

INDIA'S RELATIONS WITH MERCOSUR

A weak trade relationship with great potential

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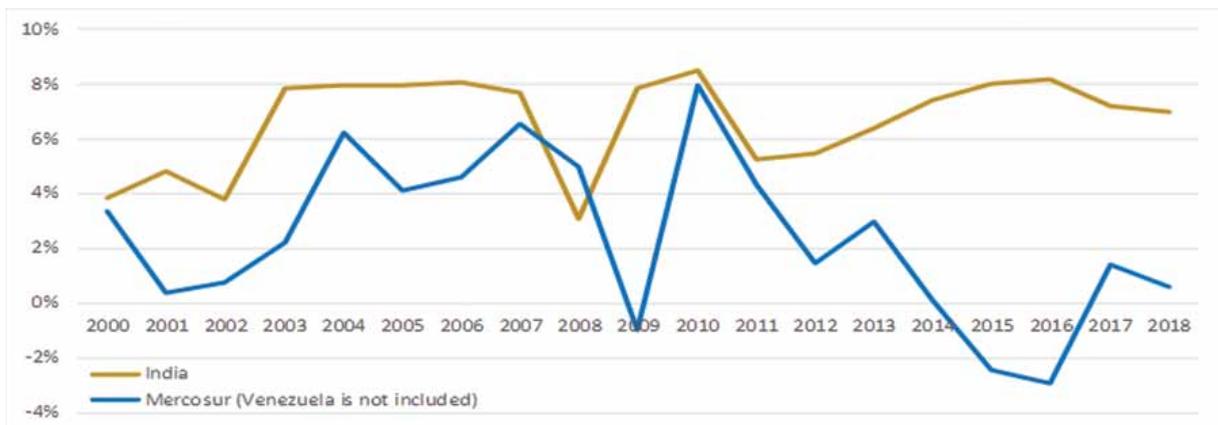
India and Mercosur show very different economic conditions. On one hand, the former has registered high economic growth rates that have even been higher than those rates in China (measured by the evolution of the Gross Domestic Product, GDP). On the other hand, the latter has shown more volatility and fluctuations as it has happened with almost all Latin American countries. However, India faces relevant challenges for its economic development such

as the infrastructure deficit, the literacy rate gap with other Asian countries and the low GDP per capita.

Regarding trade policies, not only India but also Mercosur are protectionist economies that apply a higher average trade tariff than the world average (higher in Mercosur, 10%) and a great variety of non-tariffs trade barriers.

Given these barriers to trade that both economies have been applying, the trade costs are high and if a trade agreement

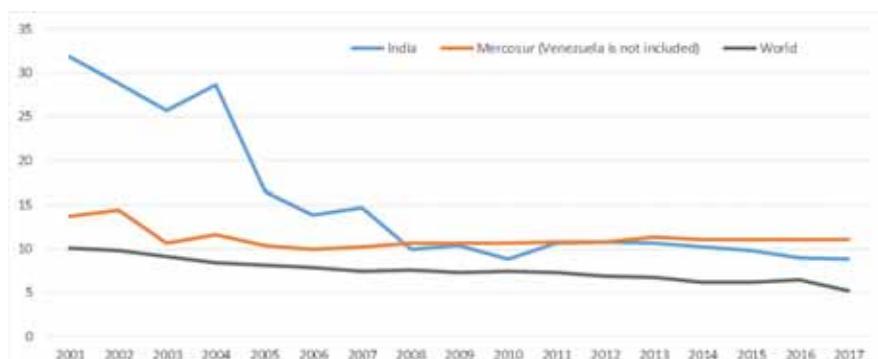
Figure 1- GDP growth rate India and Mercosur



Source: own elaboration based on World Bank.

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Figure 2- Tariff rate, applied, simple mean, all products (%)



Source: own elaboration based on World Bank.

is renegotiated, the trade ties could be deepened. Given the complementarity between both economies, trade relationships show great potential.

In the case of India, the following trade restrictions are applied:

- Import Licensing
- Negative Lists
- Testing, Labelling and Certification
- Export Subsidies and Domestic Support
 - Entry Requirements
 - Anti-dumping and Countervailing Measures
- Export Subsidy Programs
 - Implementation of Policies
 - Service Barriers
- Other Barriers:
 - Ø Equity restrictions and other trade-related investment measures result in an unfair advantage to domestic companies.
 - Ø The Indian Government had restricted FDI in sectors like retail trade and agriculture.
 - Ø Besides this, there is an unpublished policy that advances the counter trade.
 - Ø Several Indian companies both government-owned and private organize small countertrades.

In the case of Mercosur, according to UNCTAD (2017) numerous technical and regulatory measures are especially applied in the food and agricultural sectors. Additionally, the use of discretionary authorizations and registration requirements is widespread and deserves scrutiny. Product-specific barriers affect more than 40% of Brazilian imports, 27% of Uruguayan imports and 19% of Paraguayan imports.

In Argentina, until 2017, the horizontally applied Advanced Sworn Import Declaration (DJAI) caused controversy and was disputed at the World Trade Organization (WTO). Combined with foreign exchange controls, the DJAI was seen as a major hurdle to trade. In 2017, the new Government terminated the DJAI and introduced a new import monitoring system.

According to Venezuela, far beyond more over the terrible economic situation, this country applies a licensing scheme for a wide range of products that require a certificate that attests no or insufficient domestic production. Controls of foreign currency outflows and multiple exchange rates are connected to this licensing procedure. Furthermore, reference prices and price bands regulate imports of several products.

The estimated impact of the barriers applied by Mercosur countries is particularly high in manufacturing sectors, including the crucial vehicles and machinery sectors. Where applied, these NTBs cause price increases (of traded goods) of, at least, 3 to 4%.

The overall impact of technical NTMs far exceeds that of traditional NTBs. Sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) measures have price-increasing effects (ad valorem equivalents, AVEs) of 10% to 15% in Argentina and Brazil, and between 5% and 10% in Paraguay, Uruguay and Venezuela. Apart from trade effects, these prices increase the impact on the population as food consumers. In manufacturing, technical measures have a lower relevance than outright barriers and do not appear particularly restrictive in the analysis UNCTAD (2017).

India is going through several negotiations like Mercosur, but until now, the number of Free Trade Agreement in force is very low in both cases.

About the Preferential Trade Agreement between Mercosur and India, it was signed in January 2004 and entry into force in June 2009. The purpose of the agreement is to expand and strengthen the existing relations between Mercosur and India and promote the expansion of trade by granting reciprocal fixed tariff preferences with the ultimate objective of creating a free trade area between the parties.

According to the scope, the number of tariff concessions is very low, from 10% to 100% for 450 and 452 tariff lines for each part. India has granted a preference margin of 10% to 93 products, 20% to 336 products and 100% to 21 goods (out of 450), and Mercosur has granted a preference margin

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Figure 3 - India's trade agreements

Partner	Type of agreement	Date of signature
Japan	Free Trade Agreement & Economic Integration Agreement	2011
Malaysia	Free Trade Agreement & Economic Integration Agreement	2011
Association of Southeast Asian Nations - ASEAN	Free Trade Agreement & Economic Integration Agreement	2009
Nepal	Partial Scope Agreement	2009
Rep. Of Korea	Free Trade Agreement & Economic Integration Agreement	2009
Chile	Partial Scope Agreement	2006
Singapore	Free Trade Agreement & Economic Integration Agreement	2005
South Asian Free Trade Agreement - SAFTA	Free Trade Agreement	2004
Southern Common Market - Mercosur	Partial Scope Agreement	2004
Bhutan	Free Trade Agreement	2003
Thailand	Partial Scope Agreement	2003
Sri Lanka	Free Trade Agreement	1998
South Asian Preferential Trade Arrangement - SAPTA	Partial Scope Agreement	1993
Afghanistan	Partial Scope Agreement	1988
Asia Pacific Trade Agreement - APTA	Partial Scope Agreement & Economic Integration Agreement	1975

Source: own elaboration based on WTO.

Figure 4 – Mercosur trade agreements

Partner	Type of agreement	Date of signature
European Union	Free Trade Agreement	2019
Chile	Free Trade Agreement	2016
Mexico	Free Trade Agreement	2016
Israel	Free Trade Agreement	2013
Egypt	Free Trade Agreement	2010
Southern African Customs Union - SACU	Partial Scope Agreement	2008
India	Partial Scope Agreement	2004

Source: own elaboration based on WTO.

of 10% to 393 products, 20% to 45 products and 100% to 14 goods (out of 452).

There is room to explore complementarities and benefit from a deeper bilateral trade agreement. For example, Mercosur could benefit from India's global software and pharmaceutical industries and India can ensure the supply of oil and other natural resource needs through an association with the Mercosur.

Even when both parties agreed with starting new trade talks and in 2016, they exchanged a larger list of products (India: 3,690 products and Mercosur: 1,287 products, which would be extended but it never happened), finally, the negotiations failed.

Bilateral trade is far away from the potential and the performance is not necessarily related to the agreement. India has strengthened its role but MERCOSUR's exports to India were down. If we look at the average growth rate between 2001 and 2018, India's exports to Mercosur have increased by 15.3% and India's imports from Mercosur, in the same period, have declined 3.3%.

Figure 5 – Products included in the Partial Scope Agreement India - Mercosur

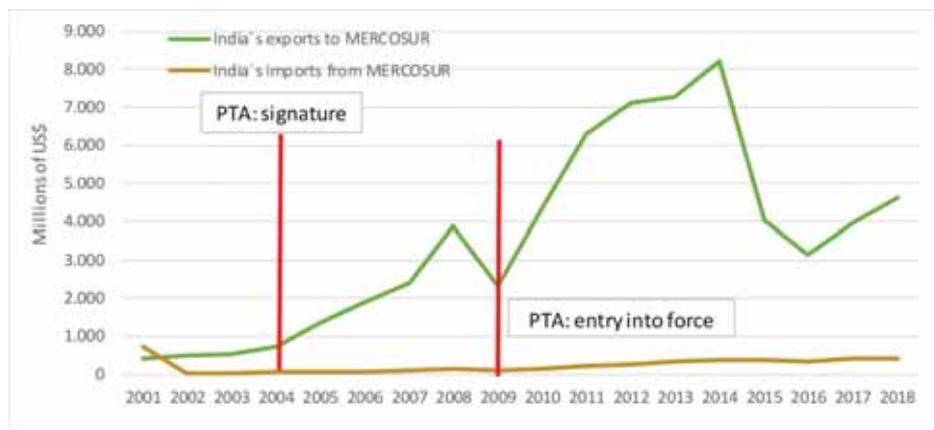
Major products covered in the agreement.	
Indian offer list	Mercosur offer list
Meat and meat products, organic and inorganic chemicals, dyes and pigments, raw hides and skins, leather articles, wool, cotton yarn, glass and glassware, articles of iron and steel, machinery items, electrical machinery and equipment, optical, photographic and cinematographic apparatus.	Food preparations, organic chemicals, pharmaceuticals, essential oils, plastics and articles, rubber and rubber products, tools and implements, machinery items, electrical machinery and equipment.

Source: own elaboration based on WTO.

Brazil is the key player in the bilateral relation between Mercosur and India. India's exports to Mercosur are concentrated in few products such as man-made

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Figure 6 – India and Mercosur bilateral trade flows



Source: own elaboration based on Trade Map.

Figure 7 –Exports of India to Mercosur by product and country

Country	Code	Label	2001	2010	2018	Average last 5 years	Tariff in Mercosur	Preferential tariff for India
Argentina	8711029	Motor cycles, incl. mopeds, with reciprocating internal combustion petrol engine	0	0	37	42	20%	
	8702291	Motor cars and other motor vehicles principally designed for the transport of people	0.0	0.0	3	19	20%	
	5402300	Texured filament yarn of polyester (incl. that put up for retail sale)	0.0	0.2	26	19	10%	
	Others		81	363	572	483		
		Total	81	363	672	564		
Brazil	2710930	Medium and preparations, of petroleum or bituminous minerals, n.e.s. high speed diesel	0.0	0	72	104	0%	
	5402300	Texured filament yarn of polyester (incl. that put up for retail sale)	0.7	142.4	197	152	10%	
	39089199	Investitures, put up in forms or packages for retail sale or as preparations or articles	0	0	230	147	0%	
	Others		230	3,527	3,064	2,450		
		Total	230	3,479	3,562	2,751		
Paraguay	72109100	Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, hot-rolled or cold-rolled	0.0	0	34	19	12%	
	39070100	Plastic "ethylene nonstretchable" in primary forms, having a density number of >= 70 (incl.)	0.0	0.0	26	7	0%	
	24012010	Tobacco, partly or wholly stemmed (tipped), otherwise unmanufactured. Flue-cured virginia tobacco	0.0	0.0	7	7	14%	
	Others		7	36.5	104	83		
		Total	7	36	141	124		
Uruguay	39070100	Plastic "ethylene nonstretchable" in primary forms, having a density number of >= 70 (incl.)	0.0	0.0	58.2	20.2	0%	
	36070000	Plastic "ethylene nonstretchable" in primary forms, Other (including clean, cloudless grades)	0.0	0.0	0.0	18.0	0%	
	8702291	Motor cars and other motor vehicles principally designed for the transport of people	0.0	0.0	15.9	16.0	23%	
	Others		52.7	78.7	113.0	126.0		
		Total	52.7	78.7	129.1	160.2		
Venezuela	30049099	Medicaments containing mixed or un-mixed products for therapeutic or prophylactic purposes	1	0	26	32	8%	
	55081000	Yarn containing predominantly, but < 85% polyester staple fibres by weight	0.6	3.2	0.4	4	10%	
	30022029	Vaccines for human medicine, Other	0.0	0.0	11.3	4	2%	
	Others		56	131	41	82		
		Total	56	133	77	120		

Source: own elaboration based on Trade Map.

Figure 8 –Imports of India from Mercosur by product and country

Country	Code	Label	2001	2010	2018	Average last 5 years	Tariff in India	Preferential tariff for MERCOSUR
Argentina	15071000	Crude soya-bean oil, whether or not degummed	200	875	1,522	1,021	13.5%	11.25%
	27090000	Petroleum oils and oils obtained from bituminous minerals, crude	0.0	0.0	47	69	0%	
	15121110	Crude sunflower seed or sunflower oil, sunflower seed oil	0.0	26	81	40	12.5%	11.25%
	Others		187	139	170	190		
		Total	487	1,039	1,800	1,220		
Brazil	27090000	Petroleum oils and oils obtained from bituminous minerals, crude	0.0	1,294	1,491	1,722	0%	
	17011490	Raw or scrap of iron or steel "E.C.S.C." (incl. slag, scale and other waste of the production)	0.0	0.0	666	710	100%	
	15071000	Crude soya-bean oil, whether or not degummed	87	94	537	402	12.5%	11.25%
	Others		174	1,864	2,024	1,723		
		Total	271	3,221	4,018	4,557		
Paraguay	13071000	Crude soya-bean oil, whether or not degummed	0.0	4	34	38	12.5%	11.25%
	72044900	Waste and scrap of iron or steel "E.C.S.C." (incl. slag, scale and other waste of the production)	0.0	0.1	11	5	5.0%	
	33012990	Essential oils, whether or not bephenless, incl. concretes and absolutes (incl. those of citrus)	0.0	0.4	1	1	20.0%	
	Others		17	0.4	7	4		
		Total	17	5	54	58		
Uruguay	51012900	De-greased wool, non-carbonized, neither carded nor combed (incl. shorn wool)	0.3	0.0	0.0	0.2	5.0%	4.5%
	36020030	Manganese ores and concentrates, incl. ferruginous manganese ores and concentrates	0.0	0.0	0.1	0.1	2.5%	
	51011900	Greasy wool, incl. fleece-washed wool, neither carded nor combed (incl. shorn wool)	0.6	0.0	0.0	0.1	5.0%	4.5%
	Others		1.6	17.4	34.8	22.1		
		Total	2.5	17.4	35.6	22.5		
Venezuela	27090000	Petroleum oils and oils obtained from bituminous minerals, crude	0	4,977	7,387	7,606	0%	
	27101900	Medium oils and preparations, of petroleum or bituminous minerals, n.e.s. Other	0.0	0.0	0.0	13	10%	
	72020000	Ferrous-ore	0.0	0.0	0.0	13	2.5%	
	Others		3	16	8	9		
		Total	3	4,993	7,395	7,641		

Source: own elaboration based on Trade Map.

filaments, chemicals, vehicles and plastics. India faces very high tariffs imposed by the Mercosur countries and the main products are excluded from the preferential tariff when considering the agreement in force.

India's imports from Mercosur are also concentrated in few products: mineral fuels, mineral oils, vegetable oils and sugar confectionery. There are few products exported from Mercosur to India included in the agreement, but in this case, the preference seems to be non-significant, it is only 1%.

Some conclusions

- Trade between India and Mercosur countries is low and it is concentrated in a few products.

- There is room to deepen the current agreement between India and Mercosur: complementarity is growing.

- The reduction of tariffs seems to be insufficient: genuine market integration requires addressing non-tariff measures (NTMs) and to harmonize other trade chapters.

- The inclusion of services seems to be crucial in order to expand trade relations.

- Convergence: regulatory collaboration is crucial. **n**

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