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Latin America and India: Understanding Mutual Opportunities

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The Indian reality is a kaleidoscope of colours and patterns. Its social fabric is bewildering to most outsiders, and is difficult to encapsulate for presentation even by its own representatives abroad. India's economic reality has undergone profound changes not only under the influence of global trends and forces, but also because of its own spectacular dynamism and versatility over the past two decades.

Latin America is even more complex. Most Indians tend to view the region through a translucent prism of historical developments and seldom understand fully. The social and economic diversity, and the rapid pace of developments within the mega-region, also contribute to their confused perception.

Despite all this, there is no denying that India and Latin America have emerged, more or less simultaneously, in the new economic geography that now defines the global order. Both have overcome the recent, some would say ongoing, international economic and financial crisis, demonstrating admirable rates of economic growth and reduction of poverty. Key Latin American economies are counted among the big global players, as is India. This emergence is bound to have a significant impact on redefining the political paradigm of international relations in this century. It is, therefore, important for India to understand what mutual opportunities will arise and how it can avail of these to enhance a beneficial relationship free of contention with a part of the world with which India has no conflict.

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Political Reality

Over the two centuries of its post-colonial history, Latin America has found it difficult to articulate, leave alone embark upon, a common destiny. The creation of the Community of Latin America and Caribbean States (CELAC) in 2012 did indeed reflect a common spirit. Looking at the past two years, however, it could appear that far from the forging of a common identity, the world may even be witnessing a lack of common will among the CELAC's constituent states. There are undeniable rifts and fissures, due principally to the political and economic divergence among its constituent states that present fundamental obstacles to harmonious integration.

The region has, however, embarked on a 21st century voyage of global discovery. The major players either have defined their priorities or are in the process of doing so definitively. These priorities will determine their policy orientation for the near future. Twentieth century paradigms are giving way to the formulation of strategies based on exigencies and policy choices that cannot be anticipated in tactical terms.

India's political relations with the region have been cordial but lack the substance and levels of interaction that exist with any of the other regions. Geographical distance, lack of historical links, linguistic gaps, and divergent political leanings are some of the causes of this hiatus. If India is to energise and substantiate its relations with Latin America, it has no choice but to enhance its appreciation and deepen its knowledge of the political proclivities of the states it is dealing with. It has done so with Brazil to a great extent. The two are partners in the BRICS, the IBSA, the BASIC and other forums.

The Government of India has reciprocated the increased interest expressed by its Latin American interlocutors in the recent past. High-level visits have been much more frequent in this century than in the last. Meetings between senior officials have enabled the conclusion of important agreements in a wide range of activities. Prime Minister Narendra Modi's visit in September 2014 to Brazil for the BRICS Summit was an opportunity for him to personally meet the leaders of all twelve South American countries.[1]

The expectation is that there will be an attempt to evolve a comprehensive strategy for that region, considered distant until now, perhaps on the lines of India's policy towards the ASEAN or Africa.

On political issues of fundamental importance: Jammu and Kashmir, terrorism, separatism (as in the case of Punjab), etc. it appears that India does not face any adverse attitudes in the Latin American and Caribbean

(LAC) region. Even on other issues that have assumed a higher profile in this century – trade enhancement through the Doha Round in the WTO, cyber security, money laundering, and organised crime, there does not appear to be too much contention between Indian and Latin American delegations in the relevant forums. India has to rely upon the support of the major Latin American powers when it seeks a greater voice in the World Bank and the International Monetary Fund, when it attempts to hold the line on common but differentiated responsibilities in climate change negotiations, or defends its right to maintain agricultural subsidies. All these issues bear monitoring, particularly with the larger countries, and those who would influence the opinion of smaller partners in the region.

An issue of key importance is India's candidature for permanent membership of the UN Security Council. India seeks this along with Brazil, apart from Japan, Germany and unspecified candidates from Africa. India's strategic relationship with Brazil has not only imparted momentum to the joint campaign for permanent membership, but has also aroused opposition from countries in that region not favourably inclined to Brazil's candidature. While India enjoys a favourable image among the 33 states in Latin America and the Caribbean, all members of the UN, Brazil and India face some challenge from the so-called Coffee Group. This comprises mainly of Mexico, Colombia, Argentina and Costa Rica, who belong to the Uniting for Consensus movement in the UN. The Coffee Group opposes the stand of India and Brazil to expand the number of permanent members, insisting that any expansion should be limited to the non-permanent category, otherwise it would dilute the role of those (Coffee Group) countries in the UN system, apart from allegedly expanding and perpetuating the present iniquitous order. India will need to exercise strenuous diplomacy with its well-wishers in Latin America to overcome this hurdle to its global ambitions.

The Economic Reality

Latin America and the Caribbean account for 33 independent states. India's trade with the Latin American region in the financial year 2013–14 was almost the same as that in 2012–13, around $45 billion. If the Caribbean were included, it would be around $47 billion.[2] The previous decade saw India's commerce with that region increase by over 30 per cent annually. There could be several reasons for the slowdown. Trade with Brazil actually fell from the previous year, mainly because of lower levels of imports of fuel oil from that country and diminishing shipments of diesel from India. This had accounted for an average of 40 per cent of the bilateral trade between the two countries over the past decade.

The commodity trade accounts for significant recent increases in the case of Venezuela, Mexico, Colombia and Ecuador (crude oil); Chile (copper); and Argentina (edible oil). India's burgeoning imports of crude oil from Latin America made it the second-biggest source of India's crude oil imports, after the Gulf region, at almost 20 per cent of the total in 2013–14. Africa contributed 16 per cent of India's crude oil imports in 2013. India's diversified export base, which is predicated upon strong industrial fundamentals and a dynamic marketing effort, is far more resilient.

It is significant that India's trade with Latin America and the Caribbean has not followed traditional patterns and has been *sui-generis*, to the extent that markets have been created through sheer perseverance and competitiveness. This has made the commercial links more durable since they are not overly dependent on expensive marketing campaigns, subordinate relationships, preferential tariff rates or generous terms of credit. India's penetration of Latin American markets has been built upon sheer competitive Indian business strength.

Although the economic relationship between India and Latin America offers the promise of complementarity, the shifting sands of the global economy can prejudice this prospect. The most obvious instance will be the fall in the price of crude oil this financial year, which may noticeably reduce the figure of imports from Latin America. Could this have an impact, through a protectionist backlash or other exigency, on India's exports to that region? There have been recent reports of exports of Indian diesel oil to Australia. This commodity has accounted for a significant percentage of India's exports to Latin America in the recent past. An aspect, which can, and does interfere with the trade potential, is the simple lack of exportable surplus, whether of coal or paper pulp from Latin America, or plastic resins, perhaps eventually diesel, from India. The dearth of informed communication and dialogue limits the base of commercial exchange.

Indian companies have been sizeable importers of edible oils from Argentina, but imports of other agricultural commodities, such as sugar from Brazil, have been sporadic. Chile has exported apples, while some other countries have exported exotic vegetables and other agricultural products to India. Indian companies have been eyeing, and some buying, vast expanses of arable land, principally in the southern American cone, which presents an ideal climate for large-scale cultivation of wheat, pulses, peanuts and other crops that can effectively be linked, through buyback arrangements, to the needs of large markets such as those of India. Unfortunately, phyto-sanitary regulations have fenced off several products of interest to the Indian market, while absurdly high tariffs on products like Latin American coffee and wine have deprived the Indian market of these high quality products.

Minerals such as copper, and now gold, have found pride of place in India's trade with Chile and Peru respectively. It may well be a matter of time before Latin American coal, nickel, lithium and other minerals become commercially viable and find a place in bilateral trade. The trade in gems and jewellery is worth noting, as much for its complementarity as for its largely clandestine nature.

India's technological prowess, and its capacity to absorb foreign technology and innovate, gives it a unique advantage in the case of Latin America. This would account for the spectacular growth in the presence, in recent years, of certain Indian business houses in sectors such as automobiles, industrial machinery, chemicals, pharmaceuticals, IT, renewable energy, etc. in Latin America.[3]

Economic stability has also, largely, enabled stable exchange rates, which has made trade more predictable and put it on a more secure footing. Recent volatility, caused by the global downturn and the sudden rise of the dollar had its impact, although surprisingly not as great as one would have imagined. On the other hand, the supply chains of Latin American raw materials already in place have ensured minimal disruption of traditional exports from that region to India.

This brings us to yet another salient feature of the economic relationship – Indian investment in the LAC. Unlike the massive tsunami of Chinese investment, the Indian tide has risen gradually and is concentrated in select Latin American economies. The principal countries that have received Indian investment have been Brazil, Mexico, Chile, Colombia and, to a lesser extent, Peru and Argentina. Investments in Venezuela have focused on the hydrocarbon sector, while the massive Jindal Steel project in Bolivia was a fiasco. Some other ventures have also been abandoned primarily for economic reasons, such as hydrocarbon concessions obtained by Reliance Industries Limited in Peru and Colombia; and a steel plant proposed by Essar in Trinidad & Tobago. The success stories, however, far outweigh the failures.

The scene is repeated in India although on a smaller scale. Latin American companies such as Mexico's Cinepolis (cinema multiplexes), Brazil's Marcopolo (bus chassis), Gerdau (steel) and others are in the vanguard of a

Latin American campaign to establish a presence in one of the fastest growing markets in the world. Latin Americans are also aware that India is open to the purchase of Brazilian Embraer jets for military and civil aviation; Brazilian manufactured coaches for the metro; Chilean wine; Colombian coffee blends and other sophisticated value-added products. An Argentine company recently won a contract to export equipment to India to manufacture radioisotopes.

Indian investment is growing, but India is increasingly nervous about the political volatility in certain resource-rich Latin American economies; the economic stability including exchange rate across the region; and the unpredictability of investment and fiscal regimes in important countries such as Brazil and Argentina. Slowing growth rates across the region and volatility of the commodity markets have also been causes of concern. Political preoccupations of LAC establishments such as the environment, protests by indigenous and local populations against extractive industries, etc. also raise costs and risks of doing business. Indian enterprise has not been agile enough, in many cases, to match its offers with the needs and priorities of the local governments.

The rising expectations of the middle class in Latin American economies, combined with strong social security regulations, have increased employment costs in that region for Indian employers. Bureaucratic hurdles in an unfamiliar environment also provide enough disincentives, in some cases, for Indian enterprises to consider other destinations for their investments. Indian companies, already excessively wary of venturing into uncharted territory, frequently make their own negative political risk analysis of certain Latin America economies that reveal proclivities towards control or even expropriation of foreign held assets.

Prospects are nevertheless bright. Conventional estimates of Indian investment at US$ 16 billion in Latin America may soon be out of date. As Indian conglomerates prosper in that steadily growing region and establish manufacturing and export bases to access regional as well as North American, even European markets, one can expect to see the rise of the Indo-Latin American enterprise.

Opportunities and Challenges

Among the emerging powers, India is a latecomer on the Latin American scene and must make up for lost time. The fundamental elements of this relationship are the perception of Latin America and the Caribbean as a relatively homogenous politico-economic regional entity; absence of political baggage, combined with the need to confront common challenges; a geographic reality that calls for application and focus; appreciation of the immense Latin American natural resource base; and a growing realisation of the economic complementarity.

Recent attempts at regional integration have served the purpose of presenting Latin America, along with the Caribbean in some cases, as a community of nations belonging to a particular geography, with a shared history and an increasingly interconnected presence, heading towards what may be a common destiny. While this perception may not coincide entirely with reality, it should serve the purpose of focusing Indian minds to understand and undertake the necessary effort at approximation.

With a population of 600 million and a combined GDP of around $5 trillion, the Latin American region offers a significant and growing market for India's pharmaceutical, engineering, textile, handicraft, and other exports. It has also caught sufficient Indian corporate attention to draw over 16 billion dollars of Indian investment in a variety of sectors. The immense endowments of natural resources, including hydrocarbons, agricultural land, fresh water, minerals and bio-diversity have been increasingly recognised for their potential contribution to India's energy and food security. With an average per capita income of over US$11,000, it could also prove an excellent market for high-end tourism.

In 2010, the Washington-based Inter American Development Bank (IADB) came out with a seminal report titled "*India: Latin America´s Next Big Thing?*"[4] The study argued that India has the potential to mirror the recent economic performance of China, which had not only become a major market for Latin American and Caribbean exports, but also posed a challenge for the region's manufacturing sector.

The study emphasised that in order to boost trade, both India and Latin America must lower tariffs and trade barriers. India's average tariff on Latin American agricultural goods was 65 per cent, more than five times China's average tariff of 12.5 per cent. Even though Latin American tariffs on Indian goods were not as high- reaching 9.8 per cent in the case of manufactured products, they were well above the OECD range of 4 per cent to 6 per cent, according to the study. A 10 per cent reduction in average tariffs imposed on Indian products, according to the study, could increase exports of Indian goods by 36 per cent to Chile and Argentina.

The other obstacle identified was the high cost of transport between the geographically distant regions. India, unlike China, has no direct shipping services to this region. Goods were shipped first to Singapore or Europe, which increased both freight rates and shipping time. In the case of Brazil, for instance, shipping a product from the Atlantic port of Santos directly to Mumbai would take an estimated 27 days and 15 hours. Shipping via Singapore would take approximately 36 days and 18 hours – almost nine days longer.

The open market economies of the Pacific Alliance, formed in 2012 between Mexico, Colombia, Peru, and Chile, have free trade agreements between themselves and with the US. The same is being negotiated with the EU. Smaller, but dynamic countries, like Panama and Costa Rica, are poised to join this grouping and are negotiating free trade agreements with the four members. While Mexico, Peru and Chile are members of the Asia Pacific Economic Cooperation (APEC) grouping, Colombia and other LAC countries are clamouring to join this forum, which will permit them to participate in discussions that will affect the future of negotiations on global trade and other economic issues.

Further down the road, the US government is pushing for the conclusion of the Trans-Pacific Partnership. This will rope in Mexico, Chile and Peru, for now, along with several Asian economies, including Japan, Malaysia, Vietnam, into what is referred to as a "high standard twenty-first century agreement" for trade and investment liberalisation, aimed at enhancing competitiveness of the twelve participant countries drawn from either side of the Pacific. One consequence that can definitely be foreseen is that of invisible, but effective barriers to Indian products, in precisely those Latin American economies where Indian business envisages the best prospects.

The Pacific Alliance economies are on their way to integrating their markets with the developed world. This will provide them access to investment, sophisticated markets, and an upgradation of standards in all aspects of business and logistics. While dependence on commodity exploitation and export will remain for some time to come, it is entirely possible that the benefits in future will go to countries such as China, or multinational enterprises with deep pockets and the drive to see projects to their logical and profitable conclusion.

In the past decade, India had successfully negotiated preferential tariff agreements with Chile and the four-nation Southern Common Market (MERCOSUR). Chile has been urging an expansion of its agreement from around 500 tariff lines to around 3000. Final negotiations have been hampered by a protectionist Indian lobby. On the other hand, India's attempts to increase the scope of the agreement with MERCOSUR are facing resistance principally from a protectionist Argentina. India's Ministry of Commerce has now proposed free trade negotiations with Peru and hopes to do the same with Colombia. With both these countries, annual trade has crossed a billion dollars and the potential for value added Indian exports is significant.

India could display its success in creating dynamic information technology services, a burgeoning aerospace and automotive industry, microfinance, and pharmaceutical industries. Its human resource development capabilities and experience also offer important lessons. Latin America, on the other hand, presents success stories in agriculture, mining, aeronautics, biofuels, private pension schemes and poverty alleviation programmes, which could help India address some of its economic growth constraints.

The case of Tata Consultancy Services (TCS) in Latin America is emblematic. Accounting for 5 per cent of its global revenues, its operations in that region were among its fastest growing by 2013. It employed 12,000 professionals, almost exclusively local, with just a few 100 Indians on site in the entire region. Since its establishment in Uruguay over a decade ago, it is now also present in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Peru.[5]

India will also be able to count on investment commitments from Latin American companies that are flexing their muscles worldwide. According to the World Investment Report for 2014, published by the United Nations Conference on Trade and Development (UNCTAD) in June 2014, outward investment by major Latin American economies far exceeded that of India. FDI outflows, according to this report, from South and Central America combined, amounted to $45.1 billion in 2012 and $32.2 billion in 2013. Comparative figures for India were $8.5 billion and $1.7 billion respectively. According to the same report, Brazil received FDI of $64 billion, while Mexico received $38 billion, compared to $28 billion received by India, in 2013.[6] Latin American investment in India is still a tiny fraction of its commitments in other Asian countries, particularly China.

A related aspect of India's effort to penetrate Latin America that needs to be understood is the absence of an effective pro-India lobby. In 2014, a few influential US companies doing business in India managed to forestall a move by the US government to levy sanctions on India for failing to protect US intellectual property rights. Foreign companies, which have a stake in the Indian economy, or in trade with India, can serve a crucial purpose in influencing policy and decisions in their home countries in favour of Indian interests, or at least in preventing damage. In order to create such a lobby, it is essential that large corporations from that region be attracted and allowed to operate in India without too much difficulty. Latin Americans also realise that their strength lies in the amount of investment they can attract from India.

The growing importance of Soft Power in international relations today provides yet more opportunities. In August 2012, foreign ministers of Chile (holding the presidency), Venezuela and Cuba (past and future presidents), representing the recently formed Community of Latin American and Caribbean States (CELAC) met India's foreign minister. This was the first meeting between an Indian and a pan-Latin American delegation. The talks resulted in a Joint Declaration, which carried a paragraph on "Culture, Education and People-to-People Contacts":

Both sides reiterated the importance attached by them to encourage people-to-people contacts and reaffirm their determination to cooperate closely in this field. They agreed to strengthen cultural and academic linkages, including between the diplomatic institutes in India and CELAC countries.[7]

A recent exercise, by the Confederation of Indian Industry with Indian Missions in Latin America revealed that over 50,000 visas were issued by Indian Embassies and Consulates in Latin America in 2012. If one includes visitors with long-term visas or those who applied for and obtained visas from Indian Missions and Consulates outside the region, the number still appears insignificant when compared to most other regions. Given the distance, lack of awareness and insufficient tourism promotion, the increase in visitors from Latin America to India is nevertheless impressive to those who look closer, even if almost imperceptible at the national level.

In the Joint Declaration of the Foreign Ministers of India and CELAC of August 2012 referred to earlier, both sides "underscored the need to conclude bilateral Air Services Agreements to enhance direct air links between India and CELAC in order to promote tourism and business". Despite the existence of Air Services Agreements with Brazil and a couple of other countries, direct air links remain a distant dream. A decision by the Indian government in early 2014 to issue landing permits for tourists from all but a handful of countries, and the policy of issuance of e-visas in most Indian Missions abroad, will give a boost to tourism and business both ways. Recent initiatives, such as the Memorandum of Understanding between Colombian airline Avianca and Air India, flying passengers between Bogotá and Delhi via London, should also help overcome the problems of connectivity.[8]

There is heightened awareness of the wonders that Latin America and the Caribbean have to offer to Indian travellers. The Indian media is full of offers to exotic destinations such as Machu-Picchu in Peru; the glaciers of Patagonia in the southern cone; the Galapagos Archipelago in the Pacific; the Mexican Pyramids; the Iguaçu Falls on the Brazil/Argentina border; and other wonders. Higher tourism flows do not merely enhance mutual respect and understanding; they also serve as initial contacts for commercial and economic opportunities. Tourism has been recognised as an important spur to further economic and commercial cooperation by promoting investment in hospitality and other industries mutually as well as trade in products for which demand is created because of the familiarisation that comes from such cultural interaction.

A recent phenomenon that has fired up the Latin American imagination is the advent of Bollywood, India's prolific Hindi language film industry, in that region. The famous film "Slum Dog Millionaire", produced in English by a foreign producer/director but shot entirely in India, with an Indian cast, was unique because of its commercial release in Colombia in 2009. Lima, in Peru was one of the seven venues for the premiere release of the famous Indian actor Shah Rukh Khan starrer "Chennai Express", in October 2013. While the universal appeal of some Indian films such as "Monsoon Wedding" and "Water", both by expatriate Indian filmmakers, has found echo in Latin America, several Latin Americans mention "Devdas" and other mainstream Bollywood blockbusters among their favourite films.

Very few Indian films have had commercial success in Latin America, although they may have done better in the Caribbean because of the diaspora. Commercial distribution networks between India and that region are almost non-existent. One reason is the lack of adequate expertise for translation from Hindi, and other Indian languages, to Spanish and Portuguese. This does not enable high quality dubbing or subtitling, an essential prerequisite. Despite this, Bollywood has become a catchword all over the region. The social media in Latin America is rife with comments and images of Bollywood films, actors, etc. TV channels in some major Latin American cities routinely screen Bollywood films, normally with sub-titles. Latin America offers attractive and exotic locales for Indian films. There have been substantial scenes shot for Dhoom 2 (Brazil) and Ek Tha Tiger (Cuba) recently.

The problems confronting commercialisation of films also affect literature. The principal issue is one of language. Indians gobble up Latin American literature, making Colombia's Gabriel García Márquez, Chile's Pablo Neruda, and others, household names in India. Indian literary giants like Rabindranath Tagore are famous in that region. Nevertheless, works by most important contemporary writers, poets, and playwrights are inaccessible to the vast majority of Indians and Latin Americans due to the sheer lack of translation capabilities between Spanish/Portuguese and Indian languages. There have been some notable attempts through translation of a few literary works between both cultures, but these have not been enough perhaps to excite the collective imagination on both sides. Much more effort is required to create a critical mass of translators and interpreters, and eventually of the *aficionados* who will serve as the essential cultural link between India and Latin America. Official and corporate patronage is also vital to this effort.

The near-absence of an Indian diaspora currently limits interaction and consciousness. The present government, however, has emphasised the importance of the Indian overseas community in the Caribbean, especially in Trinidad & Tobago, Guyana and Suriname. Though these three countries have small populations and have been recipients of India's largesse through aid projects, there is potential for enhancing economic contacts with these countries, and through them, with others in their neighbourhood.

Meanwhile there is a slow but steady increase in the number of Indians of the present generation, who have realised the potential of Latin America. In India, the study of the Spanish language has gained momentum in recent years. Universities and think-tanks need to consolidate relations with their counterparts in Latin America to be able to provide the academic underpinning for social and economic interaction, not to mention the essential political empathy that will be required to raise the level of the official relations with that region. Increased momentum of official contacts and business should gradually enable the creation of an Indo-Latin community in the coming decades, which can form the bridge between India and Latin America.

Notes

1 Visit of the prime minister to Brazil for the 6th BRICS Summit, www.mea.gov.in/outgoing

2 All trade statistics, in Rupees or US dollars, accessed at http://commerce.nic.in/eidb/default.asp

3 For extensive information on India's business presence in the LAC, see www.cii.in/international

4 www.iadb.org/publications

5 http://www.sramanamitra.com/2011/07/02/outsourcing-ankur-prakash-vice-president-and-coo-tcs-latin-america-part-1/

6 "World Investment Report 2014 – Investing in the SDGs: An Action Plan", http://unctad.org/en/publicationslibrary/wir2014_en.pdf

[7] "Joint Statement on the First India-CELAC Troika Foreign Ministers Meeting", 07 August 2012, www.mea.gov.in/documents

[8] Avianca and Air India Sign Memorandum of Understanding Paving Way for Future Code Share Agreement, 08 January 2015, http://www.atn.aero/article.pl?id=53227

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