

Opportunities in Latin America for Indian Business and Investors

By R. Viswanathan*

The Latin American GDP growth in 2010 has exceeded the expectations. It was six percent, according to the December 2010 report on the region by ECLAC (Economic Commission for Latin America and Caribbean of UN). ECLAC had projected in its December 2009 report, 4.3 percent growth for 2010, and had revised this in July 2010 to 5.2 percent.

Such a high growth coming after the global economic and financial crisis of 2008-9 and in the backdrop of the crisis in Europe and slow recovery in USA is commendable. This shows the new resilience and stronger economic fundamentals of Latin American markets. The main driver for the growth is domestic demand although South America has benefited from high commodity prices and increase in exports to Asia.

Growth Decade

ECLAC has predicted 4.2 percent GDP growth for the region in 2011. One should not be surprised if the Latin American markets exceed these expectations again in 2011. According to another independent report, Latin America's growth rate could outstrip the global average for the next seven years. This means the second decade of this century is going to be the growth decade. The growth in 2010 is not a one-off wonder. Except for 2009, the region has shown a new trend of consistent growth since 2003. The average growth in the last eight years was 4.2 percent.

Indian Exports

Thanks to the high growth and increasing prosperity of the region, India's exports increased by 20 percent in 2010 reaching US\$9 billion from US\$7.5

billion in 2009. India's exports to Brazil, the largest market and the top trading partner of India in the region, doubled to US\$4.2 billion in 2010 from US\$2.19 billion in 2009.

Exports to Mexico in the first eight months of 2010 increased to US\$1.05 billion from US\$738 million in the same period last year. Exports to Argentina went up to US\$456 million in Jan-Nov 2010 from US\$336 million in the same period in 2009. Exports to Colombia in Jan-Nov climbed to US\$491 million from US\$365 million in the same period in 2009.

The increase of Indian exports from US\$1.2 billion in 2009 to US\$9 billion in 2010 is encouraging. But this is still a very small proportion of the total imports of the region which were over US\$700 billion in 2010. Given the large potential, India should target US\$20 billion of exports by 2013.



New Opportunities

The Rio Olympics 2016, the World Cup Football in Brazil in 2014 and the US\$220 billion five year investment plan of Petrobras in the petroleum sector are big opportunities for Indian exporters to supply materials and to get contracts.

The Latin American industry - particularly the mining and the oil and gas sectors - are now in the process of investing in new projects by way of expansion and modernisation, thanks to the economic growth. This offers scope for Indian companies to increase exports of equipments and machinery and other industrial inputs such as bulk drugs and fabrics.

The focus on new and renewable energy sources by the governments in the region should be taken advantage of by Indian companies to supply equipments for solar and wind energy. Suzlon has already established its presence in Brazil.

Indian Imports

Petroleum crude, edible oil and copper are the top three items accounting for over three fourths of the total imports from Latin America. Reliance imported about 300,000 barrels a day of crude on



average from Latin America during the first ten months of 2010. This accounted for about a quarter of the company's total imports during the period, compared with 13 percent in the same period of 2009. Essar Group has also started importing crude oil from the region. The second largest item of imports in 2010 was soy oil worth about US\$2 billion of which \$1.8 billion was sourced from Argentina and the rest from Brazil and Paraguay. Copper is the third largest import from the region. Most of the imports were from Chile, followed by Brazil, Argentina and Peru.

Imports of petroleum crude and edible oils are expected to increase in the coming years, given the growing deficit between domestic production and demand in India. South America has the potential to be a source of pulses in future. Imports of minerals should also go up to feed the rapid industrial growth in India.

Indian Investment

Indian companies including NRI firms have invested about US\$12 billion in the region in IT, pharmaceuticals, agrochemicals, steel, mining, agribusiness and other sectors. More investment is expected to flow in the coming years as a number of Indian companies have shown interest in entering the region.

Indian IT companies have established software development centres, BPOs, KPO and Call Centres in eight countries (Argentina, Brazil, Chile, Uruguay, Mexico, Colombia, Peru, Ecuador and Guatemala) of the region employing 17,000 Latin Americans. The Indian companies have developed a new near-shore business model of 12/12 in which they service their North American clients for 12 hours from the same time zone operations in Latin America and the remaining 12 hours



from India. In 2010, Essar group firm Aegis acquired an Argentine BPO company Actionline, which has 5000 staff. This is the largest Indian BPO in Latin America. Almost all their clients are local. The other Indian companies need to explore this business model to get more local contracts.

Renuka Sugars and Godrej were notable among the new Indian investors in the region in 2010. Renuka invested US\$350 million in Brazil in the acquisition of two sugar groups, which have come with sugar mills, ethanol plants, cogeneration power facilities and over 100,000 hectares of sugarcane land. Godrej has acquired two cosmetics companies in Argentina. Indian mining companies should focus on investment in the region which has rich reserves of minerals such as Lithium, iron, bauxite, gold and silver.

Entertainment Business

Latin America offers exotic and attractive locations for Indian film shootings. Dhoom II was shot in Rio and a scene for Robot was shot in Machu Pichu. Endemol India brought 28 TV stars from India to Buenos Aires for 40 days in December 2010 and shot a TV show "Wipe Out". In August 2010 Priyanka Chopra was in Rio for shooting of the show "Fear factor".



Latin America also offers stars for Bollywood. Mexican actress Barbara Mori was heroine in the Bollywood film "Kites" released in 2010. A Brazilian actress Giselle Monteiro has acted in a Bollywood film (*Love Aaj Kal*) in a supporting role.

Illusion Studios of Buenos Aires in collaboration with Toonz Animation Ltd of Trivandrum produced a cartoon film "Gaturro" which was a box office hit in Argentina in 2010. The Argentine musician, Gustavo Santaolalla composed music for the Amir Khan film "Dhobi Ghat" which was released in January 2011. The Director of the film Kiran Rao is visiting Argentina in March 2011 for the Argentine screenings.

An Argentine director Pablo Cesar is working on a co production film "Thinking of Him" based on the romantic story of Tagore's encounter with Victoria O'Campo in Buenos Aires. He is looking for an Indian producer.

The growing interest of Indians in Latin American salsa and samba and tango and carnival and the emerging Latin American fascination for Bollywood offer a new business opportunity for Indian entertainment industry.

Opportunities in Farmland

South America offers opportunities for Indian acquisition of farmland. Foreign



companies and individuals own millions of hectares in the region. There is no political or social sensitivity to large farm holdings by foreigners, unlike in Africa. The land can be bought on commercial basis from the private sector.

South America has very large areas of fertile land and can increase the area of cultivation by 100 million hectares. The region has 26 percent of the world's fresh water reserves. South America has a large surplus production for exports and their population and consumption are relatively small. The region has high yields, advanced technologies, best practices and world class infrastructure and logistics for agribusiness. Farming has become multinational business with large holdings and outsourcing of farming operations. Los Grobo Group, an Argentine company has pioneered a new model of APO- Agricultural Process Outsourcing similar to the BPOs and KPOs of the Indian IT companies.

Agri Business

The Indian companies can follow a policy mix of acquisition and leasing of land at 1:3 as many large companies do. They can also buy stakes in the large agribusiness companies of South America and establish strategic partnership. The cost of land in South America is half of the cost in Punjab. The most productive

land is available for about 12,000 dollars while fallow land, suitable to be brought under cultivation, can be bought for a few hundred dollars per hectare. There is no need to bring in labour, experts, technology or machinery since South America has an agribusiness ecosystem like the IT ecosystem in India - export-oriented with competent human resources and service providers that allow investors to focus on output and returns.

Indian companies can grow oilseeds, pulses, wheat, and sugarcane and take back to India edible oil, pulses, sugar, fuel ethanol and bio-diesel. India's imports of edible oil and pulses are expected to steadily increase in future given the growing gap between domestic production and demand which is projected to reach "alarming" levels - 27 million tons of edible oil and 39 million tons of pulses by 2026. India's capacity to significantly increase production is constrained by falling ground water levels and lack of extra land to increase area of cultivation. Indian companies can also acquire commercial forests and take back timber and paper pulp, which are regular imports of India.

Favourable Attitude

It is not only the Latin American market which is attractive for Indian business. These days the Latin Americans are keen for more business with India as part of their strategy to reduce their dependence on China which is increasingly being perceived as a threat to domestic industry although it is a large market for their commodity exports. Moreover, the Latin Americans see the relationship with China as unidimensional - only in commerce. On the other hand, they see India as a 'comfort zone'. They are familiar with yoga and meditation. There are thousands of followers of Sai Baba and Ravi Shankar. They read Deepak Chopra and J. Krishnamoorthy. They have been moved by Gandhi and Slumdog Millionaire. They admire the vibrant and large Indian democracy flourishing amidst serious challenges arising from diversity and underdevelopment. They see this as a role model for their young democracies which have come out of dictatorship not very long ago. The India Story resonates with them since it is relevant for their circumstances. Their dream is to follow the example of India to achieve high growth with democracy. India does not puzzle or frighten them. They see it as open and transparent, understandable and likeable.

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