

Committee / Council:	ECOSOC
Issue:	India And Latin America And The Caribbean: Opportunities And Challenges In Trade And Investment Relations
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Introduction

A 2008-2010 report released by The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) reveals that the region is one of the most important commercial partners of India. The region exported approximately 0.9 percent of its total export to India during this period. In the recent past, the Asian, Latin American and Caribbean communities have proven themselves as the world's new growth poles. The nations in question are dominantly Asian, with precursors being China and India.

With 7.8 percent in the year 2011 India has the 13th largest Gross Domestic Product (GDP) growth rate in the world. The country has seen a great growth rate in the last three centuries that made it one of the fastest growing economies in the world. The GDP per capita growth rate increased from 2.8 percent in the 1980s to 4.2 percent in the 1990s and 6.1 percent in the 2000s. This growth is due to three individual factors. These factors are India's huge labor force, the increase in the size of its middle class and the increase in foreign investment in India. It is estimated that India will have the largest population in the world by the year 2030, surpassing even China.

India's rise in the world economy came after 1991 when the country started its ongoing economic liberalization process, at the height of its balance of payments crisis.¹ In the mid 1980s, due to numerous causes including its account deficit, India's government started having serious fiscal imbalances. By 1990, the government's actions proved to be insufficient and a greater plan was needed. Then, an International Monetary Fund (IMF) bailout program was introduced. In addition to huge pledges of gold to the Union Bank of Switzerland and the Bank of England, the program required the government to accept numerous economic reforms.

¹ Balance of payments is "a system of recording all of a country's economic transactions with the rest of the world over a period of one year".

<http://wordnetweb.princeton.edu/perl/webwn?s=balance%20of%20payments>

The government ruled new policies to fully reform investment licensing, Foreign Direct Investment (FDI – see next chapter) regulation and the trade policy as a whole. These policies resulted in an expansion of its role in world trade and increased its share in capital flows, and particularly in the FDI inflows. Back in 2004, India's FDI inflow was only \$5.7 billion, which represented only 0.9 percent of the world's investment flows. In 2008 the FDI amounted to \$43 billion. This amount was 2.6 percent of the world's FDI flows. In 2004, the Indian economy's investments abroad hit \$3.5 billion. During 2008, this amount increased and totaled over \$24 billion. However, both inflows and outflows fell after 2008 and, according to World Bank statistics, are \$24 billion and \$11 billion respectively.

In the last ten years, India has been responsible for over 10 percent of the whole world's economic growth, which is a significant achievement on its own. India's largest industry, agriculture, has been declining in the past few years, but it still employs more than half of the workforce. However India's GDP per capita remains the lowest in the BRICS (see next chapter). The main problems India faces while attracting foreign investment are its lack of sufficient infrastructure, especially regarding electricity and roads, and its increasing public debt caused the government's inability to deal with their deficit problem. Another issue that needs to be dealt with is India's 8 percent inflation rate, the highest among all BRICS nations. All of these challenges will have to be dealt with if India wishes to close the income gap between itself and more developed countries.

India has been showing high growth rates for over twenty years but it was not until the wake of the international financial and economic crisis that Latin America and the Caribbean region were noticed by the international community to bear significant economic potential as possible emerging economies (for their definition see next chapter), because they emerged from the crisis quicker and more energetic than most industrialized countries. The average Latin American and Caribbean GDP that had been declining by 1.7 percent in 2009 showed an impressive increase of 6.1 in the following year. The caution taken while planning fiscal policies and the region's nations' officials' good judgment and foresightedness were what saved these regions from the possible damage the crisis could have done to their economies. What guaranteed these countries' economic growth were their respectable natural resources, energy sources and a persistent trend in careful fiscal policies as stated above. The natural resources of Latin America and the Caribbean, especially the availability of freshwater and cultivable land will surely increase in importance as the world's rapidly increasing population's need for crops also increases. However, the same factors that kept hindering the exploitation of this potential to full extent still remain today. The main

challenges that these two regions will have to overcome are a lack of advanced technology, innovation and competition.

Definition of Key-Terms

Gross Domestic Product (GDP):

“The value of a country's overall output of goods and services (typically during one fiscal year) at market prices, excluding net income from abroad.”²

Foreign Direct Investment (FDI):

“Acquisition or construction of physical capital by a firm from one (source) country in another (host) country.”³

FDI inflow:

“Property located within the domestic country acquired by a foreign owner.”³

FDI outflow:

“Property acquired abroad by a domestic owner.”³

Fiscal Deficit:

“Government expenditure in the fiscal year minus government revenues in the fiscal year.”⁴

Public Debt:

“The total of the nation's debts: debts of local and state and national governments; an indicator of how much public spending is financed by borrowing instead of taxation.”⁵

Emerging Economy:

“A term typically used for a country which still has per-capita output (as measured in gross domestic product per capita) significantly below the one of leading countries, but well above those of underdeveloped nations. Another factor is a rapid growth process typically associated with manufacturing and service industries. Emerging economies include large nations like China, India or Brazil, but also most of Eastern European nations.”⁶

² <http://www.businessdictionary.com/definition/gross-domestic-product-GDP.html>

³ <http://www-personal.umich.edu/~alandear/glossary/f.html>

⁴ <http://studymaterials.bankjobguide.com/banking-terms-2/a-z-of-economic-and-banking-terms.html/>

⁵ <http://wordnetweb.princeton.edu/perl/webwn?s=public%20debt>

⁶ <http://www.iier.ch/glossary/3/lettere#term89>

Countercyclical:

“Designed to offset or counteract the effects of fluctuations of an economic variable that rises and falls over time. Examples are increased payments to unemployed workers when GDP falls below full employment, and increased payments to farmers when crop prices fall below some target level.”⁷

Infrastructure:

“The system of public works of a country, state, or region; also: the resources (as personnel, buildings, or equipment) required for an activity.”⁸

Free Trade Agreement:

“An agreement between two or more nations that eliminates or significantly reduces tariffs and trade barriers.”⁹

BRICS:

BRICS (formerly BRIC before the addition of South Africa in 2010) is a group of major emerging economies (Brazil, Russian Federation, India, China and South Africa).

Background Information

As of mid 2009, Latin America and the Caribbean showed great economic potential by surviving the economic crisis with a newly emerged potential for economic growth. Many firms around the world, but notably Japanese firms showed interest in taking advantage of this potential and invest in Latin America and the Caribbean which enabled countries in this region to strengthen their relationship with Japan. This did not only make Japan, among other nations, see the Caribbean and Latin American regions as its business counterparts but also notice that trading with the region is a strategic asset as a result of the increase in the region’s economic interdependence with Asia in recent years, due to an increasing demand for manufactured goods in the region, which can be acquired in Asia at a lower cost, and an increasing demand for natural resources that the region’s countries can provide. Mutual investment agreements and economic partnership treaties will further encourage foreign companies to engage in business in these regions.

Although the export and imports from India are a minor part of the trade relations of the two regions as a whole, the interest seems to be increasing. Currently, India makes up for 6.2 percent of the region’s Asia-Pacific exports and 5.1 percent of the region’s Asia-Pacific imports, but in the year 2000,

⁷ <http://www-personal.umich.edu/~alandear/glossary/c.html>

⁸ <http://www.merriam-webster.com/dictionary/infrastructure>

⁹ <http://education.usace.army.mil/navigation/lessons/3/vocabls3lv2.html>

these percentages were 3.4 and 2 respectively. It should also be noted that many of the goods that India is showing increasing interest in are major exports of Latin American and Caribbean countries.

However, the region's trade with India is far from equally distributed with Brazil being India's leading trading partner in the regions by making up for 38 percent of the region's exports to and 43 percent of the region's imports from India, mostly owing to the fact that Brazil has the largest economy in Latin America. Brazil is followed by Chile, Mexico and Argentina with respect to imports from India. The imports are significantly more equally distributed between Mexico, Colombia and Argentina. The Caribbean countries as a whole make up for 1.3% of the exports and 2.8% of the imports. With no doubt, these region's trade and investment relations will improve and gain more weight drastically, though from a negligible starting point.

Trade relations between the region's countries and India are still at an early phase and most of the imports and exports are based on natural resources. Nations need to work together to increase the variety of these goods and services and include more technologically advanced ones. Creating partnerships between Latin American and Caribbean firms and Indian firms that provide such goods and services would be a feasible option. Also, the region could meet India's increasing raw material and food needs, if competition from other Asian states proves to be insufficient, as the region is bound to become one of the major suppliers of these goods.

Upon realizing the Latin American and Caribbean regions' potential, India has gradually been increasing its relations with them, specifically in terms of trade and other investments. India and the Latin American and Caribbean countries are bound to enter into strategic economic associations in the future, as authorities are becoming more and more convinced of the advantages of such associations.

In the future, these economies will regularly face complex challenges like any other developing economy. They should experience the need to restrain and steadily cut down not only their fiscal deficit but also their public debt and make sure to do this gradually due to problems like high rate of unemployment and slowing economic growth that they could experience in the future.

Major Countries and Organizations Involved

United Nations Economic Commission for Latin America and the Caribbean (ECLAC)

The ECLAC was established upon an ECOSOC resolution in 1948 and was later widened to include the Caribbean nations as well. It initiates projects to promote and contribute to the economy of the region. In addition to all Latin American and Caribbean nations, the United States, Canada, the United Kingdom, the Netherlands, Germany, France, Italy, Spain, Portugal, Japan and South Korea are all members.

World Trade Organization (WTO)

The WTO is an international organization that regulates international trade. In addition to India, all Latin American and Caribbean nations are members with the exception of Anguilla, Aruba and Curaçao.

Brazil

Brazil has the largest economy in Latin America and the sixth largest economy in the world. It is a member of the BRICS states and India's biggest trading partner in the region. Its main exports to India are sugar and its by-products, crude oil and copper ores.

Argentina

With \$694,690 million, Argentina has the second-largest GDP in the continent and is one of the world's major agricultural producers. Manufacturing makes up 19 percent of the country's GDP and the leading manufacturing industries are food processing, auto parts, petroleum products, chemicals and pharmaceuticals. It exports vegetable oils, wheat and leather to India.

Chile

Chile has a GDP of \$281.368 million, which ranks it 6th among the continent's other nations. Chile is the second biggest exporter to India. Its exports are mainly copper ores, inorganic chemicals and metals.

Relevant UN Treaties, Resolutions and Events

ECOSOC Resolution 2006/39

Admission of Japan as a member of the Economic Commission for Latin America and the Caribbean.

Trans-Pacific Partnership (TPP)

Also known as the Trans-Pacific Strategic Economic Partnership Agreement to which Brunei, Chile, Singapore and New Zealand are the initial signatory members with the United States, Australia, Peru, Vietnam, Malaysia, Mexico and Canada being negotiating members.

Preferential Trade Agreement (PTA) between India and Chile

A “Framework Agreement to Promote Economic Cooperation between India and Chile” was signed on January 20, 2005.

Previous Attempts to Solve the Issue

Faced with the recent global economic crisis, both the Latin American and Caribbean nations and India have made the required changes to their policies and ensured that they not only survived the crisis with minimal harm, but also that they kept (or increased) the growth rate of their economies while recovering. India’s stimulus package and countercyclical policies were what ensured its safety while most Latin American and Caribbean nations showed an extraordinarily rapid recovery due to their careful and foresighted fiscal policies.

A recent problem that India has been facing in the region is that its imports from the region do not have enough variety and are mostly natural resources. This caused concern as in the present, these resources had sharply fluctuating prices. However, very recently, the Indian FDI has been moving towards other sectors as well, including construction, manufacturing and pharmaceuticals but especially ones related to technology such as information and communication technologies. If this trend continues, there will be no need for concern over this problem, but it would be a smart move to guarantee this by adopting policies that encourage such investments.

Possible Solutions

A problem in relation to India’s reliance on the region’s natural resources is the region’s reliance on India’s manufactured goods. Such reliance on only one industry in a country is a source of future instability and could pose a threat to the trade and investment relations of Latin American and Caribbean countries with India. Latin American and Caribbean countries should develop

policies that encourage the development of their own manufacturing industries while India should try to make its other industries appealing.

Another cause of instability is the fact that trade with India is concentrated on a small number of countries in the region. This could be a risky situation for India in the future if one or more of the countries that it trades with faces issues that affect its economy. It would be safer for India to diversify its reliance on the regions' countries by either India or nations that do not have major trading relations with India diversifying their range of clients by making the nation's goods that are desired by possible clients more appealing.

Even though it has a notable amount of coal, India's industries rely heavily on coal imports, making it the 4th major coal importer in the world. Although Colombia is the world's 6th major coal exporters, coal is not among the three products that are exported to India and make up for more than 95 percent of the total exports. Thus, Colombia and India could both benefit from an increase in coal imports from Colombia.

Trade agreements could be the simplest answer to such problems, but this could also be done by additional policies to encourage companies to decrease costs and improve products or services, delivery and customer service. Such policies will also be useful in countries that already have more significant trading relations with India, in the effort to stand out from other countries around the world with more competitive industries.

However, it should be noted that free trade agreements are not enough to make Latin American and Caribbean trade more appealing to India and vice-versa. All of these countries already have made such agreements with many countries and although such agreements would help, they wouldn't make trading between Latin American and Caribbean regions and India more appealing compared to trading with other regions. Trade and investment partnerships between the region's countries and India should include further measures to ease and thus encourage efforts to trade and invest in these countries.

It would be better to discuss the numerous problems that Latin American and Caribbean regions and India have in common through multilateral and bilateral talks, that seem to be in an insufficient amount at the time. These problems include lack of innovation, competitiveness, efficiency and infrastructure (especially in India) leading to problems in logistics. These problems could be discussed via the G20 summits, the WTO or the United Nations Organization itself. India's accession as a member of ECLAC would also be a more radical but more efficient way in encouraging such dialogues. In the future, if and when trade between the region and India is even more

significant, the formation of a body just for the promotion of trade relations between these regions could be possible.

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