

## Reaching Out: Trade Boost India-Brazil Ties

*Latin America has not figured highly on India's diplomatic agenda. But Brazilian president Luiz Inácio Lula da Silva's ongoing visit to India—the second visit of the Brazilian leader to India in three years—is seen as crucial for both countries. Steady economic growth over the past decade has caused a sharp spike in India's energy requirements. As a result, India is looking beyond the Middle East, in places like Brazil and Venezuela, to diversify its oil supplies, strengthen trade ties, and diversify energy resources and relationships. At this writing, India's economic ties in Latin America are small, but its thinking on the emerging relationship with the largest and most sophisticated of the developing countries is becoming increasingly ambitious. The greatest potential of these ties may lie in India's multilateral diplomacy.*

**Improving economic fortunes generate mutual interest:** Both India and Brazil have seen their economies grow at an astounding pace in the past few years. In the now famous *BRICs* report, Goldman Sachs predicts that over the next 50 years, both Brazil and India, along with China and Russia, could become a much larger force in the world economy. Brazil, after suffering from an economic crisis in the late 1990s, is now on the road to recovery under the Lula government. According to newspaper stories, both Standard & Poor's and Fitch have recently upgraded their ratings for Brazil, which is expected to achieve full investment-grade status within 18 months—a status enjoyed by all other BRIC countries.

India, for its part, is attracting strong attention from foreign investors, thanks to its strong middle class population and educated work force. For Brazilian companies, India's rapid economic expansion provides a great opportunity: India's plan to invest heavily to overhaul its crumbling infrastructure—\$320 billion by 2012, according to an estimate by the

Indian prime minister—means business opportunities for big infrastructure companies. Brazil at present doesn't figure in the top-10 list of foreign investing countries in India, but both sides are hoping that the recent flurry of diplomatic initiatives will make a difference. São José dos Campos-based Embraer, which is the biggest aircraft manufacturer in the world after Boeing and Airbus, for instance, would like to get India interested in its line of military and executive planes. But perhaps the real opportunity for the company lies in India's burgeoning civil aviation sector, which is growing at nearly 25 percent per annum. The company has a fleet of short- and medium-range turboprop and jet aircraft, which would ideally suit airline operators in India. Other sectors for cooperation include mining and steel. Brazilian mining major, CVRT, one of the largest mining companies in the world, is looking for a mining business in India and has recently opened an office in New Delhi.



Prime Minister Singh and President Lula during a state visit of the Indian prime minister to Brazil in September 2006. (Source: Indian embassy in Brazil.)

Not surprisingly, President Lula is accompanied by a group of prominent business leaders from the Brazilian National Confederation of Industry (CNI) in search of opportunities to take part in India's plan to invest \$350 billion to improve its infrastructure. Brasilia is also keen to strike deals with Delhi in other

fields, such as information technology (IT), biofuels such as ethanol (where Brazil is a leader), and satellite technologies. Both countries are hoping to stimulate bilateral trade and push it up to \$10 billion a year by 2010, from the current \$2.41 billion a year with a surplus of \$537.3 million in favor of India.

For Indian companies, Brazil presents a great opportunity to get a toehold in the Western Hemisphere. India's flourishing pharmaceutical companies, for instance, have been the most proactive. Almost all the major Indian drug companies have established their presence in Brazil with the supply of bulk drugs and finished formulations and the establishment of manufacturing units and joint ventures. Brazil's pharmaceutical market is expected to increase from \$9.2 billion in 2004 to approximately \$13.5 billion by 2007, according to newspaper reports.

**Multilateral trade diplomacy:** Brazil and India, along with other developing nations, have become unified actors in opposing agricultural subsidies in Western countries, especially the United States and European Union member countries. At the fifth Ministerial Conference of the World Trade Organization (WTO) at Cancún in September 2003, developing countries, led by India and Brazil, came together in several overlapping coalitions to block the negotiation of the Doha Development Agenda until their demands on agricultural subsidies were met.

India, along with Brazil and South Africa, launched the trilateral cooperation forum, India-Brazil-South Africa (IBSA), set up four years ago at the United Nations General Assembly meeting. IBSA has modestly increased trade among the three countries: India's trade with South Africa grew from \$2.4 billion in 2003–2004 to \$4 billion in 2005–2006. India's trade with Brazil also showed modest growth, from \$589 million in 2003–2004 to \$2.5 billion in 2005–2006. No one sees such agreements as an alternative to global trade arrangements such as the WTO. But the principal reasoning behind IBSA was to present a cohesive voice in negotiations, and in this regard, it has performed well.

**Oil as a catalyst:** India's economic growth—an average of 5.6–5.8 percent between 1980 and 2003, and upward of 9 percent in the past two years—has

led to a sharp increase in energy requirements and an expectation that India's demand will continue to grow. With plenty of domestic coal reserves, but not enough oil and gas reserves, India's policymakers are scrambling to meet this energy shortfall. Already ranking sixth in global petroleum demand, India meets 70 percent of its needs through crude oil imports. By 2010, India is projected to replace South Korea and emerge as the fourth-largest consumer of energy, after the United States, China, and Japan. India has been much more timid than China in its oil diplomacy, a fact that Indian lawmakers are well aware of. Prime Minister Manmohan Singh has openly admitted that China is ahead of India in planning for its energy security, adding that India cannot afford to be complacent.



A Petrobras oil rig. The Brazilian oil giant is looking for ways to work with India's ONGC in both Brazil and India. (Source: Petrobras.)

Unlike with China, India's territorial disputes complicate the launch of a vigorous energy foreign policy. A gas pipeline from either Central Asia or Iran would appear to be a logical addition to India's oil sources, but tense relations with Pakistan have made this difficult to pursue. The unsettled situation in Afghanistan is a further deterrent to the Central Asia pipeline, and the proposal for a pipeline starting in Iran has attracted the unfavorable attention of the United States.

At home, violence in India's northeast states threatens existing domestic pipelines. India's poor relations with gas-rich Bangladesh and Myanmar have deprived New Delhi of the opportunity to tap neighboring energy resources. China, on other hand, has been reaching out to both of these countries to secure energy resources. Bangladesh has granted

China exploration rights for developing its natural gas fields at Barakpuria.

As a result, India's energy companies are looking to collaborate with international partners in domestic and overseas exploration activities. Brazil's Petrobras, one of the world's largest energy companies, and India's state-owned Oil and Natural Gas Corporation (ONGC) are in talks to collaborate in offshore exploration and production activities in both India and Brazil—ONGC was given the green light to acquire a stake in the BC-10 oil field in the Campos Basin of Brazil in January 2007, while Petrobras is considering picking up a stake in ONGC's deepwater fields in the Krishna-Godavari basin in India. Petrobras is a major player in deepwater and ultra-deepwater exploration, and a partnership could significantly enhance ONGC's capabilities for exploration in third-party countries.

For India, aggressive Chinese diplomacy in Latin America is also a cause for some unease. In 2004, Chinese president Hu Jintao announced that China would invest a staggering \$100 billion in the next 10 years in Latin America. India and China are increasingly locked in a race to secure resources globally, especially oil and gas, to fuel their expanding economies, and the obvious region of focus is Latin America, which is blessed with abundant natural and mineral resources. As a result, Indian diplomats are looking beyond the Middle East, and in far-off places like Brazil and Venezuela, to diversify India's oil supplies.

**The Big Picture:** Beyond the specific issues of trade, investment, and energy, India and Brazil have made common cause in their efforts to obtain permanent seats on the United Nations Security Council. India hopes to be able to extend this cooperation into a more controversial realm by obtaining Brazilian support in the Nuclear Suppliers' Group for the U.S.-India agreement on civil nuclear cooperation and, more generally, for international civil nuclear trade with India. Brazil, however, gave up its nuclear weapons program a few years ago and accommodating India's request probably won't be easy for President Lula domestically.

**Big plans, but not yet realized:** India's interest in developing ties with Brazil, and more generally with

the largest and most sophisticated of the developing countries, is genuine. It has not yet provided much by way of concrete benefits, however. India's current share of global imports is less than 1 percent of all Mercosur imports, while only 1.9 percent of India's exports go to all of Latin America. The scope of trilateral free-trade arrangements between Brazil, India, and South Africa are not an option at the present time because of previously signed multinational agreements involving their neighboring nations. Organizations such as the Southern African Customs Union (SACU) and Mercosur, a group that includes Argentina, Uruguay, and Paraguay, prohibit individual members from forming a free-trade agreement with any outside nation without extending the newly expanded free-trade area and its benefits to other existing members.

By contrast, nearly 50 percent of India's exports go to Organization for Economic Cooperation and Development member countries, which still receive the lion's share of India's diplomatic attention. The big story remains the expansion of India-U.S. relations. The United States and India have historically found it easier to work together in a bilateral, rather than in a multilateral, setting. This may be the most important context for considering India's ties with Brazil and other similarly placed countries. Such countries represent natural partners for India in the multilateral arena, partners with which India can develop the increasingly important economic dimension of its international ties.

—*Pramit Mitra*

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