

# India Expanding Relations with Latin America and Caribbean

By Ravi Kumar

One are the days when Latin American and Caribbean countries were known for their political instability, military takeovers, caudillos, drug trafficking, economic crisis and chaos. Thanks to the visionary leaders and inhabitants of the region who have slowly evolved and learnt to regain their strength that was fully buried in their colonial legacy which kept on haunting the region for almost 180 years after their independence in 1810s.

The ongoing economic slowdown has least affected the Latin American and Caribbean countries (LAC) and they have become more stable and less vulnerable than in the past for possessing current

account surplus, sound public finances, a lower level and better profits of public and external debt and large international financial reserves.

As per the recent report issued by ECLAC (UN Economic Commission for Latin America and Caribbean) the LAC region is relatively well placed to withstand the slowdown in the United States and the resultant direct and indirect effects on its exports. The region also enjoys strong fiscal and debt positions that may discourage drastic shifts in financial flows. Latin America is better prepared because of the progress it has made in macroeconomic management.

A careful study of economic trends and

outlook reveals that LAC region has made notable improvements in macroeconomic and financial policies including reduced dependency on external capital inflows, major reduction of currency and rollover risks in the government's debt portfolios, deepening of local currency debt markets, substantial increase in foreign exchange reserves, flexible exchange rates and a shift to external current account surpluses or significantly lower deficits.

## Insulated from Crisis

Also it is important to note that on an average, Latin American companies have become substantially more insulated from currency risk. Over the past ten



The President, Smt. Pratibha Devisingh Patil addressing at the Business Meeting by the India-Mexico Chamber of Commerce at Mexico City on April 18, 2008.



years, many companies have sharply cut their balance sheet exposure to a sudden devaluation by reducing the share of debt contracted in foreign currency. The average share of foreign-currency-denominated liabilities in Latin America dropped from 35 percent in 1998 to 17 percent in 2007. Several companies have built up considerable foreign exchange buffers by hedging a higher share of their dollar liabilities with export revenues and assets denominated in foreign currency.

As per the ECLAC report published in December 2009, given the speed of the recovery that became evident in the second quarter of 2009, in 2010 the region could return to growth rates that, in some cases, will come close to matching those seen prior to the crisis. The projected growth rate for 2010 is 4.1 percent with expectations of stronger growth in South America than in the rest of the region, given their larger domestic markets in some cases, greater export-market diversification and closer trade ties with China.

Mr. R. Viswanathan, a seasoned

diplomat and expert on Latin America who is currently India's Ambassador to Argentina, Uruguay and Paraguay, opines "the way the Latin American economies have withstood the storm from the north is an indication of the new paradigm of stability and growth of the region. It is farewell to the boom and bust cycle of the past".

### India's Interest

Keeping into consideration the positive outlook on LAC region, many growing economies including India have taken measures to strengthen ties with countries of LAC region consisting of 44 countries. They include giant economies like Brazil, Mexico, Venezuela, Argentina, Chile, Peru, Uruguay, Paraguay, Ecuador etc. on one hand and small but diversified economies like Belize, Jamaica, Haiti, and Suriname etc. on the other. It is encouraging to note that total exports of Latin American region rose from US\$305 billion in 1999 to US\$901 billion in 2008 recording an increase of 195.4 percent.

The imports of Latin American region

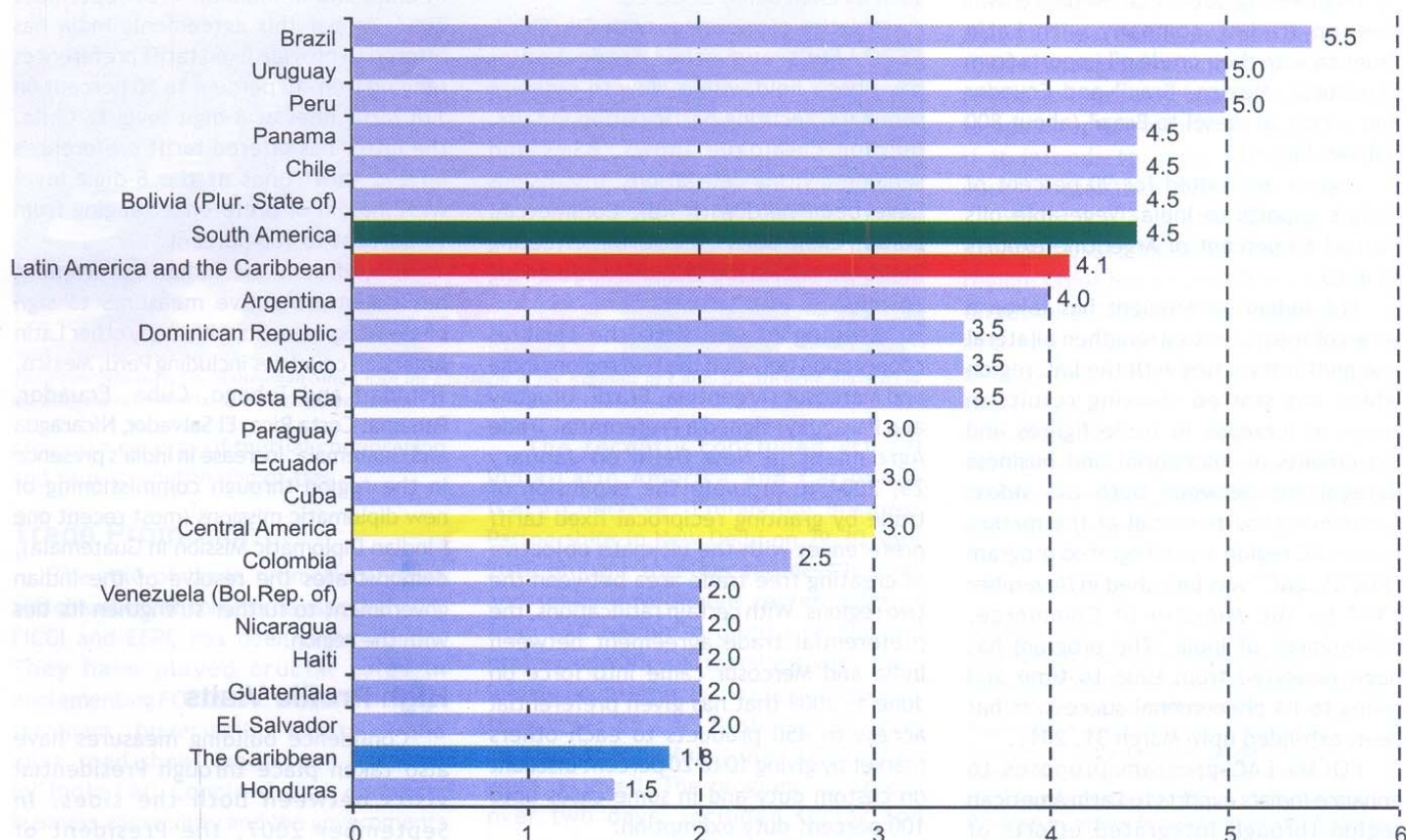
have also grown from US\$316 billion in 1999 to US\$857 Billion in 2008 recording an increase of 171.2 percent.

In spite of various constraints, India's trade with the LAC region during the last few years has been growing rapidly. India's trade with the region has increased from US\$1072.45 million in 1996-97 to US\$5365.44 million in 2005-06, registering an increase of over 400 percent in a decade. In 2007, India's trade with LAC region crossed US\$11 billion, increasing from 9 billion dollars in 2006.

India's exports were US\$5 billion and imports US\$6 billion.

For the year 2009, Brazil was the main destination of exports, which exceeded US\$2.19 billion. Second top destination was Mexico with US\$1.14 billion. Colombia has over taken Argentina as the third largest market for India's exports in 2009. Brazil, Venezuela, Mexico and Chile were the top exporters to India with US\$3.41 Billion, US\$2.26 billion, US\$1.08 billion and US\$0.09 billion respectively.

**Latin America and the Caribbean: Growth Rates, 2010**  
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.





*The Foreign Minister of Argentina, Dr. Jorge Taiana and the Secretary (West), MEA, Shri Vivek Katju signing an MoU between Argentina and India on Cooperation in the field of Trade Promotion and Technology transfer in International Trade, in the presence of the President of Argentina, Ms. Cristina Fernandez De Krichner and the Prime Minister, Dr. Manmohan Singh, in New Delhi on 14 October 2009.*

## Pharma Opportunity

Chemicals and pharmaceuticals were the top exports of India followed by engineering products. Reliance was the top trading company with Latin America with their crude oil imports from Venezuela, Mexico, Brazil and Ecuador and export of diesel to Brazil (about 800 million dollars).

Copper accounted for 90 percent of Chile's exports to India. Vegetable oils formed 80 percent of Argentine exports to India.

The Indian government has taken a series of measures to strengthen bilateral and multilateral ties with the LAC region which has started showing results in terms of increase in trade figures and movements of ministerial and business delegations between both the sides. Considering the potential of the market in the LAC region and integrated program "FOCUS: LAC" was launched in November 1997 by the Ministry of Commerce, Government of India. The program has been reviewed from time to time and owing to its phenomenal success, it has been extended upto March 31, 2011.

FOCUS LAC program proposes to enhance India's exports to Latin American region through integrated efforts of the Government of India, India Trade

Promotion Organization, Export Promotion Councils, Apex Chambers of Commerce & Industry, Indian Missions and Institutions such as EXIM Bank, ECGC etc.

A series of meetings with CII, FICCI, EEPC, EPCs and other trade bodies have been held with a view to organize seminars, securing participation in fairs, holding catalogue shows, BSMs and sending-inviting delegations. Discussions have been held with RBI, Commercial Banks, Exim Banks, ECGC for effecting improvements in the financial and banking sectors.

Keeping in line with the spirit of cooperation between the two regions India and Mercosur (Argentina, Brazil, Uruguay and Paraguay) signed a Preferential Trade Agreement in New Delhi on January 25, 2004 to promote the expansion of trade by granting reciprocal fixed tariff preferences with the ultimate objective of creating free trade area between the two regions. With certain ratifications, the preferential trade agreement between India and Mercosur came into force on June 1, 2009 that has given preferential access to 450 products to each others market by giving 10 to 20 percent discount on custom duty and in some cases upto 100 percent duty exemption.

On similar lines, India and Chile

signed a Preferential Trade Agreement on January 20, 2005 which came into force with effect from 17th August, 2007 in Chile and in India on 11th September 2007. As per this agreement, India has offered to provide fixed tariff preferences ranging from 10 percent to 50 percent on 178 tariff lines at 8-digit level to Chile, the latter has offered tariff preferences on 296 tariff lines at the 8-digit level with margin of preference ranging from 10 percent to 100 percent.

In addition, the Indian government has taken pro-active measures to sign bilateral agreements with many other Latin American countries including Peru, Mexico, Trinidad and Tobago, Cuba, Ecuador, Panama, Costa Rica, El Salvador, Nicaragua and Guatemala. Increase in India's presence in the region through commissioning of new diplomatic missions (most recent one - Indian Diplomatic Mission in Guatemala), demonstrates the resolve of the Indian government to further strengthen its ties with the region.

## High Profile Visits

Confidence building measures have also taken place through Presidential visits between both the sides. In September 2007, the President of Mexico Felipe Calderon visited India to



strengthen bilateral relations in the field of commerce, politics and international relations. His visit also included meeting with Indian Prime Minister Dr. Manmohan Singh and other dignitaries. In April 2008, President of India, Pratibha Patil made a 12-day-long tour to Brazil, Mexico and Chile and addressed the parliaments of Brazil and Mexico during her visit, followed by a series of bilateral agreements.

Brazilian President Luis Inacio Lula who was the guest of honor during the Republic Day celebrations in 2004, made his second visit to India in October 2008 to strengthen commercial relations with India in the ambit of WTO negotiations. In October 2009, Argentinean President Cristina Fernandez de Kirchner visited India to sign a series of cooperation agreements on science, technology and peaceful use of nuclear energy. In addition, many ministerial and high level delegation visits have taken place between India and LAC regions which have



*The Union Minister of Petroleum and Natural Gas, Shri Murli Deora with the President Mr. Hugo Chavez Frias of Bolivarian Republic of Venezuela discussing on cooperation in oil sector, at Caracas on May 12, 2010.*



*The Prime Minister, Dr. Manmohan Singh with the President of the Republic of Chile, Dr. Michelle Bachelet at the delegation level talks, in New Delhi on March 17, 2009.*

created a synergy of mutual cooperation and thus strengthening of ties.

## Trade Promotion

The role of trade promotion bodies and chambers of commerce especially CII, FICCI and EEPC has been praiseworthy. They have played crucial roles in implementing FOCUS LAC Program through seminars, buyer-seller meets, Brand India road show, trade fairs followed by India-LAC Conclave that connects business community and the governments of both sides.

The recently concluded 4th CII India-Latin America and Caribbean (LAC) Conclave: Enhancing Business Partnerships in New Delhi on 29-30 April 2010 brought together business leaders and senior government representatives from LAC region to discuss sector and project specific partnerships with their Indian counterparts. Project proposals from over 85 LAC Businessmen from 14 countries, valuing over US\$3billion were received. The programme, spread over two days, included sector and issue-specific sessions, besides providing

opportunities to discuss and close projects in a structured B2B format.

## China Factor

The efforts made by Indian government and various trade promotion bodies towards forging relationship with LAC region is laudable, but India will have to speed up its efforts in all directions if it intends to make full use of the opportunities that LAC region offers.

While India is still struggling to maintain US\$15 billion of trade with LAC region, China has set US\$100 billion trade target by 2010. Given the circumstances and the advantage that China has already taken over India in LAC region, there is still scope for India to get a fair share of the market through new initiatives and democratization of Market Development Assistance to SME's and one man enterprises.

*(The Writer is Founder of HISPANICINDIA--a leading web forum of Hispanistas. He holds M.A, M.Phil degrees in Spanish and Latin American Studies and is a regular visiting professor for Spanish and Latin American Studies at Indian Institute of Foreign Trade (IIFT) in New Delhi. He is famous for his book "Peru - Your Business Destination" written in collaboration with Embassy of Peru in India.)*