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São Paulo, 13–18 June 2004**FORUM ON REGIONALISM AND SOUTH-SOUTH COOPERATION:
THE CASE OF INDIA AND MERCOSUR**

9 June 2004, Rio de Janeiro – Summary prepared by the UNCTAD secretariat

1. The India-Mercosur forum was one of the pre-conference events for UNCTAD XI in São Paulo. The meeting was chaired by Ambassador Mario Vialva, Director-General of Commercial Promotion, Ministry of Foreign Affairs, Brazil. Opening remarks were made by Mr. Rubens Ricupero, Secretary-General of UNCTAD; Mr. Jayant Dasgupta, Joint Secretary, Ministry of Commerce, India; Mr. Mario Mugnaini Jr., Executive Secretary, Chamber of International Trade (CAMEX), Brazil; Mr. Y. K. Modi, President, Federation of Indian Chambers of Commerce and Industry (FICCI); and Mr. José Augusto Fernandes, Executive Director, National Confederation of Industry (CNI), Brazil. The meeting was a practical one focused on concrete ways of promoting trade between India and Mercosur, covering first general issues and then specific sectors.
2. South-South trade is no longer the mere dream that it was some 40 years ago. The share of developing countries in total trade is about 32 per cent, as compared to 20 per cent several years ago; 41 per cent of developing countries' total exports go to other developing countries. In 2003, for the first time ever, the United States and Japan imported more goods and services from developing countries than from developed countries. These facts show that South-South trade is not a replacement for North-South trade but a complement to it.
3. South-South trade has grown because of the dynamism of intra-regional preferential trade, while inter-regional trade growth has been relatively modest. While intra-regional liberalization has progressed from an embryonic stage to deeper integration among developing countries, liberalization at the inter-regional level has been limited to most-favoured-nation levels and attempted fitfully through the Global System of Trade Preferences among Developing Countries (GSTP).
4. The India-Mercosur initiative constitutes a recognition of the potential for inter-regional South-South trade. An India-Mercosur framework agreement signed in June 2003 led to a free trade area for goods and was later extended to trade in services. In January 2004, a preferential trade agreement was signed with three annexes on rules of origin, safeguard measures and dispute settlement. The drafts of these annexes are being finalized, along with the lists of goods eligible for tariff preferences.
5. The agreement is designed to evolve gradually into a free trade agreement, starting with fixed preferences for a number of tariff lines and cooperation initiatives in various fields. It could be an important precursor to other such agreements among developing countries in different regions of the world. In the agreement, some 2,000 products have been identified for tariff reductions or preferences, with a view to gradually extending the list of products. But trade by itself will not accomplish the expected outcome; it is important to include investment and technology and other forms of economic cooperation in order to ensure the strengthening of bilateral relationships.

6. India and Mercosur countries are also engaging in other trade initiatives to foster greater South-South networks – for example, with other countries of their respective regions, with the Southern African Customs Union (SACU), and with the G-20 in the WTO context of agriculture negotiations. In addition, the recent initiative through India, Brazil and South Africa (IBSA) can add momentum to India-Mercosur trade, especially by facilitating transport links between India and Mercosur.

7. There was a call for caution as, of the 124 regional trade agreements (RTAs) notified to the General Agreement on Tariffs and Trade (GATT), only 48 remain active. Most of the agreements that have disappeared were South-South agreements. To deal with this problem, it was suggested that South-South agreements start with the least sensitive products, such as manufactures and services, and later incorporate sensitive sectors such as agriculture. However, South-South agreements should not merely focus on a few non-sensitive areas with few potential trade gains. There was consensus among the speakers that the India-Mercosur trade initiative and other new South-South cooperation vehicles should be more open, more market-driven and more business-oriented.

8. The potential for India-Mercosur trade has barely been exploited. The current level of trade is low – at US\$1.3–1.8 billion – with the largest trade in crude petroleum. India has also become an important market for soya oil and sunflower oil from Argentina, while many products in which India is competitive are absent from the Brazilian market. There are considerable complementarities in agricultural products, marine products, drugs and pharmaceuticals, creative industries, software and information technology (IT), telecommunications, railways, timber and forest products, aviation and shipping. Nevertheless, concerns were expressed as to whether the trade pattern between Mercosur and India could be changed to one dominated by sharing of technology, investment and joint ventures in a range of sectors such as forestry; poultry farming; chemicals, dyes and intermediates; drugs and pharmaceuticals; hydro- and nuclear power; compressed natural gas; ethanol; telecommunications; and IT. India already has some joint ventures with Mercosur countries – for example, in pharmaceuticals (Brazil), automobiles (Brazil and Uruguay) and IT (Uruguay).

9. There is also scope for cooperation in development-oriented science and technology. Two examples were cited: aircraft, where Embraer is cooperating with India's largest aircraft manufacturer, and fuel (ethanol), where India has adopted a decision to use ethanol in the sugar-producing states. A Brazilian company is working in India on the latter project.

10. Bilateral trade between India and Mercosur is inhibited by various factors, including (a) lack of information on the part of all partners on the potential, policies and import regulations of other partners; (b) poor air and sea transportation links; (c) trade restrictions; (d) inadequate banking and insurance facilities; (e) high transaction costs; and (f) language problems. If these problems are addressed, then bilateral trade between India and Mercosur could grow 16-fold in both directions, reaching US\$13 billion.

11. Both Mercosur and India are engaged in several other bilateral and plurilateral agreements, which makes the scope and markets for an India-Mercosur agreement much more attractive and provides an incentive for both sides to invest in each other's territory. However, the dangers and complications associated with a "spaghetti bowl" configuration of agreements were highlighted.

12. Participants debated the way forward for the India-Mercosur agreement. Both regions' trade priorities should be taken into account. For example, in the case of Brazil, attention focused on its intra-regional trade priorities and on the Mercosur–European Union agreement currently under negotiation. Cooperation could begin in a few areas so as to build confidence and contacts and avoid areas of conflict. In this process, priority should also be given to investment: trade must be followed by investment; otherwise such agreements will not be sustainable. In India, the Federation of Indian Chambers of Commerce and Industry (FCCI) has set up a help desk to promote investment and supplement the Government's efforts to promote Indo-Mercosur trade.

13. The involvement of businesses was considered critical for the processes. Business contacts should be promoted, and the creation of private-public working groups involving academia was suggested so as to ensure adequate private-sector involvement. Also, the need to increase mutual knowledge, *inter alia* by disseminating adequate information, through cultural exchanges and business missions was stressed. Some concrete areas mentioned that could receive immediate attention were harmonization of standards, custom procedures, financing issues, and transport availability and costs.

14. Participants agreed that UNCTAD could provide support by (a) constituting an institutional mechanism for the exchange of experiences on South-South RTAs supported by analytical work on the economic and development implications of RTAs; (b) providing a forum for exchange of views between policy makers, economists and the private sector at the national or subregional level; (c) training negotiators; and (d) facilitating

technical cooperation projects between developing countries – for example, between Inmetro (Brazil) and BIS (India) on cooperation on standards.

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