



A STRATEGY FOR INDIA

IN LATIN AMERICA & THE CARIBBEAN

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Latin America and the Caribbean (LAC) comprises 33 disparate countries. The region is richly endowed but little known in India. Economic and commercial exchanges have grown significantly this century but India's engagement remains marginal. The relationship is devoid of political friction. India needs a strategy to exploit the enormous opportunities arising out of the economic complementarity and to consolidate this friendship.

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Summary

THE LATIN AMERICAN & CARIBBEAN (LAC) region is a disparate agglomeration of 33 countries: island states, medium size and large nations. Regional and sub-regional integration has lowered and even eliminated several barriers between the countries. Although located in the same longitudes as North America, lack of sufficient and convenient air and sea connections makes LAC appear more distant. The region is rich in resources essential for India's energy and food security and boasts abundant mineral wealth.

Though India's trade with LAC has grown impressively this century, the matrix is heavily weighted in favour of volatile Indian raw material and agricultural imports. Indian enterprise is present in LAC and there has been reciprocal investment, but not enough to arouse the necessary political or institutional interest to elevate the relationship to the next level. Over the past two years growth in trade has slowed. This is partly due to the global, and consequent regional economic deceleration, a temporary phenomenon given the enormous resource base and growing capabilities of LAC.

China, Russia, Japan, Korea and others are making important inroads. LAC's principal actors are increasingly integrating into the global economy. This has

implications for market access, investment regimes, multilateral decision-making, etc. across the region. The Indian establishment needs to leverage its strengths in manufacturing, services, and strengthen its linkages through global forums such as G20, multilateral Banks, etc. to get more involved with LAC priorities and projects.

India has paid little attention to LAC, partly because of lack of political contention or issues that call for intervention, and due to other priorities on both sides. Some LAC countries acknowledge India's stature and potential and are reaching out. India needs to reciprocate. Given the nature of LAC's political economy and ideological divergences, a better understanding of the region's political dynamics, its economic potential and intrinsic peculiarities are essential. As exchange and interaction increase, a lobby will be created in India's favor through relevant LAC stakeholders.

This calls for the formulation of a strategy and a more proactive policy involving more frequent high level visits; a concrete agenda; assignment and coordination of responsibilities and objectives among agencies of government and other institutions; and constant follow up to ensure goals are not lost sight of. Greater involvement in forums and institutions within that region, and those in which leading LAC countries are involved, will catalyse the necessary synergy.



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A STRATEGY FOR INDIA

*in Latin America
& the Caribbean*

I. Geography and Socio-political Complexion

THE LATIN AMERICAN & CARIBBEAN (LAC) REGION comprises three sub-regions: South America, Central America and the Caribbean. It is five times the size of India – Brazil itself is 2.6 times India’s size –richly endowed with arable land, fresh water, energy and mineral resources, and incredible bio diversity. With a population around 600 million, it has a more favourable land-man ratio. In the same time zones as North America, it’s 33 countries appear more distant for lack of adequate air and sea connectivity. The South American continent predominates and is in turn dominated by Brazil, the only Portuguese-speaking country in LAC. The Caribbean’s numerous, mixed-language, island states are politically and economically less significant.

Spanish colonial history and language gave a veneer of uniformity to large parts of ‘Latin’ America. Sizeable indigenous, African, and other migrant communities seem concealed under the dominant population of mainly European descent. Democracy has taken firm root this century, though populism still poses a threat. The lack of strong institutions is being felt and remedied.



II. Economic overview and regional integration

ECONOMIC DEVELOPMENT IN LAC owed much to local socio-political realities. The local mestizo (mixed descent) elites sought independence from Europe without surrendering their local domination. Politics was steered by strongmen who legalised privileges such as large land holdings, creating rentier economies. The industrial revolution and wars in Europe spurred economic exploitation of LAC resources.

Despite wealth creation and massive infusions of capital however, LAC did not develop on the lines of Europe or the US. Lack of adequate infrastructure, industrial capacity, human resource development and technology held it back. Haphazard policies, weak institutions and political upheavals perpetuated an economic model based on exploitation and export of natural resources and agricultural production. This led to high debt and uneven growth.

Most LAC countries enjoyed reasonable GDP growth rates over the past two decades and boast over \$10,000 annual income per capita. They were hit by the global downturn, recent fall in prices of most commodities, especially oil and minerals, and volatility in agricultural markets. The United Nations estimates the region's GDP shrank 0.5 percent in 2015 and 1.1 percent in 2016. While Central America had over 3 percent growth, South America suffered the worst. The Venezuelan economy is in severe crisis, Brazil has had two years of recession while Argentina suffers high inflation and debt. Most countries have sought to leverage regional organisations to integrate with the global economy.

Regional groupings include ALADI (Latin American Integration Association); UNASUR (Union of South American Nations); the left-wing ALBA (Bolivarian Alliance for the People of Our Americas); and the pan-regional 33-nation CELAC (Community of Latin American and Caribbean States). Sub-regional economic groupings are: MERCOSUR (Southern Common Market); Pacific Alliance; Andean Community; SICA (Central America Integration System); and CARICOM (Caribbean Community).

These organisations have mixed records. Several barriers to movement, trade, employment, etc. have been lowered or abolished. International agreements

increasingly depend on sub-regional consensus. The market-oriented Pacific Alliance (Mexico, Colombia, Peru and Chile) has progressed rapidly. MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) has had a chequered history. ALBA (Venezuela, Cuba, Bolivia, Ecuador, Nicaragua and four smaller countries) has focussed more on state control and social inclusion rather than trade and investment. SICA suffers from internal contradictions while CARICOM is still to fully integrate.



III. International Context

THE INTERNATIONAL COMMUNITY has been increasingly engaged with LAC. Though **Europe** has nurtured its historical colonial links and formalised dialogue at EU level, the **United States** has been the predominant power in the hemisphere for well over a century. Its influence and interference in many countries however, left a ‘big brother’ shadow. It is the principal trading partner and investor in LAC but is ceding ground to China.

The Organisation of American States (OAS), formed in 1948, enabled the US to deal with LAC-related issues under one roof. LAC’s recent assertive diplomacy, and the emergence of a strong left-wing bloc, has reduced US influence in the region though its strategic and security presence persists, even prevails in some areas. Unsuccessful US attempts to achieve a hemispheric free trade area of the Americas shifted focus to bilateral and sub-regional deals. The advent of Donald Trump raises questions for US policy towards LAC, especially on immigration and trade.

A diplomatic latecomer (diplomatic relations only commenced in the 1970s), **China** maintains 21 embassies in countries that recognise it in the region: 12 countries recognise Taiwan. This decade has seen three presidential and two prime ministerial visits from China to Brazil, Argentina, Mexico, Venezuela, Cuba, Chile, Ecuador, Peru and some smaller countries. Far more visits at this level have taken

place from LAC to China. Trade with LAC has fallen recently but was over \$230 billion in 2015: 6 times that of India. China has pledged to invest \$250 billion by 2025 in LAC. Its engagement now covers defence, infrastructure, space and energy, and a growing cultural presence. It published a policy paper on LAC in 2008 and another in November 2016.

Russian influence declined with the end of the Cold War but it revived relations with some countries and has enhanced its presence through arms sales, defence and energy collaboration, and investments, especially in ALBA, Brazil and Argentina. **Japan** has also begun to pay more attention, as has **Korea**, through trade, investment and participation in multilateral financial institutions.

LAC has also reached out to other regions. In 2001 the FEALAC (Forum for East Asia-Latin America Cooperation) was inaugurated with thirty-six participants—sixteen from **East/Southeast Asia** and twenty from LAC. The first **Africa-South America (ASA)** Summit, with 63 governments participating, was held in November 2006. The first **Arab-South America (ASPA)** Summit was held in 2005.

The frequency of LAC meetings, high level interaction, trade and economic cooperation with almost all regions of the world is increasing, and priorities are being defined. The widening and deepening of this international engagement have profound implications on the opportunities that may remain for India.



IV. Review of India's Engagement

INDIA'S RELATIONS WITH LAC have been cordial, even friendly but with little substantive exchange historically. Diplomatic relations with most LAC countries were established soon after independence. Delhi hosts 20 LAC embassies but has only 14 embassies there. Pandit Nehru empathised with LAC's colonial experience and promoted solidarity with the region, but LAC did not entirely buy into India's non-aligned policy. Prime Minister Indira Gandhi's 1968

odyssey to 8 LAC countries was a landmark visit, and served to highlight the importance and accessibility of that region. Despite those early high profile exchanges - and more this century- however, Indian diplomacy has not gathered sufficient pace.

India's image is of a benign, spiritually endowed, exotic land though Latin Americans are increasingly aware of India's economic and technological prowess. Since the 19th century, some Caribbean countries host an important Indian diaspora which maintains tenuous links with modern India, though remittances, trade and investment are relatively modest. The relationship mostly depends on Indian patronage. Scattered Indian communities in Latin America are vastly outnumbered by the Japanese, Chinese, Korean and Middle-Eastern.

Trade with LAC picked up impressively this century, growing over 30 percent annually. With the global downturn and fall in prices of commodities (the bulk of India's imports, especially oil), it fell in 2015-16 to under \$40 billion, from around \$45 billion the previous year, according to India's Department of Commerce. The balance has been in LAC favour for over a decade. India's exports to LAC have also fallen recently. In 2015-16, LAC accounted for **less than 3 percent of India's exports and just over 5 percent of India's imports** worldwide.

India's focus has been on key LAC countries, principally Brazil and more recently Mexico. Venezuela, Colombia, Trinidad and Ecuador attracted attention with their hydrocarbon deposits; Argentina with its agricultural potential; Peru and Bolivia with their mineral wealth. Partial preferential tariff agreements (PTA) with Chile (2007) and MERCOSUR (2009) helped boost trade with those countries.

Indian enterprise has ventured selectively into the region. Starting with textiles and pharmaceuticals, Indian companies are now trading, and have invested in oil and gas, automobiles, chemicals, renewable energy, software, sugar, cement and other sectors. Estimates of Indian **investment** range between 15 and 20 billion dollars. LAC investments in India are relatively small but have picked up recently. Indian business organisations and export promotion councils have been looking at the region.

Academic and cultural contacts and exchanges have been sparse. Studies of Spanish language and literature have gained popularity, but lack of patronage, scholarships, exposure and employment opportunities have restricted LAC studies in India. A similar situation prevails there. Indian soft power through music, literature, philosophy, yoga, cuisine, even Bollywood, has had an impact. A few officially funded Indian cultural centres in LAC cater to local populations and the diaspora. India's ITEC (technical and economic cooperation) program, which provides hundreds of scholarships annually to LAC candidates, has been underutilised and is not monitored adequately for its impact.



V. Potential for the Relationship

ENORMOUS POTENTIAL is evident from the complementary nature of the economies of India and LAC: resource endowments, nature of the markets, productive and technological capabilities. We can take for granted the absence of political contention. India has enjoyed historically friendly relations with almost all those countries, regardless of political complexion. Most of them are now stable democracies which admire India's political tradition, its courageous economic reform and turnaround, and its industrial and technological capabilities.

India's focus on **energy and food security** make it a natural partner for LAC, whose hydrocarbon reserves rival those of the Gulf. Venezuela, which has accounted for 12-15 percent of India's annual oil imports, has larger proven reserves than Saudi Arabia. Recent discoveries in Brazil's deep offshore (oil) and Argentina (shale), and legislation opening Mexico's upstream sector to foreign investment, have opened new vistas and guarantee reliability of supply from this region. There is enormous capacity on India's west coast for refining heavy and cheaper LAC crudes and exporting diesel to a region lacking sufficient refining capacity. LAC experience and expertise in renewable energy, especially ethanol

and bio-diesel, have encouraged Indian companies to set up shop there. Some LAC countries have sizeable deposits of coal and uranium.

Indian companies have invested in Brazil, Argentina and Paraguay to exploit the availability of fertile land and abundant water resources. Argentina has been a traditional supplier of edible oils and pulses. Brazil sells India edible oil, sugar and other agricultural products. Lowering of trade barriers in coming years will allow increasing import of fruit, pulses, coffee, cereals, poultry and other products which a sophisticated Indian market may be short of, or otherwise demand. Indian institutions have agreements for collaborative research across the agricultural spectrum with LAC counterparts. Mexican sonora wheat spurred India's Green Revolution in the 1960's, while Indian cattle embryos are in demand in Brazil.

Indian **industry** has ventured into almost all LAC markets. Sophisticated Indian branded medicines sell alongside generic formulations. Bajaj and Hero have local assembly lines, as have Maruti and Mahindra. Volkswagen and Hyundai export to LAC from their Indian plants. India is leveraging its industrial capabilities to supply a market of 600 million, mostly middle-income consumers, a variety of products. A few companies like Praj, BHEL and RITES have executed projects in LAC.

Over a dozen Indian **software** companies in important cities provide services to local clients, but also use Latin America to access markets in North America and Europe. LAC language capabilities and time zones, along with Indian technical expertise, have resulted in thousands of Latin American professionals working for Indian companies from Mexico to Chile. India's leading software company, TCS has over 12,000 Latin American 'consultants', backed by a few hundred Indians. This obviates the problem of visas for Indians and provides valuable training and employment to Latin Americans. As those countries upgrade their ITC infrastructure, the market for embedded Indian companies can only grow.

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VI. Principal Areas of Focus, Issues and Hurdles

THE KEY ISSUE IS DEFINITION. India and LAC need to understand each other's political reality, endowments, capabilities and priorities. Both are influencing the new global order. LAC's 33 nations pull in different directions but have chosen to pool their strength, at regional and sub-regional level, and forge a common destiny. The factors influencing the success or failure of these ventures merit attention.

Ideological shifts in that region have brought into sharp focus the need for **continuous analysis** of LAC political dynamics by the Indian diplomatic, business and academic establishments. This will enable more meaningful dialogue, build more trust and allow timely reaction. India has not been identified with either the left or the right in LAC. Historical goodwill can be consolidated with more discerning and intensive interaction.

The Non-Aligned Movement and the New International Economic Order, which engendered some common cause till the 1980s, have given way to other **multilateral paradigms**. Negotiations in the UN (Security Council reform, disarmament, terrorism, climate change); WTO (trade facilitation, intellectual property, agricultural subsidies); international financial institutions (development finance, exchange rates, money laundering, tax regimes); demand much more **coordination and concert** with key LAC stakeholders - and vote-bearing regions - through more bilateral and multilateral exchanges.

LAC countries are members of forums like G20 (Mexico, Brazil and Argentina) and APEC (Mexico, Peru, Chile). PM Modi's visit in 2016 helped modulate Mexico's attitude to India's application for membership in the Nuclear Suppliers Group. India's strategic relationship with Brazil is a result of decades of intensive dialogue, and gives both sides an appreciation of common interests.

Research and analysis of markets has been piecemeal and enterprise- or country-specific. Political instability, which can lead to high inflation, exchange volatility, social unrest and other problems, affects business. Legislative and regulatory regimes, and changes therein, are seldom analysed sufficiently. This prevents the Indian side from articulating a cogent negotiating strategy. Lack of

transparency and bureaucratic attitudes on both sides discourage business and are impediments to lower trade barriers and higher investment. The lack of adequate infrastructure, connectivity, finance and banking connections, agreements to protect investments, avoid double taxation and regulatory hurdles, can only be remedied by official intervention.

LAC economies in India's focus have identified **new priorities**. They are negotiating with several countries and regions, not just lowering of trade barriers but also adoption of manufacturing, regulatory or other standards that India cannot, or will not, sign up to. The implications of the integration of important LAC markets into such arrangements need to be understood, to minimise potential damage. The demise of the Trans-Pacific Partnership (TPP), as prophesied by the Trump administration, may be a short-lived respite. The November 2016 APEC Summit in Peru called for a free trade area of the Asia Pacific. Valuable sectors of LAC markets, integrated into new global supply chains, could spin off beyond reach if India stays aloof.

LAC countries are trying to identify and avail **regional synergies** and pursue **common policies** to negotiate better with the outside world. Consensual political decisions at regional or sub-regional level frequently determine national policy and action. Projects to establish better regional connectivity and infrastructure are being financed and executed from within and beyond the region. India has been a spectator, absent from multilateral banks and forums where key decisions are taken.

Whereas both sides profess goodwill and determination, **India's engagement** with Southeast Asia, Africa, even Central Asia has been more intense than with LAC. Official development assistance till 2014 to Africa exceeded \$6 billion, but was less than \$300 million for LAC. Sporadic meetings, with little effective high level interaction, characterise India's exchanges with that region. Progress on trade agreements has been excruciatingly slow. Lack of institutional memory, archival material and expertise, official or academic, has restricted intercourse to the transactional plane, with no strategy or design and very little follow up.



VII. Priorities for India

THE INDIA'S FIRST PRIORITY SHOULD BE A STRATEGY for engaging the region. China's policy papers of 2008 and 2016 outline in some detail the specific methodology of engagement, in accordance with China's priorities. Such a strategy typically proceeds from the general to the particular. It encompasses the political relationship, the economic environment and potential, the commercial reality and targets, other areas of complementarity and potential, such as technological synergy, educational and cultural approximation, etc.

India's only attempt at outlining its relationship and priorities with LAC was a Joint Statement in August 2012, after a meeting with the Troika of the CELAC Foreign Ministers in Delhi. The main components of the Statement are analysed below:

The **political elements** involved:

- '...exchange of visits at all levels including at the Summit level leading towards realisation of a 'Strategic Partnership' between India and CELAC.' Since then, there have been a few visits, but nothing remotely approaching a strategic partnership.
- A commitment to 'meet every year (at Foreign Minister level) alternately in India and the CELAC country holding the pro-tempore Presidency.' This has not happened. The last meeting of Foreign Ministers of India and the CELAC Quartet (FMs of past, present and future presidencies plus a representative of the Caribbean) on the sidelines of the UN General Assembly in 2015 was apparently un consequential, with no record on the Ministry of External Affairs (MEA) website.
- Multilateral issues of mutual interest included 'UN reforms, the international financial crisis, climate change and international terrorism.' There has been no independent analysis of LAC policy, if any on any of these issues, nor a concerted Indian campaign to present its own priorities to the region. Exchanges between India and some LAC countries in multilateral forums like G20, IMF, WTO, etc. follow agendas mostly set by the developed world. Bilateral coincidence of interests with LAC on any issues has seldom been leveraged.

The **economic and commercial elements** involved:

- An Energy Forum for 'bilateral cooperation in the sphere of energy security including that in renewable energy'. This has not been created, notwithstanding billions of dollars of Indian investment in that region.
- An Agricultural Expert Group 'to deepen cooperation through the setting up of a mutually beneficial partnership in the agriculture farming and food processing sector' does not exist.
- The 'India-CELAC Business Council and India-CELAC CEOs Forum', envisaged to promote bilateral trade and realise its full potential, have remained on paper.
- Recognition of 'value addition in the exchange of commodities through direct trading and by setting up of manufacturing units...technical know-how...mutual investment opportunities.' Exchanges have been mainly country-specific and transactional, seldom focussing on institutional issues.

Other elements included:

- A Science Forum 'that will consider a programme of action for joint research in the areas relating to medicine, agriculture, astronomy, information technology and renewable energy, in particular bio-fuels, solar, wind and hydro energy'. This has not been formed.
- India's offer 'to assist CELAC countries in the launch of low-cost satellites for communications as well as for weather forecasting...to provide technical know-how to the CELAC countries in mapping of their geological resources by using India's remote sensing satellites' has resulted in marginal cooperation in these areas at best.
- A commitment 'to initiate various projects related to tele-education, e-governance and tele-medicine that would cover the entire Latin America and Caribbean region' is another unfulfilled promise.
- Recognition of 'the need to conclude bilateral Air Services Agreements to enhance direct air links between India and CELAC in order to promote tourism and business' has not resulted in direct flights nor agreements that have improved connectivity.

→ A commitment 'to encourage people-to-people contacts...to strengthen cultural and academic linkages' has not been followed up. An India-CELAC Think Tank Forum was apparently not even considered.

While the statement covered important ground, it did not touch upon **strategic cooperation**. India is involved with Brazil bilaterally through purchase of aircraft, in maritime exercises through the IBSA, and on situations of international conflict in BRICS. Indian helicopters, armoured vehicles and non-lethal equipment have been sold to some LAC countries. There is scope for more cooperation in outer space, nuclear energy, maintenance of defence hardware, cooperation on terrorism. Narcotics from LAC entering India from various LAC sources, and trade in chemical precursors from India is an activity still beneath the radar.



VIII. The Way Forward

THE WAY FORWARD seems clear: India and LAC need to revisit, and if necessary redefine, their **priorities and commitments**. Some of the blame for the present situation can be assigned to LAC itself. CELAC has not proved to be a **cogent and decisive forum**. India's dialogues with other regional and sub-regional forums – Rio Group (precursor of CELAC); CARICOM; SICA - have not fared any better.

This has been due to a lack of **political will**. India's leaders have 'fitted' LAC into their schedules and programs. Almost all the recent prime ministerial visits to that region have been in connection with multilateral events. PM Modi's lightning, half-day visit to Mexico in 2016 was mainly to lobby that government on India's application to the NSG. Visits by LAC leaders have helped keep the conveyor belt moving but have not forged lasting bonds. Brazilian President Lula's initiatives, and their boost to the bilateral relationship, were the exception that prove the rule. Even this special relationship is in danger of losing steam.

A **diplomatic and bureaucratic establishment** that is understaffed, under equipped and underfinanced cannot bridge the enormous psychological and tactical gaps that persist with LAC. Assignment of resources, qualified personnel and attention is proportionately lower than to any other region. At present, India's lead agency, the MEA, can not cope with the enormous task of reporting, analysing, and influencing the LAC reality; pursue India's interests; and retain institutional continuity and memory required of a nation aspiring to be a permanent member of the UN Security Council. In addition, it needs to be the team leader for other ministries and establishments in their dealings with the region.

The **institutional hinterland**, including chambers of commerce, export promotion councils, academic and research establishments, etc. also lacks a strategic or long-term perspective and memory. There has been a considerable increase in contacts and exchanges at the informal, even individual level from both sides. These have boosted business and enhanced mutual appreciation of literature, art, music and dance, even study of relevant social issues.

Essential elements of a broad Indian strategy for LAC should include:

- Status of India's **current relations** with LAC. This should be from a macro perspective, disaggregated to sub-regional level, and where necessary, identify country-specific issues. Vital facts and updated statistics must be verified.
- Outline of **goals** based on the politico-economic strength and international standing of both sides.
- A **program and institutional structure** for regional level dialogue with LAC. This could include elements of the India-CELAC joint statement of 2012, but will require conscious political backing to ensure follow up.
- Articulation of **political coincidence** on multilateral issues in forums such as the UN, G20, WTO, financial institutions and multilateral forums on terrorism, disarmament, etc.
- Analysis of the **potential and synergy** for economic, scientific and technical cooperation. The aim should be to build a relationship with key LAC stakeholders who can also serve as a lobby for India's interests.

- A high priority **commercial campaign** to negotiate lower barriers to trade mutually, enhance logistical capacity and financial support to enterprise, engage with regional forums to understand and focus on issues relevant to LAC business.
- Participation in regional **financial institutions** such as the Inter American Development Bank, and leveraging of India's membership of the New Development Bank (BRICS) for participation in regional projects.
- Study of **juridical sectors** such as agreements on investments, double taxation, civil aviation, regulatory regimes, visa facilitation, etc. to deal with obstacles to business and social exchanges and target low hanging fruit, such as tourism.
- Identification of, and concentration on, suitable **interlocutors and partners** in LAC, especially in those countries with which India's political and economic ties are strong, and sub-regional leaders say, in Central America and the Caribbean.
- A time-bound and well-financed plan to enhance **academic interaction** through exchanges between premier universities and institutions; promotion of language and area studies; establishment of a **Think Tank Forum** to analyse and come up with suitable policy suggestions.

The Indian establishment needs to adopt and display a more proactive policy towards LAC. The substance of diplomacy has been transformed in this century. India continues to expand its diplomatic footprint and is active in several international forums. Its economic and technological accomplishments and prowess have provoked LAC leaders to seek closer links, but they have not encountered reciprocal interest at high levels. India should not lose this opportunity to strengthen relations with a region with which it enjoys healthy political relations, considerable economic complementarity, and with which it can make common cause in a dynamic environment.





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