

India and Peru FTA: Issues and Concerns

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Summary

India and Peru met on 11 March 2019 to continue their ongoing negotiations on a free trade agreement (FTA) for goods and services. The proposed FTA will open avenues for India to penetrate into the Latin American market using Peru as a commercial base while Peru will have access to the Indian market, which has more than a billion potential consumers. This paper analyses the possible benefits for both economies arising from this agreement.

Introduction

In order to expand their commercial ties, India and Peru launched negotiations for a bilateral free trade agreement (FTA) for goods and services in August 2017. Since then, both countries have concluded four rounds of negotiations with the latest meeting on 11 March 2019. The frequency of these meetings reflects the seriousness on both parties to tie down a deal at the soonest.

Peru, one of the fastest growing economies, is among the largest trading partners of India in the South American region with a trade volume of US\$2.7 billion (S\$3.66 billion) during 2017. It is among the few economies in the region to enter into a preferential trade negotiation with India and holds a very prominent position in the latter's trade and Investment relations with the Latin American region. The proposed FTA is also the first of its kind India would have with any Latin American country. The main chapters of the trade agreement include market access for goods, trade in services, the movement of professionals, investments, dispute settlement, technical barriers to trade, trade remedies, rules of origin for goods, customs procedures and trade facilitation.

India's preferential trade agreements with Chile and MERCOSUR (the Southern Common Market, encompassing Brazil, Argentina, Uruguay, and Paraguay) have facilitated trade, but with a limited scope. To further exploit the benefit an amended FTA between India and Chile was enforced in May 2017.

Expected Gains

An FTA with a trading partner with trade volume of more than US\$2 billion (S\$1.36 billion) expectedly opens up a number of opportunities for both countries. Implementation of this FTA is expected to increase Peru's exports to India by 12 per cent.¹ The Association of Peruvian Exporters has identified 270 untapped opportunities with India worth US\$2.42

¹ "Peru, India set to start negotiations on free trade agreement", *The Livemint*, 19 January 2017. <https://www.livemint.com/Politics/5Pmy6zNuX83jORbGyKEgqO/Peru-India-set-to-start-negotiations-on-free-trade-agreemen.html>. Accessed on 18 February 2019.

billion (S\$3.27 billion) and is confident of positive outcomes of the agreement. Rich in natural resources, Peru can emerge as a long-term supplier of India's increasing needs. Copper ores, natural calcium phosphates and natural aluminium, cocoa and coffee are some of the items Peru will gain by exporting to India. Import of motor vehicles, readymade garments and various services like information technology, telecommunication and financial services from India at a lower tariff in the post-FTA period can substantially reduce the burden of Peru's balance of payments account.

For India, the proposed FTA will not only increase its trade volume with Peru, but also with other prominent players in the region like Mexico and Argentina through lower import tariffs. Peru having a preferential agreement with markets like Mexico and Argentina will offer Indian exporters easier access through lower import duties. Peru can act as an entry point for Indian exporters to the region. Currently, Indian bilateral trade with the Latin American region is heavily concentrated in Mexico and Brazil, with more than 55 per cent of Indian goods landing only in these two countries in 2016-17. Peru was the fifth largest destination for Indian goods in the region with exports of US\$728 million (S\$986.83 million) and 6.11 percent share during the same time period.

Peru, located centrally in the Latin American region, is a relatively open and liberal economy and has a lot to offer to Indian investors as well. Peru is one of the few countries in Latin America that has an Investment Grade rating. Peru is economically well-integrated with other countries in the region. It is one of the leading mining countries in the world, with reserves of minerals such as copper, gold, zinc, silver, lead and tin. The Peruvian mining sector expects to see an investment of US\$52 billion (S\$70.49 billion) in the couple of years. The potential of oil and gas is also being explored, and Peru has already started exporting gas. All of these conditions open a wide gateway for Indian firms to invest in and exploit the opportunity.

Although a few Indian companies like the Indian Farmers Fertiliser² Cooperative Limited, Tata Consultancy Services and Zuari³ have their operations in Peru, a formal trade agreement can boost the investments.

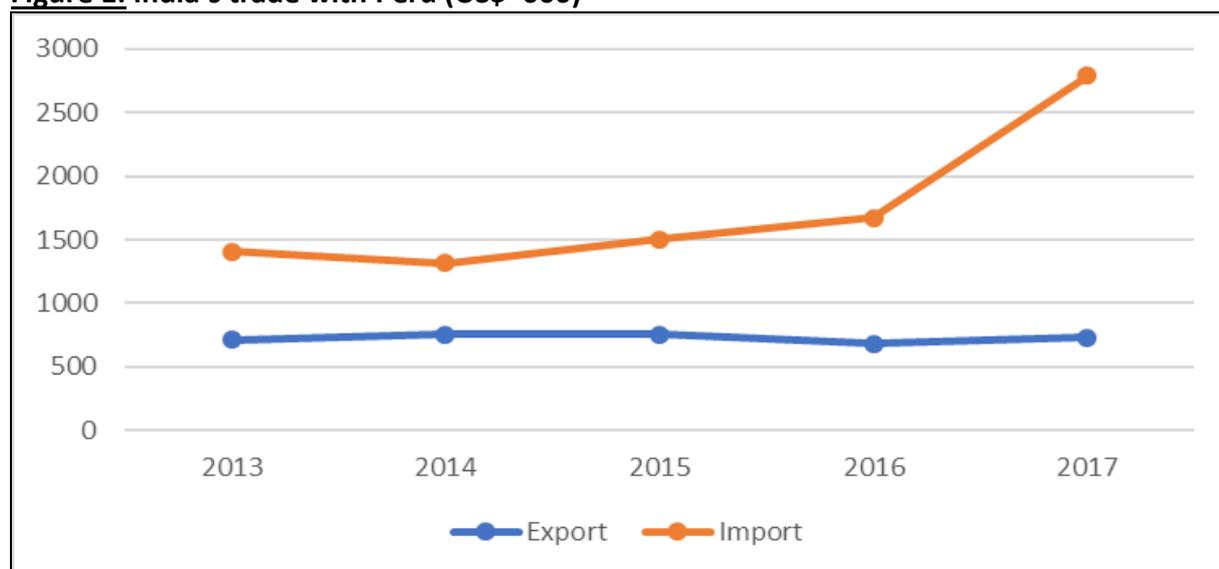
Bilateral Trade

The data plotted in Figure 1 clearly demonstrates India's negative trade balance with Peru. Further, the gap between exports and imports is constantly increasing over the course of time and almost doubled in 2017.

² R. Viswanathan, "Peru: India's new billion-dollar trade partner in Latin America", *The Gateway House*, 12 September 2013. Available at: <https://www.gatewayhouse.in/peru-indias-new-billion-dollar-trade-partner-in-latin-america/>. Accessed on 15 February 2019.

³ "India Peru Relations". Ministry of Foreign Affairs, Government of India. https://mea.gov.in/Portal/ForeignRelation/Peru_August_2017.pdf. Accessed on 17 February 2019.

Figure 1: India's trade with Peru (US\$ '000)



Source: UN COMTRADE

It is to be noted that, India's trade balance is not only negative with Peru but with the entire Latin American and Caribbean region. This is reflected in the data plotted in Figure 2. Other than Peru, Brazil, Colombia and Mexico are India's major trading partners in the region. The details depicted in Table 1 show that India's top 10 trading partners constitute around 87 per cent of its total exports to the Latin America and Caribbean region during 2017 while the share of Peru in the same period was 6.11 per cent.

Table 1: India's exports to Latin America and the Caribbean region in 2017 (US\$ million)

S/No	Country	Export Value
1	Mexico	3,697.4 (5,011.94)
2	Brazil	2,867.4 (3,886.85)
3	Colombia	910.5 (1,234.21)
4	Chile	744.0 (1,008.51)
5	Peru	728.1 (986.96)
6	Argentina	659.8 (894.38)
7	Guatemala	281.7 (381.85)
8	Ecuador	264.4 (358.40)
9	Panama	233.5 (316.52)
10	Dominican Republic	195.8 (265.41)
	Latin America – Caribbean	11,902 (16133.52)

Source: UN COMTRADE

Note: Figures in the brackets are export values in Singapore dollars

In the case of imports, Venezuela, Brazil, Mexico and Argentina are prominent sources for India in Latin America and the Caribbean region. The data from Table 2 shows that India's top 10 import sources from the region account for more than 97 per cent of its total imports from the Latin America and Caribbean region in 2017. India's Import from Peru constitutes 8.7 per cent of its total imports from the region over the same time period.

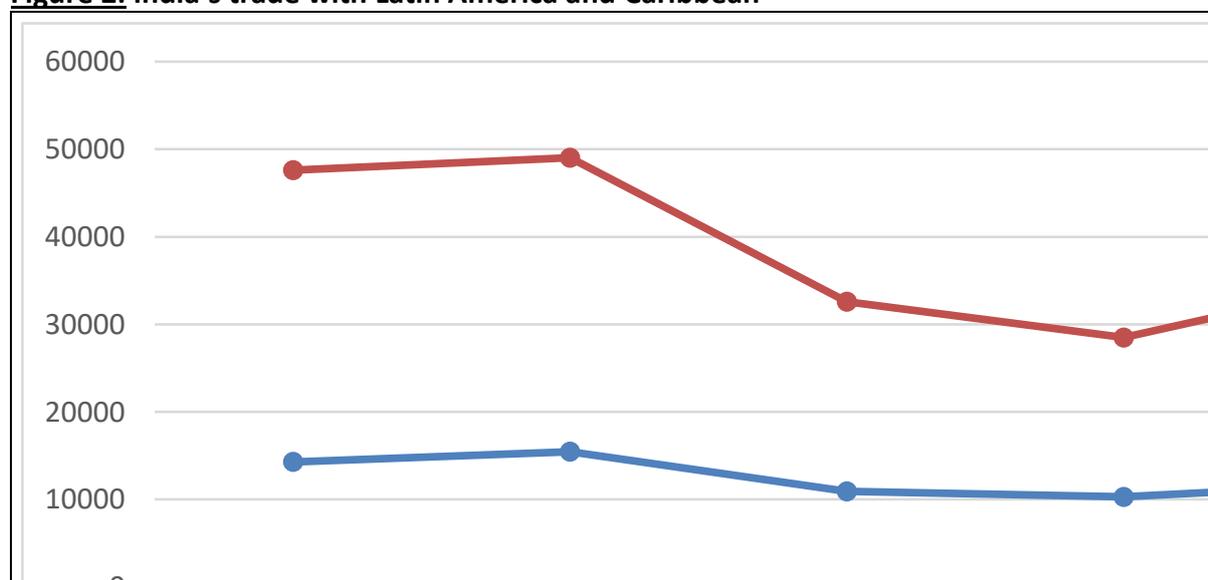
Table 2: India’s imports from Latin America and the Caribbean region in 2017 (US\$ million)

S/No	Country	Import Value
1	Venezuela	5,898.1 (7,995.05)
2	Brazil	5,104.4 (6,919.17)
3	Mexico	3,538.0 (4,795.87)
4	Argentina	2,486.5 (3,370.53)
5	Peru	2,063.2 (2,796.73)
6	Chile	1,698.0 (2,301.69)
7	Colombia	648.9 (879.60)
8	Bolivia	596.7 (808.84)
9	Dominican Republic	593.8 (804.91)
10	Ecuador	331.9 (449.90)
	Latin America – Caribbean	23,645.8 (32,052.59)

Source: UN COMTRADE

Note: Figures in the brackets are import values in Singapore dollars

Figure 2: India’s trade with Latin America and Caribbean



Source: UN COMTRADE

Analysing India’s top 10 export items to Peru, noted in Table 3, it is found that all are manufactured goods. Out of these 10 items, there are two major product categories – motor vehicles and cotton yarn. It is pertinent to note that these 10 items account around 50 per cent of India’s total exports to Peru. It is also interesting to note that all of these items face only 6 per cent import tariff in Peru. However, it excludes flat rolled iron or non-alloy steel which already attract zero tariff.

Although major Indian exports to Peru are subjected to only a small amount of tariffs, but it faces a number of non-tariff barriers in the Latin American market. Peru is considered to be one of the highest users of non-tariff measures (NTMs) in the South American region. Among all the NTMs imposed on Indian exports, sanitary and phytosanitary measures and technical

barriers to trade (TBT) measures are the most frequently used ones.⁴ They deal with product quality and standards, which countries sometimes impose in the manner that imports become uncompetitive and the domestic industry is protected.

Table 3: India's top 10 exports to Peru in 2017

S/No	HS Code	Product	Value (US\$ million)	Tariff
1	870321	Motor vehicle of a cylinder capacity not exceeding 1000 cc	76.74 (104.02)	6
2	870322	Motor vehicle of a cylinder capacity exceeding 1000 cc , but not exceeding 1500 CC	58.91 (79.85)	6
3	520523	Cotton yarn Measuring less than 232.56 decitex	42.68 (57.85)	6
4	721041	Flat rolled iron or non-alloy steel, coat zinc, corrugated, w greater than 600m	31.39 (42.55)	0
5	540233	Synthetic Filament Yarn Other Than Sewing Thread,	28.24 (38.28)	6
6	390760	Polyethylene Terephthalate	26.75 (36.26)	6
7	300490	Medicaments	26.58 (36.03)	6
8	520522	Cotton yarn Measuring less than 714.29 decitex	24.81 (33.63)	6
9	520513	Cotton Yarn Measuring less than 232.56 decitex	21.87 (29.65)	6
10	871120	Motorcycles	21.33 (28.91)	6

Source: UN COMTRADE

Note: Figures in the brackets are in Singapore dollars

India's imports from Peru are skewed and largely limited to a few items only. The top 10 items imported from Peru in 2017 accounts more than 99 per cent of India's total imports from that country. Moreover, a single tariff line – gold - constitutes 70.8 per cent of India's imports from the Latin American country. This is evident from the data given in Table 4 below. Import items are concentrated to only two sectors viz. agriculture and minerals.

Table 4: India's top 10 Imports from Peru in 2017

S/No	HS Code	Product	Value (US\$ million)	Tariff Simple Average
1	710812	Gold - Nonmonetary	1,461 (1,980.43)	10
2	260300	Copper ores and concentrates.	529 (717.08)	2.5
3	251010	Calcium Phosphate	36 (48.80)	5
4	261690	Precious Metal Ores & Concentrates	5 (6.78)	2.5
5	90111	Coffee, not roasted, not decaffeinated	3 (4.07)	100
6	760200	Aluminium waste and scrap.	3 (4.07)	3.75
7	550130	Synthetic Filament	3 (4.07)	10
8	80610	Grapes, Fresh	2 (2.71)	30
9	790112	Unwrought Zinc, Not Alloyed	2 (2.71)	5
10	180100	Cocoa beans, whole or broken, raw	2 (2.71)	30

Source: UN COMTRADE

Note: Figures in the brackets are in Singapore dollars

⁴ "Peru Free Trade Agreement could help India diversify in LatAm region", *Financial Express*, 8 February 2017. <https://www.financialexpress.com/economy/peru-free-trade-agreement-could-help-india-diversify-in-latam-region/541837/>. Accessed on 19 February 2019.

A handful of Indian companies have also reportedly invested in Peru though Indian investment is limited to a few sectors like mining and pharmaceuticals but it is expected to grow in the coming future. A detail picture of the Indian outward foreign direct investment to Peru is portrayed in Table 5. The data shows a fluctuating trend in Indian investment to Peru over the last couple of years.

Table 5: India’s Outward Foreign Direct Investment (OFDI) in Peru (US\$ million)

Year	OFDI	Select Investing firms
2012	2.21 (3.0)	Upkar Mining SAC, Arkin Software Technologies
2013	1.92 (2.60)	Glenmark Pharmaceuticals, CDET Explosive Industries
2014	7 (9.49)	Macleods Pharmaceutical, Emcure Pharma
2015	0.96 (1.30)	Glenmark Pharmaceuticals
2016	1.05 (1.42)	Troikaa Pharmaceutical, Intas Pharmaceuticals
2017	2.23 (3.02)	Glenmark Pharmaceuticals, CDET Explosive Industries

Source: Reserve Bank of India

Note: Figures in the brackets are in Singapore dollars

Concluding Remarks

It is evident from the above discussion that both India and Peru are going to benefit from entering into an FTA. India can exploit the Latin American market more efficiently making Peru its commercial base while Peru can increase its trading volume in the Asian region starting with India where it has so far a negligible presence. It is observed that, considering the nature of India’s export basket, it will be more beneficial for it, compared to Peru, to enforce this agreement. Benefits for India will be higher in the services sector rather than the goods sector. With its vibrant services sector, India can be a prominent source for Peru’s services imports. India can also contribute to Peru’s economic growth by making direct investments in this sector. Similarly, Peru can emerge as a dominant supplier of various minerals for India. Currently, many of its exports, which are attracting high tariffs in India, can enjoy a relaxed rate or even zero tariff, if negotiated successfully. Presently, Peru enjoys a surplus trade balance with India over worth over US\$1 billion (S\$1.3 billion).

In an uncertain world order of trade and amid uncertainties in its traditional markets, including in the US and Europe, India has been aiming to enhance its involvement with various emerging markets, including South America. Peru’s economic integration with various countries and country groupings, like the Pacific Alliance, the Asia-Pacific Economic Cooperation and the Andean Community, will provide India huge commercial mileage.

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