CHAPTER – VII

SUMMARY OF FINDINGS, CONCLUSIONS AND SUGGESTIONS

In 1997, the Government of India announced an Action Plan, the Focus LAC, with the express motive of revitalizing India-Latin America trade and economic relations. This venture enhanced the trade relationships between the two countries. Hundreds of companies from India invested approximately 12 billion US dollars in Latin America in various fields pertaining to agriculture, automobiles, cosmetics, energy, mining, etc. Latin American countries too invested of approximately one billion US dollars in automobile parts, electronics, multiplexes, steel, etc.

 Preferential Trade Agreements (PTAs) have been signed between India and some of the larger countries of the Latin American region like Colombia, Chile, Brazil and Venezuela. Also, in the offing is the constitution of Joint Working Groups to further explore bilateral mechanisms for enhanced economic and trade linkages with Mexico, Brazil and Colombia. Various Indian banks intend to open up their branches in some of the major capital cities of the region.

This chapter presents the summary and conclusions for the whole thesis. Section 7.1 summarises the main findings of this thesis. Section 7.2 portrays the conclusions of the chapters. Section 7.3 gives the implications of the study. Section 7.4 gives the suggestions while Section 7.5 the presents the limitations and scope for future research.

7.1 Summary of Findings
In the last 20 years, Latin America and India have seen a sea change which has led progressively in a stable and a forecastable measure of development and growth. Of late, both the governments of India and Latin America have stretched out their hands in bilateral trade and co-operation as there has been a change in their perception of each other. Both the countries face similar problems as far as development is concerned. Therefore, they can learn from each other’s successful ventures. With the advent of India’s entry into Latin America via information technology, pharmaceuticals together with their investment model has boosted the morale of the Latin Americans who were wary of the Chinese as well as the influx of their goods. On the other hand, it is beneficial or advantageous for India to open its door for the ever growing business market of Latin America.

The Major Findings of the Study are as follows:

(i) The review of the literature showed that there is no unanimity on the theoretical and empirical aspects of trade creation/diversion effect. There are many studies done on this aspect, though it is important to conduct more studies using different methodologies to analyse the impact of the Regional Trade Agreements.

(ii) It is observed from the literature survey that very few studies are done on the economic impact of India-MERCOSUR Preferential Trade Agreement and the sectors and products affected by it.

(iii) Survey of literature revealed that there are number of methodological and measurement problems encountered in the impact studies of Regional Trade Agreements. These include functional forms, heteroskedasticity, fixed effect model versus random effect model and use of log forms. More studies are required to
address these problems. The review of literature divulged that there is a research gap in the study area and it needs to be covered with substantive studies.

(iv) Numerous steps have been taken in recent years by both, the Government of India as well as the Government of Latin America in order to built up good trade relationships.

(v) Trade between India and Latin America has increased. In 2001 trade amounted to 2.6 billion US dollars and in 2013 it reached to US 42 billion dollars. It has a potential to increase to 100 billion US dollars within the next four years. A large portion of the items exported by India to Latin America are Textiles, Pharmaceuticals, Chemicals, Diesel and Vehicles. Whereas, India imports Crude oil from Latin America totaling to 75.58 percent (US 21.38 billion dollars). The next largest import is Minerals such as Copper (10.16 percent of the total trade) which is in abundance found in Chile. Vegetable oil basically consisting of sunflower and soya bean oil mostly from Argentina, which comprises of 3.71 percent of the total trade, becomes the third largest import of India.

(vi) MERCOSUR’s major commodities of exports to India are Petroleum oils and crude oil which account for 81.4 percent of the total export trade followed by Fixed vegetable fats & oils (primarily soya bean) which sum up to 7.6 percent. The major imports of MERCOSUR from India are Petroleum oils or bituminous minerals of 33.6 percent, organic/inorganic compounds of 7.2 percent and textile yarn of 6.9 percent.

(vii) With regard to the India-MERCOSUR PTA, there are complementarity sectors for expanding trade ties. India has a competitive edge as far as Clothing and Textiles is concerned, while in Manufacture products and Chemicals it has a high comparative advantage. However, all the MERCOSUR countries have got a weak and a low
comparative advantage in Manufacture products and Chemicals. Similarly, India enjoys a high position of advantage in Iron and Steel and can trade with Bolivia, Paraguay, Uruguay and Venezuela. This complementarity in trade structure provides India with an opportunity and a favourable trading environment to export more to MERCOSUR countries.

(viii) India imports Petroleum products and Minerals from MERCOSUR, which is beneficial for India. On the other hand, India has an edge of Iron and Steel, Manufactured goods and Chemicals which are its export commodities to MERCOSUR. As far as Clothing and Textiles are concerned, there is competitiveness between the two countries to capture an increasing niche in the market.

(ix) As per the Trade Intensity Index (TII), India’s export and import intensities with MERCOSUR had been under-represented. While the trade from 2012 onwards increased reflecting an over-representation as the trade intensity index is above one. This reveals that India has strengthened the trade relation with MERCOSUR.

(x) From the MERCOSUR country wise study of trade intensity, it is apparent that the value of export intensity of India is above one only for Brazil. India yields a high export potential for Argentina, Bolivia, Paraguay, Uruguay and Venezuela. Similarly, India’s Import Intensity Index (III) estimates depict the values below unity for all the MERCOSUR countries which are indicative of India’s potential to enhance the present trade level by atleast ten times or more.

(xi) The intra-MERCOSUR trade intensity index is high for the years undertaken in the study (i.e. from 1995-2013). An intra-regional intensity index more than one is indicative of a healthy flourishing trade. For the year 2013, the index stood at 7.49, which shows a healthy trade growth in the MERCOSUR countries.
The Revealed Comparative Advantage (RCA) constructed for India and MERCOSUR show that India has a high RCA for Agricultural products and can export to Venezuela which has a weak RCA. A similar pattern is seen in Food products as they belong to the same category.

Bolivia, Venezuela, Brazil and Paraguay have a comparative advantage in Fuel and Mining products and can trade with India. India’s RCA for fuel is low and can import petroleum products from Paraguay, Bolivia and Venezuela who are the oil exporters of MERCOSUR.

The high RCA of India for Manufacture allows a possibility in trade with all the MERCOSUR countries, as they have a low and weak RCA. This highlights the trade complementarity that exists between India and the MERCOSUR. India has large deposit of Iron ore and can export Iron and Steel to Bolivia, Paraguay, Uruguay and Venezuela having weak and low comparative advantage in Iron and Steel.

The increasing export of Chemical products reveals a high comparative advantage for India while the MERCOSUR countries have a weak RCA. The strong comparative advantage of India in Textiles and Clothing provides it with a favourable trading environment with all the MERCOSUR countries as they have a low or weak comparative advantage. This complementarity can increase the export of Chemical products, Textiles and Clothing with the MERCOSUR countries.

In the Gravity Model framework, the Random Effects Generalised Least Squares (RE GLS) model gives highly significant parameters holding expected signs. Gross Domestic Product (GDP) and Population of both the countries are positive and highly significant, distance as per the model is negative and highly significant along with a positive MERCOSUR dummy, Contingency and Common Language. Since the India-
MERCOSUR PTA is recent, it has not been possible for the model to capture any significant effects of the trade flows due to the PTA.

(xvii) The trade ratio calculated reveals that all the MERCOSUR countries have the potentials to increase trade with India. However, when the entire region was scrutinized, the predictions reveal that India has not yet fulfilled all the trade requirements/potentials. India’s trade potential is high with Bolivia and Paraguay. The highest export potential is with Venezuela followed by Bolivia, Uruguay, Paraguay and Brazil. The estimates also showed that India has exploited its import potential with the MERCOSUR countries.

(xviii) It is evident from the analysis of the dynamic structural changes that there were no major structural changes in India and China in 2007 as well as in 2013. However, major structural change was experienced in commodities like Printed matter, Arms and ammunition, and for Watches and clocks in India. Whereas there was a maximum change in Construction materials, Gold, Cement, Lime, etc in China. The commodities which have retained the same structure are Essential oils, Organic chemicals, Synthetic tanning materials, Dyeing and tanning extracts, etc in India. While, in China, Explosives and pyrotechnic products have remained the same as far as structural change is concerned.

(xix) For commodities like Tea and mate, Silk, Cotton fabrics, Floor coverings, etc both China and India have an advantage as far as the analysis of comparative advantage is concerned. India has an advantage over China in Rice, Maize, Sugar, molasses and honey, Coffee, etc. Similarly, China is advantageously placed in Wool, Glassware, Pottery, Automatic data processing machines, etc. than India.
(xx) Analysis based on the factor intensity reveals substantial dis-similarities in the commodities for both India and China in the Latin American market. Regarding both the countries, the largest category of Indian and Chinese exports to Latin America are commodities using high skill and technology. A demand for medium skill and technology form the second major category followed by labour intensive and resource intensive manufactures.

(xxi) The presence of China in Latin America will not affect the Indo-Latin trade as India has a much more balanced relationship with Latin America. Indian businesses are lured by the fact that the immensity of the Latin American potential market whose growth and potentials are basically steady and forciable. On the other hand, India’s IT capability and progressive growth along with major foreign acquisitions allure the Latin Americans.

7.2 Conclusion

The study concludes that Regional Trade Agreements can create more trade among members and non-members and can be complementary process to the multilateral trade liberalization. The Conclusion of the Study is as follows:

Firstly, India has taken many initiatives in the direction of improving the strategic partnership between India and Latin America. The emergence of regional integration has become the most important trade development in the recent past with large number of regional, bilateral and trilateral agreements. India-MERCOSUR PTA is the foremost among them. India is expected to increase its trade with the MERCOSUR
countries. India accepts and visualizes Latin American country as a major provider of its food security and energy needs.

Secondly, the trade indices highlight that there are complementary sectors and products which could enhance trade between India and MERCOSUR. The study revealed that Chemicals, Textiles and Clothing are the complementary sectors between India and MERCOSUR and this provides opportunity for further trade cooperation. While India has advantage in Manufactured products and Iron and steel and can export them, it can import Fuels and Mining products from MERCOSUR countries. This leads us to conclude that there is substantial scope exists for MERCOSUR and India to explore complementarities and benefit from increased bilateral trade.

Thirdly, the results of the Gravity model lead us to conclude that India-MERCOSUR PTA has not been effective on improving trade. However, MERCOSUR stands to benefit from India’s world class capabilities in software and pharmaceutical industries and export of agricultural products like Soya bean and Corn. India definitely has the potential to enhance its trade with Latin America by ten percent or more.

Fourthly, the study also brought about presence of trade potential between India and all MERCOSUR countries that can be exploited with increased co-operation. India has unmet export potential with Bolivia, Brazil, Paraguay, Uruguay and Venezuela. It is evident that India’s import potentials are estimated to be minimum as far as MERCOSUR is concerned. There is indeed a tremendous scope for increase in trade potential with countries like Bolivia and Paraguay.

Lastly, in the global market, the degree of competition showed that the analysis of exports revealed a similar pattern of international specialization for both China and
India but not in the Latin American market. Analysing the structural change in the commodities for 2007-2013, a high structural change for ten commodities was shown in India, while China shows a high structural change for only two commodities. Analysis based on factor intensity depicts substantial dis-similarities in the commodities for both India and China in the Latin American market. It may be concluded from the above that the presence of China in Latin America will not adversely influence India-Latin trade.

7.3 Implications of the Study

Regional Trade Agreements are a reality in the post WTO trade regime as it provides certain advantages to the members. The results from the study showed that more trade was created after initiating the trade agreement between India and MERCOSUR. The study reveals that both India and MERCOSUR can gain from a RTA as there are complementarity sectors between them. India has lot of trade potential with MERCOSUR and India can gain in the medium and long run period with the service sector, labour intensive sector and high skilled engineering sector contributing more to the trade with increase in FDI flow and transfer of technology. So also, India can immulate the Chinese methods of trade.

7.4 Suggestions

(i) Indian companies can explore opportunities in the pharmaceuticals industry of MERCOSUR countries by investing in training centres for research and development activities.

(ii) India and MERCOSUR can make investments in the field of IT that could facilitate knowledge transfer and employment generation.
(iii) Indian banks should open more branches/representative offices in the region to enhance the bilateral trade.

(iv) There should be trade facilitation measures to reduce the transaction costs of Indian exporters.

(v) India should engage broader multilateral trade liberalisation along with Free Trade Agreements to minimise the adverse impacts of RTA.

(vi) India should take active leadership in regional affairs which is important for gainful outcomes at multilateral negotiations.
7.5 Limitations and Scope for Future Research

The study has its share of limitations which are beyond the control of the researcher. The study mainly relies on the panel data using the Gravity Model framework of analysis only for 18 years i.e. from 1995 - 2012 as per the data available from UNCTAD database. The study did not consider the new age provisions of RTA’s which include imperfect market structure, scale economy and intra-industry trade. Non-linear regression models are not attempted in the study. The study considered the six members of MERCOSUR i.e. Argentina, Bolivia, Brazil, Paraguay, Uruguay and Venezuela. The new members who have joined at later periods are excluded from the analysis for lack of complete information.

There is scope for a more comprehensive study considering the ‘new age provisions’ of RTA. Secondly, the impact of RTA on FDI inflow/outflow between India and MERCOSUR PTA could be studied. Thirdly, the trade in services is an important factor apart from merchandise trade in a bilateral trade relationship. The impact of RTA’s on trade in services could be undertaken. Fourthly, a comparison between the relationship of either India or MERCOSUR to a different RTA could be analysed. This comparison would show how close the relationship between India and MERCOSUR is as compared to their relationship with other regional agreements.