LEADS INDIA 2020

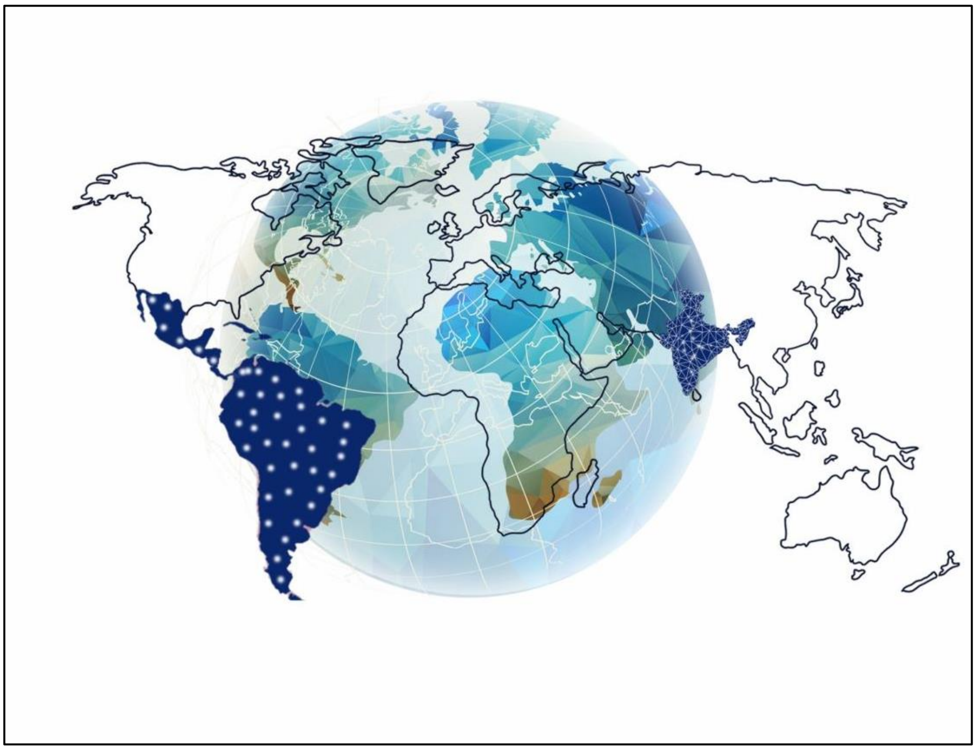
REIMAGINE THE WORLD

12th -15th October 2020 (Monday-Thursday)

A FICCI-Star India Initiative

India- Latin America & Caribbean Knowledge Report

October 2020



FICCI

Federation of Indian Chambers of Commerce and Industry (FICCI)
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Contents

About FICCI LEADS 2020- Reimagining the World

LEADS- a unique multi-faceted international platform to '*Reimagine the World',* a world where change is the only constant and disruptions are becoming frequent.

It is the inaugural edition of "LEADS 2020: Reimagine the World". This is a 4-day global thought leadership initiative from FICCI, spanning the globe and curated as an engagement platform for insights into five fundamental questions that underlie the quest for global economic prosperity, which is inclusive and sustainable for well-being citizens. This year, the program shall be organised on a virtual platform from October 12-15, 2020 (Mon-Thus.).

The motivation for the programme arises from the fact that in an interdependent world, effective leadership and genuine commitment is imperative to encourage constructive policy debates, evolve a collaborative approach for achieving the vision of an abundant, ecologically balanced and prosperous world for our future generations. This FICCI initiative is also driven by the need to reaffirm economic solidarity across borders, with optimism for the future in these uncertain times.

LEADS 2020 is an endeavour to evolve a shared vision among global leaders, to *reimagine* economic growth on the pillars of open economies, self-reliance, economic resilience, and multilateralism. Global leaders are being invited to share their views on 21st century challenges and opportunities for global business value chains.

The idea of LEADS:
L - **Leadership** for global prosperity in the backdrop of disruption
E - **Excellence** in everything we do
A - **Adaptability** to these VUCA times
D - **Diversity** for inclusive growth fabric
S - **Sustainability** as a given for economic growth

FICCI LEADS 2020 will be a confluence of leaders, influencers, and opinion shapers across the world. It will offer a platform for exchange of ideas with relevance to India's regional engagement. The program will keep time zone differences with East Asia, Central Asia, South Asia, ASEAN & Oceania, Europe, Africa, West Asia, Americas, and the Pacific, in mind.

Latin America and Caribbean Session- Reimaging Distances

Reimagining Distances – It is time to reimagine distances and Grow Together

Long distance between India and Latin America has always been raised while discussing bilateral relations.

In the increasingly globally connected world, there is no far-off place. Distances do not matter when it comes to diplomacy, or business. Metaphorical flourishes are fine, but it will certainly help if both sides are upbeat on expanding air connectivity between the regions. With some tangible steps and inspired diplomacy, Buenos Aires can be connected more effectively with Bangalore, Caracas can connect with Chennai, Mumbai can relate to Montevideo and Goa bond with Georgetown. Latin America, a region often described as the last frontier for India's diplomacy, is open for greater business with India, and India should seize the opportunity with both hands.

Key Highlights of the Session

- India and the LAC region have cooperated on a lot of global issues on various multilateral and global platforms and there is a need to extend this cooperation at regional and bilateral levels.

- Immense potential exists in the Indian pharmaceuticals, Chemicals, fertilizers, and petrochemicals sector. This is a very good time to invest in India and setup manufacturing base in Indian pharma sector.

- India requires huge quantity of fertilizers in the agriculture sector. Domestic production is not enough to meet the requirements hence we are dependent on imports. Since, LAC region is also a net importer of chemicals and fertilizers. India and LAC explore the possibility of developing the supply chain, so that adequate quantity can be sourced at competitive prices.

- There is a need for collaboration and development of alternative fertilizers like Nano fertilizers which can reduce our requirement and hence reduce dependence on imports also.

- The government is revisiting policies and extending the financial incentives based on sales in the chemical and petrochemical sector to strengthen the chemical industrial cluster which we call as PCPIRs and plastic parks. Together, these supportive government policies will offer one of the best environments to do business in India as far as chemicals & petrochemical sector is concerned.

- Jamaica looks at strong legal arrangements with India to shorten the supply chain. Also, Jamaican Government mentioned the area of cooperation for the Indian companies in the sectors:
    - Construction and infrastructure,
    - Setting up the national digitization system,
    - Food security to shorten the regional supply chains.

- Colombia can be the gateway for Indian Investors to expand business in AMRICAS region as they have port in the pacific and in the Atlantic as well.

Key take away for the session

1. Joint Collaborations in the field of Chemical and Fertilisers, Alternate Fertilisers (Nano Fertiliser)
2. Pharmaceuticals is other big opportunity in view of India's acceptance globally including US and Europe, especially after it's support to over 120 countries during this pandemic.
3. People-to-people exchanges are also crucial to improve bilateral relations. Liberal visa regimes, particularly for professionals and tourists, would go a long way in easing business and increasing cultural exchange. Improving air connectivity should also be given priority as there are currently no direct flights between India and any LAC country.
4. The barrier of distance between regions can be shortened by the extensive and mindful use of Technology and digitisation, which is an opportunity for India

Background- India- Latin America and Caribbean Economic Relations

Despite being located oceans apart, India and the Latin American Caribbean nations have remarkable similarities. The growing bond between India and the nations of Latin America and the Caribbean (LAC) presents both sides with an immense opportunity. Blessed with human capital, abundant natural resources and a growing pool of technologists, innovators and entrepreneurs, this relationship between emerging markets can unlock new sources of industrial prosperity and human development.

India and LAC nations have evolved as diversified and mature global trading and investment players. Some have transformed themselves into highly competitive export hubs for manufactured products such as aircraft, automobiles, machinery and pharmaceuticals, as well as services such as software, information technology and entertainment, while still retaining their competitiveness in traditional agro-product exports. Governments of LAC and India have been making conscious effort to enhance attractiveness and awareness of each other's economies.

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Governmental measures to enhance India- LAC relationship

Indian and LAC authorities have used bilateral and multilateral platforms of trade, investment, and finance to make investors in each other's geographies aware of opportunities. India's Trade agreement and policies for Latin America and Caribbean

YEAR	PARTICULARS
1995-1998	Focus LAC program by government of India
1999-2002	• Concessional line of credit (LOC) worth US$10 million to Brazil • India-Argentina Bilateral Investment Promotion and Protection Agreement (BIPA) • India-Trinidad & Tobago Double Taxation Avoidance Agreement (DTAA)
2003-2006	• India- MERCOS-UR PTA • India-Chile PTA • Concessional LOC worth US$30 million to Bolivia
2007-2010	• Concessional LOC worth US$5 million to Cuba • India-Trinidad & Tobago BIPA • India-Mexico BIPA • India-Colombia BIPA and India – Uruguay BIPA (signed)

2011-2014	• India-Mexico DTAA • Memorandum of understanding (MOU) on economic cooperation between India and Costa Rica • MOU on economic cooperation between India and Ecuador • India-Colombia DTAA (signed)
2018-2020	• Soft loan to Honduras and Cuba • Extension of Focus LAC program by government of India • Expansion of India Chile PTA • Negotiations on India Peru FTA

Recognizing the potential of the LAC region to emerge as a powerful trade partner, the Indian government launched its "Focus LAC" program in 1997. This initiative was the first concerted effort of its kind to boost trade relationships between India and LAC nations as a group. The program has not only helped improve trade numbers; it has also helped diversify the "export baskets" of both geographies.

In 2004, India and MERCOSUR nations signed a Preferential Trade Agreement (PTA), which granted reciprocal fixed tariff preferences with the ultimate objective of creating a free trade area. Chile and India signed a PTA in 2006 and the expansion of the PTA is expected to strengthen relations between them and enhance India's engagement with the emerging trade bloc "Pacific Alliance". India and Peru are negotiating to conclude the special Free Trade Agreement (FTA) which will push the trade between the two from the current $ 4 billion and will expand their trade basket.

The success of such arrangements can be gauged from the fact that trade between India and LAC has grown twentyfold in the last two decades.

With India -LAC bilateral trade was US$ 33.85 billion by the end of 2019-2020, governments and industry associations took steps to enhance the attractiveness of LAC and India as investment destinations for each other's investment communities.

Trade and Investment

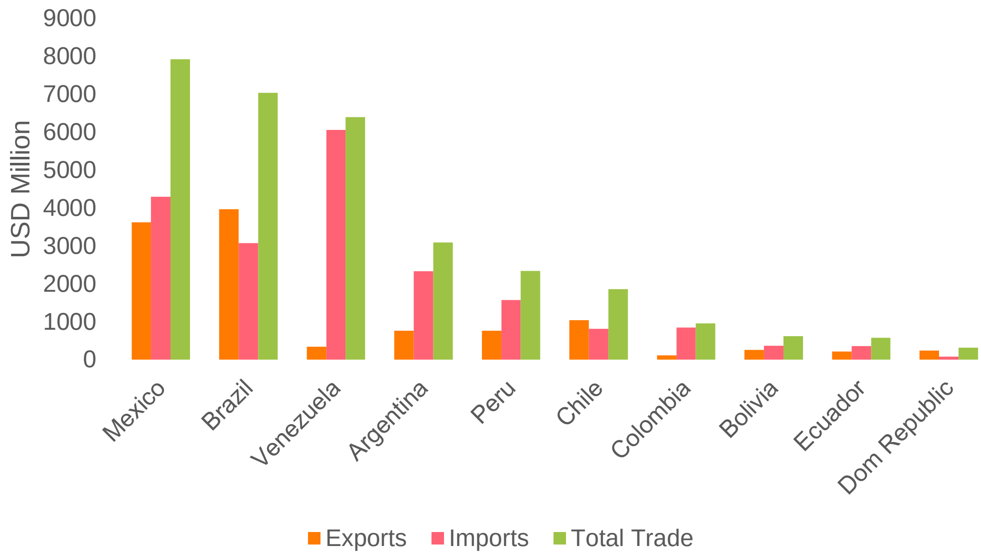
The true potential of the LAC-India relationship has yet to be realized. The strength of the partnership can be gauged observing that the combined GDP neared US$ 8.4 trillion in 2018 and the cumulative population almost 2 billion people. Yet, the economic relations between LAC and India are still in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

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

Evaluation of LAC- India Trade in Goods

With two-way commerce slightly below the US$ 40 billion-mark, current trade is indeed still the business of just a handful of products and is restricted to a handful of countries. In 2018, Venezuela, Mexico, and Brazil accounted for two thirds of total LAC shipments to the Asian giant (31%, 21%, and 17%, respectively). In 2000, the main players were different, and the concentration was even higher, with Argentina, Brazil, and Chile adding to over four fifths of the total (45%, 30%, and 13% of LAC exports to India, respectively). Indian exports to LAC are also fairly concentrated in terms of destinations. In 2018, Mexico and Brazil absorbed 29% and 28% of exports from India to LAC, and Colombia and Chile followed with 7% and 6%.

India's Top 10 trading partners in Latin America Region (2019-2020):



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

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

Strengthening Investment Flows

Stereotypes about the strengths and weaknesses of India and LAC are dying out. The partnership between the two geographies has evolved in more ways than just growth in investment size. For decades, LAC countries attracted FDI from companies that wanted only to harness the region's wealth of natural resources. India, too, perceived LAC primarily as a source of natural resources such as oil, gas, and metals. But this perception has been changing dramatically in the last three years. Today, India's investments in LAC reflect an interest in finding new markets and enhancing supply chain efficiency.

- Indian investments currently stand at **US$16 billion**, which are majorly concentrated in sectors like- IT &ITeS, Automobile, Agrochemicals, Plastics, Metals and Mining.

- Latin American companies have invested **US$ 2 billion** in India and the investments are majorly concentrated in sectors like- Food and beverage, IT, Mining, Entertainment

The changing character of bilateral investments across India and LAC is helping companies benefit from E2E complementarity. The automotive sector is a case in point. Companies based in India and LAC have naturally aligned themselves to establish a mutually beneficial relationship. Indian automotive original equipment manufacturers (OEMs) like Tata Motors and Ashok Leyland are 10 investing big to expand their presence in LAC countries. At the same time, LAC-based auto-11 12 component companies such as Metalsa (part of Groupo Proeza) and Nemak (part of Alfa Group) are enlarging their footprint in India to support these same OEMs.

Bilateral investments are also leading to job creation.

- For instance, Aegis, the Indian IT company, has more than 5000 employees in Argentina, all of them Argentines.

- UPL has an annual turnover of 1.3 billion dollars with its plants making agrochemicals and development of new seed varieties in Brazil, Argentina, and Colombia. UPL, the largest Indian agrochemical firm, has a larger business turnover in Brazil (1.2 billion dollars) than its business in India.

- Aditya Birla's group company Novellis has Aluminium and carbon black plants in Brazil with an annual turnover of 2 billion dollars.

- Mothersons Group, the auto parts major with a worldwide revenue of 11 billion dollars has over a dozen plants in Mexico and Brazil generating 9.2 % of its global revenue, which amounts to about a billion dollars. There are several other Indian companies operating in the region in energy, pharma, tyres, and other sectors. The annual revenue of the Indian manufacturing companies in Latin America should be around 4 billion dollars.

In most cases, the 13 Indian companies in the region are headed by local managers. Indian IT companies are leveraging talent from these geographies to serve their Spanish- and Portuguese-speaking markets.

Geographic proximity to key markets and a deeper understanding of cultural nuances are proving key attractions for India IT companies. While the IT and ITeS (information technology enabled services) sectors have created the majority of the jobs opened by Indian companies in LAC, sectors such as Automotive, Plastics, and Metals & Mining have emerged strongly as well, accounting for close to one third of all jobs created by Indian companies in LAC since 2003

Knowing Latin American & Caribbean Region in a better way

The Latin America and Caribbean (LAC) region, a grouping of 46 countries, is home to around 653.9 million people with a combined GDP(Current) of US$ 5.719 Trillion *(World Bank national accounts data, and OECD National Accounts data files).* This region has made significant economic progress in the last few decades.

The LAC region has a young, educated, and skilled workforce, and is considered a top investment destination due to its growing industrial and manufacturing strength, and continuous improvements in the ease of doing business parameters. It is also endowed with rich reserves of agricultural and natural resources like oil, silver, gold, copper, coal, bauxite, lithium, and nickel, besides others. Strong democratic structures, robust institutional mechanisms, efficiently managed macroeconomic systems are the highlights of the evolution of the economies of LAC which opened their doors to globalization from 1980s onwards.

The economies of the LAC region, which adopted import substituting industrialization policy from 1950s onwards, opened in 1980s and have since become important growth engines for the world. Many economies are now considered to be top investment destinations. For instances, the emergence of Mexico as the hub for automotive and electronic industries, and Brazil's growing strength in manufacturing industries. According to the World Bank's Doing Business report, the region has carried out a total of 398 reforms in the last 15 years. Colombia implemented most reforms, and it was followed closely by Mexico and Jamaica. Now, starting a business in the LAC region takes 38 days, compared to 78 days 15 years ago.

The region's overall imports were 1.07 trillion dollars and exports 1.06 trillion dollars in 2019. Mexico was the top trader with imports of 467 billion USD and exports of 472 billion USD. Brazil's imports were 177 billion USD and exports 223 billion USD. Surprisingly, Chile is the third largest trader with imports of 65 billion and exports of 64 billion. Argentina's imports were 65 billion USD and exports 49 billion; Peru imports 42 billion and exports 45 billion; Colombia imports 40 billion and exports 42 billion.

Given the region's enormous natural resources, educated workforce, and stable economy- many of the world's largest MNCs, including Indian origin MNCs have already invested $16 Billion in the LAC region.

Understanding Barriers to Grow Together

For India and LAC to take the next steps in their mutual growth journey, stakeholders will need to understand and surmount barriers to investment flows between the two geographies. Our research shows that such barriers largely take the form of operational challenges, including regulatory and procedural requirements, which increase the costs of setting up and conducting business. Such cost increases can erode investors' margins.
Our research revealed four categories of operational barriers to investment flows between LAC and India.

1. **Trade restrictions:** Unfortunately, barriers to free trade between LAC and India have hindered companies from making big investments. For instance, Indian pharmaceutical companies continue to be categorized as Tier III suppliers in one of the largest LAC economies and are subject to duties.

2. **Talent mobility restrictions:** Restrictions on movement of talent present a major hurdle for manufacturing and services companies in LAC and India. In both geographies, strict controls over the granting of work permits and visas limit knowledge- and skill-sharing opportunities. For instance, a large LAC mining giant grants only single- entry business visas and collects non-refundable social security deposits for granting work and residence permits to expatriates. In a major LAC nation, getting a work permit can take more than six months.

3. **Regulatory unpredictability and delay:** Regulatory predictability is vital for accelerating the founding of new businesses and reducing transactions costs associated with their establishment, operations, and expansion. LAC and India are continuing to strive for greater regulatory predictability, but work remains to address this barrier to investment flows.

   For example, in one of the largest and most populous LAC economies, the national development bank offers cane producers a credit line through a program aimed at enhancing cane cultivation and productivity. The goal is to significantly enhance the country's ethanol production. The financing facility, in principle, is made available to millers and farmers as well as to companies operating in that nation. However, intermediary banks are not disbursing loans under this program to foreign-owned companies operating in that country. The reason: lack of clarity from the national development bank regarding eligibility criteria of foreign-owned companies for credit support.

4. **Complex compliance requirements:** In complex sectors such as Automotive, Engineering, Petrochemicals and Electronics, investors routinely carry their know-how and best practices into foreign territories. They also want to source equipment and machinery from the cheapest yet best source to reduce operating costs. But agencies that provide certification for compliance with specific standards in the areas of

processes and equipment define numerous complex requirements. They also define stringent local value- addition norms. All of this can significantly increase businesses' transaction costs. For example: Acquiring GMP certification in some large LAC nations is difficult, owing to excessive regulatory controls and cumbersome procedures for Indian Companies.

Growing Together for a Prosperous Future – Steps Forward

At this time of austerity, Latin Americans look for affordable products from less expensive sources. Although China fits this expectation, the Latin Americans seek to reduce their overdependence on China with which there is growing trust deficit especially after the Corona virus which originated from Wuhan.

The Latin Americans appreciate the fact that India was the seventh largest destination for Latin America's global exports in 2019 and the third largest in 2018. India is the #1 market for their exports of vegetable oil, #3 for crude oil and #4 for gold.

There is a huge scope to strengthen India-LAC relations by deepening trade and investment ties. There is significant untapped potential for Indian exporters in categories such as machinery and mechanical appliances, electrical machinery and equipment, plastics, transport vehicles, pharmaceuticals, among others, owing to their high import demand in the region. Moreover, based on FICCI's research, sectors such as communications, automotive, business and financial services, alternative/renewable energy, metals, food and tobacco, and hydrocarbons present opportunities for Indian investors for enhancing investments in the LAC region.

There is potential for India to increase its exports to about 20 billion dollars in the next five years if the Indian exporters and government intensify their export promotion seriously and systematically. Although the region's imports will decrease by over 10% due to the 9.1% GDP contraction forecast for 2020, India can certainly increase its share in the region's imports.

For example, India can double its pharma exports to 2 billion to Latin America whose annual global imports are around 25 billion dollars. Motorcycle demand is going up in the region, consequent to the need for social distancing after the corona pandemic. This provides an opportunity to take India's exports to a billion soon.

Enhancing trade-facilitation measures, boosting investment in infrastructure and promoting reforms in logistics sector, reducing transaction and transportation costs, as well as undertaking proactive and targeted trade promotion activities and enhancing communication with trading partners could be key policy suggestions to improve bilateral trade relations between India and the LAC region. Increasing the coverage of bilateral and regional trade and investment agreements with partner countries could also help boost economic relations, while providing Indian entrepreneurs a gateway to new global markets, besides the potential existing in the LAC region itself.