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# UNIT 12 INDIA AND LATIN AMERICA-CARIBBEAN (LAC)

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## 12.1 INTRODUCTION

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In India's foreign policy formulation, Latin American and Caribbean (LAC) region remained a relatively low priority area for a long time. This is despite the fact that i) India has had no complicating factors to inhibit the development of friendly relations with this region; and ii) India enjoys tremendous amount of goodwill for its art, literature and culture in this region. On its part, Latin America looked more towards Western countries to rejuvenate its economy in the post-war years. Colonial heritage and neo-colonial economic and political interests of USA and UK dominated the regional process of development in the post-war years. However, over the years, the Latin American and Caribbean countries took initiatives to identify themselves with the Third World in terms of their processes of economic and social development. Further, many countries in this region witnessed alternating periods of military and civilian regimes during 1930-80. However, democratic regimes had been restored in most of the countries of the region since early 1980s. Along with India, the Latin American countries also have their membership in various multilateral institutions and regional organisations. These countries also shared many of the socio-economic and colonial experiences of India. Some of the major countries in the region have gone through the parallel processes in economic development and international outlook. Presently both India and Latin America play an increasingly important role in international as well as regional organisations and have commonality of interests for the welfare of their people in their respective regions.

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## 12.2 POLITICAL AND DIPLOMATIC INITIATIVES

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Tracing the historical development of Indo-Latin American and Caribbean relations, we may recall that the Spanish/Portuguese navigators who set out for India in their search for Indian riches, reached the Latin American and Caribbean shores by accident. However, this has had a very positive effect to open the trade windows between the two regions nearly 500 years ago.

Not only the exchange of goods took place in the distant past, there were also exchange of ideas, say for self-reliant community settlements based on the shared experiences of one region to be replicated in another one. Although Latin America got its independence from the colonial powers in the beginning of the 19th Century, it remained as an economic appendage to Britain and the US over a long period. Before India's independence in 1947, the leaders of both regions had met in Brussels in 1927 at the International Congress against European imperialism. Leading the Indian delegation as representative of the Indian National Congress, Jawaharlal Nehru was aware of the common colonial experiences and the community of interests shared by India and Latin America.

### **12.2.1 Antecedents of Indo-LAC Relations**

In the post-war years, India became the architect of its own foreign policy; in the transition period, India no doubt retained some of the British perceptions and overtures. However, given the exigencies of the evolving world economic and political developments, India started carving its own views on the foreign policy matters in the Cold War era. As far as Latin America is concerned, while Nehru's visit to this region in 1961 initiated the friendly cooperative dialogue to develop economic, social and political relations, Indira Gandhi's maiden voyage in 1968 to the lands of Inca, Maya and Aztec civilisations strengthened the relations further between the two regions. At the time of these visits, the LAC region was witnessing important political developments: Cuba's revolution in 1959 and the resurgence of nationalism; identity with the Third World countries and the launching of various economic integration projects such as Latin American Free Trade Area (LAFTA), Central American Common Market (CACM) and ANDEAN Community. However, in the aftermath of Cuban Missile Crisis (1962), many Latin American countries began to seek and search appropriate policy alternatives to thwart the hegemonic designs of the USA in the Western hemisphere. For instance in the early 1960s, the crises in Brazil and Mexico made these countries to take initiative in developing their relations with Asia and Africa. Further, since 1960s, the process of the Caribbean decolonisation started and the small republics began to acquire a new identity with the Third World countries. India also began to interact with Latin America in various international fora such as UNCTAD II meeting in Chile in 1968.

As a founding member of the Non-Aligned-Movement (NAM), India generated lot of goodwill and attracted many Third World countries to this movement. To begin with, Cuba was a lone member of NAM at Belgrade Summit in 1961. NAM attracted considerable attention of the LAC only in the 1970s largely on account of the fact that the organisation transcended its narrower scope of dealing with issues relating to Cold War tensions and colonialism in Asia and Africa. NAM broadened its scope and it started responding to some of the critical economic problems confronting the entire developing world. As a measure of its popularity, as many as seventeen Latin American countries participated as full members and ten as observers by 1983. Even LAC institutions such as Economic Commission for Latin America and Caribbean (ECLAC), Latin American Economic System (SELA) and Latin American Energy Development (OLADE) took keen interest in the deliberations of NAM. Successive summits of NAM devoted increasing attention to the issues and problems of Latin America.

During the decade of 1970, the world economic crisis of international monetary system, oil price hikes and recessionary conditions, hit severely the non-oil producing developing countries. Many of the Latin-American countries such as Brazil faced unprecedented balance of payments (BOP)

crisis.

It is in these critical circumstances, the South-South cooperation emerged as a new powerful vista to resolve the problems of the developing world including non-oil producing Latin American countries. In this spirit, and on the initiative of NAM, Mexico and Venezuela along with other countries such as Africa, moved a resolution in the UN General Assembly special session in 1974 on the Declaration for the Establishment of New International Economic Order (NIEO), and an action programme on NIEO. Although this period witnessed the emergence of commodity agreements as in case of copper, iron ore and bauxite, some of the Latin American producers and exporters got temporary reprieve to resolve their economic crisis situations.

Subsequent to the second oil price hike in 1979-80, the world economy witnessed high interest rates in the Western countries along with deflationary phase and protectionist regimes affecting adversely the debt repayment capacity of heavily indebted Latin American countries. Along with severe debt crisis in the early 1980s, the region witnessed the restoration of democratic regimes such as Argentina (1983), Brazil (1985) and Chile (1990). While, for Latin America, it was a lost decade, India however managed to cross the Rubicon (growth rate of 3.5 per cent during 1950-80) by recording a Gross Domestic Product (GDP) growth rate of 5.6 per cent per annum during 1980s.

By the beginning of 1980s, India adopted selective bilateralism replacing multilateral approach to strengthen its economic and political relations with major Latin American countries such as Argentina, Brazil and Mexico. India signed the first formal trade agreement with Argentina in 1981. Restoration of democracy in Argentina (1983) and Brazil (1985) paved way for elected civilian governments in the region. Both India and Brazil have had similar experience in economic development and they have been making efforts to build two-way relations. It may be recalled that both the countries signed two agreements as early as 1968 to deal with issues concerning i) trade and ii) peaceful uses of nuclear energy. However these agreements were further strengthened by establishing Joint Commission, which reviews their progress periodically, and other issues of mutual interest for both countries.

The 1988 Treaty on Integration, Cooperation and Development between Argentina and Brazil—long time rivals in Latin America—reflected an attempt at stimulating regional economic development by simultaneously focusing on the broader political and social issues. Significant issues involved were, *inter alia*, the consolidation of democratic values, respect for human rights, and the reduction of tensions including confidence-building measures in the military strategic area, particularly in the nuclear field between the two major countries.

Since 1990s, democratisation, integration and globalisation are the three forces driving Latin America to integrate with the world economy. Democracy has come to stay all over the region firmly and irreversibly. Privatisation has gone in a big way in the region. This region has the highest percentage of countries that have privatised their national telecom systems at 70 per cent compared to 55 per cent for Europe; 46 per cent for Asia-Pacific and 28 per cent for Africa. In case of Venezuela, telecom sector is 100 per cent privatised. The region was able to attract FDI to the tune of \$67 billion per annum, on an average, during 1997-2001.

In the beginning of new millennium, Latin America witnessed a leftist wave gripping many countries. The most significant development was the election of “Lula” of Workers Party as president of

Brazil in 2002, followed by Ecuador electing leftist candidate Lucio Gutierrez as president. Venezuela has a leftist president while Chile has a socialist one. Argentina has also tilted towards left with Peronistas. These election results show the disenchantment with market liberalisation and voters demand for greater government attention to social concerns such as income distribution, employment generation and poverty eradication. Further, neo-liberalism has come under scathing attack and sustainability of the existing development model has been questioned seriously. High unemployment, massive cut in social spending and economic stagnation have created social tension that undermine domestic governance and the continuation of economic reforms a difficult proposition. Venezuela witnessed political instability in 2002 and this assumed serious proportions because of the involvement of a large section of the population including the entire opposition. Thus some analysts argue that if the last decade of the 20th century could be termed as a decade of economic reforms, the first decade of this century is going to be decade of political and social reforms. However, the contrary view is that this was because of economic liberalisation that the continent could extricate itself from the serious traumatic situation of 1980s and could revert to the growth trajectory in 1990s. One glaring example is of massive FDI, which major Latin American countries could attract, and the region as a whole maintained a high export growth rate during 1990s.

In the field of environment, the Rio Conference of 1992 reminded the world community of the limited resources and the imperatives of sustainable development in the future. The new conceptual legitimacy to the question of development emanated from the global issue perspective rather than confining to the regional focus, particularly to Latin America.

Ever since the Brazilian government signed Non-Proliferation Treaty in 1998, Argentina and Brazil are no longer considered 'threshold states' at the global level.

## **12.2.2 Cultural Dimension**

India enjoys considerable goodwill in the LAC region. The Indian philosophy, *yoga* and teachings of Gandhi have had an indelible imprint in the minds of many Latinos in the region. The Indian spiritualism and *yoga* have acquired preeminence with thousands of professionals, and businessmen. They have developed respect and admiration for Indian culture and values. Across Latin America, there are thousands of followers of *Sai Baba*, *Brahma Kumaris*, *Hare Krishna* sectarian religious movements and dozens of other spiritual *gurus* of India. Some of these followers make pilgrimage to India in groups from time to time. Not only this, they have also started taking keen interest in the *Ayurvedic* and natural products of India.

Gandhi and his practice of non-violence have generated renewed interest among academics, political opposition leaders and NGOs in the region. These countries have named more than 500 institutions, schools, libraries, streets and squares after India and its leaders. Gandhi's busts and statues have been installed at important places in various countries of the region. More recently, the University of Londrina in Brazil unveiled the bust of Gandhi, which was gifted by the ICCR to the Centre for Afro-Asian Studies of the same University. At the institutional level, India has entered into cultural agreements and cultural exchange programmes with 14 countries of the region. Indian artists and academics have been sponsored by ICCR. Another important aspect of India's cultural relations with the Caribbean region is that some of these countries have sizeable Indian ethnic community. Not only they have high regard for their cultural heritage but they also

continue to celebrate festivals like *Diwali, Holi and Eid* with great gusto. Technical assistance under the ITEC programme for students, academics and technical personnel for training and study tours in India is another important mechanism by which it forges mutually beneficial relations with these countries.

An important component of India's bilateral relations has been the mechanism of bilateral consultations at the foreign ministry level. Over the years, India had signed MoUs on this subject with ten countries from the region and a few more are under consideration. The regular reviewing of bilateral relations has facilitated a better understanding of the potentials and concerns of the dialogue partners and led to improved coordination on multilateral issues of mutual interest. Various official visits and the technical assistance have complemented the Foreign Office level consultations. In the economic and trade arenas, there has been growing interaction at the private sector level giving depth to the bilateral relationship.

Economic liberalisation and consolidation of democracy in the face of globalisation forces became the mantra of Latin American countries in the decade of 1990. India also initiated sweeping economic reforms in 1991. With the liberalisation of many economies in the region, there is a growing interaction both at the public and private sector levels. While India has signed trade and economic cooperation agreements with seven countries of the region and set up business councils with some others, a number of accords have also been signed between the private sector and apex trade and industrial bodies of the region. In this regard, The Ministry of External Affairs Annual Report of 1999-2000 focused strongly on the aspects of economic relations between the two sides. As stated in the Report "The thrust of our policy towards the Latin America and Caribbean region is to strengthen and widen the already existing relationship and to give more economic content to it"

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## **12.3 OVERVIEW OF INDO-LATIN AMERICAN ECONOMIC RELATIONS**

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India's economic relations with the Latin American and Caribbean countries cover a wide spectrum of linkages—trade, investment, science and technology and institution while economic liberalisation has unfolded many opportunities to strengthen these linkages between the two regions. Thanks to the worldwide competition, they have to create a *niche* in each other's market. Further, with the onset of globalisation, there has been increasing role of private sector on both sides in trade and investment areas. Innovative institutional mechanism such as Focus-LAC programme of the Ministry of Commerce of the Indian government have been conceived and implemented with a view to further involve Indian Export Promotion Councils (EPCs), trade and industry bodies to cement the economic links between the two regions. The present section will briefly review the performance and progress of trade-investment relations between the two regions.

### **12.3.1 Analysis of Trade and Investment Relations**

India's trade with the Latin American and Caribbean countries (LAC), during 1990s and beginning of the new millennium presents many interesting as well as disquieting features. India's overall trade (exports plus imports) with LAC rose from \$ 473.7 million in 1991-92 to \$1138.60 million in 1994-95; \$1280.25 million in 1997-98 and \$ 1705.8 million in 2000-01. While India's total

exports to the region went up from \$ 124.0 million in 1991-92 to \$981.8 million in 2000-01 (nearly eight times) its imports slightly more than doubled i.e. \$ 724.0 million in 2000-01 compared to 348.3 million in 1991-92. Unfortunately, during the decade of 1990s, India continued to maintain trade deficit with this region. At the beginning of the new century i.e., in 2000-01, India could achieve trade surplus of \$ 257.8 million.

Viewed in terms of Latin American and Caribbean total trade, it accounts for about 5 per cent of the world trade. India's share of the region's imports remains very low, although its target is to reach at least 1 per cent of the total imports of LAC in the near future. This may not be difficult since India's share of the Brazilian imports crossed 1.2 per cent in 2002.

Another noteworthy feature of India's trade with LAC is revealed in its concentration of trade with select countries of the region. For example, Argentina, Brazil and Mexico are major trade partners of India, accounting for more than 90 per cent of India's imports from the region and constituting around 84 per cent of India's exports to the region. India's trade gap with this region arises primarily on account of its trade concentration in a few countries; its potential for expanding trade with the rest of Latin America and Caribbean nations has remained untapped, till as late as 1990s. It is also important to recognise that, at the turn of the new millennium, Chile and Venezuela have emerged the major suppliers to India, although their imports from India show marginal increase.

It is also important to know the composition of India's export basket to these countries. Unlike the past, major items of India's exports to this region include bulk drugs, pharmaceuticals and vaccines, chemicals; equipment and machinery for printing, packaging, plastic and rubber industries; hospital and medical equipments and suppliers; hand tools and machine tools; diesel engines, pumps and bearings, automobile parts and electronic parts and components, construction machinery and materials; Optic fibres, readymade garments, computer software, electrical items, leather goods, plastic items, handicrafts, spices, essential oils and Ayurvedic and herbal products. Apart from these items, recent market surveys suggest that there is considerable scope for export of defence equipments, boilers, turbines and various types of inputs for sectors such as telecom, railroad, and water and sewage systems.

India's major imports from LAC are petroleum, minerals, metals, agro products, leather, steel products, auto parts, timber, paper pulp, raw wool, precious and semi-precious stones. Venezuela and Mexico have started supplying oil to India since 2000. One of the prospective items of import identified recently is 'orimulsion' as boiler fuel from Venezuela for the use of power generation stations and fertilizer plants in India.

India faces competition from the Latin American countries in respect of the following commodities in third country markets: wheat (Argentina); tobacco (Brazil); spices (Guatemala, Brazil and Mexico); cashewnuts (Brazil); oil meals (Argentina and Brazil); sugar (Cuba and Brazil). There is a need for working out a common strategy in third country markets in respect of these commodities between the two regions.

As far as investment and joint ventures are concerned, there is a considerable scope for joint ventures in pharmaceuticals, chemicals, engineering products, software, petroleum and mining. Bajaj scooters, Ranbaxy, RITES, ONGC are well known names in these countries to invest and

start joint ventures. The Non-Residents of India have invested \$1.6 billion in Mexico in some 55 joint ventures and ISPAT group is the leading investor. Both Argentine and Brazilian firms have set up some joint ventures in India.

### **12.3.2 Focus LAC: Meaning, Scope and Evaluation**

The Ministry of Commerce initiated regional focus by launching Focus LAC in 1997 for the Latin American region. The obvious reason for the choice of this region was that they have stabilised politically and their economies started firming up. The Indian assessment was that the multi-national companies mostly serviced this region. They provided these goods and services to the region mostly by procuring products from countries like India. India's share in their trade, thus, was insignificant, but to a large extent the economies on both sides were complementary. Some of the major components of Focus LAC have been as follows: macro analysis of imports and exports of the different countries of region to identify important countries and analysis of bilateral trade agreement between countries; dissemination of information about LAC markets in India and about Indian capabilities and LAC markets through conferences, trade fairs and visits of delegations; integration of activities of different Export Promotion Councils (EPCs) with the Ministry of Commerce to make Indian presence felt in each of the selected markets; special measures include separate fund for market development ,special arrangement for banking and line of credit and rating for insurance; identification of countries to Professional Trade Arrangements for promoting investment; inviting buyers from LAC to India and support for learning languages of LAC by exporters and their staff.

Under Focus LAC programme, the share of the Indian exports to LAC in total has gone up from 1.43 per cent in 1996-97 to 2.21 per cent in 2000-01 .The value of these exports jumped from \$478 million to approximately \$1 billion during the same period. As a follow up to the Focus LAC programme, participation by EPCs and Business houses in international exhibitions in that region have helped dissemination of valuable information on Indian tradable and technological advancements. Concerted efforts have been made to overcome the barriers of distance and languages.

### **12.3.3 Needed Strategy**

Latin America is a market of 508 million people with a GDP of \$1.6 trillion and per capita income of US\$ 3300. World Bank has rated majority of the Latin American countries as upper middle economies. Latin America is a fast-growing market. Its imports increased three times from \$113 billion in 1991 to \$332 billion in 2002.Its share of world imports went up from 3.7 per cent in 1990 to 6.1 per cent in 2001.The pharmaceutical market of the top seven countries of Latin America is expected to reach total sales level of \$29 billion in 2005 from \$20 billion in 2000. Brazil and Mexico, the biggest markets, offer different platforms for entry in the region and they have become part of the global value chain for the Multinational Corporations. Integration has become an important driving force of the Latin American markets. All the countries are part of one or the other trade blocs or are signing Free Trade Agreements with the other countries and blocs.

Mercosur remains a symbol of a new South American presence in the post-Cold War era. Both Mercosur and Andean Community are negotiating to form South American Free Trade Area by

December 2003. The 15 member Caribbean Community (CARICOM) is working towards the achievement of Caribbean Single Market and Economy by 2005. USA and Chile finalised a free trade agreement (FTA) in December 2002 and the former has initiated negotiations for FTA with CACM to be concluded by December 2003. Mexico has largest number of Free Trade Agreements (FTAs) with 32 countries, having market access. Above all, the US sponsored Free Trade Area of Americas is being negotiated and is likely to be concluded by December 2003.

India need not worry about the adverse impact of the regional integration on its exports to Latin America. The 'trade diversion' is compensated by the 'trade creation' which has enhanced the scope for India's exports. In any case, the intra – Latin American trade is under 20 percent and it is a fact that external trade has increased significantly despite regional integration. Our exports to Latin America have increased eleven times from \$124 million in 1991-92 to \$ 1.45 billion in 2002-02. Exports to Brazil increased from \$12 million in 1992 to \$573 million in 2002. In the case of Colombia, our exports increased from one million dollars in 1992 to \$ 73 million in 2001.

India's target is to get a one percent share of the total imports of Latin America. It has already achieved this in the case of Brazil in 2002. Its share is 1.2 percent of the total imports of \$ 47.2 billion of Brazil. If it can achieve this in the most challenging market, it can surely do so in other countries of Latin America. The enhancement of India's image by its achievements in Information Technology (IT) and the successful entry of Indian pharmaceuticals into Latin America have made the job of marketing of other products easier.

The Indian exporters should have a four-pronged marketing strategy for Latin America towards i) Mercosur ii) Andean Community, iii) Mexico iv) Central America and Caribbean. The Indian exporters need to focus more on Mexico, the largest trading nation of Latin America, whose total imports were over \$170 billion in 2001. Indian exporters should also draw inspiration from the Chinese whose exports to Latin America presently exceed ten billion dollars and their investment of over one billion US dollars. Their exports to Uruguay (which is considered as a small market!) in 2000 were \$243 million and their exports to Mexico in 2002 were \$ 6.2 billion. The Government of India should pursue preferential trade agreements with the key countries such as Brazil and Mexico as well as with Mercosur and Andean Community.

### **12.3.4 Implication of Regional Integration for India's Trade**

Indian exporters are at a disadvantage *vis-a-vis* the supplier countries from within trade blocs/ FTAs. For example, Indian exports of rice to Brazil become less competitive *vis-a-vis* Uruguay whose rice goes duty-free. The Indian government has recently initiated negotiations with Colombia and Venezuela for FTAs and further plan for Preferential Trading Arrangements (PTAs) negotiations with Chile, Mexico, Brazil and Uruguay. Apart from this, the institutional cooperation agreements with Mercosur and Andean Community are on the anvil.

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## **12.4 SUMMARY**

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In the present phase of globalisation, foreign policy formulation is being dictated more by pragmatism rather than ideology. India's low priority for Latin American region has had both political and economic consequences. However since 1990s, considerable efforts have been made to strengthen these relations for the mutual benefit of both the regions. Priority for Indian foreign policy has

been to increase the level of interaction through the strengthening of institutional mechanisms for improvement in the Indo-LAC relations. While bilateralism replaced multilateral approach, it will be better if the middle level countries are given more attention in the future strategy.

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## **12.5 EXERCISES**

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- 1) Discuss briefly the antecedents of Indo-LAC relations in the post-war years.
- 2) Explain the significance of economic factors in the relationship between India and Latin America.
- 3) Elaborate the needed strategy to expand India's relations with the middle level countries of Latin America.