

India and Latin America: The Way Forward

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Synopsis:

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. Political relations are cordial but seldom ascend levels of strategic empathy. Both sides have deepened exchanges with almost all other regions and international partners in greater measure than with each other.

Still trade has grown over thirty percent annually between 2000 and 2014. Latin American resources are an ideal fit for Indian technology, industrial capacity and markets. The deceleration, since 2015, has as much to do with the global slowdown as with the lack of a strategy and measures to consolidate an evidently complementary relationship.

Relations have been predicated on bilateral priorities. Political diversity, varying economic endowments, lack of adequate human resources and institutional underpinning, poor connectivity, and language issues present challenges for Indian stakeholders. The Indian establishment needs to take a holistic view of its interests in, and exchanges with Latin America. This

includes collaboration in international forums, recognition of the importance of regional integration within Latin America, as well as the linkages being established by this region with other international players.

Latin American regimes have been focussed on commodity exports and investment incentives, apart from stray investments in an India that offers promise for a region struggling to improve its international bargaining power. A re-prioritisation of the relationship is essential, and should be complemented by more discerning and energetic diplomacy.

I will outline issues, priorities and impediments that define the relationship. I will emphasise the need for both sides to develop a realistic model, based on factual realities, that enables India and its Latin American partners to forge a common strategy and assume their rightful place in the new global order.

Introduction:

Octavio Paz, the Mexican Nobel Laureate and Ambassador to India in the 1960's, said: "*India did not enter me through my mind but through my senses.*"¹ It appears Latin America and India have a 'sense' about each other but their minds are still to be made up.

When India became a nation-state in 1947, independent Latin America had been around over a century. Latin American societies were formed by and from descendants of European, in some cases African, origin with relatively scanty indigenous presence. Indian society was almost entirely South Asian, partly moulded by British education. Latin America was oriented towards Europe and the US. India was 'non aligned'. The civilisational 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 Indians travelling to the US, whose east and west coasts are as far from India as Sao Paulo and Mexico respectively. Direct air and shipping links are

¹ Paz, Octavio 'In Light of India' 1995

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 twenty Latin American and Caribbean embassies and maintains 14 in that region. It participates with Brazil, Mexico and Argentina in the G20. Forums for bilateral dialogue, contact with the Community of Latin American States (CELAC)² and sub-regional forums provide the matrix for engagement.

Economic complementarity has been evident, with Indian companies importing 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. Trade accelerated this century at thirty percent annually to hit \$46 billion in 2013-14³. 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 promoted a strategic partnership with Brazil; a privileged partnership with Mexico; trade negotiations with Mercosur, Chile, Peru; observer status in the Pacific Alliance; investments in energy, mainly

² Ministry of External Affairs, India http://www.mea.gov.in/bilateral-documents.htm?53/Bilateral/Multilateral_Documents

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

hydrocarbons; and a variety of agreements for collaboration in agriculture, science and technology, commerce, etc. Private companies have exploited the economic complementarity to invest and trade in energy, commodities, manufactures and technology to mutual benefit in most cases. Indian companies recognise Latin America as an important market for automobiles, chemicals, pharmaceuticals and engineering goods. Over two dozen Indian IT companies have service and development centres 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 its true potential. Though the task would seem more complicated for India, which has to deal with over twenty 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 transacts business bilaterally and occasionally engages in dialogue at regional level.

Political vicissitudes and fluctuating ideological currents have impacted attempts to build durable friendships. A lack of application, insufficient diplomatic attention, linguistic unfamiliarity, absence of a diaspora, and generally lower stakes than with other international partners, have conspired to keep both sides somewhat in the dark about aspects of their political environment important to the relationship. The rapprochement

with Brazil during the Lula presidency (2003-10) 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 created in 2003. Consolidation of democracy and centrist politics helps 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 percent, with an optimistic future outlook.⁴ Latin America has not been so lucky. The IMF forecasts growth to expand by 1.1 percent in 2017 and 2 percent in 2018, following stagnation in 2015 and 1 percent contraction in 2016. Over the medium term, growth is expected to remain subdued at 2.6 percent.⁵ Some of India's principal economic partners are struggling: Brazil will grow at only 0.2 percent; Chile and Mexico at 1.7 percent; Peru, Colombia and Argentina will do a little better. India is focussed on imports and investments in raw or semi-processed materials. Lower growth may provoke Latin American governments to open their economies and offer more incentives. It can also affect India's exports.

With high rates of growth come increasing Indian demands for energy, food, minerals and other material. As Indian industry expands, it looks more closely at markets covering 600 million middle-income customers in Latin America. Governments and

⁴ India-economic-fundamentals-remain-strong-investment-pick-up-needed-sustained-growth - <http://www.worldbank.org/en/news/press-release/2017/05/29>

⁵ 'Latin America and the Caribbean: Bouncing Back from Recession' www.imf.org 19 May, 2017

business houses in Latin America recognise the potential India offers as a destination for their resources and a source of investment. They also glimpse opportunities for value addition by leveraging India's strengths, not just in the IT sector, but in renewable energy, automotive industry, pharmaceuticals and other areas.

Indian investment in Latin American hydrocarbons, pharma, automobiles, agro-processing, engineering, textiles, chemicals, electronics is estimated around \$20 billion⁶, giving it 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 emphasises domestic manufacture by foreign investors, many factors - some genuine, others imaginary - still inhibit Latin American business 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 from around 130 currently.

In 2015-16, Latin America accounted for less than 3 percent of India's exports and just over 5 percent 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 \$24.5 billion in 2013-14 to \$19.99 billion in 2014-15, and to just under \$10 billion in 2015-16 and 2016-17. A similar, though less acute problem exists in the case of copper from Chile. Given the precarious situation faced by

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

their exports to India, Latin American governments focus on better terms.⁷ The more dynamic regimes are negotiating lowering of trade and non-tariff barriers and investment incentives, but there is little talk of major initiatives such as institutional financing or infrastructure projects.

In 2010 the Inter American Development Bank (IDB) came out with a report titled “India: Latin America’s Next Big Thing?”⁸ The study 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. 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 percent, more than 5 times China’s average tariff of 12.5 percent. Even though Latin American tariffs on Indian goods were lower—9.8 percent on manufactures— they were well above the OECD range of 4 to 6 percent. A 10 percent reduction in average tariffs on Indian products could increase exports of Indian goods by 36 percent to Chile and Argentina.

Physical connectivity, a vital element for future growth of trade, was the other obstacle identified, specifically the high cost of transport. India, unlike China, has no direct shipping services to

⁷ Chile’s expanded PTA with India, effective May 2017, should give its semi-processed copper products a better edge; Argentinian soya oil is gaining ground in India’s massive edible oil market:- <http://economictimes.indiatimes.com> - ‘Palm-oil-share-in-indias-edible-oil-imports-seen-at-9-year-low’ 20/3/15

1. ⁸www.iadb.org/publications

this region. The dispersed nature of Latin American populations and markets makes transport costs from India more relevant for Indian exports vis-à-vis Latin American exports to India, which consist largely of bulk commodity shipments. Indian companies shipping to Brazil cannot automatically access all other countries and markets in the region, given problems of infrastructure and connectivity.⁹ The economics of the shipping industry led to the discontinuance of some attempts in the 1980's.¹⁰ Unfortunately no institutional attempt has been made to ensure viability of direct shipping connections, or even warehousing facilities, by either side.

The complementary nature of the economies of India and Latin America makes 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 lease, port and railway capacity, refineries, warehousing, etc. 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 value addition.

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

⁹ Bhojwani, Deepak. 'Latin America, the Caribbean and India: Promise and Challenge', Pentagon Press 2015, page 133-4.

¹⁰ *Ibid.* Page 130.

Central American Bank, etc. This keeps it out of the forums it needs in order to participate in projects in the region. Scattered Indian lines of credit have fructified into a few projects, dwarfed by more ambitious ventures financed and executed by other players. Bilateral banking connections are non-existent. A solitary, non-retail branch of the State Bank of India exists in Sao Paulo. The Exim Bank of India, responsible for administering fledgling lines of credit, based in Washington DC is even more distant functionally!¹¹ Conversely, Latin American Banks have apparently not even looked at India.

Indo-Latin American business has made a mark through ventures such as the Birla Group (Hindalco) acquisitions in Brazilian aluminium industry; Brazilian Gerdau's acquisition of a steel plant (Kalyani) in India; Marco Polo (Brazil)-Tata joint venture for bus chassis in India; over 350 cinema screens acquired and run by Mexico's Cinopolis in India; assembly lines of auto companies Mahindra and Hero in South America; UPL's presence in the Latin American agro-chemical market; extensive operations by Indian pharma companies all over Latin America; and the overarching investments of billion of dollars by India's state companies in hydrocarbon exploration in Brazil, Colombia and Venezuela.

A lack of sufficient institutional presence and market intelligence, however may be the reason for some setbacks. The most spectacular was the Bolivian Mutun iron ore and steel project undertaken by Indian steel major Jindal in 2006, with projected investment over \$2 billion. This was terminated by an

¹¹ For more on this issue see pages 147-19 of Chapter 6 of 'Latin America, the Caribbean and India: Promise and Challenge', cited above.

angry Bolivian government in 2012, alleging lack of timely investment by Jindal. Its aftermath still lingers.¹² Other high profile non-starters 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 (\$600 billion investment) and Hindalco to offload one plant each to reduce debt in 2016.

A more serendipitous relationship thrives in the IT sector. Over two dozen Indian companies have set up development and service centres, including business process outsourcing, all over Latin America. The 'near shoring' 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, Indian software majors employ, train and empower tens of thousands of locals, 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 Indian origin industrialists or businessmen with the heft to act as nuclei in Latin America for their erstwhile compatriots, or catalyse investment from there into India, a model that has created vibrant linkages with other

¹² http://www.business-standard.com/article/companies/jindal-steel-s-2-1-bn-project-gets-bolivian-boot-112052900046_1.html

countries. Their modest economic conditions do not generate the levels of remittances nor tourism to warrant the attention bestowed on communities of Indian origin elsewhere. This may be the only region where professionals outnumber settlers 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 also burdens Latin American companies 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, nor 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 sub-regional organisations, so arguably India needs to take the lead in identifying and activating the principal 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 sub-regional level, and where necessary, identify country-specific issues. The lack of institutional memory on both sides calls for verification of vital facts and updated statistics. Then comes the articulation of goals, a program and structure for regional level dialogue. This should include elements of the India-CELAC joint statement of 2012, following the first meeting at Foreign Minister level.¹³ The statement identified political, economic, technological and other areas of actual 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 mover is political will. Almost all the recent Indian prime ministerial visits to that region have been in connection with multilateral events. Both sides need to pay more attention to each other. The need for a higher profile for Latin America in Indian diplomacy is paramount. This has happened with Southeast Asia and Africa. Summit meetings have been organised, trade and other agreements signed, and considerable

¹³ Ministry of External Affairs, Government of India – www.mea.gov.in

official funds invested in infrastructure and other projects to upgrade those relationships. India's trade with 54 countries in Africa – around \$70 billion – is comparable with its trade with 34 countries of Latin America and the Caribbean, in volume and composition. Yet the attention to Africa is impressive in comparison.¹⁴

Political initiatives need to be supported by economic and social interaction. Consolidation of the juridical matrix through agreements for investment protection, avoidance of double taxation, extradition, immigration, lines of credit, elimination of regulatory hurdles, etc. are as important as the forums that institutionalise 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, social engineering can be reciprocated by India's advances in software, outer space, biotechnology.

India's Department of Commerce has in place a Focus Latin America & Caribbean (FOCUS LAC) program in place since 1997,¹⁵ extended periodically, most recently till 2019. The program basically provides finance and assistance for Indian exporters to Latin America. It recently began to negotiate free -

¹⁴ For more on this subject see page 208, Chapter 9 'Latin America, the Caribbean and India: Promise and challenge' cited above.

¹⁵ http://www.commerce.nic.in/trade/international_tpp_lac.pdf

or preferential – trade agreements with key Latin American countries: expansion of the existing PTA's with Chile and Mercosur and commencement of negotiations for similar agreements with Peru, Ecuador and Colombia.¹⁶ This engagement needs to be intensified to overcome resistance from local lobbies in India and Latin American countries struggling with their balance of payments.

The overwhelming financial, industrial and commercial clout of China is driven by an establishment that has overawed Latin American governments and business. China's policy papers of 2008 and 2016,¹⁷ on its relations with Latin America, outline in some detail the specific methodology of engagement in accordance with China's priorities. Latin America has accepted the strait-jacket political approach of the communist regime, as long as the economic engagement remains efficient and predictable, without inconvenient political and transactional costs. Even supposedly 'right wing' regimes like Argentina have ratified earlier deals that give China an important foothold in vital aspects of their political economy.¹⁸ While the Chinese prescription may not apply to India, it is an indicator of what Latin America is willing to work with.

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. Delineation of the areas and forums of engagement, postulation

¹⁶ www.commerce.gov.in

¹⁷ For full texts of China's policy papers:

<http://in.china-embassy.org/eng/zgbd/t521025.htm> (2008)

http://news.xinhuanet.com/english/china/2016-11/24/c_135855286.htm (2016)

¹⁸ 'China's Military Agreements with Argentina: A Potential New Phase in China Latin America Defense Relations' Wilson, Jordan - U.S.-China Economic and Security Review Commission, 5 November 2015

of priorities and interlocutors on both sides, a shared collective memory, follow up on deadlines for projects, are essential if India wants to achieve success in Latin America. Brand awareness of Indian products in Latin America is abysmal compared to European, US, Chinese, Japanese or Korean industry. A quantum leap presupposes 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. Sub-regional integration has made headway, as seen from the success and appeal of the Pacific Alliance and the prospective rejuvenation of Mercosur. An approximation between the two blocs can 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. At the same time it has to be sensitive to warning signals such as those emanating from Venezuela, where Indian companies have had to write off tens of millions in dues for pharma and other exports.

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 purchase of aircraft, civilian and military; in maritime exercises

through the IBSA; and on situations of international conflict in BRICS. Indian helicopters, armoured vehicles and non-lethal equipment have been sold to some Latin American countries. There is scope for more cooperation in outer space, nuclear energy, maintenance of defence hardware, cooperation on terrorism. Narcotics from Latin America entering India through various routes, and trade in chemical precursors from India is an activity still beneath the radar. Despite agreements in some of these sectors, cooperation has been minimal and must be spurred by governments.

China's extends its soft power in the region through Confucius Institutes, strong academic linkages, language proficiency and propagation. The spread of its film industry threatens to overshadow the popular image India's Bollywood enjoys but has failed to commercialise. The Indian establishment would do well to strengthen aspects of the relationship that distinguish India from China. These would include India's civilisational 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 civilisation 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 are half-hearted. India's program for technical and economic collaboration (ITEC)¹⁹ offers a few hundred technical scholarships every year to Latin Americans. Despite very

¹⁹ www.itec.mea.gov.in

attractive terms – all expenses paid – to undertake courses for a few weeks to a few months in prime Indian institutions, the scholarships are underutilised 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. For this think tanks and universities will need to sharpen their focus, with official assistance where necessary.

Above all, the Indian government, by default the prime mover, must show more sensitivity to Latin American reality. Bilateral exchanges must be synchronised to ensure disruptive events such as political upheavals, currency devaluations, market distortions can be weathered. Strong bilateral lobbies are essential to provide a foundation durable enough to transcend the transactional. Governing establishments need to be on the same page, which calls for communication and dialogue.

Conclusion

India's international role has undergone redefinition this century. Twentieth century Non-Alignment 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 identified. India's relationship with Latin America brings no baggage nor a shared political memory. With little history in common, relations have largely been shaped by bilateral synergies.

There has been some degree of collaborative diplomacy on issues such as climate change, international trading rules, the struggle against terrorism and organised crime. Strategic sectors like defence, armament, outer space, etc. 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 has a partner in Brazil, but is opposed by Argentina, Colombia and Mexico among others, for reasons that have little to do with India's claim. The lack of any 'issues' with India paradoxically results in a corresponding lack of engagement!

Growing linkages through economic and cultural exchanges, tourism, lowering of linguistic barriers, and mutual appreciation of the civilisational richness of the other, are elevating consciousness on both sides beyond the realm of the exotic. The advent of an Indo-Latin American community, in lands which have witnessed centuries of miscegenation, is not inconceivable but 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.

