

Brazil-India: 70 Years of Diplomatic Relations

Evolution of Brazil-India Economic and Trade Relations: The Future Prospect

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India and Brazil Economy – Key Features^{Confederation of Indian Industry}

Brazil

- The Brazilian economy is among the ten largest in the world. Economic activity is relatively diversified, with the GDP share of services on an upward trend and those of manufacturing and mining on a downward path.
- UNCTAD named Brazil the 7th largest destination for global FDI flow in 2016.
- Agriculture exports continued to dominate, increasing their share in total exports from 35.6% in 2012 to 41.5% in 2016.

India

- India is the world's seventh-largest economy. India is growing faster than any other large economy except for China. While focus is on reviving manufacturing, but services sector continues to be the main pillar of economy.
- UNCTAD named India as the 9th largest destination for global FDI flow in 2016.
- Labour intensive manufacturing and services like ITES have largest share in India's exports.



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India-Brazil Bilateral Trade

- Brazil is one of the most important trading partners of India in the entire LAC (Latin America and Caribbean) region. India-Brazil bilateral trade has increased substantially in the last two decades. However, given the economic recession in Brazil, the volume of trade continued to decrease since 2014-15.
- India and Brazil have reasonably diversified trade basket. While India's exports to Brazil includes petroleum, polyester yarn, chemical products, drugs and cotton yarn, Brazilian exports to India includes mainly crude oil, cane sugar, copper ore, soya oil
- Indian exports to Brazil stood at US\$2.48bn in year 2016-17 as against US\$5.9bn in 2014-15. India's imports from Brazil were US\$4.1bn in 2016-17 as against US\$5.4bn in 2014-15.
- Thus, the overall bilateral trade was at US\$6.5bn in 2016-17 as against US\$11.3bn in 2014-15. Balance of trade was in favour of India in 2014-15 while in 2016-17 it was in favour of Brazil.
- The global drop in commodity prices and the economic recession in Brazil started in 2015 affected Brazil's overall trade, including with India.



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India-Brazil Bilateral Trade (US\$ Millions)

S.No.	Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
1.	EXPORT	4,024.16	5,769.75	6,048.53	5,552.47	5,963.82	2,650.34	2,408.30
2.	%Growth		43.38	4.83	-8.20	7.41	-55.56	-9.13
3.	India's Total Export	249,815.55	305,963.92	300,400.58	314,405.30	310,338.48	262,290.13	276,280.29
4.	%Growth		22.48	-1.82	4.66	-1.29	-15.48	5.33
5.	%Share	1.61	1.89	2.01	1.77	1.92	1.0105	0.8717
6.	IMPORT	3,548.88	4,271.47	4,825.76	3,720.94	5,400.91	4,040.09	4,114.69
7.	%Growth		20.36	12.98	-22.89	45.15	-25.20	1.85
8.	India's Total Import	369,769.13	489,319.49	490,736.65	450,199.79	448,033.41	381,006.63	384,319.29
9.	%Growth		32.33	0.29	-8.26	-0.48	-14.96	0.87
10.	%Share	0.96	0.87	0.98	0.83	1.21	1.0604	1.0706
11.	TOTAL TRADE	7,573.04	10,041.22	10,874.29	9,273.40	11,364.73	6,690.43	6,522.99

Source: Import-Export Data Bank, Ministry of Commerce and Industry, Government of India



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India-Brazil FDI Flows

- Total estimated investments by Indian companies in Brazil reach close to US\$ 5 billion. Cumulative FDI from Brazil to India from April 2000 to December 2017 was US\$ 24.77 million representing 0.01% of the total equity inflows of US\$368billion.
- There have been some significant two way investments between India and Brazil. Brazilian companies have invested in automobiles, IT, mining, energy, biofuels, footwear sectors in India. Indian companies have invested in sectors such as IT, Pharmaceutical, Energy, agri-business, mining, engineering/auto sectors.
- Indian companies such as TCS, Wipro, Aditya Birla, Infosys, Cadilla, Mahindra, Renuka Sugars, United Phosphorus, Lupin Pharmaceuticals, Polaris, ONGC, Suzlon, Pricol etc. are present in Brazil.
- The Brazilian companies present in India include Marco Polo (automobiles), Vale (biggest mining company), Stefanini (IT), Gerdau (Steel) among a few others.
- Overall, there are about 55 Indian companies in Brazil while around 12 Brazilian companies have investments/offices in India.



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Sectors of Opportunities - Pharmaceuticals

- Brazil has emerged as a leading importer (amounting to nearly US\$ 6 bn). India's share in overall pharmaceutical imports by Brazil is around 2.2%, underlining a large potential.
- The Brazilian government's plan to expand the healthcare industry provides investment opportunities for foreign investors in areas like medical equipment, patient monitoring services and IT services.
- Besides pharmaceuticals (especially generics), Brazil accounts for 22.8 percent of investments in international subsidiaries for major Indian pharmaceuticals such as **Torrent Pharma**
- **Ranbaxy Laboratories Limited** started up operations in 2000. Currently, it is the sixth largest generic drug company in Brazil and it directly hires 130 employees.
- **Zydus Cadila** has acquired Brazilian company Nikkho, which has a turnover of over US\$ 60 million.
- **Unichem, Intas and Sunpharma** have established subsidiaries as well.



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Sectors of Opportunities – Engineering & Automotive

- Brazil is the second most important market in LAC with regard to engineering imports (standing at US\$68.06 bn) and registered a growth of more than 50% during the last decade. India's share as supplier is miniscule at 0.81%.
- **Larsen and Toubro** was awarded a project for supplying equipment to Petrobras in 2008. In addition, the company started operations in Brazil, where it is planning to set up its oil and gas, cement and paper divisions.
- **Mahindra & Mahindra Ltd** is in a joint venture with Bramont, has set up an assembly plant in Manaus, Brazil
- **TVS** has a JV with DAFRA Motos, a Brazilian company of Grupo Itavema, which has a manufacturing plant in Manaus with capacity to produce 200,000 motorcycles annually. TVS Apache RTR 150 motorcycles are now being produced at this plant.
- **BEML Ltd** has set up an assembly plant in the state of Espírito Santo, Brazil, to manufacture mining, earthmoving and railway equipments.
- **Arcelor Mittal** has steel plants in Brazil.



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Sectors of Opportunities – Energy

- Brazil has the most efficient ethanol programs in the world. Immense potential for India to cooperate in tapping the world's fuel ethanol market, area of technology transfer and upgradation related to biofuel.
- India now completes the entire value chain in Brazil's power transmission space- from equipment manufacturing to EPC contracting, and now to power transmission development. First major foray by Indian Power Company in Brazil- **Sterlite Power** has secured two power transmission projects Brazil's national power regulator. The total investment on two projects is estimated at \$200mn.
- **T&D India** with KEC International Ltd completed seven power transmission projects in Brazil so far, while several others are under execution.
- **Videocon Industries Ltd** and **Bharat Petro-resources** consortium was awarded an exploration contract in Brazil for US\$ 283 million.
- **Oil and Natural Gas Corporation Ltd (ONGC)** along with the IOC, Oil India, and RIL- is considering a joint investment in the Orinoco Oil Belt. The investment in this project would come to between US\$ 16 billion and US\$ 18 billion.



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Sectors of Opportunities – Mining and Minerals

- Brazil has huge reserves of Bauxite, Kaolin, Niobium, Iron Ore and Nickel. In addition, Gold, Coal and Phosphate deposits are also present in Brazil. The state of Minas Gerais is the largest and most traditional mining state in Brazil, accounting for approximately 45% of the value of Brazilian mineral production.
- Investment in Mining industry in Brazil, therefore, appears to be a very good option. There is a lot of scope for excavating minerals that are in demand from the huge mineral reserves in Brazil.
- **Hindalco Industries**, part of the **Aditya Birla Group**, acquired the United States-based aluminium sheet maker Novelis Inc in a deal worth about US\$ 6 billion. Novelis has assets in Brazil in the cities of Ouro Preto, Pindamonhangaba and Utinga in the states of Minas Gerais and São Paulo.
- **NMDC**, steel producer **Rashtriya Ispat Nigam Limited (RINL)** and **MOIL Limited** (formerly Manganese Ore India Limited) have started the process of acquiring Brazilian iron-ore assets in 2013.



Sectors of Opportunities – IT and BPO Confederation of Indian Industry

- The total expenditure on IT by Latin America is around US\$50bn with Brazil the largest market, contributing US\$25bn. The Brazilian market is serviced by about 8,500 micro and small companies.
- **Tata Consultancy Services (TCS)** has operations in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Uruguay and employs 7,500 software professionals. It has signed a contract worth US\$ 200 million with ABN Amro Bank in Brazil. Also signed a partnership agreement with the Department of Education of the State Government of São Paulo, to take IT knowledge to 190,000 students and teachers through the TCS goIT program.
- **Infosys Technologies Ltd** set up its first development centre in 2009, offering a complete set of services to Brazilian clients and Brazilian subsidiaries.
- **HCL Technologies** opened centre in June 2009 to service local and global clients.
- **Wipro** has a global delivery centre and a BPO centre that provides shared services to AmBev, a leading brewery company.
- **Aptech** entered into a 51:49 joint venture with Falgo Group to set up IT training centres in Brazil.



Sectors of Opportunities – Agri-business

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- While Brazil is the world leader in agri-business, its investment outside is very minimal.
- **UPL Limited** started its operations in 2003 and receives 26% of its total revenue from LAC, with Brazil alone representing a bigger market than the Middle East, Africa and Asia (excluding India) combined. The company has a turnover of about US\$ 100 million.
- **Renuka Sugar** had success in Brazil with an investment of US\$ 350 mn in the sugar sector. In February 2010, the country's major sugar producer signed a US\$ 329mn deal with a Brazilian conglomerate for a 51% share in Brazil's Equipav S.A. Açúcar e Álcool, which owns two large sugar mills with integrated co-generation facilities and has 115,000 hectares of cane-growing land in south-eastern Brazil.
- In November 2009, Renuka Sugars Ltd acquired sugar and ethanol producer Vale Do Ivaí S.A. Açúcar e Álcool for US\$240 million, with its two sugar and ethanol production facilities in the state of Paraná. With these Brazilian acquisitions, Renuka Sugars Ltd became the third biggest sugar company in the world.



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India's Trade Policy: Covered Under Three Heads

- Foreign Trade Policy
 - A five year policy which provides policy direction to India's foreign trade
- Free Trade Agreements
 - Emerged as the key strategy to seek market access
- Multilateral Trading System
 - India always championed the cause of multilateralism and believes in a strong rules based agreement under the aegis of WTO

Foreign Trade Policy 2015-20

The FTP 2015-20 aims at an export target of USD 910 billion by 2020 in merchandise and services exports.

- Introduction and simplification of Export Incentive Schemes
- Greater focus on boosting manufacturing exports
- Higher level of rewards to products with high domestic content and value addition, as compared to products with high import content and less value addition.
- Focus on Trade Facilitation and Ease of Doing Business
- Facilitating & Encouraging Export of Defence Exports

Free Trade Agreement

Major FTAs under Implementation

- Sri Lanka, SAARC & **ASEAN** (now includes services & investment also)
- **CECA with Singapore & Malaysia, CEPA with South Korea & Japan**
- PTAs with Asia Pacific Trade Agreement (APTA), GSTP, Afghanistan, Thailand, Mercosur & Chile

Unilateral RTA:

- **DFTP (Duty-Free Tariff Preference) Scheme for LDCs**

Ongoing Negotiations:

- **RCEP, EU**, EFTA, BIMSTEC, GCC, SACU, Mauritius, **Australia, Canada, New Zealand**, Israel, **Indonesia, Eurasia**

Pipeline:

- Turkey, Common Market for Eastern and Southern Africa (COMESA)

Multilateral Trading System

- Strong votary of early conclusion of Doha Round as per the core mandate of development
- India's wants permanent solution to public stockholding of food grains for food security purposes
- On the "New Issues", India is not in favour as the current Doha round doesn't give mandate to launch negotiations on them
- Nevertheless, India is open to discussion. Hosted WTO Mini-Ministerial in March 2018 at New Delhi

Key Economic Policy Initiatives

- **Make in India**

- PM Modi's signature initiative that seeks to make India a manufacturing powerhouse. The initiative contains a raft of proposals designed to get local and foreign companies to invest in the Indian manufacturing sector.

- **GST**

- GST is **one indirect tax** for the **entire country**. The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017.

- **Economic Empowerment**

- Financial inclusion
- Direct Benefit Transfer

Make in India – The Broad Objectives

- A major national initiative designed to facilitate investment; foster innovation; enhance skill development; protect intellectual property, and build best-in-class manufacturing infrastructure.
- The following programmes will support the Make in India vision:
 - ***‘Skill India’*** ‘where the youth can acquire relevant skills that will not only help them in getting jobs but also create jobs.
 - ***‘Digital India’*** where India can use its IT prowess to enhance competitiveness and create an enabling investment climate through emphasis on e-governance, e-healthcare, e-education.
 - ***‘Start-up India, Stand up India’*** to promote bank financing for start-ups and offer incentives to boost entrepreneurship and job creation.

Make in India – Key Features

- Launched in September 2014 as part of a wider set of nation-building initiatives. Devised to transform India into a global design and Manufacturing hub.
- A timely response to a critical situation. The Manufacturing sector in India had witnessed a downward trend with growth rates of 1.1% and -0.7% during 2012-13 and 2013-14.
- The 'Make in India' initiative is based on four pillars, which have been identified to give boost to entrepreneurship in India, in not only the manufacturing but also other sectors. The Four Pillars are -
 - **New Processes:** Recognizes 'ease of doing business' as the single most important factor to promote entrepreneurship.
 - **New Infrastructure:** Government intends to develop industrial corridors and smart cities, create world class infrastructure with state of-the-art technology and high-speed communication. Improved infrastructure for IPR registration and requirement of skills for industry are to be identified and accordingly development of workforce to be taken up.
 - **New Sectors:** FDI has been opened up in Defence Production, Insurance, Medical Devices, Construction and Railway infrastructure in a big way. Similarly FDI has been allowed in Insurance and Medical Devices.
 - **New Mindset:** In order to partner with industry in economic development of the country Government shall act as a facilitator and not a regulator.

Goods and Services Tax

- GST (Goods and Services Tax) is a single indirect tax aimed at making the country a unified common market. It is imposed on the supply of goods and/or services within India.
- Multiple indirect taxes that the Central Government or State Governments impose on suppliers and consumers are subsumed by GST.

Policy Towards Economic and Social Inclusion

- ***Jan Dhan Yojana:*** To promote financial inclusion, the PM has envisioned this scheme in which the poorest citizens will be connected to the facility of bank accounts and will be given insurance through debit card for up to Rs. 1 lakh.
- ***Swach Bharat Abhiyan:*** Based on a vision of a clean India, this campaign aims to provide all schools with toilets and separate toilets for girls. The PM has urged every Indian to ensure that every road, school, office, locality and neighborhood is clean.

Conclusions and Way Forward

- While Brazil and India continue to focus upon deepening the bilateral trade and investment linkages, both countries must try to leverage the new emerging trade architecture.
- Unlike India, Brazil has very few FTAs in its kitty. Brazil must try to explore how it can explore third countries' markets by investing in India.
- Brazil's FTA includes Mercosur and negotiating with EU and EFTA groupings
- Brazil and India also needs to leverage their global role in G-20, BRICS for bilateral economic gains as well as helping in building larger South-South trade and investment linkages
- Brazil and India both must also further deepen their cooperation in WTO, particularly on the issue of agriculture so that the distortions caused by domestic support given in developed nations must be disciplined.
- Fast-tracking the negotiations of expansion of tariff lines under India-MERCOSUR PTA

Thank You