

LATINDIA

THE FUTURE OF COOPERATION
BETWEEN INDIA AND LATIN AMERICA





LATINDIA

THE FUTURE OF COOPERATION
BETWEEN INDIA AND LATIN AMERICA





Collaborative Diplomacy

Deepak Bhojwani
LATINDIA Consultancy

India did not enter me through my mind but through my senses.

Octavio Paz

INDIAN DIPLOMACY HAS BEEN PROMINENT THIS CENTURY, LEVERAGING AN ECONOMY THAT HAS SHED INHIBITIONS AND GROWN IMPRESSIVELY. LATIN AMERICA HOWEVER REMAINS DISTANT GEOGRAPHICALLY AND CONCEPTUALLY AND RELATIONS HAVE BEEN BASED ON BILATERAL PRIORITIES. A REPRIORITIZATION OF THE RELATIONSHIP IS ESSENTIAL AND SHOULD BE COMPLEMENTED BY MORE DISCERNING AND ENERGETIC DIPLOMACY.

Octavio Paz, the Mexican Nobel laureate and ambassador to India in the 1960s, said: "India did not enter me through my mind but through my senses" (1995).¹ It appears Latin America and India have a "sense" of each other but their minds are still to be made up.

When India became a nation-state in 1947, the countries of Latin America had been independent for over a century. Latin American societies were formed by descendants of European, and in some cases African, origin with relatively scarce indigenous presence. Indian society was almost entirely South Asian, partly molded by British education. Latin America was oriented toward Europe and the US. India was nonaligned. These civilizational differences created a polite distance, despite abiding mutual admiration for aspects of each other's culture.

India has expanded its global diplomatic and economic footprint this century, but Latin America remains over the horizon in more ways than one. Geographic distance is the supposed reason. This does not, however, deter China, whose trade with the region is six times that of India, nor does it prevent Indians from traveling to the US, whose east and west coasts are as far from India as São Paulo and Mexico, respectively. Direct air and shipping links are considered uneconomical. Both sides see each other as exotic tourism destinations but have not achieved critical travel mass.

Political and diplomatic relations were established soon after 1947, given the absence of disputes and a shared colonial legacy. Early political exchanges identified some common ground but had little political impact. India today hosts 20 Latin American and Caribbean embassies and maintains 14 in that region. It participates in the G20, alongside Brazil, Mexico, and Argentina. Forums for bilateral dialogue, contact with the Community of Latin American States (CELAC)² and subregional forums provide the matrix for engagement.

The economic complementarity between the two is evident. Indian companies import large quantities of hydrocarbons from Venezuela, Mexico, Colombia, and Brazil; edible oils and sugar from Brazil and Argentina; copper and precious metals from Chile and Peru; wood from Ecuador, etc. In turn, India exports diesel, textiles, and manufactured products. This century, trade has accelerated by 30% annually and hit US\$46 billion in 2013-2014.³ It then slowed with the fall in prices of commodities, especially crude oil, India's principal import.

The main drivers of the relationship have been official patronage and private enterprise. The former has entailed the promotion of a strategic partnership with Brazil; a privileged partnership with Mexico; trade negotiations with MERCOSUR, Chile, and Peru; observer status in the Pacific Alliance; investments in energy, mainly hydrocarbons; and a variety

20

COUNTRIES IN LAC
HAVE EMBASSIES
IN INDIA

of agreements for collaboration in agriculture, science and technology, commerce, etc. Private companies have exploited economic complementarity to invest and trade in energy, commodities, manufactures, and technology to mutual benefit, in most cases.

Indian companies recognize Latin America as an important market for automobiles, chemicals, pharmaceuticals, and engineering goods. Over two dozen Indian IT companies have service and development centers there.

ISSUES AND IMPEDIMENTS

Both sides have still to identify the ingredients that will propel exchanges and enhance the substance of a relationship that is a long way from achieving its true potential. Though the task would seem more complicated for India, which has to deal with over 20 countries, India's complex political economy also perplexes many Latin Americans. Given the lack of cohesion and relatively shallow levels of Latin American integration—compared to ASEAN or the European Union—India does business bilaterally and occasionally engages in dialogue at the regional level.

Political vicissitudes and fluctuating ideological currents have impacted attempts to build durable friendships. A lack of application, insufficient diplomatic attention, linguistic unfamiliarity, the absence of a diaspora, and generally lower stakes than with other interna-

tional partners, have conspired to keep both sides somewhat in the dark about aspects of their political environment that would be important to building the relationship. The rapprochement with Brazil during Lula da Silva's presidency (2003–2010) has given way to more routine, less ambitious exchanges in recent years. This led to the neglect, and near demise, of the India-Brazil-South Africa (IBSA) forum, which was created in 2003. The consolidation of democracy and centrist politics helped focus both sides on the essential aspects of their relations.

An important element that affects the substance of the relationship is economic health. The Indian economy has survived the most recent global downturn and continues growing at over 7%, and the outlook remains optimistic (World Bank, 2017). Latin America has not been so lucky. The IMF (2017) forecasts growth to expand by 1.1% in 2017 and 2% in 2018, following stagnation in 2015 and 1% contraction in 2016. Over the medium term, growth is expected to remain subdued at 2.6%. Some of India's principal economic partners are struggling: Brazil will grow at only 0.2%; Chile and Mexico at 1.7%; while Peru, Colombia, and Argentina will do a little better. India is focused on imports and investments in raw or semiprocessed materials. Lower growth may prompt Latin American governments to open their economies and offer more incentives. This may also affect India's exports.

High rates of growth have increased Indian demand for energy, food, minerals, and other materials. As Indian industry expands, it is looking more closely at markets covering 600 million middle-income customers in Latin America. Governments and businesses in Latin America recognize the potential India holds as a destination market for their resources and as a source of investment. They also

glimpse opportunities for adding value by leveraging India's strengths, not just in the IT sector, but also in renewable energy, automotive industry, pharmaceuticals, and other areas.

Indian investment in Latin American hydrocarbons, pharma, automobiles, agroprocessing, engineering, textiles, chemicals, and electronics is estimated around US\$20 billion,⁴ which means it has a stake in Latin American prosperity. Latin American business has a much smaller footprint in India. While the Indian market is obviously attractive, and the present government emphasizes domestic manufacture by foreign investors, many factors—some genuine, others imaginary—still inhibit Latin American businesses from operating in India. The present government, through its Make in India program, has removed several hurdles to business, but still needs to improve its ranking in the World Bank's Ease of Doing Business Index, where it currently occupies 130th place.

In 2015-2016, Latin America accounted for less than 3% of India's exports and just over 5% of India's imports worldwide. The composition of trade makes it vulnerable to global economic and technological trends. According to India's Directorate General of Foreign Trade, hydrocarbon imports from Latin America declined from US\$24.5 billion in 2013-

2014 to US\$19.99 billion in 2014-2015, and to just under US\$10 billion in 2015-2016 and 2016-2017. A similar, though less acute, problem exists in the case of copper from Chile. Given the precarious situation faced by their exports to India, Latin American governments are focusing on better terms of trade.⁵ The more dynamic regimes are negotiating a lowering of trade and nontariff barriers and investment incentives, but there is little talk of major initiatives such as institutional financing or infrastructure projects.

The Inter-American Development Bank published a report entitled 'India: Latin America's Next Big Thing?' (Mesquita Moreira, 2010) that noted India's potential to mirror the economic performance of China, and the massive opportunity for more trade and cooperation, but the question mark at the end of the title was perhaps deliberate, an indication of the challenge ahead. The study emphasized 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%, more than five times China's average tariff of 12.5%. Even though Latin American tariffs on Indian goods were lower—9.8% on manufactures—they were well above the OECD range of 4% to 6%. A 10%

LEARNING FROM EXPERIENCE

The most spectacular failure among India-LAC collaboration projects was the Bolivian Mutún iron ore and steel project undertaken by Indian steel giant Jindal in 2006, with projected investment of over US\$2 billion. This project was terminated by the Bolivian government in 2012, alleging a lack of timely investment by Jindal. The aftermath of this unfortunate turn of affairs lingers on (Business Standard, 2013). Other high-profile failures include Essar Steel's project in Trinidad; Reliance Industries' hydrocarbon ventures in Peru and Colombia; and ONGC's oil venture in Cuba. A volatile Brazilian market forced Shree Renuka Sugars (US\$600 billion investment) and Hindalco to offload one plant each to reduce debt in 2016. These examples should serve as lessons for the future.

reduction in average tariffs on Indian products could increase exports of Indian goods by 36% to Chile and Argentina.

Physical connectivity, a vital element for the future growth of trade, was the other obstacle identified, specifically the high cost of transportation. India, unlike China, has no direct shipping services to this region. The dispersed nature of Latin American population centers and markets makes transportation costs from India more relevant for Indian exports vis-à-vis Latin American exports to India, which consist largely of bulk commodity shipments. As is described in Bhojwani (2015, 133), Indian companies shipping to Brazil cannot automatically access all other countries and markets in the region due to problems of infrastructure and connectivity. The economics of the shipping industry led some attempts in the 1980s being discontinued (Bhojwani, 2015, 130). Unfortunately, no institutional attempt has been made to ensure the viability of direct shipping connections, or even warehousing facilities, by either side.

The complementary nature of the economies of India and Latin America would make for a mutually beneficial relationship, but neglect can turn into indifference. Edible oil or sugar importers from Brazil and Argentina, just like crude oil or copper importers, are left to their own devices. Little attempt is made to identify and leverage synergies or opportunities. Collaborative opportunities in pipelines, land leases, port and railway capacity, refineries, warehousing, and so on in Latin America are considered a bridge too far for the Indian business establishment, which has not ventured to promote investments in complementary sectors to ensure supplies and add value.

Unlike other players in Latin America—US, Europe, China, Japan, Korea—India has still to consider participation in Latin American financial institutions like the Inter-American Development Bank, the Andean Development Corporation,

the Central American Bank for Economic Integration, and so on. This keeps it out of the forums it needs to participate in projects in the region. Scattered Indian lines of credit have borne fruit in the form of a few projects, dwarfed by more ambitious ventures financed and executed by other players. Bilateral banking connections are nonexistent. A solitary, nonretail branch of the State Bank of India exists in São Paulo. The Exim Bank of India, responsible for administering fledgling lines of credit, based in Washington DC is even more distant functionally.⁶ Conversely, Latin American banks have apparently not even looked at India.

Indo-Latin American business initiatives have made a mark through ventures such as the Birla Group (Hindalco) acquisitions in Brazilian aluminum industry; the Brazilian firm Gerdau's acquisition of a steel plant (Kalyani) in India; the joint venture between Brazilian vehicle manufacturer Marcopolo and Tata Motors to make bus chassis in India; the more than 350 cinema screens acquired and run by Mexico's Cinépolis chain in India; assembly lines operated by vehicle companies Mahindra and Hero in South America; UPL's presence in the Latin American agrochemical market; extensive operations by Indian pharma companies all over Latin America; and the overarching investments of billions of dollars by India's state companies in hydrocarbon exploration in Brazil, Colombia, and Venezuela.

However, a lack of sufficient institutional presence and market intelligence may be the reason behind some setbacks.

A more serendipitous relationship thrives in the IT sector. Over two dozen Indian companies have set up development and service centers, including business process outsourcing, all over Latin America. The "nearshoring" model relies on Indian software and expertise, Latin American human resources, and the advantage of working in American

time zones. With just a few hundred technicians from back home, major Indian software companies employ, train, and empower tens of thousands of Latin American workers, leverage their language capabilities for the North American, European, and local markets, and avoid the need for long-term visas for more Indian employees.

India's recent economic prowess owes much to its intrepid diaspora, especially in the developed world, but also in Asia and Africa. The English-speaking diaspora in the eastern Caribbean carries little influence in Latin America, which hosts small communities of Indian origin, mostly in trade or services. There are almost no settled industrialists or businesspeople of Indian origin in the region with the heft to act as nuclei in Latin America for their erstwhile compatriots or to catalyze investment from there into India, a model that has created vibrant linkages with other countries. The modest economic conditions of those Indians who have settled in Latin America do not generate the levels of remittances or tourism to warrant the attention bestowed on communities of Indian origin elsewhere. All the same, this may be the only region where professionals outnumber other types of immigrants from India.

Lack of fluency in Spanish and Portuguese is a major disadvantage for Indian companies, whose growth is consequently often dependent on their local collaborators. Unfamiliarity with India's ethos is another burden for Latin American companies wishing to operate

in India. This calls for an approach that inculcates a deeper appreciation of the historical, social, and linguistic context in which business is to be established and conducted. Students of Spanish in India are growing in number, but consciousness of Latin American culture and conditions is missing. Business acumen can overcome some handicaps but cannot establish an effective corporate presence or lobbies to protect business interests without a commitment that goes beyond the bottom line.

THE WAY FORWARD

The hiatus between the content and the potential of the relationship, when comparing Latin America's relations with China, or even South Korea, calls into question the commitment on both sides. In this century of frenetic diplomacy, a lack of vision, or even comprehension, leads to mental blocks that impede interaction.

India and Latin America need to better understand each other's political reality, endowments, capabilities, and priorities, beyond the experience of transitory diplomats. Both sides need to define their priorities after realistically assessing their capabilities and the prospects for engagement. This calls for a thorough strategy. Latin America acts through multiple layers of regional and subregional organizations, so arguably India needs to take the lead in identifying and activating the main actors and forums.

The articulation of a strategy should start with a hard look at the status of the current relationship. This should be disaggregated to the subregional level, and where necessary, country-specific issues should be identified. The lack of institutional memory on both sides calls for the verification of vital facts and up-to-date statistics. Then comes the articulation of goals, a program, and structure

65%

THE AVERAGE TARIFF
ON LATIN AMERICAN
AGRICULTURAL GOODS

for regional-level dialogue. This should include elements of the India-CELAC joint statement of 2012, following the first Meeting of Foreign Ministers.⁷ The statement identified political, economic, technological, and other areas of current and potential collaboration. In most cases, the commitments remain on paper. Even the minimal pledge to hold annual foreign ministerial meetings has not been fulfilled.

The prime driving force is political will. Almost all the recent Indian prime ministerial visits to Latin America have been in connection with multilateral events. Both sides need to pay more attention to each other. The need to raise Latin America's profile in Indian diplomacy is paramount. This has happened with Southeast Asia and Africa. Summit meetings have been organized, trade and other agreements signed, and considerable official funds invested in infrastructure and other projects to upgrade those relationships. India's trade with 54 countries in Africa—around US\$70 billion—is comparable to its trade with 34 countries in Latin America and the Caribbean, in volume and composition. Yet its attention to Africa is much greater in comparison.⁸

Political initiatives need to be supported by economic and social interaction. The consolidation of the juridical matrix through agreements for investment protection, avoidance of double taxation, extradition, immigration, lines of credit, elimination of regulatory hurdles, and so on, are as important as the forums that institutionalize dialogue between governments and other stakeholders.

An analysis of the synergies on offer will help engender counterparts on both sides which will serve as a lobby for common interests. Examples are agricultural and scientific research institutes. Areas of strength and complementarity need to be studied in depth. Latin American prowess in agriculture, renewable energy, and social engineering can be recip-

rocated by India's advances in software, outer space, and biotechnology.

India's Department of Commerce has had a Focus Latin America & Caribbean (Focus LAC) program in place since 1997, which has been extended periodically, most recently until 2019. The program basically provides finance and assistance for Indian exporters to Latin America. It has recently begun to negotiate free—or preferential—trade agreements with key Latin American countries: these include the expansion of the existing PTAs with Chile and MERCOSUR and the start of negotiations toward similar agreements with Peru, Ecuador, and Colombia.⁹ This engagement needs to be intensified.

China's policy papers of 2008 and 2016¹⁰ on its relations with Latin America outline in some detail the specific methodology of engagement with Latin American governments of different political leanings. These deals have given China an important foothold in vital aspects of their political economy (Wilson, 2015). However, the Chinese prescription may not apply to India.

The Indian establishment cannot match China's achievements in the foreseeable future and must concentrate on incremental accretion. Even this calls for a significant increase in focus. Outlining the areas and forums of engagement, postulating priorities and interlocutors on both sides, creating a shared collective memory, and following up on deadlines for projects are all essential if India wants to achieve success in Latin America. Brand awareness of Indian products in Latin America is very low compared to the European, US, Chinese, Japanese, or Korean industries. A quantum leap to change this would presuppose official and institutional intervention, determination, and stamina.

India would have to calibrate its campaign taking into account the new realities of a more dynamic Latin America today. Subregional integration has made

headway, as seen from the success and appeal of the Pacific Alliance and the prospective rejuvenation of MERCOSUR. Rapprochement between the two blocs could smoothen India's approach to the region by creating a common forum for dialogue and negotiation. The Indian establishment will have to be more proactive to integrate into Latin American supply chains.

Traditionally cautious, sometimes lethargic, diplomacy has to give way to a more robust attempt to communicate commitment to governments and stakeholders willing and able to partner ambitious programs. India's belated outreach to APEC and other forums, in which key Latin Americans are increasingly active, will be essential to this campaign.

Nascent cooperation in strategic sectors and industries calls for more attention. India is involved with Brazil bilaterally through the purchase of aircraft, civilian and military; in maritime exercises through IBSA; and in situations of international conflict in BRICS. Indian helicopters, armored vehicles, and nonlethal equipment have been sold to some Latin American countries. There is scope for more cooperation in outer space, nuclear energy, maintenance of defense hardware, and cooperation on terrorism. Despite agreements in some of these sectors, cooperation has been minimal and must be spurred on by governments.

China extends its soft power in the region through Confucius Institutes, strong academic linkages, and language programs. The spread of its film industry threatens to overshadow the popular image India's Bollywood enjoys but has

failed to commercialize. The Indian establishment would do well to strengthen aspects of the relationship that distinguish India from China. These would include India's civilizational strengths, democratic governance, which demands transparency and accountability, and multilateral issues where Latin America identifies more closely with India than with China.

Although India enjoys a very positive image as a civilization that spawned yoga, classical dance and music, and other expressions of soft power, academic interaction has been limited. This lacuna has historic and linguistic roots. Attempts to remedy it have been half-hearted. India's Technical and Economic Cooperation Programme (ITEC)¹¹ offers a few hundred technical scholarships every year to Latin Americans. Despite very attractive terms—all expenses paid—to undertake courses lasting from a few weeks to a few months in prestigious Indian institutions, the scholarships are underutilized and little feedback is received by the Indian establishment. Fully paid cultural scholarships on both sides are difficult to come by.

Cultural approximation is essential if populations on both sides are to gain a more authentic appreciation of each other's realities. It will also help create the necessary workforce as economic and commercial relations grow, not to mention tourism. Eventually, linkages between academic institutions, think tanks, media, and other stakeholders will provide the intellectual matrix required by policymakers. To achieve this, think tanks and universities will need to sharpen their focus and receive official assistance where necessary.

Above all, the Indian government, by default the prime mover, must show more sensitivity to the situation in Latin America. Bilateral exchanges must be synchronized to ensure disruptive events such as political upheavals, currency devaluations, and market distortions can

50

AFRICAN COUNTRIES
WOULD BE NEEDED TO
EQUAL TRADE WITH LAC

5

TIMES HIGHER THAN CHINA: INDIAN TARIFFS FOR AGRICULTURAL PRODUCTS

be weathered. Communication and dialogue will be needed to achieve this.

AN INSTITUTIONAL TASK

India's international role has been re-defined this century. The nonalignment of the 20th century and the New International Economic Order have given way to a more pragmatic, realistic vision and mission. Though erstwhile allies like Russia remain important, new alliances have been forged and adversarial scenarios have been identified. With little history in common, relations have largely been shaped by bilateral synergies.

There has been some degree of col-

laborative diplomacy on issues such as climate change, international trading rules, the struggle against terrorism, and organized crime. Strategic sectors like defense, armaments, outer space, and so on have witnessed peripheral exchanges but nothing amounting to even a cogent definition of specific common interests. India's quest for a permanent seat on the UN Security Council is supported by Brazil but is opposed by Argentina, Colombia, and Mexico, among others, for reasons that have little to do with India's claim.

Growing linkages through economic and cultural exchanges, tourism, the lowering of linguistic barriers, and mutual appreciation of the civilizational richness of the other are elevating consciousness on both sides beyond the realm of the exotic. The advent of an Indo-Latin American community is not inconceivable but it presupposes extensive official and institutional diligence. When this happens, India and Latin America will be firmly on the road to a partnership that will require no external momentum. 

NOTES

¹Latindia, the neologism used as the title for this publication, is also the name of the author's firm and is copyrighted in India. He has kindly given his permission for it to be used in this book.

²Ministry of External Affairs of India (2017).

³Trade figures and commodity details from India's Directorate General of Foreign Trade, www.dgft.gov.in. India's financial year runs from April 1 to March 31.

⁴Report of the 6th India-Latin America & Caribbean Conclave, Confederation of Indian Industry, October 2015, www.cii.in.

⁵Chile's expanded PTA with India, effective May 2017, should give its semi-processed copper products a better

edge. Likewise, Argentinian soya oil is gaining ground in India's massive edible oil market (Jadhav, 2015).

⁶For more on this issue see pages 147-149 in Chapter 6 of Bhojwani (2015).

⁷Ministry of External Affairs, Government of India, www.mea.gov.in.

⁸For more on this issue see page 208 in Chapter 9 of Bhojwani (2015).

⁹www.commerce.gov.in.

¹⁰For full texts of China's policy papers, see Embassy of the People's Republic of China in India (2008) and Xinhua (2016).

¹¹www.itec.mea.gov.in.

REFERENCES

Bhojwani, D. 2015. Latin America, the Caribbean and India: Promise and Challenge. New Delhi: Pentagon Press.

Business Standard. 2013. "Jindal Steel's \$21-bn Project Gets Bolivian Boot." Bombay, January 20.

Embassy of the People's Republic of China in India. 2008. "China's Policy Paper on Latin America and the Caribbean." <http://in.china-embassy.org>. November 5.

IMF. 2017. Regional Economic Outlook: Western Hemisphere. Washington, DC: IMF.

Jadhav, R. 2015. "Palm Oil Share in India's Edible Oil Imports Seen at 9-Year Low." Reuters, March 30.

Mesquita Moreira, M., editor. 2010. India: Latin America's Next Big Thing? Washington, DC: Inter-American Development Bank.

Ministry of External Affairs of India. 2017. "Bilateral/Multilateral Documents." Government of India, www.mea.gov.in.

Paz, O. 1995. *In Light of India*. San Diego: Harcourt Brace & Company.

Wilson, J. 2015. "China's Military Agreements with Argentina: A Potential New Phase in China-Latin America Defense Relations." Staff Research Report. US-China Economic and Security Review Commission.

World Bank. 2017. "India's Economic Fundamentals Remain Strong; Investment Pick-up Needed for Sustained Growth, says New World Bank Report." World Bank Group, New Delhi, May 29.

Xinhua. 2016. "Full text of China's Policy Paper on Latin America and the Caribbean." <http://news.xinhuanet.com>. November 24.

BEYOND THE RECOVERY

COMPETING FOR MARKET SHARE IN THE DIGITAL ERA

Coordinated by
Paolo Giordano

Integration and Trade Sector

