India and Brazil: Trading partners?

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INDIA’S HIGH GROWTH OUTLOOK and the possibility it might surpass China’s, is feeding speculation about how much India will add to world demand, especially for Brazil’s commodities exports.

Braulio Borges, LCA Consultancy, believes there is hope that India’s demand for commodities will go up, but that probably will not be soon: “It will be difficult for something to happen in the next five years. India’s imports of commodities are mostly fuel, precious stones and metals, and nonagricultural goods. Its imports are very different from China’s.” He adds that “Unless India invests massively in infrastructure, it is unlikely that its demand for metal commodities will rise. India’s demand will not be more significant for another decade.”

José Augusto de Castro, president of the Foreign Trade Association of Brazil (AEB), points out that India is gradually opening up to foreign trade. In 2005–09, for example, it

In 2014, Brazilian exports to India totaled US$4.78 billion, just over 1% of the country’s imports
In 2014 India was 19th among the most dynamic countries in international trade; Brazil was 25th. As yet Brazilian trade with India has been small and not very diversified. In 2014, India’s purchases accounted for 2.13% of Brazilian exports. Of the US$4.78 billion in exports, half was crude oil, trailed by sugar and soy oil.

“Our trade balance with India was unstable, without a logical sequence,” says Castro. In 2014, Brazil’s trade balance with India recorded a deficit of US$318 million, driven by the fall in the price of crude oil.

In the National Plan for Exports that the Brazilian Ministry of Development, Industry and Foreign Trade released in June, India is identified as a priority trading partner, along with the United States, the European Union, and the other BRICS. Segments where the ministry believes Brazil would have opportunities to start or expand sales to India range from fruits to machinery and equipment for earthmoving and drilling—which is a half-billion-dollar market of which Brazil supplied less than 1% of the total purchased by India in 2013. In its plan, the ministry states that the trade agenda with India should be coordinated with Brazil’s partners in Mercosur, which is expected later this year to expand the tariff preference agreement it has had with India since 2009. “Brazil needs to have more ambitious expectations,” says Castro. “The agreement we have with India is still very limited, and today we are dealing with a country that looks at the international market differently. We need to advance.”

India has cut import tariffs by an average of 20.24%, to 13.89%, and between 2009 and 2013, its trade increased by 81%. “In 1990, while Brazil accounted for 0.9% of world trade, India had only 0.65%. Since 2008, however, India has surpassed Brazil, accounting for 2.21% of world trade compared to 1.23% for Brazil,” he says. As a result, in 2014 India was 19th among the most dynamic countries in international trade; Brazil was 25th.

Castro believes that India’s high growth prospects could be beneficial for opening up sectors where there is more protectionism, such as agriculture, which employs more than half of the Indian workforce and accounts for about 19% of its GDP. India has one of the youngest populations in the world and only 30% of its people live in urban areas. If India can reconcile rapid growth with the challenges of urbanization and poverty reduction, it can become a major consumption market. “India is the only country other than China with a population of over 1 billion people. With economic expansion and increased demand, India will not be able to ban foreign competition; it will be forced to open its markets,” he says.

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