Territorial
NEWSLETTER
Latin America

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Chairman's Pen

India continues to deepen its trade and investment relations with the Latin American and Caribbean region in search of a more coordinated, institutionalized approach among countries. On the back of recent global economic events, India and the countries of Latin America and the Caribbean need to rethink strategic alliances both globally and regionally. In this respect, India and Latin America and the Caribbean should reposition themselves in the world economy to address the growing relevance of South-South linkages (in areas such as trade, foreign direct investment and finance). This could achieved by enhancing cooperation in innovation and human capital, diversifying trade, greater value addition, and apply new knowledge to exports.

Recently, after Brexit it is anticipated that Latin American economies might suffer badly. In such a scenario, India and Latin America should increase their collaboration to gain stability.

I hope that this newsletter will be insightful for our readers and they would enjoy reading it.

Tarvinder Singh Bhasin

LA Territorial Committee Chairman's Note

This edition of the 'Newsletter on Latin America' discusses Brexit and its impact on Latin America. The newsletter also gives an insight on the top engineering product panels that is imported by LAC and key news items on LAC.

We really need to expand the trade dimension in order to strengthen our global trade position with Latin America.

The subsequent issues will keep you updated on India's trade and business dynamics with the countries in Latin America and Caribbean region.

We are hopeful that the newsletter will give fruitful information to our readers.

Pankaj Chadha

Basic Facts: Latin America & Caribbean

Area: 19,197,000 Sq. km

Population: 589 million

GDP: USD 5.650 trillion

Climate: mostly temperate; arid in southeast; sub-Antarctic in southwest

Natural resources: precious metals, sugar, rubber, grains, coffee, copper, and oil

Brexit exacerbates economic volatility in Latin America

Latin American currencies, which had experienced a period of stabilization on the heels of a sustained recovery in commodities prices since late January this year, saw a renewed episode of volatility toward the end of second quarter. The UK's decision on 23 June to leave the EU (Brexit) has heightened global uncertainty with implications for economic growth, monetary policy and asset prices worldwide. Shortly after the official results were announced, on 24 June, the pound sterling plummeted 11% and stock prices fell across the globe, wiping out a total of USD 3 trillion. These developments were mirrored by a relative weakening in Latin American currencies. The Mexican peso—the preferred emerging-market currency for traders for its liquidity—lost 5% of its value against the greenback on 24 June, which prompted Mexico's Central Bank to take action by hiking the interest rate drastically. Nonetheless, domestic circumstances within the economies in the region vary, and some currencies—such as the Brazilian real—experienced only mild volatility. The Brazilian currency's relative resilience to the headwinds provoked by Brexit reflected expectations of an extended tight monetary policy as well as greater optimism for fiscal reform prospects. Meanwhile, the outcome of the presidential election in Peru supported the nuevo sol.

Latin America's economic downturn that began in the second half of 2015 persisted in the first half of this year. A regional GDP aggregate elaborated by FocusEconomics estimates that the economy contracted 1.2% year-on-year in first quarter, while recent activity data suggest that growth continued to falter in the second quarter. This dismal performance has exposed the region's persistent structural weakness of commodity dependence and the lack of clear policies to promote further economic diversification and encourage productivity gains.

However, as in the case of Mexico, volatility in the foreign exchange markets will put pressure on several central banks across the region in order to mitigate pass-through effects on consumer prices. This, in turn, has the potential to hurt domestic demand and ultimately damage economic growth in the region even more. The economies with large current account deficits—Colombia, Mexico and Venezuela, just to name a few—are likely to be weakest links and will feel the impact of volatility in their currencies more strongly while risking capital outflows at the same time. Should protracted and messy Brexit negotiations prolong uncertainty, a further fall in investor confidence will prevent a recovery in oil prices, which will then hit exports and fiscal revenue in oil-producing economies such as Ecuador, Colombia, Mexico and Venezuela. A silver lining for the region is that the Brexit vote and the subsequent uncertainty caused by the negotiations between the UK and the EU will likely postpone any interest rate increase by the Federal Reserve, at least until 2017. Moreover, for most of the region, the direct effects of Brexit on trade will be limited.

As the British government attempts to right itself in the aftermath of the vote, the rest of the world must now grapple with the ripple effects. Brexit is likely to take a good amount of time to sort out and, overall, the Anglo-European divorce does not radically change the picture for Latin America, where regional growth continues to disappoint and countries have bigger problems to be worried about. In this scenario, India can strengthen its economic and trade cooperation with Latin American countries to win an edge over existing competitors.

India- MERCOSUR* section

MERCOSUR is a trading bloc in Latin America comprising Brazil, Argentina, Uruguay, Venezuela and Paraguay. MERCOSUR was formed in 1991 with the objective of facilitating the free movement of goods, services, capital and people among the four member countries. It is the third largest integrated market after the European Union (EU), North American Free Trade Agreement (NAFTA). India and MERCOSUR have signed a Preferential Trade Agreement (PTA) which came into effect on 1st June, 2009. The aim of this 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.

India's bilateral trade with the LAC region has increased significantly from $3.7 billion a decade ago to $45 billion 2014-15; still it appears to be a small fraction of the potential. The total products in MERCOSUR offer list is 452 out of which 127 products are from engineering sector. This accounts for 28.2% of the offer list. This indicates the significance of engineering products in the export of India.

The major product segment in the offer list include-

- Non-ferrous metals and products
- Nickel & products
- Aluminum and products
- Hand tools & Cutting tools
- Other non-ferrous metals & products
- IC engines and parts
- Pumps of all types
- Industrial machinery for dairy, agriculture, textile, paper, chemicals, etc.
- Electric machinery & equipments
- Medical & Scientific instrument

Table 3: India’s Major Export Destinations in LAC & MERCOSUR Regions for Engineering Products

LAC	India’s Export in May 2016 (USD Million)	MERCOSUR	India’s Export in May 2016 (USD Million)
BRAZIL	57.16	**BRAZIL**	57.16
COLOMBIA	33.86	**ARGENTINA**	13.06
PERU	29.53	**URUGUAY**	8.68
CHILE	23.10	**PARAGUAY**	4.57
ARGENTINA	13.06	**Venezuela**	2.26
Total	**151.55**	**Total**	**85.73**

Export of engineering products from India to MERCOSUR has shown a good increase in May, 2016 at 85.73 million USD as compared to 62.34 million USD in April, 2016. This constituted 1.53 % of the total engineering export of India to the world in April 2016. In comparison, India’s export to Latin America and Caribbean is valued at 151.55 million USD, constituting 2.71% of its total export to world. Latin America's top 5 countries contribute to 66.52% of India's total engineering export to the region while MERCOSUR constitutes of 37.63% of the total export to LAC region. MERCOSUR's PTA with India has boosted trade. To further consolidate its position, India should enter into preferential trade agreements with other countries like Peru, Argentina, Ecuador, in the region.

Table 5: Top 10 panels of Engineering Goods Exported to LAC & MERCOSUR by India

Top panels export to LAC	Value in May 2015 (USD Million)	Value in MAY 2016 (USD Million)	Top panels export to MERCOSUR	Value in May 2015 (USD Million)	Value in May 2016 (USD Million)
Motor Vehicle/cars	60.94	63.22	**IC Engines and Parts**	12.93	20.54
Two and Three Wheelers	38.27	30.95	**Auto Components /Parts**	19.77	11.80
IC Engines and Parts	13.95	22.73	**Electric Machinery**	3.61	8.40
Auto Components /Part	26.21	19.24	**Industrial Machinery**	9.66	7.92
Iron and Steel	23.18	15.69	**Motor Vehicle/cars**	8.46	6.87
Electric Machinery	7.55	14.14	**Iron and Steel**	12.21	5.23
Industrial Machinery	16.09	12.93	**Two and Three Wheelers**	3.31	4.82
Aluminum and product	22.15	12.42	**Products of Iron**	7.29	3.84
Products of Iron	16.71	12.01	**Medical and Scientific**	3.21	2.86
Medical and Scientific instruments	5.22	4.75	**Aluminum and product**	15.14	2.68

The table above comprises of the top 10 exported engineering products to MERCOSUR and LAC. Comparative analysis of month by month data of subsequent years (2015 and 2016 for the month of May) reflects that the overall Indian exports has shown slight increase for both LAC and MERCOSUR region. For MERCOSUR it has gone up from 62.34 million USD to 85.73 million USD whereas for 29 countries of LAC, it has increased from 190.79 million USD in April 2016 to 227.83 in May 2016. This increase in export of engineering products from India to MERCOSUR and LAC region is a positive indication of improving trade ties with LAC region. Upgradation of India-MERCOSUR existing PTA or more trade agreements with the Latin American countries could probably strengthen India's competitiveness in the region.

LAC-India – Information Guide

LA has a website –LA helpdesk which provide crucial information regarding any trade related query.

The link for the website is:

Source: http://lanic.utexas.edu/la/region/business/index.html

For all the business travel related information regarding Latin America can be found at the link below.

Source: http://www.businesswithlatinamerica.com/travel.html

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News in Focus

Brexit and US-UK relations: A new digital trade and cybersecurity agenda

Expect a big impact on digital trade and foreign direct investment, On a purely commercial level, the steep decline in the value of the British pound (around 12 percent currently) will curtail British shoppers' appetite for foreign goods and services. British consumers are long accustomed to buying on the Internet: over 50 percent made at least one online purchase from a non-UK website last year (US websites were by far the most popular outlets). Over the longer term, if Britain does leave the EU, cross-border sales by US web merchants will become more complicated. For instance, at this point, purchases from the US are eligible for Prime shipping through any Amazon consignment center to any place in Europe. But when the UK departs the union, such purchases will have to be sent separately to that country.

Link:http://www.techpolicydaily.com/technology/brexit-relations-digital-trade cybersecurity/?utm_source=aei&utm_medium=tpdtile&utm_campaign=cict

TTIP will be heading for the backburner

Finally, on the broader canvas of digital trade policy, Brexit dooms any chance for completion of the US-EU Transatlantic Trade and Investment Partnership (TTIP) agreement in the near future. Both the EU and the UK will be too preoccupied with other major economic, constitutional, and political challenges to work through the complexities of this major interregional trade pact. For the digital agenda, this means that the important breakthroughs in crafting international trade rules for the Internet, begun in the recently completed negotiations for the 12-nation Trans-Pacific Partnership agreement, will not be supplemented in the near future by further liberalization advances between the major economies of America and Europe. That agenda is left for the 2020s.

Link:http://www.techpolicydaily.com/technology/brexit-relations-digital-trade-cybersecurity/?utm_source=aei&utm_medium=tpdtile&utm_campaign=cict

Latin America's recession masks contrasting realities

Latin America remains trapped in recession. Economic weakness persisted at the beginning of the year following two consecutive periods in which the economy contracted in the third and fourth quarters of 2015—the sharpest fall in six years was registered in Q4. The region's aggregate GDP is estimated to have decreased 1.2% year-on-year in the first quarter, which continues to suggest overall weakness in the region. However, this data mask the fact that some economies within Latin America are managing the region's recession better than others and are growing, while others are facing a severe economic deterioration.

Link: http://www.focus-economics.com/regions/latin-america

Latin America's Economic Slowdown Continues

The IMF's latest *Regional Economic Outlook for the Western Hemisphere*, release projects that the region is set to contract by 0.5 percent in 2016—marking two consecutive years of negative growth for the first time since the Latin American debt crisis of 1982–83. This rate, however, masks the fact that many countries continue to grow, modestly but surely, whereas a small number of economies—representing about half of the region's economy—face recession largely as a result of domestic factors. The deceleration in activity reflects weak external demand, further declines in commodity prices, volatile financial conditions, and for some important domestic imbalances and rigidities, the report said. At the same time, many countries have continued to experience large exchange rate depreciations, mainly as a result of deteriorating terms of trade and external demand. For 2017, the IMF expects the region to bounce back to 1.5 percent growth.

Link: http://www.imf.org/external/pubs/ft/survey/so/2016/CAR042716A.htm

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