

Submission to DOT on Bilateral Trade in Services with Peru



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I. Introduction

Prime Minister Narendra Modi became the first Indian leader to meet the leaders of a dozen South American countries at one place in Brazil at the BRICS Summit in July 2014.¹ The meeting was held as part of the BRICS' outreach to South America. Among various commitments made, the PM also committed to share India's expertise in Information Technology and establish Centres of Excellence in Information Technology, in South American countries. India has no Free Trade Agreement with any Latin American country till date. Although, various MoU and preferential Trade Agreements² have been signed as follows:

1. MOU on economic co-operation between India and Ecuador, 2013
2. MOU on economic co-operation between India and Costa Rica, 2013
3. Agreement with Chile to promote economic co-operation is under final round of negotiations.
4. Preferential Trade Agreement with Chile was signed in 2005 and it came into force in 2007

Peru's Vice-minister of Foreign trade, Edgar Vasquez, who lead the Peruvian delegation said: "*Peru could be used by Indian investors to set up base in Latin America and also Peru can use India as its base in South countries (South Asian countries).*" Indian exports to Peru crossed US\$1 billion mark in 2013-14³, yet India is at a disadvantage vis-a-vis exports from Peru's FTA partners. Peru has signed 40 FTAs across the world but none with India.⁴

II. India and South America Trade status and Opportunities:

India can gain tremendously by partnering with Peru or any South American country because of:

- Growing political stability
- Increasing democratisation
- The rise of an entrepreneurial class and the youth
- Strategic orientation

In a fundamental sense, the economic resurgence of India and Latin America are increasingly intersecting, opening new vistas for business and collaboration cutting across a spectrum of areas. Not surprisingly, bilateral trade between India and Latin America has surged from a few hundred million dollars in the 1990s to 42 billion USD in 2013. Experts say this figure could easily go up to \$100 billion if the leaders of both sides blend proactive diplomacy, address issues like enhancing connectivity and leverage multifarious win-win opportunities in a host of areas, including energy, agriculture, food processing, textiles, transport and IT.⁵

The India-Latin America relations are increasingly acquiring strategic orientation. Building upon New Delhi's maiden dialogue with a troika of foreign ministers of the Community of Latin American and Caribbean States (CELAC) in July 2012, the two sides are exploring possibilities of forging an India-Latin America and Caribbean Dialogue Mechanism similar to that of the India-Africa Forum Summit

¹ <http://www.me.gov.in/in-focus-article.htm?23616/India+and+Latin+America+Its+time+to+tango>

² http://commerce.nic.in/trade/international_ta.asp?id=2&trade=i

³ http://mea.gov.in/portal/foreignrelation/peru_july_2014_.pdf

⁴ <http://www.bilaterals.org/?india-to-start-trade-agreement>

⁵ <http://www.me.gov.in/in-focus-article.htm?23616/India+and+Latin+America+Its+time+to+tango>

that started in 2008. The region is also critical to multilateral diplomacy and the quest for reforming the global governance architecture, including the reform and expansion of the UN Security Council.

III. Feasibility Assessment Studies of Proposed FTAs

In India several feasibility assessment studies have been conducted by Joint Study Group [JSG] for various proposed FTAs with several countries. Independent economic modelling is commissioned in both the countries for the study. The results provide insights into how an FTA might impact on bilateral trade and investment flows as well as economic welfare. Such studies have led to many comprehensive negotiations. For instance a feasibility report 2010-11 of the proposed FTA between India and Australia indicated that the welfare of the two countries would increase with the conclusion of an FTA. The welfare gains for both the countries could be in the range of 0.15 and 1.14 per cent of Gross Domestic Product (GDP).⁶ This resulted in 9 rounds of negotiations, the most recent one was held in September 2015. The key benefits highlights that there is significant potential to expand trade in services between India and Australia. An FTA could facilitate growth in services trade by reducing barriers faced by Australian service suppliers and by increasing regulatory transparency.⁷

IV. How Peru can gain from Services Trade with India

Services has been one of the most dynamic and strongly growing areas for India and has emerged as the largest sector with a high growth rate and a more than 72.4% share in total real output (GDP)⁸. In the period 2001-13, maximum increase in services share to GDP was recorded by Spain (8.6 pp) followed by India (5.7 pp) and China (5.6 pp).⁹

India was the 10th largest services exporter in the world today. In services, India pursued significant reforms, especially in telecommunications, financial services and, to some extent, in infrastructure services, such as power and transport. Services exports from India have continued to be one of the main sources of foreign exchange earnings in the country and the sectors which have seen higher growth have included: software; IT-enabled Services (ITeS), including financial IT services; and Business Process Outsourcing (BPO); as well as emerging areas such as healthcare (in particular diagnostics and surgery); telecommunications; and professional services. As per AT Kearney's Global Services Location Index 2014, **India ranked first and remains the pre-eminent** destination for offshore services, with excellence in IT, BPO, and voice services. The sector continues to be one of the largest employers in the country, directly employing nearly 3.5 million people¹⁰

V. IAMA Suggestions

1. India should pay **more visits to LAM countries**. Leaders of China and Japan have taken multi-country tours and promised to invest billions throughout the region. PM Narendra Modi did not venture

⁶ http://commerce.nic.in/trade/Final_JSG_Report_as_printed_and_released_4thMay_2010.pdf

⁷ <http://dfat.gov.au/trade/agreements/aifta/pages/australia-india-comprehensive-economic-cooperation-agreement.aspx>

⁸ <http://indiabudget.nic.in/es2014-15/echapvol2-07.pdf>

⁹ <http://indiabudget.nic.in/es2014-15/echapvol2-07.pdf>

¹⁰ Nasscom Report 2014-15

outside of Brazil. Nor has one Latin American leader visited India on an official state visit over the past two years. The government should play the strategic card carefully suggesting Peru to counter-balance the presence of China with India.

2. There should be **economic and financial studies and assessment** [as stated above] reports conducted on the mutual economic co-operation benefits which will lead to any possible negotiation on FTA as in case of Australia. The proposed FTA should contain simplification of customs clearance procedures, mutual recognition agreements for standards, technical cooperation and improvement in trade facilitation infrastructure, it was imperative to factor in both tariff liberalisation and trade facilitation while making any assessment of the possible trade and welfare gains.
3. **Strengthening of Statistics Database of RBI:** Data availability limitations have been reported as one of the major limitations by central bank of Peru. Unavailability of Trade Data impacts the bilateral trade negotiations as there is lack of awareness of business opportunities. Data is one of the major limitations in India's statistics on trade services. Lack of robust statistics on services import and export creates a barrier as data unavailability has been reported by Central Bank of Peru as a major drawback. A number of services have been clubbed together in the 'Miscellaneous Services' category when many of its constituents contribute significantly to total services trade. As already stated the Services sector contribute majorly to the GDP, hence the Central Bank, MOSPI and other relevant Ministries should accordingly update their databank framework for the Services sector.
4. **Peru's abundance natural resource can give a boost to 'Make in India' programme** and India can be of help to offer IT and ITES related services to the country. India is the topmost off-shoring destination for IT companies across the world as stated already. India can pitch on being the single largest pool of engineering talent among the emerging countries. India has a highly experienced tech sector, service industry, and culture of education and innovation—from which Peru can learn. Peru has a wealth of knowledge to share in the areas of creative conditional cash transfer programs for the poor, innovative conventional and sustainable energy technologies, and agro industry machinery and best practices from which India can gain.
5. **Tariff liberalisation and services liberalisation** would lead to higher trade intensity in both the economies. Services liberalisation would seek to remove barriers that impose additional costs on exporters and erode competitiveness. **Trade facilitation reform in Services** is important along with adequate trade infrastructure would give enough impetus to the services trade potential and economize the trade cost.
6. In 2012, the Law on the Promotion of Broadband and Construction of the **National Optical Fibre Backbone** Network was adopted in Peru's 180 provincial capitals through the network, with investment estimated at US\$ 300 million. India too has massive NOFN plans with massive investment and coverage plans. Both countries can be of mutual help to each other.
7. **The digital India goals** of the government can help both countries. India and Peru could look at intensifying digital infrastructure ecosystem, R&D linkages, especially in scientific, technical and through use of IT enabled services.