheries, tourism and hospitality, light manufacturing and production, technology and services, energy and natural resources, creative and entertainment industry, real estate and construction, healthcare and pharmaceuticals, business services and aeronautics.

Activities of Export Import Bank of India in Latin America and Caribbean Region

In line with the Government of India's focus, the Latin America and the Caribbean (LAC) region has been a focus region for India Exim Bank, and thus a critical component of its strategy to promote and support two-way trade and investment flows. India Exim Bank's commitment towards building relationships with the LAC region is reflected in the various activities and programmes, which India Exim Bank has set in place. India Exim Bank plays a critical role and is committed towards supporting GOI's initiatives in promoting strategic partnerships with countries in different regions and especially those in the LAC region.

India Exim Bank has a representative office in Washington D.C., which play a key role in facilitating economic cooperation with the region and is closely associated with several of the Bank's initiatives. The representative office interfaces with institutions such as Inter-American Development Bank (IDB), Washington D.C.; Banco Nacional de Desenvolvimento Economico e Social (BNDES), Corporacion Andina De Fomento (CAF), Venezuela; Banco de Inversion Y Comercio Exterior S.A. (BICE), Argentina; Central American Bank for Economic Integration (CABEI/ BCIE), Honduras; Caribbean Association of Industry & Commerce, Trinidad & Tobago; Banco Mercantil (Banco Universal) C.A., Venezuela among others, as well as Indian missions in the region.

Financing and programmes of India Exim Bank in the LAC Region

Lines of Credit: As on March 31, 2023, the total number of operative LOCs to the LAC region stood at 32, extended to 6 countries namely Bolivia, Cuba, Guyana, Honduras, Nicaragua and Suriname, for supporting projects such as setting up of multi-speciality hospitals, irrigation, export of machinery and equipment, and amounted to US\$ 801.7 million.

Overseas Investment Finance: As on March 31, 2023, India Exim Bank through its overseas investment finance programme has supported 34 such ventures, set up by Indian companies in 7 countries in LAC namely, Brazil, British Virgin Islands, Cayman Islands, Mexico, Chile, Guatemala, Panama with an aggregate sanction amount of Rs. 4, 925 crore.

Financing Project Exports: Under its Project Exports assistance, India Exim Bank extends both funded and non-funded facilities for overseas turnkey projects, civil construction, supplies as well as technical and consultancy service contracts across various sectors of the economy. Through its Buyer's Credit under National Export Insurance Account (NEIA) programme, India Exim Bank facilitates project exports from India by way of extending credit facility to overseas sovereign governments and government owned entities for import of goods and services from India on deferred credit terms. Indian exporters can obtain payment of eligible value from India Exim Bank, without recourse to them, against negotiation of shipping documents.

Facilitating Trade through institutional Linkages, Knowledge and Value Based Services

Global Network of Exim Banks and Development Finance Institutions (G-NEXID): In 2006, India Exim Bank had entered into a Memorandum of Understanding (MOU) with four Exim Banks and Development Financial Institutions (DFIs) to form the Global Network of Exim Banks and Development Financial Institutions (G-NEXID). G-NEXID has been granted 'Observer' status by UNCTAD. Currently, G-NEXID has 25 member institutions across the globe. Among the LAC countries, members of the G-NEXID include institutions such as:

- Brazilian Development Bank (BNDES)
- Development Bank of Latin America (CAF)
- Foreign Trade Bank of Latin America S.A. (Bladex)

Institutional Linkages: India Exim Bank has been consciously forging a network of alliances and institutional linkages to help further economic co-operation with the LAC countries. These endeavours are supplemented by the various Memoranda of Cooperation (MOCs) / Memoranda of Understanding (MOUs), the Bank has in place, with key institutions in LAC.

Research Studies: India Exim Bank, besides offering various financial products to support Indian exporters and entrepreneurs, also carries out in-depth economic research on areas related to bilateral trade and investment, sector/ product/ country and regional studies, as also policy issues related to the external sector with a view to enhancing competitiveness of Indian exporters.

Consultancy Assignments: In 2022-23, India Exim Bank was commissioned by the Export Barbados for a consultancy assignment for setting up an Export Credit Agency (ECA) in Barbados. The Government of Barbados aims to boost exports to US\$ 1 billion by 2030, through the development of an enabling environment for exports in the country. In line with this objective, Export Barbados, an agency of the Government of Barbados with responsibility of promoting and facilitating industrial and export development, seeks to develop an establishment/business plan for an ECA in Barbados. The report has been successfully submitted by India Exim Bank in FY23 and the recommendations have since been accepted by multidisciplinary committee formed in Barbados for establishment of the ECA.

Way Forward

India and Central American countries are reaping the mutual benefit of the existing partnership between each other. However, in the long run, for India-Central America relationship to further strengthen, it is imperative to identify new drivers for India-Central America synergy and avenues of greater future cooperation. A few policy catalysts that could help boost bilateral cooperation could include (i) expansion of trade based on commodities which hold export potential and import demand (ii) expanding and exploring a Free Trade Agreement (FTA) or an economic partnership agreement with the Central America; (iii) improving transportation and trade logistics (iv) increased industry engagements (v) enhancing people-to-people interactions through improved connectivity.



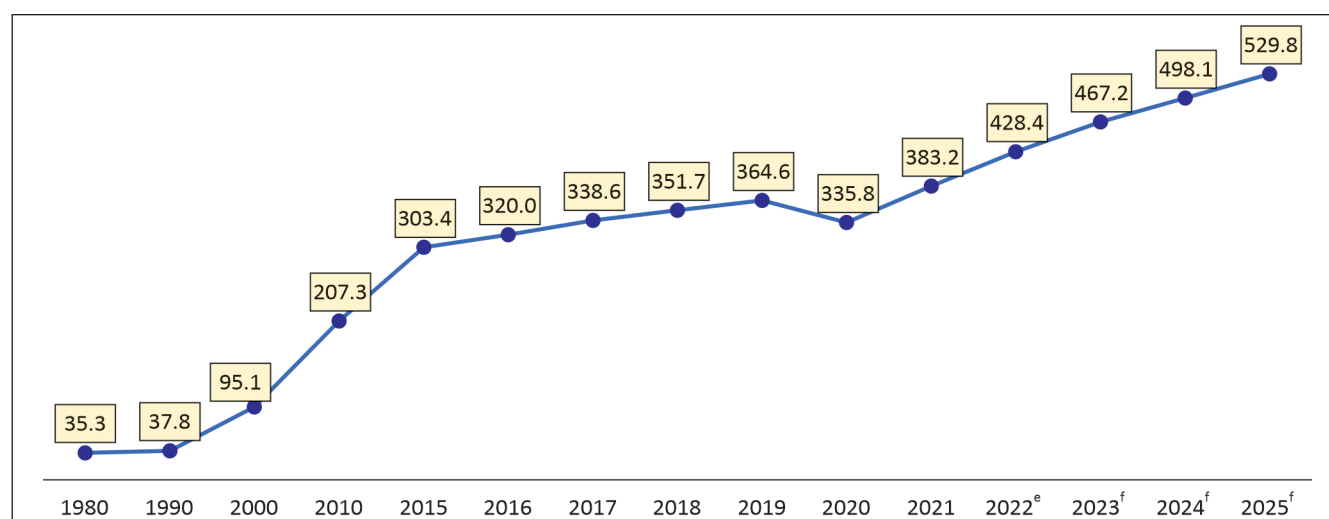
Macroeconomic Overview of Central American Economies

The Central American sub-region is the southernmost part of the North American Continent. It borders Mexico (to its North) and Columbia (to its south); and the Caribbean Sea (to its east) and Pacific Ocean (to its west). Central America has been home to sophisticated civilizations like the Mayas, Olmecs, Incas and the Aztecs. Spanish conquest of the region began in the sixteenth century, which continued till early nineteenth century, until the region gained independence from Spain. Central America is a part of Mesoamerican biodiversity hotspot. The region is geologically very active and thus, prone to natural disasters like earthquakes, volcanic eruptions, tsunamis, hurricanes etc.

The focus of this study are the Central American countries comprising of- Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Dominican Republic. These countries are a part of the Central America Integration System (SICA). The SICA was set up in 1991, and it is the institutional framework for regional integration in Central America. The combined GDP of these eight countries stood at an estimated US\$ 428.4 billion in 2022, with a total population of 62.6 million in the same year¹.

The GDP of Central American countries which stood at US\$ 35.3 billion in 1980 has grown more than twelve folds to reach US\$ 428.4 billion in 2022 (**Figure 1**). Based on the GDP size, Dominican Republic, followed by Guatemala and Panama are the largest economies of the region (**Table 1**).

Figure 1: GDP of the Central American Countries (US\$ billion)



Note: ^e- Estimates; ^f- Forecasts

Source: IMF WEO April 2023

¹ IMF WEO April 2023

Table 1: GDP at Current Prices and Average Inflation of Central America Countries

Country	GDP (US\$ billion)						Inflation (% Change)					
	2019	2020	2021	2022 ^e	2023 ^f	2024 ^f	2019	2020	2021	2022 ^e	2023 ^f	2024 ^f
Belize	2.4	2.1	2.5	3.0	3.2	3.3	0.2	0.1	3.2	6.3	4.1	2.5
Costa Rica	64.4	62.4	64.6	68.4	77.8	81.9	2.1	0.7	1.7	8.3	5.2	3.6
Dominican Republic	89.0	78.9	94.5	112.5	121.3	129.9	1.8	3.8	8.2	8.8	5.7	4.3
El Salvador	26.9	24.6	28.7	31.6	33.8	35.1	0.1	-0.4	3.5	7.2	4.1	2.1
Guatemala	77.2	77.6	87.0	93.7	102.3	111.0	3.7	3.2	4.3	6.9	7.4	5.5
Honduras	25.1	23.7	28.3	31.5	34.3	36.4	4.4	3.5	4.5	9.1	6.9	5.3
Nicaragua	12.6	12.6	14.0	15.8	17.3	18.4	5.4	3.7	4.9	10.4	8.5	5.0
Panama	67.0	54.0	63.6	72.0	77.3	82.1	-0.4	-1.6	1.6	2.9	2.2	2.2

Note: ^e- Estimates; ^f- Forecasts

Source- IMF WEO April 2023

Economic growth accelerated from 1990s onwards, when GDP increased more than two and a half times from US\$ 37.8 billion in 1990 to US\$ 95.1 billion in 2000, and further more than doubling to US\$ 207.3 billion in 2010. More recently, the economies were witnessing a consistent growth, which was hampered by the onset of Covid-19 pandemic. During 2020, all eight Central American economies witnessed economic contraction, with Panama contracting by almost 18% (**Figure 2**). The global economic disruptions caused by of the pandemic severely affected the region. With closing down of borders, the movement of people and goods came to a halt. Stalled economic activity, steep fall in tourist arrivals, capital flight out of emerging developing economies did not spare the Central American countries. According to UN World Tourism Organization, international tourist arrivals dropped in Central America by 76.3% year or year, in first quarter of 2021. Remittance flows, however, remained strong².

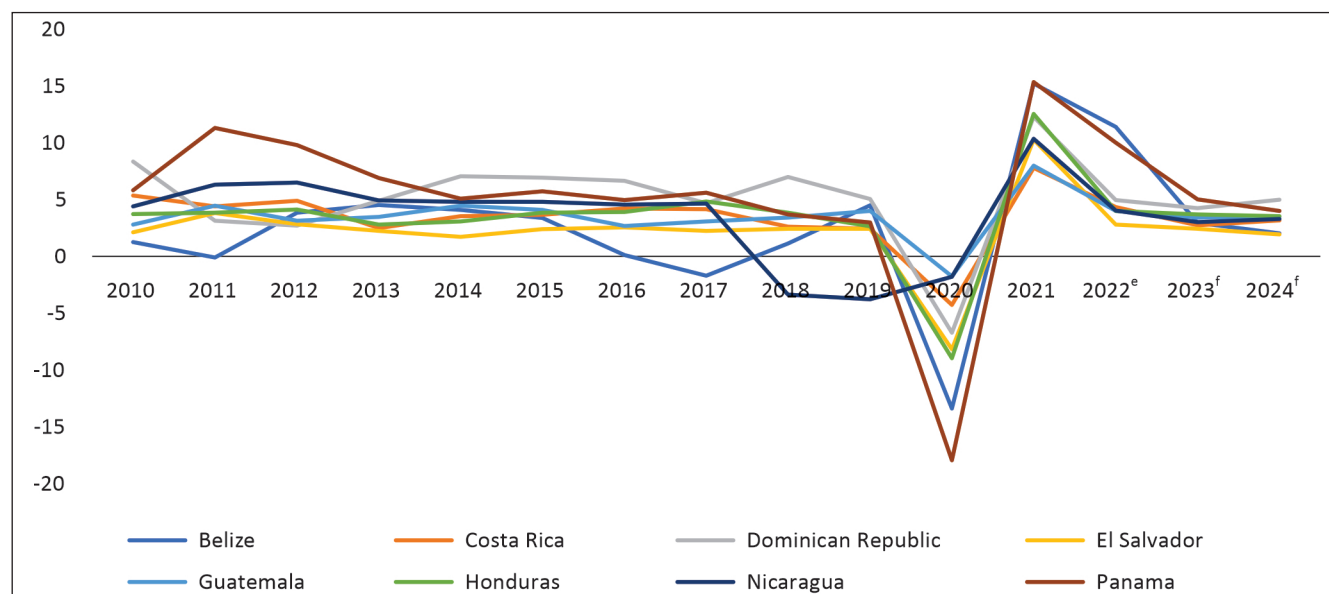
The countries in the region, however, immediately responded to the crisis by implementing a host of measures in response to the pandemic including lockdowns and curfews, additional funding and equipment for public health services, direct payments to individuals and families, and stimulus packages for small and medium-sized businesses, all with varying degrees of success³.

In 2021-22, the economies witnessed a strong rebound as the impact of the pandemic reduced, and vaccination around the world aided gradual reopening of economies. As a result, the inflation has been on a higher side for all Central American economies, mainly on the back of higher global food and energy prices and stronger domestic aggregate demand. In 2023, the IMF projects the combined GDP of the region to reach US\$ 467.2 billion by 2023 (**Figure 1**).

² ECLAC- Economic Survey of Latin America and Caribbean

³ Atlantic Council

Figure 2: Real GDP Growth Rates of Central American Economies (%)



Note: ^e Estimates; ^f Forecasts

Source: IMF WEO April 2023

Economic Prospect for Central America in the Post Pandemic World

In order to accelerate economic development in the post Covid world, the Central American countries should take advantage of its demographic dividend, as companies around the world are looking to broaden the supply chains and rely lesser on any one particular country. Taking advantage of their geographical location, the Central American countries could strive to emerge as local production hubs for bigger neighboring economies.

There is also a renewed push for regional integration among Central American economies, as —an integrated region can more efficiently allocate economic resources, access new intraregional markets, boost foreign trade, improve commercial agreements, and enter new ones with increased bargaining power, increase market diversification, attract foreign direct investment, and build supply-chain resilience. Economic integration is also an opportunity—especially at a time when countries in the region face the same external shocks, from global health and trade to climate change and geopolitics—to deepen political, security, social, cultural, and environmental ties⁴.

⁴ Atlantic Council- Central America Economic Reactivation in a Covid-19 World: Finding Sustainable Opportunities in Uncertain Times



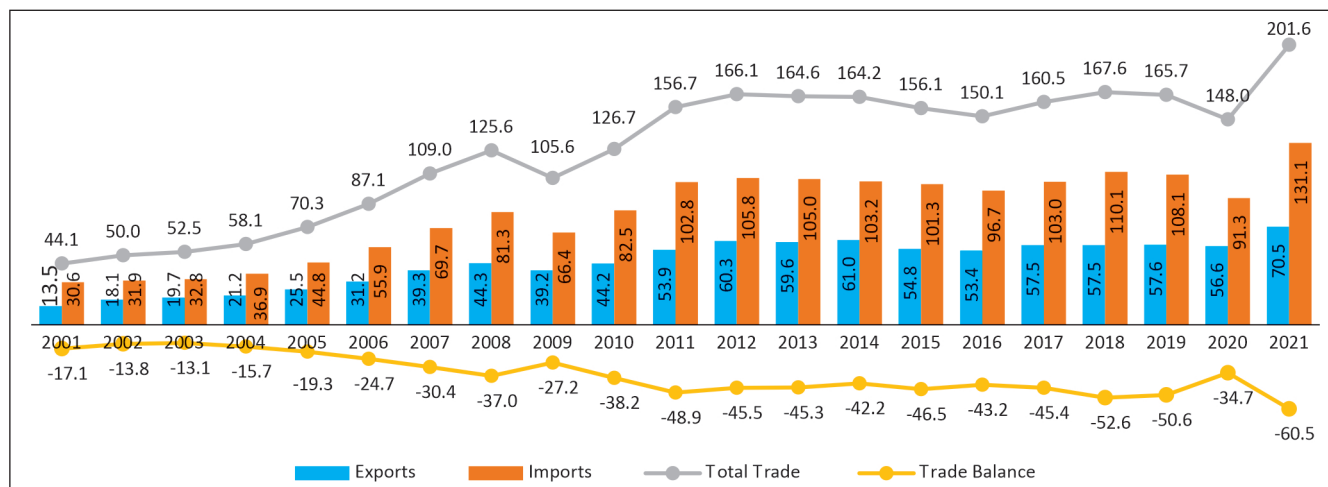
Recent Trends in Central America's Trade

The economies of the Central American region rely heavily on exports of agricultural products like bananas, sugar, and coffee. In the last two decades, the region's exports have grown substantially, including those of manufactured goods. Countries like Dominican Republic and Panama, especially, have increased their exports substantially. Exports of the region comprises a significant share of the GDP of the region, therefore, an increase in exports also bodes well for the economies of the region. Increasing exports are also responsible for productivity growth in the region⁵.

The region has been moving away from its high dependency of agricultural exports as manufacturing exports have started to pick up. The manufacturing exports from the region have almost doubled in last two decades, which has helped in establishing reputation for manufacturing exports for the region, which could be leveraged effectively going forward.

Total merchandise trade of the region has grown multi-fold in the last two decades from US\$ 44.1 billion in 2001 to US\$ 201.6 billion in 2021. Merchandise exports have grown more than 5 folds from US\$ 13.5 billion in 2001 to US\$ 70.5 billion in 2021, and merchandise imports have quadrupled from US\$ 30.6 billion to US\$ 131.1 billion during the same period (**Figure 3**).

Figure 3: Central America's Trade Over the Years (US\$ billion)



Source: ITC Trademap; India Exim Bank Analysis

⁵ World Bank – Unleashing Central America's Growth Potential

Merchandise trade moderated from US\$ 165.7 billion in 2019 to US\$ 148 billion in 2020, on the back of global restrictions as Covid-19 pandemic brought the world economy to a standstill. While imports contracted from US\$ 108.1 billion in 2019 to US\$ 91.3 billion in 2020, exports also reduced to US\$ 57.6 billion from US\$ 56.6 billion in the same period. Imports fell majorly because of low global energy prices.

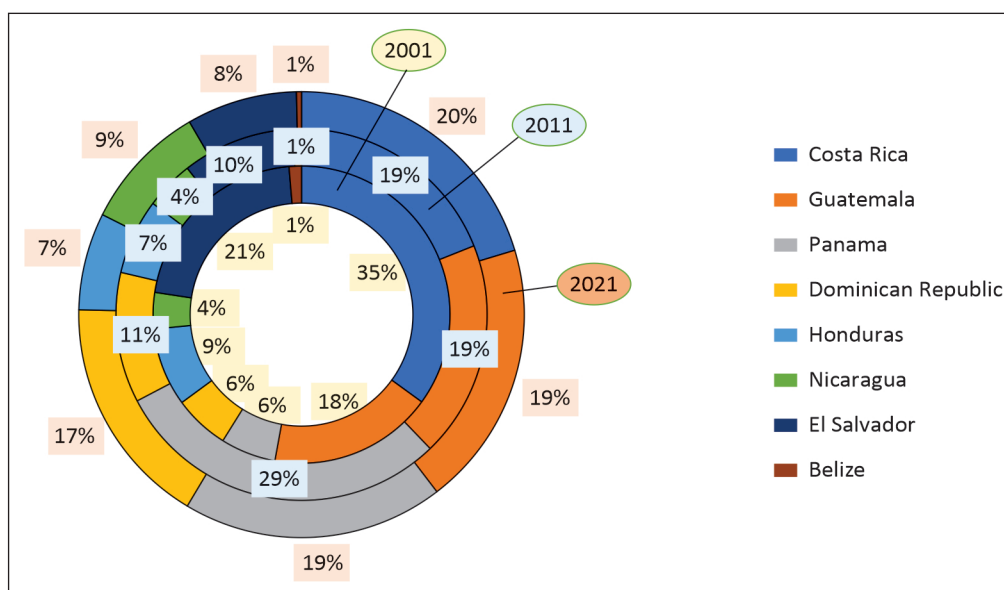
The merchandise trade of Central America however rebounded in 2021, stronger than ever in the last two decades. The trade expanded to by 36% in 2021 (over 2020 level) on the back of higher imports. The total imports expanded by 44% to US\$ 131.1 billion in 2021 over the 2020 level owing to rise in imports of mineral fuel and oil, iron and steel and plastics and articles, among others. Exports also expanded by 25% year-on-year to US\$ 70.5 billion in 2021 primarily due to exports of optical, photographic, cinematographic, measuring apparatus, electrical machinery and equipment and precious stones and metals, among others.

Central America's Top Trading Countries

Top Exporting Countries

Over the years, Costa Rica and Guatemala have remained as the top exporting countries in the region, while, Panama, and Dominican Republic have gained prominence in last two decades. The combined exports from Central America in 2021 amounted to US\$ 70.5 billion. Costa Rica with exports of US\$ 14.3 billion, (approximately 20.3% of total exports in 2021), was the top exporting country in the region, closely followed by Guatemala, which exported goods worth US\$ 13.6 billion (19.3% of total exports) and Panama with exported goods worth US\$ 13.4 billion (19% of total exports) in the same year. Dominican Republic, and Nicaragua were other major exporters with shares of 16.8%, and 9.2%, respectively (**Figure 4**).

Figure 4: Evolution of Central America's Top Exporters- Over the Years



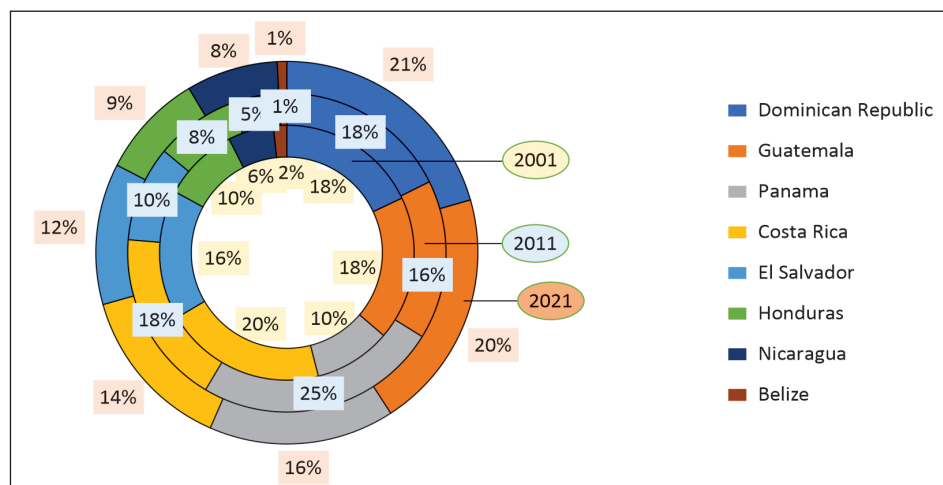
Source: ITC Trademap; India Exim Bank Analysis

Top Importing Countries

Dominican Republic, Guatemala, and Panama have been top importing countries in the Central American region in last two decades. While Panama's share in total imports has risen during the same period, El Salvador's

share has moderated. In 2021, the combined imports of Central American countries amounted to US\$ 131.1 billion. Dominican Republic, with imports of US\$ 26.9 billion in 2021, was the largest importing country in the region. Its share in total imports stood at 21% in the same year. Dominican Republic was closely followed by Guatemala (share of 20% in total imports in 2021), Panama (16%), and Costa Rica (14%) (**Figure 5**).

Figure 5: Evolution of Central America's Top Importers- Over the Years



Source: ITC Trademap; India Exim Bank Analysis

Central America's Top Traded Products

Central America's Top Exports

Table 2 presents the top exporting items from Central America. While edible fruit and nut were the top exporting commodity in 2001, with a share of 10.3% of total exports amounting to US\$ 1.4 billion in 2001, in 2021, its share amounted to 6.4%, which made it the fourth largest export item from the region. In 2021, the top exporting item was optical, photographic, cinematographic, measuring apparatus (9.3% of total exports; US\$ 6.5 billion), followed by electrical machinery and equipment (6.9% of total exports; US\$ 4.9 billion) and articles of apparel and clothing accessories, knitted, or crocheted (6.8% of total exports; US\$ 4.8 billion), among others.

Table 2: Central America's Top Exports- Product Wise (US\$ million)

Code	Product label	2001	2011	2021
Total	All products	13477.3	53894.0	70532.9
90	Optical, photographic, cinematographic, measuring, checking, precision, medical apparatus	336.3	2059.8	6527.5
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	479.0	5096.2	4868.0
61	Articles of apparel and clothing accessories, knitted or crocheted	254.7	3681.7	4823.2
8	Edible fruit and nuts; peel of citrus fruit or melons	1392.7	2933.9	4535.9
71	Natural or cultured pearls, precious or semi-precious stones, precious metals	99.1	1359.6	4059.7
9	Coffee, tea, maté and spices	1052.0	3915.3	3781.7

Code	Product label	2001	2011	2021
30	Pharmaceutical products	313.4	2322.7	3118.0
26	Ores, slag and ash	45.0	999.8	3066.3
39	Plastics and articles thereof	324.5	1429.6	2253.2
72	Iron and steel	345.1	1256.9	2023.0
24	Tobacco and manufactured tobacco substitutes	156.0	643.4	1841.5
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats	123.2	895.6	1802.3
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	985.7	1212.5	1710.3
17	Sugars and sugar confectionery	581.4	1536.6	1577.4
62	Articles of apparel and clothing accessories, not knitted or crocheted	269.9	2425.6	1448.1
21	Miscellaneous edible preparations	231.1	726.5	1337.2
22	Beverages, spirits and vinegar	118.5	859.9	1244.6
3	Fish and crustaceans, molluscs and other aquatic invertebrates	662.0	608.6	1235.9
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	256.5	911.0	1159.5

Source: ITC Trademap; India Exim Bank Analysis

Table 3 presents country wise top five exporting items of Central American countries in 2021.

Table 3: Central America's Country Wise Top Export Items

Country	Total Exports in 2021 (US\$ bn)	HS Code	Top 5 Export Items	Share in 2021 (%)
Costa Rica	14.3	90	Optical, photographic, cinematographic, measuring, checking, precision, medical apparatus	36.1
		8	Edible fruit and nuts; peel of citrus fruit or melons	16.2
		21	Miscellaneous edible preparations	5.4
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television	4.3
		39	Plastics and articles thereof	3.1
Guatemala	13.6	9	Coffee, tea, maté and spices	10.7
		61	Articles of apparel and clothing accessories, knitted or crocheted	10.5
		8	Edible fruit and nuts; peel of citrus fruit or melons	9.4
		15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats	6.7
		72	Iron and steel	4.8

Country	Total Exports in 2021 (US\$ bn)	HS Code	Top 5 Export Items	Share in 2021 (%)
Dominican Republic	11.8	71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals	21.6
		24	Tobacco and manufactured tobacco substitutes	10.5
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	10.1
		90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical apparatus	10.0
		72	Iron and steel	5.4
Panama	13.4	26	Ores, slag and ash	21.0
		30	Pharmaceutical products	13.2
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	10.5
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	9.0
		64	Footwear, gaiters and the like; parts of such articles	5.9
Honduras	5.0	9	Coffee, tea, maté and spices	26.2
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	17.8
		3	Fish and crustaceans, molluscs and other aquatic invertebrates	12.1
		15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats	6.2
		8	Edible fruit and nuts; peel of citrus fruit or melons	5.6
Nicaragua	6.5	61	Articles of apparel and clothing accessories, knitted or crocheted	18.9
		71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad	14.6
		2	Meat and edible meat offal	11.7
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	9.2
		9	Coffee, tea, maté and spices	7.9
El Salvador	5.7	61	Articles of apparel and clothing accessories, knitted or crocheted	21.5
		39	Plastics and articles thereof	9.1
		48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	6.8
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	1.5
		27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	4.8
Belize	0.2	17	Sugars and sugar confectionery	29.9
		8	Edible fruit and nuts; peel of citrus fruit or melons	18.0
		3	Fish and crustaceans, molluscs and other aquatic invertebrates	10.4
		20	Preparations of vegetables, fruit, nuts or other parts of plants	7.0
		22	Beverages, spirits and vinegar	6.1

Source: ITC Trademap; India Exim Bank Analysis

Central America's Top Imports

The composition of Central America's imports has remained more or less similar in last two decades, with mineral fuels and oils being the top import item in 2001, 2011 and 2021. In 2021, it amounted for 13.6% of total imports of Central America amounting to US\$ 17.9 billion, followed by electronics (8.1% of total imports; US\$ 10.6 billion), machinery and mechanical appliances (8.1%; US\$ 10.6 billion), plastics and its articles (6.1%; US\$ 8 billion), vehicles other than railway or tramway (6%; US\$ 7.9 billion) and pharmaceutical products (5.5%; US\$ 7.2 billion) (Table 4).

Table 4: Central America's Top Imports- Product Wise (US\$ million)

Code	Product label	2001	2011	2021
Total	All products	30598.9	102767.2	131074.0
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	4379.2	17878.5	17857.0
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	3319.7	10192.9	10563.4
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	2922.3	7905.9	10553.5
39	Plastics and articles thereof	1359.3	4796.7	7980.5
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	2487.3	5592.9	7890.6
30	Pharmaceutical products	1147.2	4069.9	7239.4
72	Iron and steel	804.5	2971.1	5185.6
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	1146.1	2703.3	3444.9
10	Cereals	665.2	2298.7	3151.5
73	Articles of iron or steel	537.8	1807.8	2659.4
38	Miscellaneous chemical products	501.0	1228.3	2308.1
90	Optical, photographic, cinematographic, measuring, checking, precision, medical apparatus	429.8	1535.8	2276.7
21	Miscellaneous edible preparations	478.4	1296.9	2149.4
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	355.4	1613.1	2006.4
22	Beverages, spirits and vinegar	174.5	1004.7	1925.7
62	Articles of apparel and clothing accessories, not knitted or crocheted	343.1	2304.4	1851.4
23	Residues and waste from the food industries; prepared animal fodder	232.6	831.7	1775.9
61	Articles of apparel and clothing accessories, knitted or crocheted	285.9	1362.1	1728.7
29	Organic chemicals	329.3	4401.1	1710.3

Source: ITC Trademap; India Exim Bank Analysis

Table 5 presents the top five imports of all Central American countries in 2021.

Table 5: Central America's Country Wise Top Import Items

Countries	Total Imports in 2021 (US\$ bn)	HS Code	Top 5 Import Items	Share in 2021 (%)
Dominican Republic	26.9	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	15.8
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	7.9
		39	Plastics and articles thereof	7.8
		87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	7.1
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	6.6
Guatemala	26.6	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	15.0
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	7.8
		87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	7.5
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	7.5
		39	Plastics and articles thereof	6.3
Panama	20.6	84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	10.5
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	10.3
		27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	9.5
		30	Pharmaceutical products	9.2
		87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	5.2
Costa Rica	18.4	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	9.4
		27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	9.3
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	8.6
		39	Plastics and articles thereof	8.5
		90	Optical, photographic, cinematographic, measuring, checking, precision, medical apparatus	5.3

Countries	Total Imports in 2021 (US\$ bn)	HS Code	Top 5 Import Items	Share in 2021 (%)
El Salvador	15.6	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	15.3
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	7.8
		39	Plastics and articles thereof	6.1
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	7.0
		87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	4.0
Honduras	11.6	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	14.4
		87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	7.9
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	7.4
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	7.3
		72	Iron and steel	6.2
Nicaragua	10.2	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	17.2
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	8.6
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	5.2
		30	Pharmaceutical products	5.2
		60	Knitted or crocheted fabrics	5.0
Belize	1.0	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	12.7
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	10.7
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers	5.1
		24	Tobacco and manufactured tobacco substitutes	4.8
		87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	4.1

Source: ITC Trademap; India Exim Bank Analysis

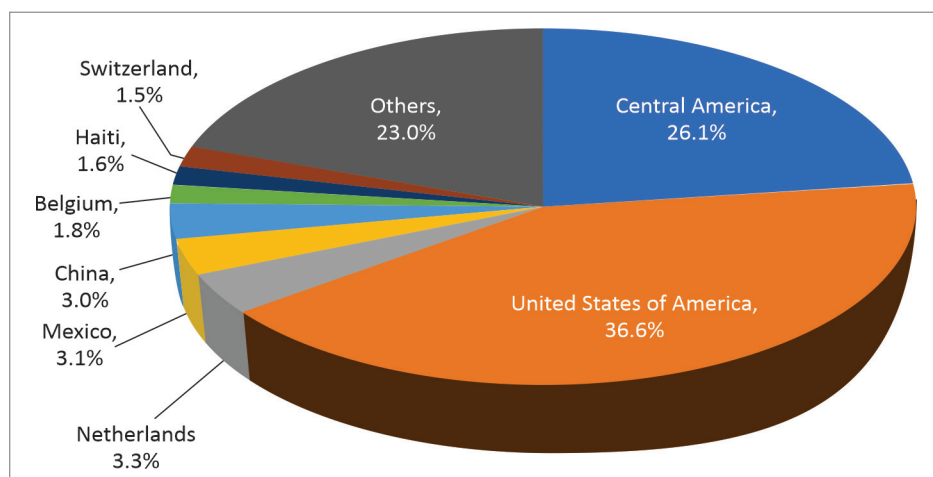
Central America's Trade Partners

Top Export Destinations

The US has been the top trading partner for Central America. The US has been the largest export destination for exports from Central America. The US, which imported 35.7% of the region's total exports in 2001,

continued to import 36.6% of total exports of the region in 2021. India is very small as a destination for Central America's exports currently. In 2021, the region exported goods worth US\$ 1 billion to India, which amounted to 1.4% of region's overall merchandise exports globally. The region is also well integrated in terms of intra-regional trade. Within Central America, Honduras (which accounted for 5.8%), El Salvador (4.6%), Guatemala (4.1%) and Nicaragua (3.7%) are the top export destination for the other Central American countries (**Figure 6**).

Figure 6: Central America's Top Export Destinations, (% Share 2021)



Source: ITC Trademap; India Exim Bank Analysis

Table 6 presents top five export destinations of Central American countries.

Table 6: Major Export Destination for Central American Countries

Exporter	Total Exports (US\$ bn 2021)	Top 5 Exporting Destinations	Share in 2021 (%)
Costa Rica	14.3	United States of America	43.7
		Netherlands	7.2
		Belgium	5.2
		Guatemala	4.9
		Panama	4.1
Guatemala	13.6	United States of America	31.8
		El Salvador	12.7
		Honduras	10.3
		Nicaragua	6.2
		Mexico	4.4

Exporter	Total Exports (US\$ bn 2021)	Top 5 Exporting Destinations	Share in 2021 (%)
Dominican Republic	11.8	United States of America	55.3
		Switzerland	8.1
		Haiti	8.1
		India	6.3
		Netherlands	3.5
Panama	13.4	China	8
		United States of America	7.6
		Panama	7.3
		Costa Rica	6.1
		Colombia	5.4
Honduras	5.0	United States of America	43.3
		Germany	6.7
		El Salvador	5.9
		Guatemala	4.5
		Nicaragua	4.3
Nicaragua	6.5	United States of America	56.4
		Mexico	11.8
		El Salvador	5.9
		Honduras	5.2
		Costa Rica	2.9
El Salvador	5.7	United States of America	31.1
		Guatemala	20.9
		Honduras	18.3
		Nicaragua	8.4
		Costa Rica	5
Belize	0.2	United States of America	22.4
		United Kingdom	23.5
		Guatemala	7.2
		Honduras	3.7
		Spain	4.2

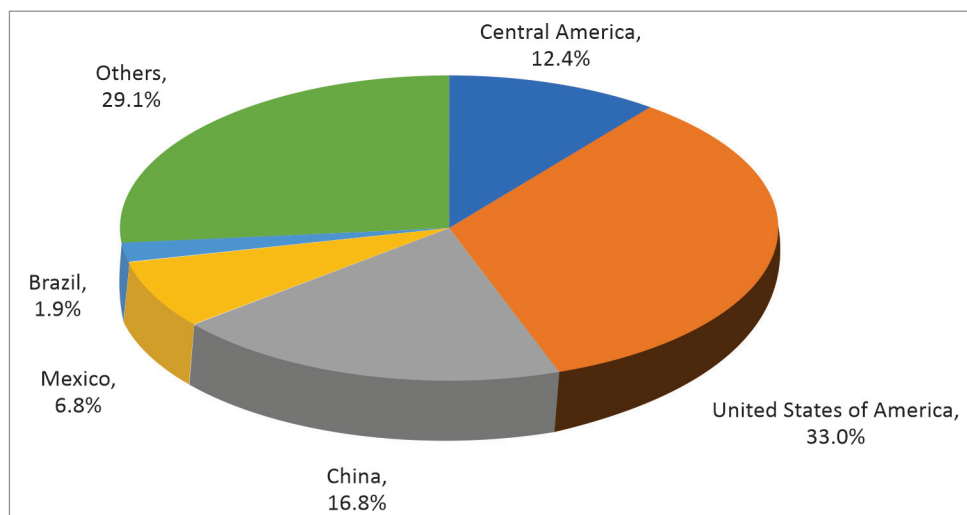
Source: ITC Trademap; India Exim Bank Analysis

Top Import Sources

As stated earlier, the US is the biggest trading partner of Central America. Thus, US remains the top import source for the region, however, the share of the country (in total imports of the region) has declined from 41% in 2001 to 33% in 2021. In spite of the geographical distance, interestingly, China has emerged as the second most important source of imports for the region. China's share in the region's imports has increased from 1% in 2001 to 16.8% in 2021. Central America imported merchandise good worth US\$ 2.1 billion from

India in 2021, which amounted to miniscule share of 1.6% of its total imports during the year. **Figure 7** highlights the top sources of imports for Central American countries in 2021. Within the Central American region, Guatemala with the share of 3.4%, followed by Costa Rica (2.5%), El Salvador (2.1%), And Honduras (2%) are the top import sources for the other Central American countries.

Figure 7: Central America's Top Import Sources, (% Share 2021)



Source: ITC Trademap; India Exim Bank Analysis

Table 7 presents the top five import sources for Central American countries.

Table 7: Major Import Sources for Central American Countries

Importer	Total Imports 2021 (US\$ bn)	Top 5 Importing Sources	Share in 2021 (%)
Dominican Republic	26.9	United States of America	42.6
		China	17.3
		Mexico	3.5
		Spain	3.3
		Brazil	3.2
Guatemala	26.6	United States of America	34
		China	13.9
		Mexico	10.5
		El Salvador	5
		Costa Rica	3.1
Panama	20.6	China	26.6
		United States of America	17.9
		Free Zones	13
		Mexico	4.3
		Singapore	2.7

Importer	Total Imports 2021 (US\$ bn)	Top 5 Importing Sources	Share in 2021 (%)
Costa Rica	18.4	United States of America	37.7
		China	15.9
		Mexico	6.4
		Guatemala	2.7
		Germany	2.3
El Salvador	15.6	United States of America	33.3
		China	11.3
		Guatemala	12.8
		Mexico	7.8
		Honduras	4.5
Honduras	11.6	United States of America	34.3
		China	17.9
		Mexico	7.6
		Guatemala	5.6
		El Salvador	4.4
Nicaragua	10.2	United States of America	24.0
		China	12.0
		Mexico	8.5
		Netherlands	7.1
		Guatemala	7.1
Belize	1.0	United States of America	35.4
		China	16
		Mexico	12.9
		Guatemala	12.2
		Trinidad and Tobago	1.8

Source: ITC Trademap; India Exim Bank Analysis



India's Trade Relations with Central America

In the present era of rapidly changing global economic landscape, diversification of trade partners and access to new markets is increasingly being seen as an imperative to sustained economic and trade growth. The Latin America and the Caribbean (LAC) region remains an important regional power for India. The sub region of Central America, which acts as a bridge between North and South America, is evolving as a region of special interest for India in the LAC region.

Central American Integration System (SICA) is the institutional framework for regional integration of Central America. SICA consists of seven full members: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama; along with Dominican Republic as an associate member. Mexico, Chile, Brazil, Argentina, Peru, the United States of America, Ecuador, Uruguay and Colombia, are part of SICA as Regional Observers; Spain, Taiwan, Germany, Italy, Japan, Australia, South Korea, France, The Holy See, the United Kingdom, the European Union, New Zealand, Morocco, Qatar and Turkey are the System's extra regional observers⁶.

India attaches high importance to its relations with SICA. Bilateral trade and investments have emerged as main drivers of deepening relationships between the regions. The first India and SICA Foreign Ministers' meeting was held in February 2004, followed by the Second meeting in June 2008. The last round of talks took place in Guatemala City in 2015. In order to consolidate India's presence in the region, the Central American Bank for Economic Integration (CABEI)⁷, a multilateral development financial institution headquartered in Tegucigalpa, Honduras has invited India to become its extra regional partner.

India and Central America's trade has shown remarkable growth since the turn of the century. Total trade which stood at US\$ 159.1 million in 2001, has grown to reach US\$ 2.9 billion in 2021. India's exports to Central America were at US\$ 147.4 million in 2001, and with consistent growth, the exports breached the US\$ 1 billion mark in 2014, and since then exports have been over US\$ 1 billion every year. Exports peaked at US\$ 1.9 billion in 2021. India's exports to Central America have shown resilience in the pandemic year as well, with export of US\$ 1.1 billion in 2020. India's imports from Central America were a paltry US\$ 11.7 million in 2001, crossed the US\$ 100 million mark in 2004. Since then, imports have also registered consistent growth, and merchandise imports peaked at US\$ 987.3 million in 2021 (**Figure 8**).

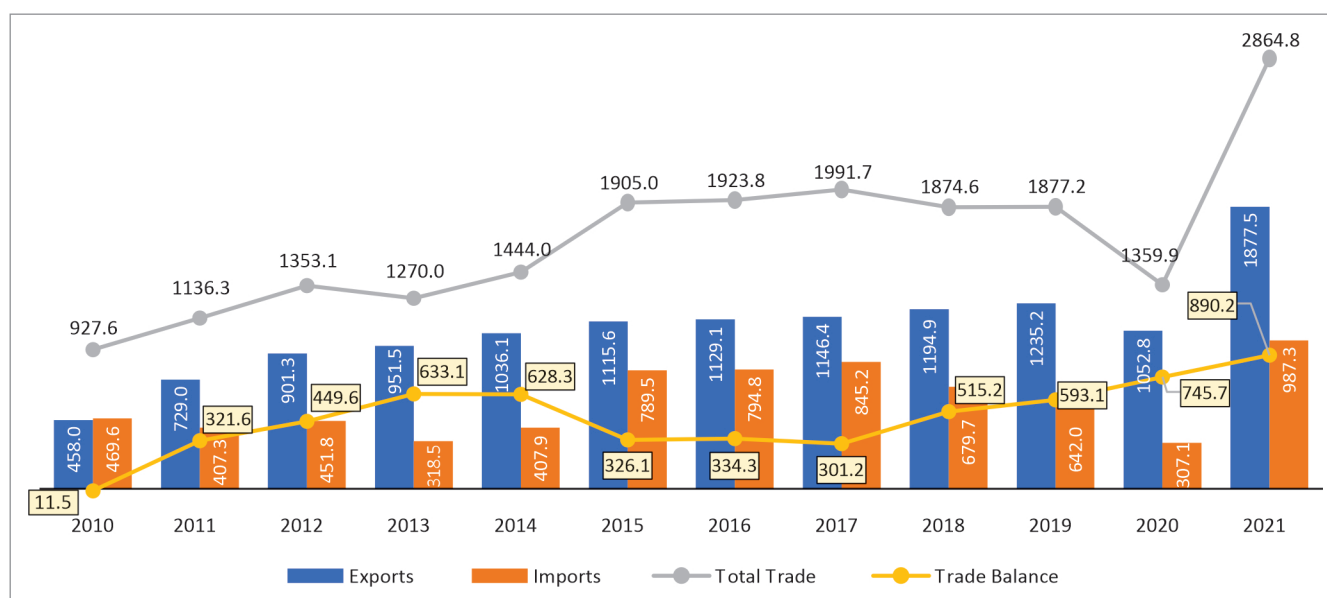
India runs a positive trade balance with the Central American region. India's trade surplus amounted to US\$ 135.7 million in 2001 and has since then increased to US\$ 890.2 million in 2021 (**Figure 8**). India

⁶ SICA: Central America Integration System- Official Website

⁷ www.bcie.org

registered a trade deficit with the region during 2009 and 2010, during which the deficit with the region amounted to US\$ 164.1 million and US\$ 11.5 million, respectively.

Figure 8: India Trade with Central America (US\$ million)



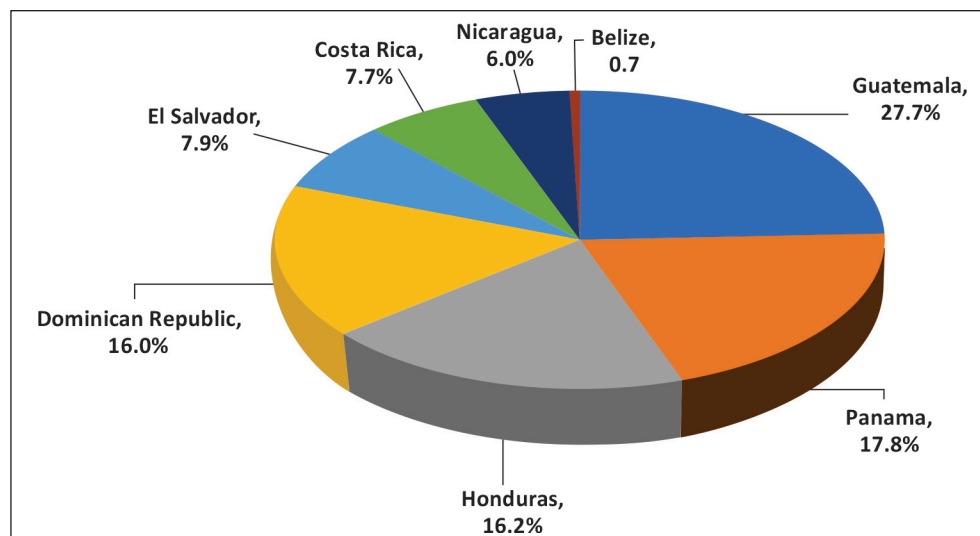
Source: ITC Trademap; India Exim Bank Analysis

India's Major Trade Partners in Central America

India's Top Export Destinations in Central America

India's total merchandise exports to Central America in 2021 amounted to US\$ 1.9 billion. Guatemala, with a share of 27.7% was the largest market for India's exports in the region in 2021. Panama, with a share of 17.8% and Honduras, with a share of 16.2% and Dominican Republic with the share of 16% were the second, third and fourth largest export markets for India's exports in 2021, respectively (Figure 9).

Figure 9: Top Export Destinations in Central America for India's Exports (% , 2021)

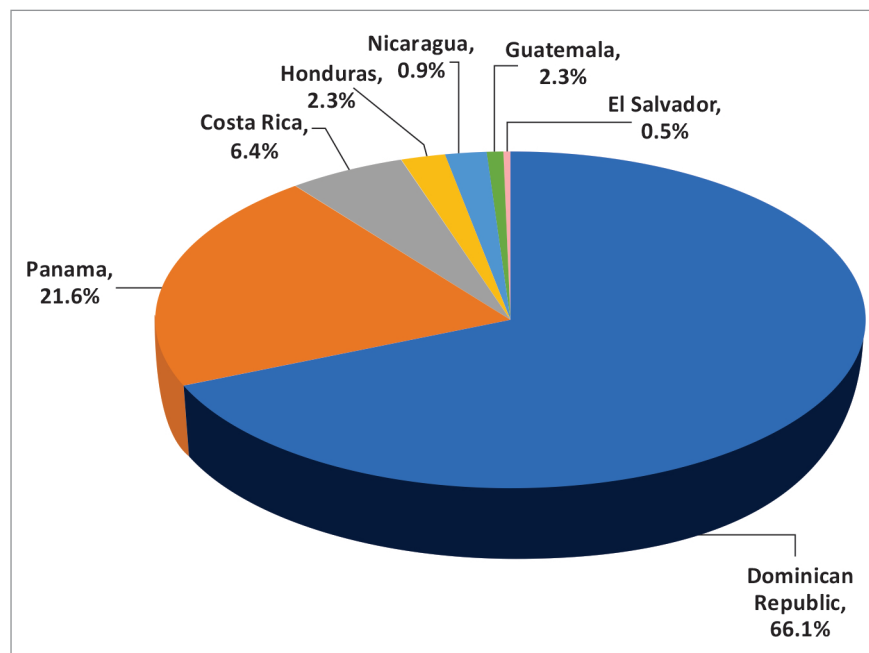


Source: ITC Trademap; India Exim Bank Analysis

India's Top Import Sources in from Central America

India's imports from Central America in 2021 stood at US\$ 1 billion. Dominican Republic, with a share of 66.1% was the largest source of imports for India from Central America. Other major countries supplying to India in the same year were- Panama (with a share of 21.6%), Costa Rica (6.4%), and Honduras (2.3%) (Figure 10).

Figure 10: India's Top Import Sources from Central America (% , 2021)



Source: ITC q ap; India Exim Bank Analysis

Major Products Traded between India and Central America

India's Top Exports to Central America- Product wise

India's major export item to Central America in 2021 was transport vehicles, with a share of 21.7% in total exports to the region amounting to US\$ 408.2 million. Other major export categories for India were pharmaceutical products (13.2% of total exports in 2021), cotton (8.6%), mineral fuel and oils (6.4%), tanning or dyeing extracts (5.9%), and machinery and mechanical appliances (4%) (Table 8).

Table 8: India's Major Exports to Central America (US\$ million)

HS Code	Product Label	2019	2020	2021
	All products	1235.2	1052.8	1877.5
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	270.9	218.5	408.2
30	Pharmaceutical products	179.1	181.4	248.5
52	Cotton	54.9	50.1	160.7
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral	7.3	5.9	119.3

HS Code	Product Label	2019	2020	2021
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring	95.2	53.6	110.9
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	47.2	47.1	74.2
72	Iron and steel	23.7	14.0	67.4
39	Plastics and articles thereof	44.3	47.0	66.9
61	Articles of apparel and clothing accessories, knitted or crocheted	50.9	29.4	59.2
38	Miscellaneous chemical products	47.9	53.8	55.5
29	Organic chemicals	35.1	36.0	42.6
40	Rubber and articles thereof	29.0	24.2	34.4
69	Ceramic products	11.1	17.0	32.2
55	Man-made staple fibres	21.2	13.8	31.5
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical	21.5	24.1	31.3
60	Knitted or crocheted fabrics	9.4	2.6	31.3
62	Articles of apparel and clothing accessories, not knitted or crocheted	33.6	17.2	28.2
3	Fish and crustaceans, molluscs and other aquatic invertebrates	14.0	11.3	26.3
73	Articles of iron or steel	30.3	17.4	25.6

Source: ITC Trademap; India Exim Bank Analysis

India's Exports to Central America– Top Destinations, Product wise

Table 9 presents the top five export products from India to all Central American countries in 2021.

Table 9: India's Exports to Central America- Top Destinations, Product wise

Country	Exports (US\$ million)	HS Code	Product	Share (%, 2021)
Guatemala	519.8	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	30.9
		52	Cotton	19.6
		30	Pharmaceutical products	12.2
		72	Iron and steel	5.2
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	3.8
Dominican Republic	300.4	30	Pharmaceutical products	21.2
		87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	16.1
		3	Fish and crustaceans, molluscs and other aquatic invertebrates	8.3
		52	Cotton	6.5
		72	Iron and steel	6.3

Country	Exports (US\$ million)	HS Code	Product	Share (%, 2021)
Panama	334.9	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances	32.9
		61	Articles of apparel and clothing accessories, knitted or crocheted	14.6
		87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	12.9
		62	Articles of apparel and clothing accessories, not knitted or crocheted	6.8
		30	Pharmaceutical products	6
Honduras	304.1	32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring	26.7
		87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	16.5
		30	Pharmaceutical products	10.6
		52	Cotton	9.6
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	6
Costa Rica	144.1	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	25
		38	Miscellaneous chemical products	16.9
		30	Pharmaceutical products	11
		90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical	9.4
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	5.6
El Salvador	148.2	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	24.8
		60	Knitted or crocheted fabrics	20.3
		30	Pharmaceutical products	18.7
		29	Organic chemicals	4.3
		55	Man-made staple fibres	3.5
Nicaragua	112.8	87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	29.5
		30	Pharmaceutical products	21.9
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	7.4
		52	Cotton	4.9
		39	Plastics and articles thereof	4
Belize	13.2	24	Tobacco and manufactured tobacco substitutes	48.3
		62	Articles of apparel and clothing accessories, not knitted or crocheted	13.6
		72	Iron and steel	10.8
		30	Pharmaceutical products	8.3
		38	Miscellaneous chemical products	5.1

Source: ITC Trademap; India Exim Bank Analysis

India's Top Imports from Central America Product wise

Table 10 presents India's top imports from Central America. In 2021, natural or cultured pearls, precious or semi-precious stones constituted for 62.3% of India's total imports from the region. Other major import products in the same year were ore, slag and ash (16.3%), wood and articles of wood (9.4%), iron and steel (4.2%), pulp of wood (2.3%), and machinery and mechanical appliances (1.3%).

Table 10: India's Major Imports from Central America (US\$ million)

HS Code	Product Label	2019	2020	2021
	All products	642.0	307.1	987.3
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad	437.0	177.9	615.1
26	Ores, slag and ash	33.4	0.2	160.5
44	Wood and articles of wood; wood charcoal	92.9	56.3	92.8
72	Iron and steel	31.0	21.9	41.7
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper	9.8	11.7	22.7
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	1.8	9.3	12.5
76	Aluminium and articles thereof	10.3	7.1	11.8
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television	1.7	1.9	9.7
9	Coffee, tea, maté and spices	7.1	9.6	5.9
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical apparatus	4.0	2.8	4.2
74	Copper and articles thereof	1.5	1.8	2.0
18	Cocoa and cocoa preparations	0.0	0.1	1.8
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal	0.9	0.8	1.1
79	Zinc and articles thereof	2.1	0.7	0.8
39	Plastics and articles thereof	0.6	0.6	0.7
52	Cotton	0.1	0.0	0.4
7	Edible vegetables and certain roots and tubers	0.0	0.0	0.4
23	Residues and waste from the food industries; prepared animal fodder	0.4	0.2	0.3
41	Raw hides and skins (other than furskins) and leather	0.5	0.2	0.2
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring	0.1	0.2	0.2

Source: ITC Trademap; India Exim Bank Analysis

India's Imports from Central America – Top Sources, Product wise

Table 11 presents India's top five imports from all Central American countries in 2021.

Table 11: India's Imports from Central America- Top Sources, Product Wise

Country	Imports (US\$ million)	HS Code	Product	Share (%, 2020)
Dominican Republic	653.1	71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad	94.2
		72	Iron and steel	2.3
		47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper	1.7
		76	Aluminium and articles thereof	0.8
		90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical	0.4
Costa Rica	62.7	44	Wood and articles of wood; wood charcoal	54.7
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	17.4
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television	13.5
		72	Iron and steel	7.6
		90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical	2.4
Panama	213.4	26	Ores, slag and ash	75.0
		44	Wood and articles of wood; wood charcoal	20.5
		72	Iron and steel	2.5
		76	Aluminium and articles thereof	0.9
		47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper	0.4
Guatemala	22.4	44	Wood and articles of wood; wood charcoal	35.9
		47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper	20.9
		9	Coffee, tea, maté and spices	19.5
		72	Iron and steel	6.9
		76	Aluminium and articles thereof	5.9
Honduras	22.6	72	Iron and steel	59.8
		47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper	10.5
		76	Aluminium and articles thereof	10.1
		9	Coffee, tea, maté and spices	6.9
		44	Wood and articles of wood; wood charcoal	2.8

Country	Imports (US\$ million)	HS Code	Product	Share (%, 2020)
Nicaragua	8.5	44	Wood and articles of wood; wood charcoal	53.8
		47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper	15.8
		72	Iron and steel	13.9
		7	Edible vegetables and certain roots and tubers	4.2
		52	Cotton	2.8
El Salvador	4.3	44	Wood and articles of wood; wood charcoal	37.5
		47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper	29.7
		76	Aluminium and articles thereof	12.8
		84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	7.7
		8	Edible fruit and nuts; peel of citrus fruit or melons	2.6
Belize	0.4	23	Residues and waste from the food industries; prepared animal fodder	76.1
		60	Knitted or crocheted fabrics	11
		76	Aluminium and articles thereof	8.4
		85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television	3.3
		58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	1.0

Source: ITC Trademap; India Exim Bank Analysis

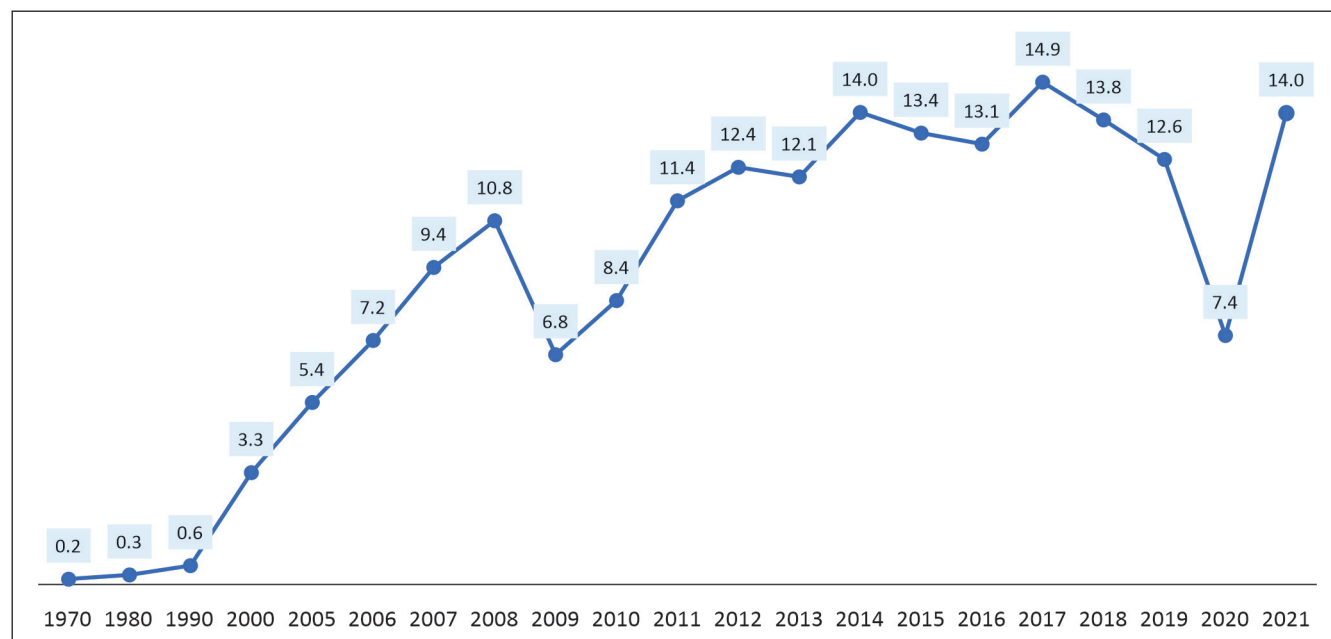


Investment Scenario in Central American Countries

The Foreign Direct Investment (FDI) inflows amounted to US\$ 0.3 billion in 1970 and remained more or less stagnated for the next two decades. The FDI inflows were recorded at US\$ 0.5 billion in 1980 and US\$ 0.6 billion in 1990. FDI inflows witnessed substantial growth during the 1990s and reached at US\$ 3.3 billion in 2000. Since the turn of the century, FDI inflows saw a consistent growth and they reached a peak of US\$ 10.8 billion in 2008. However, the financial meltdown of 2008 impacted the FDI inflows into Central America in a big way and the following year inflows collapsed to US\$ 6.8 billion.

Post the financial crisis, FDI inflows witnessed a robust recovery, and the previous decade saw continued inflows at high-level. FDIs peaked at US\$ 14.9 billion in 2017. In 2020, on the back of Covid-19 related economic crisis, FDI inflows in the region almost narrowed to US\$ 7.4 billion, the lowest value post financial crisis.

Figure 11: FDI Inflows in Central American Countries (US\$ billion)



Source: UNCTAD FDI Data; India Exim Bank Analysis

FDI Inflows- Top Countries

The following table presents country wise breakup of FDI inflows in Central America. In 2021, Guatemala, Costa Rica, and Dominican Republic, were the top FDI attracting countries in the region. In 2020, Panama took the hardest hit in its FDI inflows, which fell from US\$ 4,062 million in 2019 to US\$ 606.7 million in 2020, mainly as a result of the Covid-19 pandemic.

Table 12: FDI Inflows in the Central America- Country Wise Share (US\$ million)

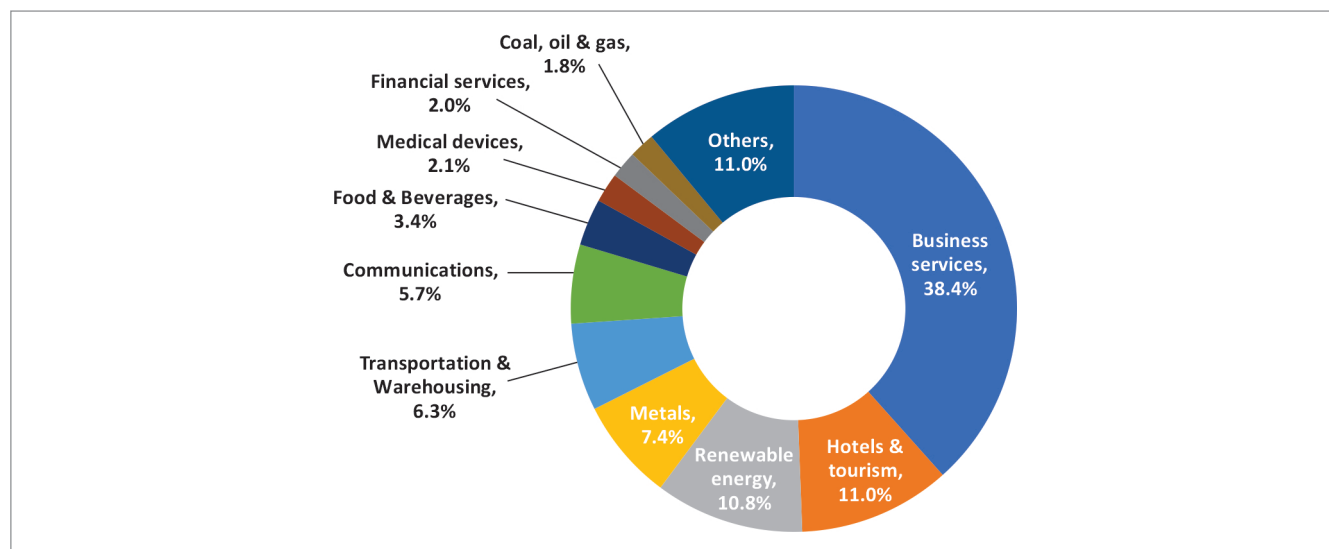
	2000	2010	2019	2020	2021	% Share in 2021
Belize	23.3	97.2	93.9	76.2	127.8	0.9%
Costa Rica	666.9	1683.5	2812.3	1762.7	3195.7	22.9%
Dominican Republic	952.9	2023.7	3021.0	2559.6	3102.1	22.2%
El Salvador	173.4	-230.3	636.2	279.9	314.2	2.2%
Guatemala	229.6	658.3	976.1	931.8	3471.7	24.8%
Honduras	381.7	969.1	498.1	418.6	700.2	5.0%
Nicaragua	266.5	489.9	503.0	746.5	1220.1	8.7%
Panama	623.9	2723.3	4062.9	606.7	1843.8	13.2%
Total	3318.3	8414.8	12603.5	7382.0	13975.6	100.0%

Source: UNCTAD FDI Data; India Exim Bank Analysis

FDI Inflows- Top Sectors

During January 2013 to December 2022, 38.4% of the total FDI inflows in the region were attributed to the business services sector. This was followed by 11% of investments being absorbed by hotels and tourism, 10.8% by renewable energy, 7.4% by metals, 6.3% by transport and warehousing, and 5.7% by communications.

Figure 12: Top Sector Attracting FDI in Central America (2003-2021)



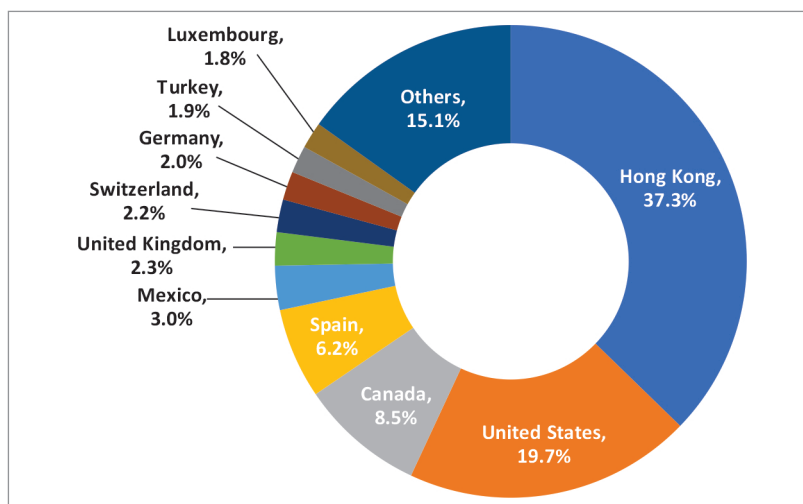
Source: fDI Markets; India Exim Bank Analysis; Data Ranging from January 2013 to December 2022

Note: FDI Markets tracks cross-border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency.

Top Investing Countries in Central America

During the time period January 2013 to December 2022, Hong Kong was the top investing country in Central America, with a share of 37.3% in total investment inflows into the region. Hong Kong was followed by the US (19.7% share in total FDI inflows during the same time period), Canada (8.5%), Spain (6.2%), and Mexico (3%). According to the same data, India's investments in Central America during January 2013 to December 2022 amounted to US\$ 48.5 million, accounting for a minuscule 0.04% of total investment flows of the region. With this, India ranked the 46th largest investor in the region.

Figure 13: Top Investing Countries in Central America (2013-2022)



Source: fDI Markets; India Exim Bank Analysis

Note: FDI Markets tracks cross-border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency.

Indian Investments in Central America

As per the data provided by India's central bank i.e., Reserve Bank of India, India's investments in Central America during April 1996 to March 2023 amounted to US\$ 2.7 billion. It is important to note that 99% of India's investments in this period were concentrated in Panama. India has miniscule investments in other countries in the region such as Costa Rica, Honduras, Guatemala and Belize.

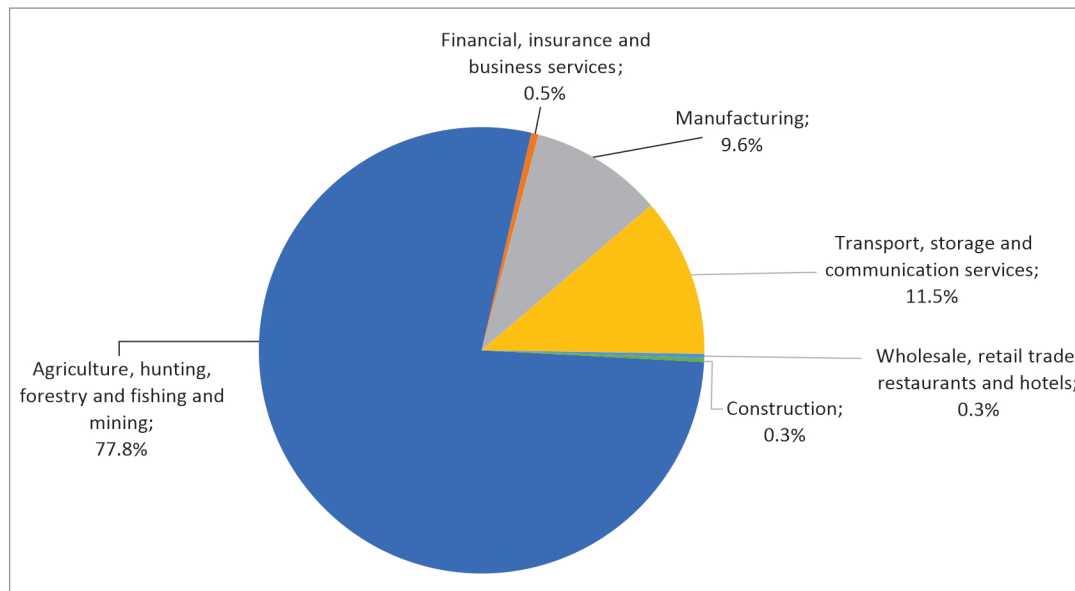
Table 13: OFDI from India to Central American Countries (US\$ million)

Name of the country	Apl. 1996 to March 2011	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Apl. 1996 to March 2023
Belize	1.8	-	-	-	0.1	-	-	-	0.0	0.0	-	-	-	1.8
Costa Rica	0.0	-	-	-	-	-	-	-	-	5.8	1.1	-	2.3	9.1
Dominican Republic	0.0	-	-	-	-	-	-	-	-	0.0	-	-	-	0.0
Guatemala	1.4	1.8	0.1	-	-	-	1.6	1.9	-	0.0	0.3	-	-	7.2
Honduras Republic	0.6	-	5.0	2.5	0.0	0.0	-	-	-	0.0	-	-	-	8.1
Panama	336.0	1889.9	19.8	61.9	18.8	155.1	36.4	29.6	35.2	12.6	11.2	26.2	0.3	2633.1
Total	339.7	1891.7	24.9	64.4	18.9	155.1	38.1	31.5	35.2	18.4	12.5	26.2	2.6	2659.3

Source: RBI database on monthly OFDI from India and India Exim Bank Analysis

During April 2010 to March 2023, 77.8% of India's investments in Central America are in the agriculture and mining sector, followed by 11.5% in transport, storage and communication services, 9.6% in manufacturing, among others. Investments in the same period in sectors like financial, insurance and business services; wholesale, retail trade, restaurants and hotels and construction sectors are negligible.

Figure 14: India's OFDI to Central America - Sector Wise Share (2010-23)



Source: RBI database on monthly OFDI from India and India Exim Bank Analysis

Indian Investments in Panama

Over 99% of India's OFDI to Central America is concentrated in Panama. During April 1996 to March 2023, India's OFDI to the country amounted to US\$ 2.6 billion. Agriculture and mining, with a share of 78.5% remains the top sector for India's investments in the country. This was followed by transport, storage and communications service, with a share of 11.6% and manufacturing, with a share of 9.6%.

Indian Investments in Honduras

India's OFDI in other Central American countries is miniscule. Honduras received OFDI of US\$ 8.1 million from India during April 1996 to March 2023. These investments were concentrated in the wholesale, retail trade, restaurants and hotels sector.

Indian Investments in Guatemala

During April 1996 to March 2023, India's OFDI to Guatemala amounted to US\$ 7.2 million. India's investments were concentrated in manufacturing sector and financial, insurance, real estate and business services;. There are around 15 Indian companies being represented in Guatemala from pharmaceuticals, two-wheelers, three-wheelers, automobiles and IT sectors. Companies like Praj Industries, IGSEC Heavy Engineering Ltd, Hero MotoCorp, Mahindra & Mahindra, Cipla, Himalaya Drugs, MSN Drugs are active in Guatemala.

Indian Investments in Costa Rica

During April 1996 to March 2023, India's OFDI to Costa Rica amounted to US\$ 9.1 million only. India's investments were in the financial, insurance, real estate and business services sector. Leading IT companies, viz. Infosys, Wipro, WNS, L&T Infotecand CSS Corp are operating in San Jose. Recently United Phosphorus Ltd (UPL) has also established a unit in Costa Rica which will be its regional Headquarters. Gravita is also operating there.

Indian Investments in Belize

Belize received OFDI of US\$ 1.8 million from India during April 1996 to March 2023. These investments were concentrated in financial, insurance, real estate and business services sector.



Investment Opportunities in Central American Countries

Belize

Belize is the only English-speaking country in Central America. Its location, unlike other Caribbean states, has allowed the country to gradually establish strong links with its geographic Spanish-speaking Central American neighbours. This feature makes it an attractive destination for FDI as potential investors could leverage Belize as a gateway into Latin American markets such as Panama, Brazil and Colombia.

The government of Belize provides a range of incentives, towards the creation of an enabling environment for private enterprise, to attract investments in Belize by both local and foreign investors. The conditions to qualify for the different incentives vary, as do the investment incentives themselves. Benefits are dependent upon the type of incentive awarded to the potential investor.

Targeted Sectors for Investment: Beltraide^{8and9}, the official trade and investment organisation of Belize lists fisheries and aquaculture, tourism and medical tourism, agribusiness and agribusiness, light manufacturing, logistics, information technology enabled service (BPO, includes financial services), sustainable energy, as priority sectors for attracting investments in the country.

Incentives: The country boasts several attractive incentives for investors. These include:

- *The Fiscal Incentive Programme:* The Fiscal Incentive Programme aims to encourage genuine investment in Belize for both existing and prospective investors through the granting of Customs duty exemptions. The Programme provides a legal and fiscal framework to stimulate productive economic activities that will ultimately contribute to the overall development of Belize.

Full Duty Exemption:

- Duty exemption of up to a maximum of 15 years to companies granted an Approved Enterprise Order.
- Duty exemption may be renewed for a further term of 10 years or a total of 25 years for companies engaged in agriculture, agro-industrial products, mari-culture, food processing and manufacturing with operations centered on export, and that are highly labor intensive.

⁸ <https://www.beltraide.bz/>

⁹ BelizeINVEST is a division of the Belize Trade and Investment Development Service (BELTRAIDE), which is a statutory body of the Government of Belize under the Ministry of Economic Development, Petroleum, Investment, Trade & Commerce. BelizeINVEST provides tailored services to local and foreign investors seeking to capitalize on investment and to link investors to opportunities in Belize.

- *Designated Processing Areas (DPA)*: This incentive offers Import Duty and Tax Exemptions, exemptions from property and land taxes on the designated area, exemptions from Excise and Consumption (GST) taxes on imported inputs, preferential tax rate based on Chargeable Income as per the Income and Business Tax Act (Amendment Act, No.26 of 2018). Investors will be able to open foreign currency bank accounts in Belize, to sell, lease or transfer goods and services between DPA companies. Customs inspection is available at the designated area for expediency. Work permits may be granted for up to 15% of workers of the DPA (Senior Management or Technical Staff). Supplies Control and Import Licenses do not apply to inputs used for exports and exemption from the Trade Licensing Act.
- *Commercial free zones (CFZ)*: The Free Zones Act of 2005 was established to attract foreign investment and provides for various activities including manufacturing, processing, packaging, warehousing and distribution of goods and services. Merchandise warehoused in a CFZ may be sold free of duty wholesale or retail:
 - to diplomats of other countries.
 - to ships that dock at ports in Belize.
 - for direct export whether by sea, air or land.
 - for entry into national customs territory (related import duties and taxes become payable upon entry into national customs territory).

Benefits of CFZs in Belize

Duty exemptions available to investors in a CFZ on:

- merchandise, articles or other goods entering a CFZ for commercial purpose.
- fuel and goods including building materials, furniture, equipment, supplies and parts required for the proper functioning of the CFZ business.
- exemption from income tax, capital tax, gains tax or any new corporate tax levied by the Government of Belize during the first 10 years of operation.
- exemption from such tax for the first 25 years of operation on dividends paid by a CFZ business.
- imports or exports by a CFZ business do not require an import or export license.
- no restrictions on the sale of foreign currency or transfer of foreign exchange in a CFZ.
- no Government charges and taxes imposed on the use of foreign currency in a CFZ.
- CFZ businesses are allowed to open an account in any currency with any registered bank.
- income tax deductions on the chargeable income of every developer and CFZ business after the first 10 years of operation.
- CFZ businesses incurring a net loss over the 10-year tax holiday may deduct the loss against profits in the 3 years following the tax holiday period.
- *International Business Companies (IBC) Act*: Offers investors, who solely or jointly incorporate a company under the Act, exemption from taxes on all income, exemption from taxes on all dividends and exemption from taxes on all interests, rent, royalties, compensations and other amounts.
- *International Banking Act*: The International Banking Act establishes two categories of international banking licenses in Belize: an “A” Class – Unrestricted license and a “B” Class – Restricted license. Both “A” Class and “B” Class licenses require the holder to establish, maintain and operate a business office (physical presence) in Belize. The holder of an “A” Class license is permitted to transact international

banking business through its business office in Belize without restrictions on that business. The holder of a “B” Class license is limited to transacting only such international banking business as is specified in its license.

For more information contact: Beltraide

Email: beltraide@belizeinvest.org.bz

Costa Rica

Costa Rica is located between Nicaragua and Panama and borders both the Caribbean Sea and Pacific Ocean. Costa Rica’s GDP in 2022 amounted to US\$ 68.4 billion. After contracting by 4.3% in 2020, on the back of Covid-19 pandemic, the economy has bounced back with a growth rate of 7.8% registered in 2021 and estimated 4.3% in 2022¹⁰. Foreign investors find country’s political stability and high levels of education particularly attractive.

Costa Rica’s official investment board is – CINDE (Invest in Costa Rica)¹¹. According to CINDE- it takes approximately one week to start a company in Costa Rica. It may take additional four to six weeks if the company wishes to operate under Free Trade Zone Regime. The country offers many incentives for foreign investors viz., tax-free zones, training incentives, investment incentives etc. The country has 14 free trade agreements (FTAs) in place, covering 58 commercial partners. The country is negotiating two more trade agreements currently with Pacific Alliance and the UK. As per CINDE, through its trade agreements, Costa Rica has access to 2.8 billion people and 75% of world GDP.

Costa Rica’s Trade Agreements

Agreements in Force	Bilateral Agreements	In Negotiation	Multilateral Agreements
CAFTA-DR	Argentina	Pacific Alliance	WTO
CACM	Canada		
Canada	Czech Republic		
CARICOM	Chile		
Chile	China		
China	France		
Colombia	Germany		
South Korea	South Korea		
Mexico	Netherlands		
Dominican Republic	Paraguay		
Panama	Qatar		
Peru	Spain		
Singapore	Switzerland		
European Free Trade Association (TLC – EFTA)	Taiwan		
UK (AACRU)	UAE		
EU (AACUE)	Venezuela		

Source: CINDE

¹⁰ IMF WEO April 2023

¹¹ <https://www.cinde.org>

Targeted Sectors for Investment: CINDE (Invest in Costa Rica)- the official investment board of Costa Rica lists: Digital Technologies, Creative Industries, corporate and business processes, life science, manufacturing, wellbeing and tourism infrastructure as priority sectors for attracting investments in the country.

CINDE provides following services to ease the investment flow in Costa Rica:

- *Investment Advisory:* From the beginning of the site selection phase, through the installation and during the operational phase in Costa Rica, the companies will have specialized investment advisory. Including detailed presentations on investment opportunities and business climate, reliable and detailed up-to-date information, and coordination of on-site or virtual meetings with other foreign companies, potential suppliers, governmental institutions, academia, among others.
- *Investment Entry:* Full-service support during the set-up process including an installation process roadmap and timetable: investor “hand-holding” through the entire permit process and assistance expediting permits, including immigration, FTZ Regime, etc. In addition, CINDE offers its full list of service providers comprising over 80 companies to support the entry to the country, as well as assistance in the real estate selection process. Other support services include the communications strategy for the company’s official announcement.
- *Investment Retention / Expansion:* Advisory on reinvestment opportunities to expand, diversify, and sophisticate the company’s local operations, including A-to-Z follow-up, tactical problem-solving with licenses, permits and regulatory procedures, and linkages with service providers. CINDE also facilitates the collaboration between established companies, regulatory bodies, and/or academia to move forward a work agenda of common interests. In addition, CINDE provides communication strategy support for expansion, reinvestments, or other impactful programs that the company does in the country.

For more information contact: CINDE

Email: invest@cinde.org

Dominican Republic

The country is located in the Caribbean between Caribbean Sea and North Atlantic Ocean and borders Haiti. Its location has made Dominican Republic a vital trade link between Europe, North America and rest of Latin America, offering preferential access to more than 1 billion consumers through free trade agreements with the United States and Central America, through DR-CAFTA, and with the European Union through the Economic Partnership Agreement (EPA). The GDP of Dominican Republic amounted to US\$ 94.7 billion in 2021. It is one of the fastest growing economies of LAC, and its GDP has grown by 12.3% in 2021¹².

ProDominica is the Dominican government’s official agency in charge of attracting Foreign Direct Investment (FDI) and promoting its export offer.

¹² IMF WEO April 2022

Investment Agreements Signed by Dominican Republic

Partners	Subscription Date	Entry into Force
Argentina*	March 16, 2001	n.d.
Chile	November 26, 2000	May 8, 2002
Korea	June 30, 2006	May 21, 2008
Spain	March 16, 2005	October 7, 1996
Finland	November 27, 2001	April 21, 2007
France	January 14, 1999	October 30, 2000
Italy	June 12, 2006	July 18, 2007
Morocco	May 23, 2002	January 4, 2007
Netherlands	March 30, 2006	August 29, 2007
Panama	February 6, 2003	September 18, 2006
Switzerland	January 27, 2004	March 12, 2006

Source: ProDominica; * ratification pending

Targeted Sectors for Investment: ProDominica¹³ lists the following sectors as priority sectors for investments in Dominican Republic viz., energy sector, mining sector, solid residue sector, agriculture sector, real estate and construction sector, film sector, software sector, telecommunications, tourism, manufacturing and services, pharmaceutical and medical devices, manufactured tobacco, clothing and textiles and contact centre industry.

Incentives

- In the Dominican Republic, companies benefit from a Foreign Investment Law, as well as from an extensive incentive system aimed at developing and boosting key sectors of the national economy, as established in various regulations of the Dominican law.
- Law 16-95 on Foreign Investment establishes national treatment for foreign investors and free capital repatriation. Free Zones, Border Development Zones, and qualified industries of the Center for Industrial Development and Competitiveness (PROINDUSTRIA) can be cited among the special incentive schemes that our nation has to offer.
- There are also incentives for the cinema, tourism, renewable energy, and textile industries through special laws. Other regulations also provide for incentives to the import of residents' movable property, foreign pensioners, and the import of used motor vehicles belonging to Dominican citizens who return to the Dominican Republic. Under certain schemes, these incentives apply for a set period. According to other schemes, they are renewable for indefinite periods.

For more information contact: ProDominica

Email: services@Prodominicana.gob.do

¹³ <https://prodominicana.gob.do/>

El Salvador

El Salvador borders Pacific Ocean, Guatemala and Honduras. It is the smallest country in Central America, with fifth largest GDP among the Central American countries¹⁴. It is a small, dollarized economy that relies on the US for investment, trade and remittance inflows. The country received personal remittances to the tune of 26.1% of GDP in 2021¹⁵. The country has recently adopted bitcoin as a legal tender.

El Salvador was the first country to ratify the Dominican Republic-Central America Free Trade Agreement, which bolstered its exports of foods, sugar, and supported investments in apparel sector. El Salvador is a member of WTO. In 1999, El Salvador, together with Guatemala, Honduras, and Nicaragua, signed Free Trade Agreements with the Dominican Republic and Chile. In 2002, the region concluded agreements with Panama and Mexico. In 2007, El Salvador and Honduras signed a Free Trade Agreement with Taiwan, and the Northern Triangle (El Salvador, Guatemala, and Honduras) signed a Free Trade Agreement with Colombia. El Salvador signed a partial scope agreement with Cuba in 2011 that entered into force in 2012, and recently concluded negotiations of a partial scope agreement with Trinidad and Tobago and Ecuador. El Salvador is also negotiating trade agreements with Bolivia, as well as renegotiating the trade agreement with Venezuela.

Targeted Sectors for Investment: The Exports and Investment Promotion Agency of El Salvador (PROESA)¹⁶ supports investment in eight main sectors: textiles and apparel; business services; tourism; aeronautics; agro-industry; light manufacturing; logistic and infrastructure networks; and healthcare services.

Incentives

- There are no limits on Foreign Control and Right to Private Ownership and Establishment Foreign citizens and private companies can freely establish businesses in El Salvador. The 1999 Investments Law grants equal treatment to foreign and domestic investors. With the exception of limitations imposed on micro businesses, which are defined as having 10 or fewer employees and yearly sales of US\$ 121,319.40 or less, foreign investors may freely establish any type of domestic business. Investors who begin operations with 10 or fewer employees must present plans to increase employment to the Ministry of Economy's National Investment Office.
- El Salvador has various laws that promote and protect investments, as well as providing benefits to local and foreign investors. These include: the Investments Law, the International Services Law; the Free Trade Zones Law; the Tourism Law, the Renewable Energy Incentives Law; the Law on Public Private Partnerships; the Special Law for Streamlining Procedures for the Promotion of Construction Projects; and the Legal Stability Law for Investments.
- El Salvador launched an online business registration portal in 2017 designed as a one-stop shop for registering new companies. The online portal allows new businesses the ability to formalize registration within three days and conduct administrative operations online. The portal (<https://miempresa.gob.sv/>) is available to all, though services are available only in Spanish.
- The GOES' Business Services Office (Oficina de Atención Empresarial) caters to entrepreneurs and investors. The office has two divisions: "Growing Your Business" (Crecemos Tu Empresa) and the National Investment Office (Dirección Nacional de Inversiones, DNI). "Growing Your Businesses" provides business

¹⁴ IMF WEO April 2023

¹⁵ World Bank

¹⁶ <https://proesa.gob.sv/>

advice, especially for micro-, small- and medium-sized enterprises. The DNI administers investment incentives and facilitates business registration.

For more information contact: PROESA

Email: hear@proesa.gob.sv

Guatemala

Guatemala is located south of Mexico, bordering the Pacific Ocean to the west, El Salvador and Honduras to the south and the Gulf of Honduras and Belize to its east. It is one of the countries along the Ring of Fire, a belt of active volcanoes and earthquake epicentres bordering the Pacific Ocean; up to 90% of the world's earthquakes and some 75% of the world's volcanoes occur within the Ring of Fire¹⁷.

The GDP of the country amounted to US\$ 93.7 billion in 2022, and real GDP growth rate stood at 4% in the same year¹⁸. It is the most populous country in Central America and has the highest fertility rate in Latin America. It is also the youngest population in Latin America. Guatemala is the top remittance recipient in Central America as a result of Guatemala's large expatriate community in the US. These inflows are a primary source of foreign income, equivalent to two-thirds of the country's exports and about a tenth of its GDP¹⁹.

The country is a part of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). Guatemala also has signed PTAs with Ecuador, Belize and Venezuela. Guatemala has bilateral investment agreements with Argentina, Austria, Belgium, Cuba, Chile, Finland, France, Germany, Israel, Italy, South Korea, Spain, Sweden, Switzerland, Taiwan, the Czech Republic, the Netherlands, Trinidad and Tobago, and Turkey. It also signed a bilateral investment agreement with Russia in 2013 year, which was not in force as of March 2021.

Targeted Sectors for Investment: PRONACOM²⁰, the official investment board of Guatemala, has identified four main sectors for to focus on attracting investments viz., medicines, medical devices, electronic devices, customer service centres, and tourism.

Incentives

- Guatemala's primary incentive programme – the Law for the Promotion and Development of Export Activities and Maquilas (factories that produce products in free trade zones) – is aimed mainly at the apparel and textile sector and at services exporters such as call centers and business processes outsourcing (BPO) companies. The government grants investors in these two sectors a 10-year income tax exemption.
- Additional incentives include an exemption from duties and value-added taxes (VAT) on imported machinery and equipment and a one-year suspension of the same duties and taxes on imports of production inputs, samples, and packing material. The Free Trade Zone Law provides similar incentives to its beneficiaries include only some services providers and a limited number of manufacturing activities such as apparel manufacturers and motorcycle assemblers.

¹⁷ CIA World Factbook

¹⁸ IMF WEO April 2022

¹⁹ CIA World Factbook

²⁰ <http://www.pronacom.gt/>

- The Guatemalan congress approved the Law for Conservation of Employment (Decree 19-2016) in February 2016, amending Guatemala's two major incentive programs to replace tax incentives related to exports that Guatemala dismantled on December 31, 2015, per WTO requirements.
- The public Free Trade Zone of Industry and Commerce Santo Tomas de Castilla (ZOLIC) that operates contiguous to the state-owned port Santo Tomas de Castilla issued a regulation in January 2019 allowing the establishment of ZOLIC's special public economic development zones outside of ZOLIC's customs perimeter. The ZOLIC law grants businesses operating within the new special public economic development zones a 10-year income tax exemption. Additional exemptions include an exemption from VAT, customs duties, and other charges on imports of goods entering the area, including raw materials, supplies, machinery and equipment, as well as a VAT exemption on all taxable transactions carried out within the free trade zone when goods are exported. The law states that the incentives are available to local and foreign investors engaged in manufacturing and commercial activities as well as the provision of services.

For more information contact: PRONACOM

Email: comunicacion@pronacom.org

Honduras

The country is bordered by the Caribbean Sea and the Pacific Ocean with Guatemala to its west, El Salvador to the south, and Nicaragua to the south-east. The GDP of Honduras in 2022 amounted to US\$ 31.5 billion in 2021. After witnessing contraction of 9% in 2020, the GDP growth surged to 12.5% in 2021²¹. Low per capita GDP and inequality are challenges for the economy. Historically primarily dependent on export of bananas and coffee, it has since diversified its export base to include apparel, automobile etc. Honduras has bilateral FTAs with Canada, Colombia, Panama, Peru, and Taiwan.

Provisions for investment are included in free trade agreements between Honduras and the United States, Canada, Chile, Costa Rica, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, the Dominican Republic, Colombia, Taiwan, South Korea, and the European Union. These agreements supersede many of the provisions of Honduras' separate Bilateral Investment Treaties with these countries. Honduras also has separate Bilateral Investment Treaties with the Republic of Korea and with Switzerland.

Targeted Sectors for Investment: The National Investment Council of Honduras (CNI)²² lists following sectors as priority sectors for attracting investments in Honduras viz., textile manufacturing, passenger tourism, business process outsourcing, agroindustry, social housing, light manufacturing, forest, logistics, construction, energy & mining.

Incentives

- The 2017 Tourism Incentives Law offers tax exemptions for national and international investment in tourism development projects. The law provides income tax exemptions for the first 10 years of a project and permits the duty-free import of goods needed for a project, including publicity materials. To receive benefits, a business must be located in a designated tourism zone. Restaurants, casinos, nightclubs, movie theaters, and certain other businesses are not eligible for incentives under this law.

²¹ IMF WEO April 2022

²² <https://www.cni.hn>

- The Government of Honduras has historically offered four primary tax-advantaged structures to incentivize investment in Honduras: the Free Trade Zone (ZOLI), the Free Tourism Zone (ZOLT), the Industrial Zone for Export Processing (ZIP) and the Temporary Import Law (RIT).
- Both ZOLIs and ZIPs allow foreign investors tariff and tax incentives for export-only manufacturing. The following cities have been designated as free zones: Puerto Cortes, Omoa, Choloma, Tela, La Ceiba, and Amapala. The government allows the establishment of ZIPs anywhere in the country. Currently, ZIPs are located in Choloma, Buffalo, La Lima, San Pedro Sula, Tegucigalpa, and Villanueva. Companies operating in ZIPs are exempt from paying import duties and other charges on goods and capital equipment. The RIT allows exporters to introduce raw materials, parts, and capital equipment (except vehicles) into Honduras exempt from surcharges and customs duties if a manufacturer incorporates the input into a product for export (up to five percent can be sold locally).

For more information contact: National Investment Council of Honduras (CNI)

Email: info@cni.hn

Nicaragua

The country borders both the Caribbean Sea and the North Pacific Ocean, between Costa Rica and Honduras. Nicaragua has the second smallest GDP in Central America²³. Nicaragua is a small, open economy that is highly dependent on agriculture and light manufacturing. A poor business environment, persistent political conflict and limited access to private sector finance all weigh on the country's long-term growth prospects.

Nicaragua signed and ratified bilateral investment treaties with Argentina, Belgium, Chile, Cuba, the Czech Republic, Denmark, Finland, France, Germany, Italy, Iran, Luxembourg, the Netherlands, the Russian Federation, Spain, Switzerland, and the United Kingdom. Nicaragua also has treaties with investment provisions with Chile, Mexico, Panama, Taiwan, and South Korea. Nicaragua has a separate free trade agreement with ALBA (Bolivarian Alliance for the Peoples of Our America) member countries: Cuba, Venezuela, Dominica, Antigua & Barbuda, Saint Vincent & the Grenadines, Granada, and Saint Kitts & Nevis. Nicaragua is part of the Central American free trade agreements with the European Union and South Korea.

Targeted Sectors for Investment: PRONicaragua²⁴ (the official investment agency of Nicaragua) lists agribusiness, light manufacturing and outsourcing services sectors for attracting investments in the country. The country offers attractive incentives through Industrial Free Zones for Exports, aimed at reducing operating costs for companies interested in establishing export-oriented operations of good and services both.

Incentives

- Nicaragua has several investment incentives available to foreign investors. The government has also occasionally issued sweeping tax incentives to promote large one-time investments, such as for a foreign-owned power plant in 2020.
- The Social Housing Construction Law (2009/677) provides incentives for the construction of housing units 36-60 m² in size with construction costs less than \$30,000 per unit. Developers are exempt from paying local taxes on the construction, purchase of materials, equipment, or tools.

²³ IMF WEO April 2022

²⁴ <https://pronicaragua.gob.ni>

- The Hydroelectric Promotion Law (amended 2005/531) and the Law to Promote Renewable Resource Electricity Generation (2005/532) provide incentives to invest in electricity generation, including duty-free imports of capital goods and exemptions for income and property taxes. Regulatory concerns limit investment despite these incentives (see Transparency of the Regulatory System). The National Assembly must approve all projects larger than 30 megawatts.
- The law promoting renewable energy provides tax exemptions to investors in the renewable energy sector. The government has amended the law several times to extend the exemptions, most recently in September 2020. The law includes exemptions, each valid from two to five years, from the following taxes: import duty; value added tax; income tax; municipal tax; natural resources exploitation tax; and tax stamp.
- Amendments made in February 2022 to the Energy Stability law (2005/554) authorize tax exemptions for the import and purchase of any electric vehicle intended for public or private use.
- The Tourism Incentive Law (amended 2005/575) includes the following incentives for investments of \$30,000 or more outside Managua and \$100,000 or more within Managua: income tax exemption of 80 to 90% or up to 10 years; property tax exemption for up to 10 years; exoneration from import duties on vehicles; and value added tax exemption on the purchase of equipment and construction materials.
- The Fishing and Fish Farming Law (2004/489) exempts gasoline used in fishing and fish farming from taxes. The Forestry Sector Law (2003/462) provides income, property, and municipal tax incentives for plantation investments and tax exemptions on importing wood processing machinery and equipment.
- The Special Law on Mining, Prospecting and Exploitation (2001/387) exempts mining concessionaires from import duties on capital inputs (see Transparency of the Regulatory System for additional information on the mining sector).

For more information contact: PRONicaragua

Email: info@pronicaragua.gob.ni

Panama

The country borders both the Caribbean Sea and the North Pacific Ocean and lies between Colombia and Costa Rica. Panama's dollar-based economy rests primarily on a well-developed services sector that accounts for more than three-quarters of GDP²⁵. Services include operating the Panama Canal, logistics, banking, the Colon Free Trade Zone, insurance, container ports, flagship registry, and tourism and Panama is a centre for offshore banking. Panama's transportation and logistics services sectors, along with infrastructure development projects, have boosted economic growth. Panama's economy is the second largest in Central America and is based on trade and services. The Panama Canal makes the country a logistical hub as it handles 6% of global goods trade. Panama offers an offshore financial centre but relies on imports of manufacturing and agricultural goods

Panama has full FTAs that cover goods and services in force with the following countries or economies: El Salvador (2003), Singapore (2006), Chile (2008), Costa Rica (2008), Honduras (2009), Guatemala (2009), Nicaragua (2009), Peru (2012), the United States (2012), Canada (2013), the EFTA countries (2014), Mexico (2015), South Korea (2018), and Israel (2019). Panama has partial trade agreements with the Dominican

²⁵ CIA World Factbook

Republic (1987), and Cuba (2009). In 2013, Panama and Colombia signed a free trade agreement. Panama also signed a partial trade agreement with Trinidad and Tobago in 2013.

Panama has bilateral investment agreements with the United States, the United Kingdom, France, Switzerland, Germany, Taiwan, Canada, Argentina, Spain, Chile, Uruguay, the Czech Republic, Netherlands, Cuba, Mexico, Dominican Republic, South Korea, Ukraine, Sweden, Qatar, Finland, and Italy.

Targeted Sectors for Investment: ProPanama²⁶- the official investment promotion agency of Panama lists the following sectors for which present investment opportunities in the country vis logistics, digital hub, agrobusiness, agroparks, tourism, energy, mining, construction and infrastructure.

Incentives

- Government policy and law treat Panamanian and foreign investors equally with respect to access to credit. Panamanian interest rates closely follow international rates (i.e., the U.S. federal funds rate, the London Interbank Offered Rate, etc.), plus a country-risk premium.
- Panama provides Industrial Promotion Certificates (IPCs) to incentivize industrial development in high value-added sectors. Approved IPC's provide up to 35% in tax reimbursements, and preferential import tariffs of 3%. It is also considering a law to provide incentives for the manufacturing sector.
- Law 1 (2017) modifies Law 28 (1995) by exempting exports from income tax and provides a zero percent import duty for machinery for those companies that export 100% of their products. Producers to sell a portion of their products into the domestic market will pay a 3% import tariff for machinery and supplies.
- Public-private partnership law incentive includes for private investment, social development, and job creation. The law will establish a clear institutional framework for developing, improving, operating and/or maintaining public infrastructure for the provision of public services.

For more information contact: ProPanama

Email: info@cni.hn

²⁶ <https://www.mici.gob.pa/tratados-comerciales-vigentes>



Activities of Export Import Bank of India in Latin America and Caribbean Region

The Export-Import Bank of India (India Exim Bank) was set up under an Act of Parliament in 1981 and commenced operations in 1982. The Bank was set up for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade. In its endeavour to promote India's international trade, India Exim Bank's vision has evolved from financing, facilitating, and promoting trade and investments, to a conscious and systematic effort at creating export capabilities. India Exim Bank today seeks to develop commercially viable business relationships with externally oriented companies.

In line with the Government of India's focus, the Latin America and the Caribbean (LAC) region has been a focus region for India Exim Bank, and thus a critical component of its strategy to promote and support two-way trade and investment flows. India Exim Bank's commitment towards building relationships with the LAC region is reflected in the various activities and programmes, which India Exim Bank has set in place. India Exim Bank plays a critical role and is committed towards supporting GOI's initiatives in promoting strategic partnerships with countries in different regions and especially those in the LAC region. This is achieved through continuous engagement with partner countries at bilateral, regional and multilateral levels, and financing and supporting of projects of national importance, thereby strengthening India's role as a development partner in the region.

India Exim Bank has a representative office in Washington D.C., which play a key role in facilitating economic cooperation with the region and is closely associated with several of the Bank's initiatives. The representative office interfaces with institutions such as Inter-American Development Bank (IDB), Washington D.C.; Banco Nacional de Desenvolvimento Economico e Social (BNDES), Corporacion Andina De Fomento (CAF), Venezuela; Banco de Inversion Y Comercio Exterior S.A. (BICE), Argentina; Central American Bank for Economic Integration (CABEI/ BCIE), Honduras; Caribbean Association of Industry & Commerce, Trinidad & Tobago; Banco Mercantil (Banco Universal) C.A., Venezuela among others, as well as Indian missions in the region.

Financing and Programmes of India Exim Bank in the LAC Region

Lines of Credit

To enhance bilateral trade and investment relations with partner countries, and as a part of its financing programmes, India Exim Bank has extended several Lines of Credit (LOCs) to overseas sovereign governments or

their nominated agencies, national or regional development banks, overseas financial institutions, commercial banks abroad, and other select overseas entities, to enable buyers in those countries to import developmental and infrastructure projects, equipment, goods and services from India, on medium and long term credit basis.

These LOCs offer a risk-free financing option to the Indian exporting companies, while helping them penetrate new markets, enhance their export volumes in the overseas market, and demonstrate project execution capabilities. The LOCs are aimed at financing and catalysing Indian exports by way of financing key projects of national importance to the borrower countries, such as agriculture and irrigation development, development of various small and medium enterprises, upgradation of factories, development of railways and related infrastructure, projects for transmission lines and substations, rehabilitation and improvement of water supply system, among others.

To promote India's trade and economic relations with developing countries, the Government of India launched the Indian Development and Economic Assistance Scheme (IDEAS) – with the objective of sharing India's development experience through capacity building and skill transfer, trade, and infrastructure development, by extending concessional LOC's routed through India Exim Bank, to developing partner countries, towards creating socio-economic benefits in the partner country. The LOC programme has gained considerable recognition abroad, as it enables the LOC recipient countries access to much needed large scale developmental and infrastructure projects, on concessional and deferred credit terms.

As on March 31, 2023, the total number of operative LOCs to the LAC region stood at 32, extended to 6 countries namely Bolivia, Cuba, Guyana, Honduras, Nicaragua and Suriname, for supporting projects such as setting up of multi-speciality hospitals, irrigation, export of machinery and equipment, and amounted to US\$ 801.7 million.

List of Operative LOCs extended to Countries in LAC (as on March 31, 2023)

Country	Borrower	Goods/Projects to be covered	Amount (US\$ million)
Bolivia	Government of Bolivia	For undertaking Development Projects in Bolivia	100
Cuba	Banco Exterior De Cuba	Setting up of a milk powder processing plant in Camaguey Province of Cuba	5.0
		Setting up of a bulk blending fertilizer plant in Cuba	2.71
		For financing the modernisation of an injectable products plant in Havana	5.05
		Setting up a 51MW wind energy farm in Cuba	70.0
		Setting up of a 50 MW Co-generation power plant in Cuba	90.30
		Installation of 75MWp photovoltaic solar parks in Cuba	75.0
		Purchase of rice from India	104

Country	Borrower	Goods/Projects to be covered	Amount (US\$ million)
Guyana	Government of Guyana	Supply and installation of fixed and mobile irrigation pumps, Spares and Technical Support	2.99
		Setting up a multi-specialty hospital in Guyana	4.29
		Construction of cricket stadium	19.0
		Design, supply, installation, commissioning and maintenance of traffic signals at 50 intersections in and around Georgetown, Guyana	2.1
		East Bank-East Coast road linkage project	50.0
		Procurement of ocean passenger-Cargo Vessel	10.0
		Supply of high capacity fixed & mobile drainage pumps & associated structures in Georgetown, Guyana	4.0
		Up-gradation of three primary health centres in Guyana	17.50
		Procuring and installing solar home lighting systems for 30,000 homes in the hinterland communities in Guyana	7.29
Honduras	Government of Honduras	Export of communication equipment, medical equipment and transportation equipment	26.6
		Development of Agriculture and Irrigation Infrastructure in the Jamastran Valley in Honduras	26.5
Nicaragua	Government of Nicaragua	Supply of equipment from India for building two electric substations	10.0
		Building Carlos Fonseca substation, 95 Km transmission lines and expansion of three substations (Villa El Carmen, Las Colinas & San Rafael del Sur) in Nicaragua	26.24
		Transmission lines and substation project	31.29
		Reconstruction of Aldo Chavarria Hospital	20.10
		Replacement and equipment of the high technology Centre of the hospital Antonio Lenin Fonseca in Managua	7.35
Suriname	Government of Suriname	Bulldozers, trucks, excavators, other items	16.0
		Water supply project	10.4
		Purchases from BEL, HAL and ordinance factory board	10.59
		10 BEML-TATRA fire tenders with spare parts	4.3
		Chetak helicopters from HAL	5.8
		Up-gradation of Transmission network infrastructure & power generation	27.5
		Servicing and maintenance of 3 Chetak helicopters	3.5
		Rehabilitation and Up gradation of De Melckcentrale N. V. Milk Processing Plant'	11.13
		Rural Electrification through solar DG hybrid PV systems in 50 remote villages of Suriname	35.8
		Construction of Soccer stadium	30.0

Project Exports

Under its Project Exports assistance, India Exim Bank extends both funded and non-funded facilities for overseas turnkey projects, civil construction, supplies as well as technical and consultancy service contracts across various sectors of the economy. India Exim Bank has financed an Indian project exporter in the LAC region for water resources development project. India Exim Bank also supports existing or new projects, plants or processes that require additional assistance in processes such as international competitive bidding, including multilaterally funded projects in India. Such projects executed by assistance received from India Exim Bank, have contributed to the host country's developmental endeavours and have assisted in narrowing developmental gaps in such countries.

Buyer's Credit under National Export Insurance Account (NEIA)

In order to provide further impetus to project exports from India on medium or long-term basis, especially in the infrastructure sector, in April 2011, a product called Buyer's Credit under National Export Insurance Account (BC-NEIA) was introduced. Under this programme, India Exim Bank facilitates project exports from India by way of extending credit facility to overseas sovereign governments and government owned entities for import of goods and services from India on deferred credit terms. Indian exporters can obtain payment of eligible value from India Exim Bank, without recourse to them, against negotiation of shipping documents. NEIA is a Trust, set up by Ministry of Commerce and Industry, Government of India, and administered by ECGC. As on July 18, 2022, positive lists of 53 countries (including 4 LAC countries)²⁷ have been identified by ECGC for which Indian exporters can avail Buyer's Credit under NEIA.

Overseas Investment Finance

India Exim Bank supports Indian companies in their endeavour to globalise their operations, through overseas joint ventures (JVs) and wholly owned subsidiaries (WOS). Such support includes loans and guarantees, equity finance and in select cases direct participation in equity along with Indian promoters to set up such ventures overseas. These ventures serve to promote value addition, as also contribute to capacity building and capacity creation in host countries. As on March 31, 2023, India Exim Bank through its overseas investment finance programme has supported 34 such ventures, set up by Indian companies in 7 countries in LAC namely, Brazil, British Virgin Islands, Cayman Islands, Mexico, Chile, Guatemala, Panama with an aggregate sanction amount of ₹ 4, 925 crore.

Facilitating Trade through institutional Linkages, Knowledge and Value Based Services

Global Network of Exim Banks and Development Finance Institutions (G-NEXID)

In 2006, India Exim Bank had entered into a Memorandum of Understanding (MOU) with four Exim Banks and Development Financial Institutions (DFIs) to form the Global Network of Exim Banks and Development Financial Institutions (G-NEXID). The five signatories include Export-Import Bank of India, Export-Import Bank of Malaysia, African Export-Import Bank, Andean Development Corporation and Export-Import Bank of Slovakia. G-NEXID was formally launched at its inaugural meeting at UNCTAD, Geneva on March 13, 2006. Annual Meetings are held to deliberate upon measures to foster long-term relationship, share experience and

²⁷ 4 Central American countries viz- Guatemala, Honduras, Nicaragua and Panama

strengthen financial cooperation to promote trade and investment relations between developing countries. G-NEXID has been granted 'Observer' status by UNCTAD. Currently, G-NEXID has 25 member institutions across the globe. Among the LAC countries, members of the G-NEXID include institutions such as:

- Brazilian Development Bank (BNDES)
- Development Bank of Latin America (CAF)
- Foreign Trade Bank of Latin America S.A. (Bladex)

Institutional Linkages

India Exim Bank has been consciously forging a network of alliances and institutional linkages to help further economic co-operation with the LAC countries. These endeavours are supplemented by the various Memoranda of Cooperation (MOCs) / Memoranda of Understanding (MOUs), the Bank has in place, with key institutions in LAC including:

- Banco Nacional de Comercio Exterior, S.N.C. (Bancomext), Mexico;
- Banco de Inversion Y Comercio Exterior S.A. (BICE), Argentina;
- Caribbean Association of Industry & Commerce (CAIC), Trinidad & Tobago;
- Banco Mercantil, Venezuela;
- Central American Bank for Economic Integration (CABEI), Honduras;
- Corporacion Andina De Fomento, Venezuela;
- Banco Republica, Uruguay;
- Banco De Comercio Exterior De Colombia S.A. "Bancoldex"; and

Research Studies

India Exim Bank, besides offering various financial products to support Indian exporters and entrepreneurs, also carries out in-depth economic research on areas related to bilateral trade and investment, sector/ product/ country and regional studies, as also policy issues related to the external sector with a view to enhancing competitiveness of Indian exporters. Some of the recent publications of India Exim Bank focusing on the LAC region include:

- A Bridge between India and Latin America: Policy Options for Deeper Economic Cooperation (joint with Inter-American Development Bank, 2019);
- India-LAC Trade: Recent Trends and Opportunities in Select Countries (2018);
- Indian Investments in Latin America and Caribbean: Trends and Prospects (2018);
- Enhancing India's Trade Relations with Latin America and the Caribbean (LAC) Region: Focus on Select Countries (2016);
- MERCOSUR: A Study of India's Trade and Investment Potential (2011), and;
- Caribbean Community (CARICOM): A Study of India's Trade and Investment Potential (2011)

Consultancy Assignments

In the dynamic environment over the past four decades, India Exim Bank has continuously evolved its programmes and services to meet the needs of its stakeholders. This experience of evolving as a principal financial institution in a developing country context has been found to be of particular relevance in other developing countries that seek to set up institutions and strengthen institutional structure for supporting international trade and investment. The Bank has leveraged its vast experience in export financing to render assistance to several institutions in the developing world through its well-knitted advisory and consultancy services backed by a strong in-house research team.

In 2022-23, India Exim Bank was commissioned by the Export Barbados for a consultancy assignment for setting up an Export Credit Agency (ECA) in Barbados. The Government of Barbados aims to boost exports to US\$ 1 billion by 2030, through the development of an enabling environment for exports in the country. In line with this objective, Export Barbados, an agency of the Government of Barbados with responsibility of promoting and facilitating industrial and export development, seeks to develop an establishment/business plan for an ECA in Barbados. India Exim Bank was approached by Export Barbados seeking consultancy services to guide the establishment of an ECA in Barbados. India Exim Bank and Export Barbados have signed a Letter of Intent on 29th August 2022, formalising the engagement. The report has been successfully submitted by India Exim Bank in FY23 and the recommendations have since been accepted by multidisciplinary committee formed in Barbados for establishment of the ECA.



Key Observations and Recommendations

In the present era of rapidly changing global economic landscape diversification of trade partners and access to new markets is increasingly being seen as an imperative to sustained economic and trade growth. The Latin America and the Caribbean (LAC) region remains an important regional power for India. The sub region of Central America, which acts as a bridge between North and South America, is evolving as a region of special interest for India in the LAC region.

Expanding Trade

India and Central American countries can reap mutual benefits by partnering with one another. Trade between India and Central America which stood at US\$ 159.1 million in 2001 breached the US\$ 1 billion mark in 2011. India's total trade with Central America peaked at around US\$ 2.9 billion in 2021. Exports accounted for US\$ 1.9 billion and imports US\$ 1 billion in the same year. However, with a drop in India's imports of ships, boats, and floating structures from 2018 led to a moderation in the trade between India and Central America. In 2019, the total trade stood at US\$ 1.9 billion. India has a positive trade balance with Central America, which has improved in recent years. However, India's share in Central America's global imports stood at 4.9% in 2021. India has potential to expand exports in product categories such as mineral fuels and oils, electronics, machinery, plastics, iron and steel, cereals, etc, which are among the key products with high demand in the region.

Expanding Trade Agreements

In the Latin American and Caribbean (LAC) region, India presently has Preferential Trade Agreements (PTA) with Chile and MERCOSUR and negotiations over a Free Trade Agreement (FTA) are ongoing between India and Peru. Ecuador has also shown interest in negotiating a PTA with India, and Colombia is also interested in collaborating with India in industries like food processing and agriculture. However, India does not have a PTA or FTA with any Central American country. India has signed an "Agreement on Trade and Economic Cooperation" with Guatemala (signed in 1981), which accords most favoured nation status to each other, and "MOU on Economic Cooperation" with Costa Rica²⁸.

Thus, going forward, countries in Central America could, perhaps, collectively focus on negotiating a comprehensive free trade agreement with India in the future, or at least a partial preferential agreement,

²⁸ Ministry of External Affairs- Government of India

which could later be upgraded. As already mentioned, Central American countries have numerous trade agreements with many countries around the world. For the Indian corporates the Central American region could, therefore, also act as a gateway to the world, besides the potential existing in the Central American region itself.

Transportation and Logistics Costs

One of the major impediments to trade between India and the whole of Latin American region is trade logistics and transportation costs. 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 regions. Shipping companies could be incentivized to rationalize and reduce transport costs between India and Central American countries.

Increased Industry Engagements

In order to increase awareness of the regions on both sides, business conclaves like the India-LAC conclave and other industry association engagements, endeavour to provide a platform for increased interaction among industry, academicians, policy makers, and government representatives with a view to benefiting the entrepreneurs, investors and business community. Such platforms showcase opportunities, expertise and capabilities of industry players and could help generate viable business propositions among interested parties. Research studies by think tanks, research organisations, and key development finance institutions could also play an important and catalytic role in identifying and highlighting economic opportunities leading to increased trade and investments among the regions.

Improved Connectivity

Providing a better connectivity between India and Central American economies is the best way to promote movement of people. To improve flight connectivity between India and Central America, a multi-pronged strategy could be adopted. Firstly, there needs to be a focus on identifying key hubs in Central America where airlines could establish network connectivity. This could be done by conducting a market research study to gauge demand for travel between the two regions. Secondly, India and Central American countries could negotiate smoother visa facilitation arrangements, which will allow for more airlines to operate and ease the movement between the two regions, further leading to increased economic activity as well.

About India Exim Bank's Working Paper Series

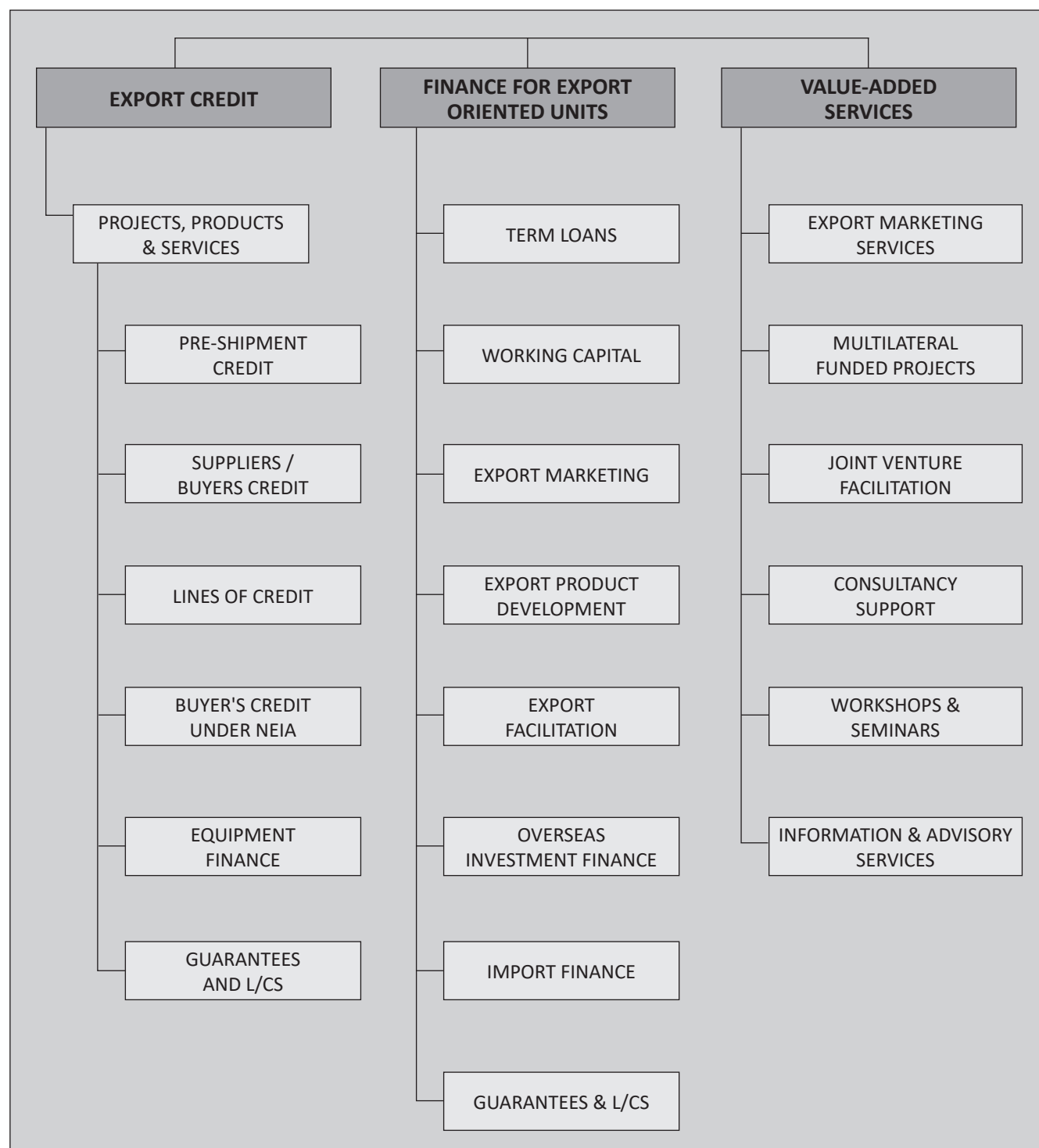
As part of its endeavour in enriching the knowledge of Indian exporters and thereby to enhance their competitiveness, India Exim Bank periodically conducts research studies. These research studies are broadly categorized into three segments, viz. sector studies, country studies and macro-economic related analysis. These studies are published in the form of Occasional Papers, Working Papers and Special Publications. The research papers that are brought out in the form of Working Papers are done with swift analysis and data collation from various sources. The research papers under the series provide an analytical overview on various trade and investment related issues.

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Bank's Major Programmes



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