CHAPTER –2

THE TOP SIX MARKETS

Latin America is a market of 508 million people and USD1.7 trillion of GDP. The per capita GDP is USD 3300. A World Bank report of 2002 has rated the majority of states in Latin America, as upper-middle income economies.\(^1\)

Latin America has been a fast-growing market. Its exports tripled from USD 127 billion in 1991 to USD350 billion in 2002; USD378 billion in 2003 and USD460 billion in 2004. Imports also went up by three times from USD 113 billion in 1991 to USD340 billion in 2002. Latin American imports showed the highest import growth among the regions of the world in the period 1990-91. Imports had increased from USD378 billion in 2003 to USD400 billion in 2004. Latin America’s share of world imports has increased from 3.7% in 1990 to 6.1% in 2004. Its share of world’s exports was 5.2% in 2003 and 6% in 2004. The region has achieved trade surplus in 2002 for the first time in the last fifty years. The trade surplus was maintained in 2003 and 2004. The surplus was due to the export growth.

Latin America has emerged as a stable and growing market since the late eighties. The last decade was a time of profound transformation and paradigm shift. Military dictatorships, hyperinflation of over one thousand percent, frequent change of currencies and unpredictable economic policies are things of the past. Democratisation, integration and globalisation are the three forces driving Latin America since the nineties. Democracy has come to stay all over Latin America firmly and irreversibly. Inflation has been tamed. The average inflation of Latin America stayed in single digit figure in the years 1999 to 2001, 2003 and 2004, except for 2002 it was 12.1%. The governments have learnt lessons from the past crises and are better prepared now. They have undertaken extensive market reforms.

The banking sector has undergone restructuring and modernisation. Many public sector undertakings have been privatised. For example, Latin America contains the highest percentage of countries that have privatised their national telecom systems at 70% as compared to 55% for Europe, 46% for Asia-pacific and 28% for Africa. In the case of
Venezuela, telecom has been 100% privatised. The changed situation of Latin America has attracted large foreign investment, which averaged USD67 billion in the period 1997-2001.

**The impact of the above has transformed not only the industry and business but also the culture and mind of Latin Americans. It would be a mistake to make comparisons with the past history of Latin America or experience in dealing with the old Latin America.**

The new and emerging Latin America has gone through fire since 1994. The region was subjected to external and internal shocks by the Mexican devaluation in 1994, the Asian crisis in 1997, the Russian default in 1998, the Brazilian devaluation in 1999 and the Argentinean default and crisis in 2002. The Latin American governments, business and the public have learnt painful but valuable lessons from these crises. They are now better prepared and will not be caught by surprise by the next crisis. They have developed the resilience to adjust more rapidly to major events.

No doubt, Latin America is a somewhat challenging region. But it is a fact that it offers ‘rich rewards’. It is not for the faint-hearted who tend to flee at the first sign of trouble. One has to be prepared for ups and downs and be able to take quick advantage of opportunities and ride out the cycles of problems.

**LATINOS IN USA**

Latin Americans have emerged as the largest minority with 37 million accounting for 13% of the total population of 285 million of USA. Their number is projected to increase to 75 million in two decades. By 2020 one in five Americans will be Hispanic. Sixty percent of these are of Mexican origin. The 37 millions Latinos in USA form the fourth largest market of Latin America (bigger than Venezuela) with the largest buying power. This population is young, has a rapid technology adoption rate, and an influential culture. The Hispanic market is already influencing mainstream culture. A number of Latin American companies and businessmen operate from Miami. They keep bank accounts, warehouses and second homes there. The Indian companies should take this into account in their marketing strategy.
BRAZIL AND MEXICO

Brazil and Mexico, which are rivals for leadership of the region, offer different platforms for entry into the region for foreign business. These two have become part of the global value chain for multinational corporations.

Brazil was the number one market of Latin America until the devaluation in February 1999. Thereafter, the Brazilian GDP in dollar terms has reduced due to the devaluation, which has occurred in the last three years. However, Brazil has the potential to regain its position as the biggest market with its large population, the range and strength of industries and other resources.

Mexican GDP, which was half that of Brazil up to 1996 overtook Brazil by June 2001. Also, Mexico is ahead of Brazil and the rest of Latin America in terms of foreign trade. Their volume of trade, which is over USD 330 billion, is three times that of Brazil and accounts for nearly 50% of the total foreign trade of Latin America.

Mexico is becoming less and less Latin in terms of market behaviour (and is less affected by developments in the rest of Latin America) and is becoming more influenced by North American Free Trade Agreement (NAFTA).

Mexico has the highest dependence on foreign trade, which accounts for nearly 40% of the GDP. Brazil has the least dependence on foreign trade, which is just ten percent of the GDP.

Brazil and Mexico have significant differences in market characteristics. Brazil is dependent upon primary commodities for exports unlike Mexico whose exports are mainly manufactures. USA is the dominant market for Mexico whereas for Brazil, European Union is the main market.

Both Brazil and Mexico are less dependent on Latin America in their foreign trade. Intra-Latin American trade is only 2% for Mexico, while it is less than one fourth for Brazil.
Foreign Direct Investment (FDI) in the region jumped eight fold from USD11 billion in 1991 to 80 billion dollars in 1999. The total FDI in Latin America in the period 1995-2004 was 506 billion dollars. Three fourth of this went to the big three: Brazil, Mexico and Argentina.

In the period 1990-96, Mexico was the preferred market for foreign direct investment (FDI) and it attracted USD24 billion as against USD17 billion by Brazil. But the situation reversed thereafter. In the period 1997-2000, Brazil received USD134 billion, whereas Mexico attracted only USD59.8 billion. In 2004, the leading recipients of FDI were Mexico with USD13.5 billion, Chile with USD7.16 billion, Brazil with USD7.1 billion, Colombia with USD2.24 billion.

Nearly half of the new investment has come from European Union followed by United States. Spain has emerged as the second largest investor in Latin America in recent years. The cumulative investment in the region is about 60 billion dollars. There are nearly 200 spanish companies who have established their presence in the Brazilian market alone.

Mexico and Brazil are the Latin American equivalent of India and China in some respects. They are rivals for regional leadership and competitors for foreign investment. Mexico has beaten Brazil in foreign trade, Gross Domestic Product (GDP) and Globalisation, for the moment, as China has done with India. But Brazil has its own inherent strength to emerge as a super power as has been recognised in the case of India.

EXCHANGE RATE REGIMES

Following are the exchange rate regimes practiced in Latin America

Floating Exchange Rate System - Argentina, Uruguay, and Venezuela adopted this system in 2002.

The shift to Floating Exchange Rate represents step forward, since this will ensure the timely adjustment of the exchange rate during crisis. This is also important amidst a scenario involving restricted external resources such as the current one; a competitive exchange rate is essential part of a good macro economic programme.
Venezuela suspended this system in February 2003 temporarily and has a fixed exchange rate system, which is expected to be in place once the oil revenues become normal.

**FOREIGN TRADE**

Latin America’s imports in 2004 were USD398 billion and exports USD460 billion. The region has achieved trade surplus in 2002 for the first time in the last fifty years. The trade surplus was maintained in 2003 and increased in 2004. In 2003, the surplus was not the result of reduction in imports, as it had been in 2002, but rather of the fact that export growth of 8.2 per cent outstripped the increase in imports of 3.2 percent.

Share of Latin America in world trade in 2003 was 5.2 % in exports and 4.8 % in Imports. Intra regional trade within Latin America rose by 13.7 % in 2003 and continued to rise in 2004 after the 9.9% decline in 2002.

Imports had increased from USD378 billion in 2003 to USD398 billion in 2004.

North America account for 49% of the total imports of Latin America, followed by Western Europe 18% and Asia 13%.

Leading importers in 2004 were: Mexico USD195 billion followed by Brazil USD62 billion, Chile USD22 billion, Argentina USD21 billion and Colombia USD15 billion.

Exports of the region increased by a robust of 22.4% in 2004; 10.8% of the increase corresponds to the rise in volume and 10.5% increase due to higher prices.

The Top six exporters in 2004 were: Mexico USD189 billion, Brazil USD95 billion, Venezuela USD39 billion, Argentina USD34 billion, Chile USD31 billion and Colombia USD16 billion.

Destination of exports were: North America 57.2%, Latin America 15.6%, Western Europe 13.6% and Asia 7.6%.
TRADE WITH USA

Latin America accounted for 18.5% of the total trade of USA in 2003. USA exported USD149 billion worth of goods to Latin America. This represented 20% of the global exports of USA. Latin America supplied USD216 billion worth of goods to USA, which were 17% of the total imports of USA.

Mexico has become the second largest trading partner for USA replacing Japan.

PHARMACEUTICALS

The Indian Pharma exporters may note that the market of the top six countries of Latin America is expected to expand by 50% from USD20 billion in 2000 to USD30 billion in 2006.

Latin America devotes about 7.3% of its GDP to health services representing annual expenditure of about USD114 billion.

There are variations in the sales of products depending on demographic patterns. For example, in Mexico, the second largest presentation drug category is infectious diseases, whereas it ranks 4th in Argentina.

In Mexico about two-thirds of the population is covered by the social security system. The government-controlled IMSS covers 44 million private sector employees against pay-roll contributions and administers a solidarity programme for 11 million unemployed and elderly. 3 million people have private health insurance, while the government-run insurance fund covers state employees.

Brazil’s public health system SUS covers only one-third of the population; while 43 million people have private coverage, as many as 70 million have little or no access.
In Argentina, health-care inequalities are less pronounced and it has more comprehensive drug reimbursement, reaching about two thirds of the population. Less than 10% of the population has private insurance.

INTERNET

There are about 30 million Internet users in Latin America and this is expected to increase to 77 million by 2006. Of this 14 million are home users, 4.5 million are small businesses and 5.7 million are medium and large businesses. On-line banking and e-commerce are catching up. The value of Internet commerce in 2002 was estimated to be 6.4 billion dollars. B2B is being used effectively by auto manufacturers, financial firms and telecom companies in the large markets of Brazil, Mexico and Argentina.

Brazil is the second fastest growing market in the world in IT business after china.

TELECOM

Telecom has been one of the first sectors to become deregulated and privatized in Latin America. There were 58 million cell phone subscribers in end 2001. In some countries cell phones are more than fixed line connections. The number of wireless subscribers is expected to reach 150 million by 2006.

COMMODITIES

Latin America is more generously endowed with commodity wealth than virtually any other major region of the world. This is reflected in the fact that, excluding Mexico, over fifty percent of the region’s total exports are primary products. Iron ore, copper, coal, aluminum, silver, gold, diamond and emeralds are the major minerals of exports. Coffee, wheat, sugar, bananas and Soya are the important agro products of exports. Brazil, Argentina and Uruguay are important exporters of meat. The dependence on commodity exports has made Latin America subject to the fluctuations in international prices.
BAUXITE

Latin American production in 2000 was 36,000 tons out of a total world production of 135,000 tons. Major producers are Brazil (3rd largest in world), Jamaica (4th largest in world), Venezuela, Suriname (Bauxite/Aluminum account for 80% of total exports) and Guyana (Bauxite accounts for 15% of total exports).

IRON ORE

Brazil is the world’s largest producer and the quality of Brazilian iron ore is also high (68%). Venezuela is emerging as world’s largest exporter of iron briquettes (6.4 million tons).

COPPER

Latin America accounted for 5.3 million tons out of a world production of 13.2 million tons in 2000.

Chile is the largest producer in the world with 4.6 million tons. The Chilean economy is heavily dependent upon copper industry, which accounts for 44% of total exports. Mexico and Peru produced 0.36 million and 0.55 million tons respectively in 2000. Copper accounts for 12% of total exports of Peru.

Mexico is the leading producer of silver in the world and Peru is the second largest.

TIN

Tin accounted for 60% of exports for Bolivia in 1978 but has now come down to about 10%.

PETROLEUM

Latin America accounts for 14% of world oil production. Venezuela and Mexico which are among the top ten oil exporters of the world are also among the top four oil exporters to USA. 31% of imports of Petroleum of USA come from Latin America. The other petroleum exporters are Ecuador, Colombia, Argentina and Trinidad & Tobago.
Mexico’s exporters of petroleum accounted for 17% of total exports. Venezuela depends on petroleum for 80% of exports. Mexico and Venezuela are among the top four oil exporters to USA.

Brazil is a net importer of crude oil. Colombia’s exports of petroleum account for 35% of total exports. Argentina is a significant regional exporter to Brazil, Chile, Uruguay and Paraguay.

Except Argentina, the petroleum industry is the monopoly of the State Companies. Argentina privatised the State Oil Company in 1993. In recent years, private sector, both domestic and foreign, has been allowed limited entry into exploration and production independently and through joint ventures, in the other oil producing countries of Latin America.

**COFFEE**

Coffee is the most important cash crop of Latin America, which produced 63 million bags out of world production of 109 million bags in 2001-02.

Brazil and Colombia accounted for 39% of coffee trade in 2001-02.

Coffee is an important export crop in El Salvador, Guatemala, Haiti, Mexico, Nicaragua and Peru, besides Colombia and Brazil.

**SUGAR**

Brazil is the largest producer of sugarcane in the world and the second largest producer of sugar. Part of Brazilian sugarcane goes to direct manufacture of alcohol.

**ARGENTINA**

Argentina is the third largest market of Latin America after Brazil and Mexico. Argentina is a country of immense natural resources. It has the eighth largest land area but a small population of 36 million. It was one of the top ten richest countries in the world before the Second World War.
Argentina is well known for its agricultural and livestock production. It is a large exporter of wheat, soya and meat.

Argentina is self-sufficient in energy and has surplus petroleum for exports. It has 31 billion barrels of oil reserves and annual production is about 800,000 bpd. It is the second largest gas producer in Latin America.

Argentina is well endowed with mineral resources such as iron, bauxite, zinc, lead, copper, silver and gold.

The Argentinean manufacturing industry is relatively large and is strong in automobiles (annual production 200,000 vehicles), auto parts, consumer goods, pharmaceuticals, paper, cosmetics etc.

Argentina has privatized more companies than many other governments in the region. It is the only Latin American country, which has privatised its petroleum company. Now they have created a state oil company.

Argentina is well integrated in Mercosur. The largest trading partner is Brazil, which accounts for one quarter of the total foreign trade.

Argentina is the World’s largest exporter of sunflower oil, soyabean oil, honey and horsemeat.
World’s second largest exporter of corn.
World’s third largest producer of beef, lemon, soyabean.
Argentina’s industrial production include:
260,000 automobiles
5 million tons of steel.
275,000 tons of aluminium
1.2 million tons of paper
2 million tons of sugar
170,000 tons of PVC
540,000 tons of polyethylene.

The main problem of Argentina is foreign debt. This grew from USD3.5 billion in 1981 to USD74 billion in 1993 to USD147 billion in 2004. Debt service bleeds the country taking away 71 percent of the export revenue from goods and services. In the first quarter of 2005, Argentina managed to get agreement from creditors of about USD80 billion to its proposal to pay only 30-35 cents for each dollar.

RECOVERY SINCE 2003

Argentina has recovered with growth of 8.7% in 2003 and 8.2% in 2004. Inflation has been brought down to 3.7% in 2003 and 5.4% in 2004 from 41% in 2002.

Exports have increased to USD34 billion in 2004 from USD25 billion in 2002. Imports which crashed to USD8 billion in 2002 from USD29.5 billion in 1998 have picked up and reached USD20.9 billion in 2004.

FDI recovered to USD1.8 billion in 2004 from a negative USD0.29 billion in 2003. The peak of FDI was reached in 1999 with USD22 billion.

Toyota announced in September 2002 about their investment of USD200 million in Argentina to expand its manufacturing facility should be taken as a signal of renewal of confidence by foreign investors. In November, 2004, the Chinese President announced plans for investment of USD20 billion.

The Argentinean market has become more stable and resilient after having gone through crises and ups and downs in the past. Although external debt is still an unbearable burden, the country has sufficient resources and better mind-set to prosper in the future.
BRAZIL

Brazil is the fifth largest country in size and population.

Having been dubbed as a “sleeping giant” in the past, Brazil has now woken up and is on the right path to realize its potential.

Brazil has a large and diversified industrial base and is rich in natural resources, minerals (iron, tin, silicon, manganese, aluminum and nickel).

It is a major producer of agricultural products. Agro-business accounts for 40% of GDP and 40% of exports.

The major industries are automobiles, steel, metallurgy, paper, cement, textiles, chemicals, leather, sugar and food & beverages.

Embraer is the fourth largest commercial aircraft manufacturer in the world and has almost 50% shares in the market for regional jets.

Major exports: regional jet aircrafts, automobiles, auto parts, electric motors, iron ore, coffee, sugar, soya, orange juice, paper pulp, footwear, garments, meat and chicken.

Brazil’s size and geographical position have made it attractive for Multinational Corporations base their South American operations there. In the automobile industry, for example, Brazilian operations form an essential part of the global strategy of companies such as General Motors and Mercedes Benz. The vehicle production capacity of Brazil is over 2.5 million units making it the sixth largest producer of automobiles in the world. All the major car manufacturers of USA, Europe and Japan have manufacturing units (18 plants) in Brazil.
The iron and steel industry is within the top ten with a production of over 25 million tons per year.

The IT market is over USD25 billion US.
The travel and tourism industry has a turnover of sixty billion dollars.

Brazil hosts over 80 international sector trade fairs every year. Most of them are held in Sao Paulo. Participation in these fairs is one of the best ways of marketing in Brazil and in the region.

Brazil is home to the largest number of Multinational Corporations (400 out of the fortune 500) in the developing world. There are 18 automobile plants, 134 agricultural machinery producers and 11 motor and component factories.

Brazil has the largest number of shopping malls and supermarkets in Latin America and ranks fifth in the world with 600 shopping malls, 60,000 shops whose sales are around 35 billion US dollars. Carrefour, the largest department store chains have an annual turnover of 5 billion US dollars.

European Union is the largest trading partner of Brazil followed by USA, Mercosur and Japan.

Sao Paulo is the most important state of Brazil with population and GDP equal to that of Argentina. Sao Paulo city is the second largest in Latin America with a population of 16 million.

Sao Paulo has more German companies than any city in Germany itself!

Santos (90 km from Sao Paulo) is the largest port in Latin America handling about 30 million tons of cargo every year.

Total external debt has come down to USD221 billion in 2004 after reaching peak of USD259 billion in 1998.
CHILE

Chile is the most dynamic, competitive and open market in Latin America with the strongest macroeconomic fundamentals.

It has the highest investment grading in the region according to Moody’s, Standard & Poor and Fitch IBCA. The average growth rate of Chile in 1990-2003 was 5.5% and between 1987-1997 it was 7%, highest in Latin America.

Chile was also the second largest destination (USD 7.16 billion) for foreign direct investment in Latin America in 2003, ahead of Brazil. Total FDI in 1994-2003 was USD 50 billion. Besides attracting large investment, Chile has also become a major investor in the rest of Latin America. The country’s investment was over USD 5 billion in 2004.

China is the second largest trade partner for Chile while Japan is the third largest and Korea the sixth largest. Chile has also been successful in diversifying its exports, reducing its dependence on copper from 80% in the 1980s to 35% now.

As for Chile’s trade regime, it is one of the most liberal and transparent in the world. It has a single uniform tariff of 6% for imports. It was brought down unilaterally from 15% in the early 90’s, making it the lowest tariff among the important Latin American countries.

According to the 2004-05 Growth Competitive Index of the World Economic Forum, Chile is the most competitive market in Latin America. Chile is placed 22nd among 104 economies, ahead of Spain, Belgium and France. Chile also stands as the most transparent country in Latin America and is in 20th place among a total of 146 economies, according to the Corruption Perceptions Index of Transparency International 2004.

A World Bank survey on ‘Doing Business in 2004’ says that starting a new business in Chile involves nine procedures and 28 days only, again the best indicators in Latin America.
In 2004, as an associate member of Mercosur, Chile has signed free trade agreements with the USA, European Union, Canada, Korea and many Latin American countries and is negotiating Free Trade Agreements (FTAs) with China, Singapore and New Zealand.

Main exports: copper (34 percent), fresh fruit, salmon, forestry products, wine and wood pulp

**INDIAN PHARMA IN LATIN AMERICA, WITH SPECIFIC REFERENCE TO CHILE.**

Indian pharma faces the daunting challenge of making the Great Leap Forward into the Big Leagues of the top Multinational Corporations in the business. With India’s new patent protection law in force since last March, the industry has to move into the Brave New World of licensed generics and branded drugs, as oppose to the unlicensed generics that were its hallmark in the past.

Until now, the Indian pharma industry has focused mostly on Northern markets, admittedly, among the most attractive. Of the USD 3 billion in yearly exports, the largest has been the USA, with close to USD600 million, with Germany USD191 million Russia USD164 million, the United Kingdom USD127 million and Canada USD109 million. Yet, competition for market share of branded drugs and licensed generics in those markets is bound to be especially tough. There is one region where the Indian pharma industry has only begun to scratch the surface is Latin America. In an estimated USD18 billion market for pharma products, last year India sold a little over USD200 million. Brazil, with USD105 million, gets the lion’s share of that, but most other markets are a mere blip on the radar screen of Indian companies.

**After many years of economic difficulties and slow economic growth, Latin America is undergoing an economic boom. In 2004, the region grew close to 6%, the highest rate since 1980. Projections indicate that this year growth will be at least 4%. The region’s exports many of them commodities like oil, copper, wood and soya are reaching record price levels, which means greater import capacity. An ageing population (this is particularly true of the South Cone countries (Argentina, Chile and Uruguay) also means a greater demand for pharma. Health reform plans to improve the access of the public to affordable drugs also put a premium on quality, low-cost products.**
Last June, a seminar held in Santiago (Chile and India: Partners in Health) highlighted how receptive Latin American markets are to Indian pharma. Sponsored by Chile’s ministry of health, the seminar generated sufficient interest in India to have 24 companies (from such established ones as Ranbaxy, to newer ones like Indswift and even labs such as Vimta), sent their representatives especially to Santiago to participate in it. With over 200 participants from the Chilean health delivery system, it triggered considerable media coverage, and gave rise to a spirited debate on the contribution Indian products can make to contain health care costs. This means buying USD180 million in pharma products a year (out of the total pharma market in Chile of USD1 billion). Until now, Indian companies have been selling a mere USD10 million in Chile.¹⁹

Chile, often described as having the most vigorous economy in the region, and with a bond rating of 56 base points, also has some of the best health indicators in the world. Life expectancy for women is 79 years and for Men 73 years, while infant mortality is 7.8 per thousand. As infectious diseases have been almost eradicated, degenerative illness have taken entire stage. Chileans are living longer, but they are also taking more medicines, particularly those that fight so called life-style diseases. The government is stepping in to provide the necessary products, but public health budgets, as elsewhere, are limited, (In Chile, Central Government expenditure on health care are 3% of the GDP) and there is a premium on getting the biggest bang for the buck.

How Indian companies can go about targeting the Latin American pharma market? There are various opportunities. Joint Ventures with the local companies are an obvious alternative, but setting up wholly owned operations, selling licenses to the established firms for local production or simply exporting directly from India are other possibilities.

One key challenge is to position “Brand India” in the various markets, as Indian pharma does not enjoy the standing like the Indian IT industry already has in Latin America.
RECENT DEVELOPMENTS

Chile recorded growth of 5.8 per cent in 2004, the highest in the last seven years. Chilean government forecast for growth in 2005 is 5 to 5.5 per cent. It may be noted that the average growth rate of Chile in the period 1990s to 2003 was 5.5 per cent, the highest for Latin America.

Inflation increased to 2.5 per cent in 2004 from 1.1 per cent in 2003.

Exports increased to USD31.5 billion in 2004 from USD21 billion in 2003, thanks to the hike in copper prices. Imports increased to USD22.3 billion in 2004 from USD18 billion in 2003.

Chile became the second largest recipient of FDI in 2004 with USD 7.161 billion overtaking Brazil and Argentina. This is the highest ever FDI received by Chile. The previous high was in 1999 with USD 6.2 billion. USA, Canada, UK and Japan are the leading investors.

Chilean Peso depreciated from 572 to 1USD in 2000 to 712 in 2002 and thereafter has appreciated to 585 in December 2004.

India has signed a Preferential Trade Agreement (PTA) with Chile in 2005.

The objective of Chile is to get duty free exports for 90 per cent of its products by 2010.

COLOMBIA

- Colombia has had political and economic stability in the last 70 years, unlike many other countries, which had witnessed dictatorship and boom and bust. This stability is even more remarkable that it has gone on despite the guerilla war, narco traffic and violence.

- Manufacturing sector of Colombia is the most developed and diverse among the Andean Community countries.

- one of the highest literacy rates in Latin America with 92 %
• Has the largest population in the Andean Community and the third largest in the whole of Latin America

• Fifth largest economy in terms of GDP in Latin America

• Gateway to the markets of Andean Community, G-3 (Colombia, Mexico and Venezuela) and USA with whom it has a preferential trade agreement and is negotiating a FTA.

• Largest exporter of coffee.

• Other agro exports: flowers, bananas, cacao, palm oil and fruits and vegetables.

• Colombian Emeralds are famous. Colombia produces 60% of world production.

• Other mineral resources are: Nickel, gold, coal (largest reserves in Latin America)

• Colombia produces over 600,000 barrels per day of oil. Exports oil has overtaken the revenue from coffee exports.

ECONOMY AND FOREIGN TRADE

Colombia, with a population of 44 million, offers a large, mainly urban market and has the third largest manufacturing economy in Latin America (after Brazil and Mexico). In addition, its membership of the Andean Community (CAN) constituting also of Venezuela, Ecuador, Bolivia and Peru, and G-3 with Mexico and Venezuela, makes commercial prospects even more attractive.

Colombia has abundant natural (oil, coal, precious metals and minerals) and human resources and considerable economic potential. The economy is growing considerably with GDP growth of 1.4%, 1.5% and 3.5% in the years 2001, 2002 and 2003 respectively. The GDP in 2005 is estimated to be USD83 billion leading to a per capita income of USD11895. The main contributors to the GDP are social and personal services (21%), financial services (18%), agriculture (15%), manufacturing industries (91%), and trade (11%).

During 2002, Colombia’s total imports were USD12.7 billion and exports were USD11.9 billion. Over 90% of total Indian exports to Colombia are in respect of 16 product groups, of
which the top 8 product groups constitute more than 80% of the total Indian exports to Colombia.

Important Indian companies in Colombia: Many Indian companies are now actively engaged in business with Colombia. Some companies with presence in Colombia are as follows:

The public sector concern, RITES, has secured important contracts with Colombia’s Atlantic Railway Concession which links Bogota and Medellin to the Atlantic port of Santa Marta and covers 1494 kms of tract. RITES has also secured a technical and consultancy services contract worth around USD6.47 million for a five-year period.

TATA International has established presence of “Tata Indica” and “pickups” in the Colombia market through a local distributor with extensive sales network. Tata’s had a target for sale of 600 units for the year 2005.

Colombia provides the second largest two-wheeler market in Latin America. Bajaj Auto and Hero Honda have established assembly lines for two-wheelers. Presently, around 35,000 Indian two-wheelers are sold in Colombia each year.

Praj Industries in Pune, specializing in distilling, fermentation and related waste management technology, has its regional office in South America in Bogota since September 1999. Praj Industries has recently secured contracts worth US$ 15 million for executing two Greenfield fuel ethanol plants in Colombia.

APTECH, NIIT, Tata Infotech and Pentasoft have opened over 20 IT education centers in various cities of Colombia, many of these are run in partnership with leading Colombia Universities.

Claris Life-sciences have entered into a strategic partnership with the leading Colombian pharmalab “Biotoscana Pharma” for sale of its range of critical care products and drug delivery systems. Ranbaxy, Aurobindo Pharma, IPCA and Torrent are also actively engaged in Colombia.
MEXICO

Mexico is the Latin American giant, accounting for almost 40 per cent of the total trade in the region. Mexico has overtaken Brazil as the largest economy, in terms of GDP USD687 billion.

After having gone through various crises, Mexico's economy has stabilised and is now healthy with strong fundamentals. It recorded a growth of 4.4 per cent in 2004 and is expected to grow at 4 per cent in 2005. Foreign direct investment (FDI) was USD17 billion in 2004. Remittances from Mexicans abroad accounted for USD17 billion, equaling to FDI.

Inflation and primary lending rates are in single-digit. The Government has been following fiscal discipline and has kept current account deficit below 2 per cent.

It succeeded in reducing external debt to USD78 billion in 2004, the lowest in 32 years. Foreign exchange reserves have reached a record high of USD65 billion.

Mexico is a member of the Organisation for Economic Cooperation and Development (OECD). That means its investment practices and business regulations are generally the same as those of the developed OECD countries.

Mexico is an energy-surplus country; it is one of the largest producers and exporters of crude oil. Mexico produces 3.25 million bpd (barrels per day) and is among the top four oil exporters to the USA. Mexico also has rich deposits of gold, silver, copper, iron and zinc.

Manufactured products account for 89 per cent of total exports, petroleum 8 per cent and agro-products 2.4 per cent. This makes Mexico different from the rest of Latin American countries, which mainly export raw materials and commodities. Mexico exports more than one million vehicles annually. It is the main maker of television sets in North America with an annual production of 25 million units. It is a major supplier of textiles to the USA.
After Canada, Mexico is the largest trading partner of the USA. The USA-Mexico bilateral trade reached USD266 billion in 2004, accounting for 11.6 per cent of the US' global trade. US accounts for 91 per cent of Mexico's exports and 62 per cent of its imports.

Mexico has signed the maximum number of free trade agreements (FTAs). It has FTAs with 33 countries and has preferential market access to 850 million consumers. These include the US and Canada (North American Free Trade Agreement), the European Union, Latin American countries, Israel and Japan.

In addition to its large domestic market, Mexico is the gateway to North America and Central America. Keeping this larger market in mind, Indian businessmen should consider investment and joint ventures in Mexico.

MAQUILADORA INDUSTRY

Synonymous with Mexico manufacturing, maquiladoras are Mexican assembly plants that manufacture finished goods for export. Maquiladoras are generally owned by non-Mexican corporations (U.S.A, Japanese and European countries) that take advantage of low cost Mexican labour, advantageous regulations and close proximity to U.S. markets. Maquiladoras are one of Mexico’s primary sources of foreign exchange. They originated in the 1960’s, along the U.S. border.

In the early to mid 90’s there were approximately 2,000 maquiladoras with 500,000 workers. In just a few years, the number of plants has almost doubled and the number of workers has more than doubled. Maquiladoras primarily produce electrical machinery, sound equipment, TV equipment and parts, clothing, plastics, furniture, appliances, auto parts, tools, toys, exporting goods, food products, iron and steel articles, paper and paperboard articles, among others. The most important maquiladora plants in Mexico’s border are in Baja California, Sonora, Chihuahua, Coahuila and Tamaulipas.

Competition from China has weakened the allure of maquiladoras in recent years and more than 400 plants have closed since the beginning of the decade, causing a loss of several thousand jobs. China is bolstering its status as the world’s cheap assembly export location.
However, as the recent reports indicate, Mexico has succeeded in winning over new maquiladora plants in its northern border, given the territorial proximity to the U.S. This has been vindicated by the fact that the foreign direct investment (FDI) in maquiladoras had jumped from USD1.96 Billion in 2003, to USD2.50 Billion in 2004. In 2004, this direct foreign investment in maquiladoras amounted to 13.4% of the total FDI of USD18.70 Billion received by Mexico during the year.

During the period January-December 2004, 2811 maquiladora plants provided employment to 1,111,801 persons. Total imports effected by maquiladoras came to USD68.6 Billion, whereas its exports received a figure USD87.8 Billion.

Contribution of maquiladora products in total exports of Mexico came to 46.5%, whereas vis a vis export of manufactured goods came to 54.7%. During the period January-March 2005, direct foreign investments reached a total of USD694.4 million, which reported a monthly average increase of 5.7% over the corresponding period of last year. Certainly, this result is encouraging given the slowdown in the U.S. economy in 2005.

During January-March 2005, 2814 maquiladoras provided jobs to 150,509 people. Maquiladoras imported goods worth USD16.4 Billion and their exports reached USD21.28 Billion. Like in 2004, in terms of percentages, exports from maquiladoras came to 45.4% of the total exports and 55.5% of exports of manufactured goods during the first quarter of 2005.

This activity increased its labour force to 27.8%, in chemical products to 19.9%; machinery assembly, equipment, electrical devices and articles as well as electronics to 17.3%; other manufacturing industries to 11.9%; electric and electronic accessories to 6%; assembly and tool repair to 5.6%; wood, metal products, transportation equipment and accessories to 4.9; clothing and other products made out of textiles and other materials to 3.1%; preparation and packing of food to 0.7%.

**MEXICO: A BILLION DOLLAR PROPOSITION FOR INDIA**

INDIA'S exports to Mexico reached a record USD871 million in 2004 from USD288 million in 2000. It will cross USD1billion in 2006. Mexico has surpassed Brazil, which accounted for USD556 million in 2004, becoming the largest importer of Indian goods in Latin America.
But USD871 million is a mere 0.44 per cent of Mexico's global imports which was USD197 billion in 2004. With a total trade of USD386 billion in 2004, Mexico is the Latin American giant, accounting for almost 40 per cent of the total trade in the region. Mexico has overtaken Brazil as the largest economy, in terms of GDP (USD687 billion) and trade.

India exports engineering products, pharmaceuticals, chemicals, gem and jewellery and textiles to Mexico. It is interesting that engineering products are the major exports (USD300 million) to Mexico, while chemicals and pharmaceuticals dominate exports to the rest of Latin America.

Mr L. N. Mittal has invested in a steel plant in Mexico. Indian pharma companies, such as Ranbaxy and Wokhardt, are establishing joint ventures. The Birla group is exploring the possibility of investing in the manufacturing sector. Surprisingly, Indian IT companies are yet to explore the Mexican market. They have so far only done business as sub-contractors for American IT companies. It is time that the Indian IT companies looked at Mexico seriously and as an independent market, not an adjunct to their business in the US.

India's imports from Mexico have zoomed to USD454 million from USD60 million in 2000. Crude oil accounts for 90 per cent of the imports; Reliance is the sole importer. Other imports include metals, minerals and chemicals, and machinery.

The Engineering Export Promotion Council of India has conducted ‘India Tech' exhibition of about 200 Indian companies in Mexico in October 2005. The Confederation of Indian Industry(CII), the Federation of Indian Chambers of Commerce and Industry, and the India Brand Equity Foundation plan to take high-level business delegations.

Indian exporters should draw inspiration from their Chinese counterparts who despatched goods worth USD14.5 billion in 2004! The Chinese have invested over USD60 million and established some 200 joint ventures in Mexico.

Mexican businessmen have started looking at India more seriously as an emerging economic power. This is evident from the increase in the number of Mexican delegations coming to India. In February, a large team representing the pharmaceutical industry was in India.
Earlier, Indian exporters were discouraged by the delay and the uncertainty of getting visas to Mexico. This problem has now been resolved. The Mexican embassy has started issuing visas promptly to executives of reputed companies who have US visas or are part of a business delegation.

There has never been a better time for Indian business to target Mexico. Businessmen should take advantage of the support being given by the Government through its `Economic Diplomacy' and "Focus-LAC Programme".

**VENEZUELA**

Venezuela has the largest oil reserves in the western hemisphere. With 77 billion barrels of reserves, Venezuela ranks sixth in the world. In addition, there are about 270 billion barrels of reserves of recoverable extra heavy crude found in the Orinoco belt, which has the largest, such deposits in the world. Most of the oil reserves are found in the Maracaibo lake region in the west.

The oil sector is the mainstay of the Venezuelan economy. Over 60% of the Government’s income and 80% of the exports come from oil.

The average Venezuelan crude price reached a fifteen-year record high of USD 28 per barrel in December 2002.

The oil sector was nationalized in 1976. PDVSA is the state corporation dealing with exploration, production, refining and downstream activities. With a turnover of USD46 billion, it is the third largest oil company in the world. The oil sector has been reopened to foreign companies since 1995. There are 38 foreign oil companies who have presence in Venezuela.

The annual oil production has been around 2.5 million barrels per day(bpd). The OPEC quota was 2.497 million bpd in 2002. The production capacity of Venezuela is about 4 million bpd. There are plans to expand the capacity to 6 million bpd by 2006. The drilling activity is expected to increase with 140 rigs in 2003 from 103 rigs in 2002.
The PDVSA plan of 2001-06 envisages an investment of USD40 billion. This provides opportunities for project and consultancy contracts for Indian companies.

Venezuela is a founder member of OPEC and played a crucial role in the formation of OPEC. It has taken an active role in OPEC policy formulations since 1999.

PDVSA owns Citgo Petroleum Corporation of USA, which has 6 refineries, and 13000 gas stations. PDVSA has share holdings in the oil companies of Germany and Sweden and has storage facilities in Caribbean. PDVSA is expanding its network in Latin America.

A broad range of petrochemicals are produced by ‘Pequiven’ a subsidiary of PDVSA through three directly operated units and joint ventures. Pequiven’s business plan of 2000-2001 seeks to double the production capacity to 19.4 million tons with investments of USD 8.7 billion.

Indian exporters may note (with envy!) that cost of petrol in Venezuela is about two Rupees a litre!

Venezuela has the fifth largest reserves of natural gas in the world. Estimated reserves are 458 trillion cubic feet. Production capacity is around 6 trillion cubic feet per day, of which 90% comes from oil wells. Most gas production is absorbed by the oil industry, 11% goes to power generation, 6% to petrochemical production and the remainder goes to industries and consumers.

Since 1998, the gas industry has been opened to the private sector and is the focus of investment at present.

Orimulsion - This is a Venezuelan patented product derived from the extensive (270 billion barrels) bitumen reserves of Venezuela. It is a mix of bitumen (70%) and water (30%). This is used as a boiler fuel. It is exported to Canada, China, Denmark, Germany, Italy, Japan and Lithuania. Exports of Orimulsion in 2002 were about 6 million tons. In 2001 China signed a six billion dollar contract to purchase orimulsion for 30 years. Indian policy makers and power stations are considering the option of imports of orimulsion, which is economical and not subject to political risks or price fluctuations.
Venezuela is a large producer of asphalt, exporting 27,000 bpd mostly to USA.

Venezuela is rich in mineral resources and these are located mostly in the Bolivar state in the southern part. Most of the mining activities are handled by a State Company CVG through its subsidiaries and joint ventures. The annual turnover of CVG is around USD10 billion.

Venezuela has one of the largest coal reserves in western hemisphere estimated at 10.2 billion tons. Annual production is about 15 million tons.

Iron ore is the second most exploited mineral resource after oil. Estimates of reserves are around 19.5 billion tons. Most of the iron ore is found in Guyana region. Annual production came down to 15 million tons in 2002 from 20 million tons in 2000. Exports decreased to 5 million tons in 2002 from 6.8 million tons in 2001.

Gold reserves are around 10,000 tons. Venezuela accounts for 12% of world’s reserves. Production of gold is done by a state company as well by foreign multinational companies.

The production of Aluminum declined to 452,000 tons in 2002 from 571,000 tons in 2001. The exports also decreased to 349,000 tons in 2002 from 389,000 tons in 2001. Bauxite reserves are estimated to be 5.2 billion tons.

The other minerals available in Venezuela are phosphate, zinc, copper and diamond.

Annual production of Electricity is 20 GWH, of which 75% comes from hydroelectric stations. Blessed with several major perennial rivers, Venezuela’s hydroelectric system is the best in the region. The Guri Dam on the Caroni river has a production capacity of 10000 MW per year, which makes it the second largest in the world. There are plans for building some more hydroelectric plants. Venezuela’s electricity tariffs are the lowest in Latin America.

Venezuela has the highest percentage of paved highways in Latin America. Length of highway network is 95000 Km.
Railway is limited. Total rail length is only 584 Km. It is used mainly for cargo. Caracas has a limited but efficient metro system. Maracaibo and Valencia cities are also establishing metro systems. There are plans to expand the railway network of Venezuela to over 4000 Km.

Following are the major ports:

1. La Guaira 30 Kms from Caracas (largest port)
2. Puerto Cabello 330 Kms from Caracas to the West
3. Maracaibo (Caters mainly to the petroleum industry)
4. Puerto La Cruz Petroleum products

Telecommunication sector has been fully privatized. It is the fastest growing sector at the moment with investment expected around USD5 billion in the next five years. The Number of cellular phone customers are over 7 million.

Agriculture is the weakest economic sector, having suffered decline since the 1950s, when oil production overshadowed other activities. Venezuela has 95 million hectares of cultivable land, plenty of water and good climate. However, only 23% of the cultivable land is presently being used. Even out of this, three-quarters is devoted to pasture. 60% of Venezuela’s food requirements are met by imports. Cattle ranching generate 50% of the agricultural revenue.

The Government is giving priority to revival and increase of agricultural production. This offers opportunities for Indian exporters to supply equipments and machinery, pesticides and provide consultancy services.

Major industries are petrochemicals, iron and steel, aluminum, automobile assembly, leather, food processing and textiles.

Annual Steel production is about 6 million tons. It has come down from 8.5 million tons in 1996. Aluminum production is about 600,000 tons per year, of which 400,000 tons are exported.
General Motors, Ford and Toyota assemble cars in Venezuela.

Petrochemicals production capacity is around 9 million tons a year. There are plans to increase the capacity to 16.8 million tons.

Textile industry’s output has come down from 80,000 tons in 1991 to about 50,000 tons in 1999 and continues to decline.

Domestic production of shoes has declined to 11 million pairs in 2002 from 24 million pairs in 1997. Imports have increased from 7 million pairs in 1996 to 37 million pairs in 2001 (USD110 million). Interestingly 53% of the imports come from Panama.

**Food processing and cosmetics industries are doing well in comparison to others. Per capita consumption of cosmetics in Venezuela is the highest in the world.**

**The Government is very keen to promote small-scale industries. This means opportunities for supply of equipments and machinery from India.**
COUNTRY PROFILE OF THE TOP SIX MARKETS

ARGENTINA

GDP 177 billion US dollars (2005)
Population 38 million

Main Exports: Agro Products, Meat, Edible Oils, Cereals, Motor Vehicles.
Main Imports: Equipments and machinery, Chemicals, Metal manufacture, Plastics.
Main Sources of Imports: Brazil (19%), Chile (12%), USA (11%), Spain (5%) and China (4%)
Major Export Destinations: Brazil (28%), USA (20%), Germany (6%), China (4%) and Japan (3%)

BRAZIL

GDP 789 billion US dollars (2005)
Population 170 million

Main Exports: Regional Jet aircrafts, iron and steel products, iron ore, soyabean, automobiles, auto parts, meat, orange juice, coffee, sugar, wood pulp, foot wear.

55% of the total exports are manufactured products. Sadia, the Brazilian company exports chicken worth 374 million dollars to 240 clients in 70 countries.

Brazil is the world’s largest exporter of sugar, coffee, meat, orange, juice, chicken and tobacco.

Main Imports: Petroleum, chemicals, pharmaceuticals, equipments, and machinery, wheat, rice and cotton.

Major Export Destinations: Argentina, Chile, USA, Germany, Japan, Italy, and Netherlands.
Major Import Sources: USA, Argentina, China, Japan, and Italy.
COLOMBIA

GDP 112 billion US dollars (2005)
Population 45 million
Exports 16.4 billion dollars (2004)
Imports 15.5 billion dollars (2004)

Main Exports: Crude Oil (27%), chemicals (12%), agro products (10%), coal (8%), food products (8%), textiles (7%), coffee (6%), flowers (second largest exporters after Netherlands), gold, emerald (60% of world’s emeralds come from Colombia)

Main Imports: Industrial Machinery and inputs (60%), consumer goods (12%), transport equipment (12%)

CHILE

GDP 100.7 billion US dollars (2005)
Population 15.2 million
Imports 22.3 billion US dollars (2004)

Main Exports: Copper, fresh fruits and vegetables, wine, salmon, fishmeal, paper and pulp.

Major Imports: Consumer goods, automobiles, petroleum.

Major export destination: USA, China, Japan. Korea, Argentina, Italy, Germany and Mexico.

Main import sources: USA, Brazil, Argentina, Japan, Italy, China and France.
MEXICO
GDP 758 billion US dollars (2005)
Population 102 million
Main Exports: Petroleum, manufactured goods, silver, coffee, textiles.
Main Imports: Equipments and machinery, and input for manufacturers.
Major Export Destination: USA, Canada, Germany, Spain, Japan, UK, Venezuela, Colombia.
Main Sources of Import: USA, Canada, China, South Korea and Brazil.

VENEZUELA
GDP 131 billion US dollars (2005)
Population 24 million
Main Imports: Consumer goods, textiles, equipments, and machinery, chemicals, pharmaceuticals.
Main Exports: Petroleum, petrochemicals, steel, aluminum.
Major Export destination: USA, Colombia, Italy, Brazil, Canada, Germany, Japan.
Major source of Import: USA, Colombia, Italy, Germany, China, Japan, Brazil, Spain, Mexico.²
TRADE BETWEEN INDIA AND LATIN AMERICA.

India's business with Latin America and Caribbean region has been rapidly growing in recent years. Big Indian companies have been exploring Latin American market for the last ten years. The Latin Americans have started taking India seriously only very recently. Trade with Mexico and Brazil are now booming. India's exports to Mexico and Brazil have reached a recorded turnover of one billion dollars each in 2005.

Apart from trade, there is a new interest in investment and joint ventures in Latin America by big companies like Tatas, Reliance, Birlas, Essar, Jindals, OVL, TCS, and Infosys etc. Latin American companies have also started positioning themselves to realise the opportunities arising from the large and growing market of India.

*(In US$ million)*

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BILATERAL TRADE WITH THE TOP SIX MARKETS (IN USS MILLION)

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INDIA – BRAZIL

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### INDIA – COLOMBIA

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### INDIA – MEXICO

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<td>2004</td>
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### INDIA – VENEZUELA

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<tr>
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<td>2004</td>
<td>51</td>
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MAJOR ITEMS OF INDIA’S EXPORTS TO LATIN AMERICA

- Bulk drugs, pharmaceuticals and vaccines.
- Chemicals, naphtha, resins, dyestuff, essential oils and polyester films.
- Equipments and machinery for printing, packaging, plastic and rubber industries and small-scale industries.
- Hospital and medical equipments and supplies.
- Hand tools and machine tools.
- Diesel engines, pumps and bearings.
- Stainless steel items.
- Buses, cars, three wheelers and auto parts.
- Scooters, motor cycles, cycles and parts.
- Electronic parts and components.
- Construction machinery and materials.
- Optic fibers.
- Tyre for buses, trucks and two- wheelers.
- Garments, fabrics, yarns, bed, bath, and linen, raw cotton, carpets, jute products.
- Computer software.
- Electrical items such as lamps, insulators, circuit breakers, switchgears, transformers and transmission towers and equipments.
- Leather products.
- Plastic products, ballpoint pens and polyester films.
- Sports items.
- Handicrafts, incense sticks.
- Castor oil, spices, coconut powder, sesame seeds, rice.
- Ayurvedic and natural products

Chemicals and pharmaceuticals are the leading items of India’s exports to Latin American Countries. However, in the case of Mexico, engineering items have emerged on top with USD188 million of exports in Jan-Sep 2004, out of India’s total exports of USD609 million. Gem and jewellery is the third largest category of exports to Mexico after chemicals and pharmaceuticals.
Bajaj Scooters and three wheelers, Hero two-wheelers, Tata buses and cars, Maruti Cars, Ranbaxy and Dr. Reddy’s pharma products have established their brand names in Latin America.

There is very good scope for increasing exports of two-wheelers to Latin America. The middle class people (who can not afford cars) particularly in small cities have started buying two wheelers. It will be worthwhile for the Indian companies to tap this growing opportunity for business more seriously. The Chinese, Koreans and Taiwanese are our competitors.

Latin American companies were earlier importing (even now it continues in some cases) Indian chemicals and bulk drugs through European traders. Our exporters have now established direct contacts with Latin American importers in most cases.

There is scope for export of
- Defence equipments. (Chile, Colombia, Peru and Venezuela have shown interest)
- Chemicals and other inputs for the large petroleum and mining industries of Latin America.
- Boilers, turbines and such inputs for energy sector.
- Inputs for infrastructure projects in areas such as telecom, rail roads, water and sewage.

The Latin American countries are investing in modernisation and expansion of infrastructure network to cope with the growing needs. Indian companies should explore these opportunities.

NEED FOR AN OPEN MIND

Indian exporters need to break out of conventional wisdom and look for opportunities with an open mind. For example, Venezuela is perceived as an exporter of shoes and a competitor to India. But in practice, our companies are exporting shoes to Venezuela. The reason is that the Venezuelan manufacturing has declined drastically and irreversibly and imports have been increasing steadily. Another surprise – the country which supplies 50% of the total imports of Venezuela is Panama.

It is interesting to note that diesel is the main export of India to Brazil.