

# A NEW TREATY OF TORDESILHAS



How Brazil and India can together create economic value

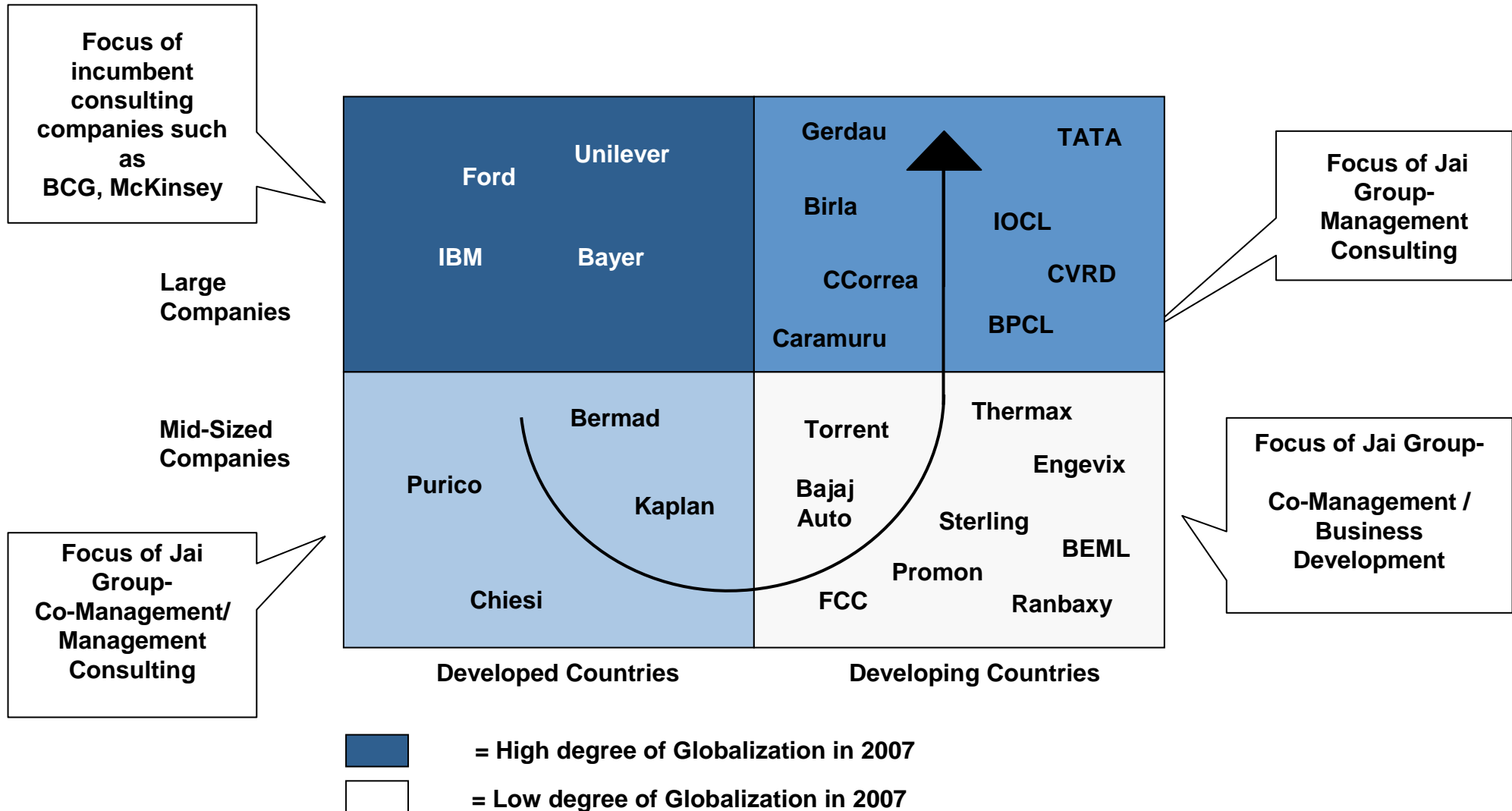
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FIESP - São Paulo - Brazil



# Jai: Strategic Partner For Emerging Market Multinationals ...

## AREAS OF POTENTIAL STRATEGIC ASSISTANCE



# J Can India and Brazil collaborate and create value ?

## SKEPTICAL REACTION FROM SMART PEOPLE

The invention of the Brics by Jim O'Neill of Goldman Sachs was a stroke of marketing genius.

But does it have analytical relevance? My answer is: no and yes.

**No, because the four countries have next to nothing in common, apart from the fact that none is a high-income country**

*Martin Wolf, FT, 2010*

We need to change the entire trade profile of Brazil. **We are selling more to poor countries. We need to sell to the rich ones**

*Roberto Gianetti Fonseca in Globo Painel with William Wak, 2010*

**The idea that India and Brazil are natural allies is a little naive, we are competitors**, we are competing in (the) manufacturing sector...we have contrary interest in agriculture (Brazil is on the rise and India on the defensive) and in services, we want an opening much faster than Brazilians...

*Jairam Ramesh, 2006, then Minister of State for Commerce in India, now Environment Minister*



**Indeed, Classical Trade Analysis assumes such similarity of economic profile as source of conflict**

**CO-OPERATION & COMPETITION MATRIX- APPLIED TO INDIA AND BRAZIL**

<p><b>India</b></p> 	<p><b>Market</b></p>	<p><b>Conflict?</b>                  ( Investments and Technology from developed world?                  Resources like Coal ?)</p>	<p><b>Harmony</b>                  ( Ethanol, Sugar                  Soy Oil,                  Civil Aviation)</p>
	<p><b>Source</b></p>	<p><b>Harmony</b>                  ( Chemicals and Pharmaceuticals,                  Yarn, Select capital goods)</p>	<p><b>Conflict?</b>                  ( Access to developed World markets for products                  Ex: Granite, Coffee, Cashew, leather goods, IT services, textiles , construction services, auto parts ?)</p>
		<p><b>Market</b></p>	<p><b>Source</b></p>
			<p><b>Brazil</b></p> 

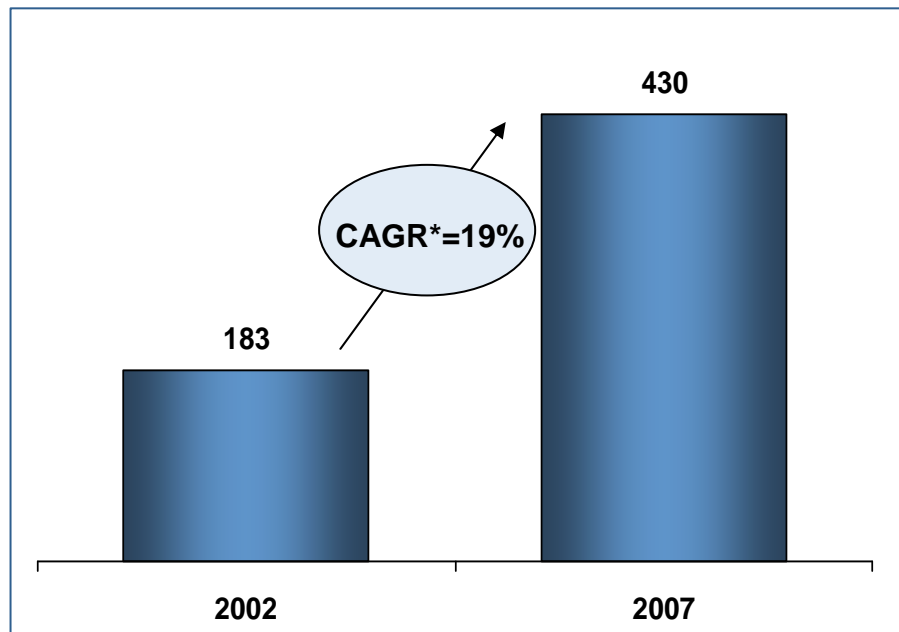


# Brazil and India are coming together : Trade and JVs increasing, but still small compared to Brazil China or Brazil- EU

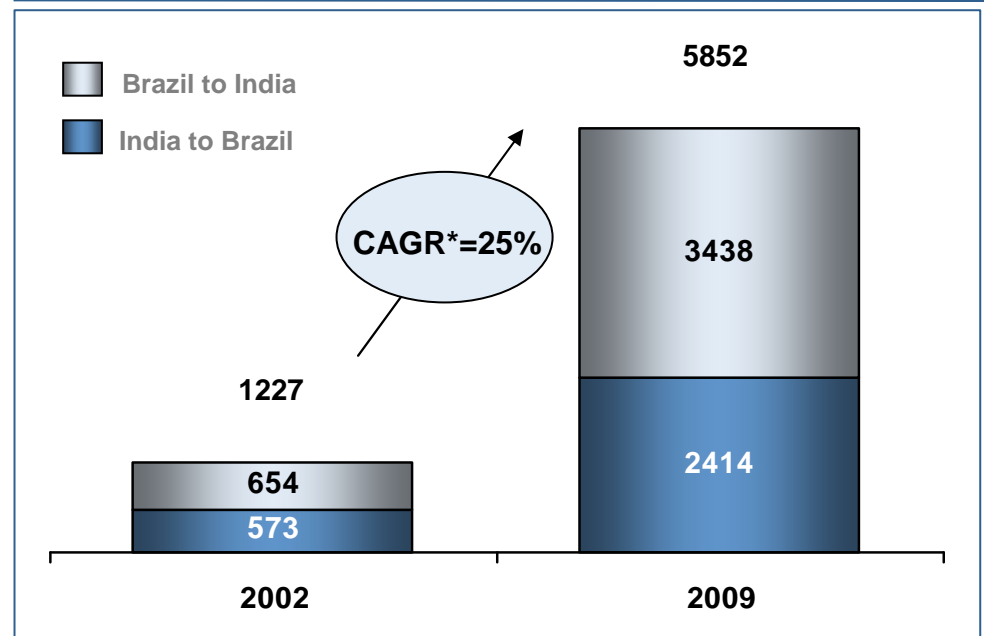
## GENERAL CONTEXT

USD MILLION (FOB BASIS IN THE CASE OF TRADE)

### Bilateral Investments



### Bilateral Trade



### Major Indo-Brazilian Joint Ventures

- Steel: Gerdau and Kalyani
- Buses: Tata and Marcopolo
- Auto Parts: COFAP and Endurance
- Automation: Perto and Lipi

**All joint ventures have happened over the last 5 years**

\* Compound annual growth rate

Source: Unctad, Secex, Indian Department of Commerce, Jai Group Analysis



## But some individual companies that bet on corridor are benefiting handsomely

### SOME SUCCESS STORIES

#### • India to Brazil

##### – Pharma

- Almost R\$ 1 Bi worth of raw materials and formulations of Indian origin being sold in Brazil
- Torrent Pharma, most spectacular success, ranked 14 in India, committed talent and investment in Brazil, **15 %** of world wide revenues from Brazil, Ranked 1 among Indian companies in Brazil

##### – Sugar and Ethanol

- Investments of USD 600 M ( cash and debt assumed) by Renuka, allows Renuka to become third largest **combined** Sugar and Ethanol player world wide

#### • Brazil to India

##### – Urban Transportation

- Marcopolo is achieving global scale and has set up factory of 25,000 buses in India with TATA, Total Brazilian annual production after sixty years of history- 15,000 , Production estimated in India 2009-2010, first full year of operation **14,000**, three times total international production in all countries combined

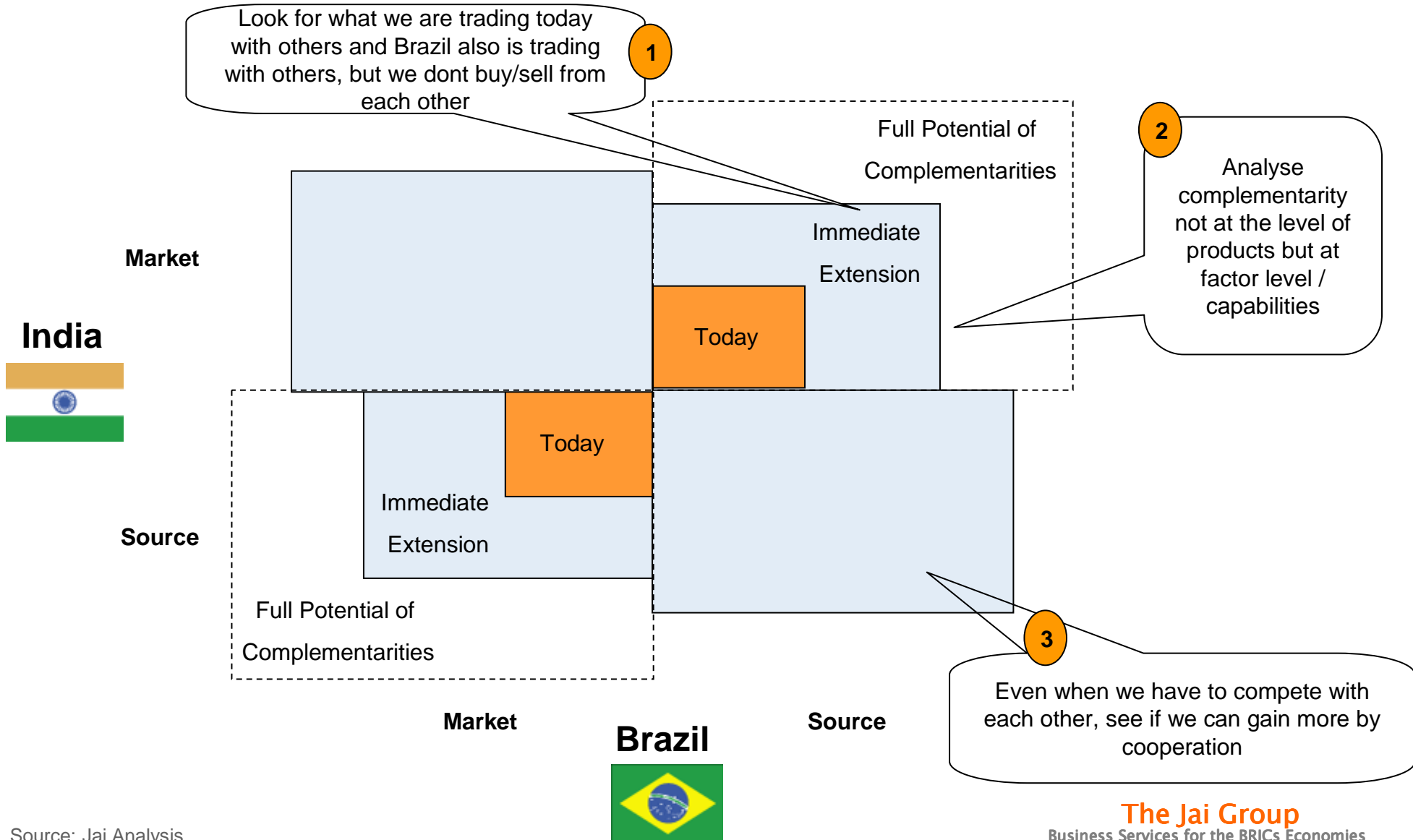
##### – Hydro Electric Motors and Electricals

- WEG's most successful venture in the BRIC economies is India where it has generated USD 100 M sales and is investing USD 100 M to set up a Motor and Transformer Plant
- India expected to generate **12-15 %** of total Export Revenues



# One has to move beyond classical international trade theory to see real value

## CASE EXAMPLE OF BRAZIL AND INDIA - MATRIX POTENTIAL



# **J** 1 **Brazil trades in many commodities with ROW, India trades the same commodities from ROW, but little trade between each other in a few specific commodities**

## **SOME EXAMPLES FOR BRAZIL AND INDIA for IMMEDIATE VALUE**

**Wood /  
Cellulose**

- **India is a significant importer from South Africa, Canada, South East Asia, Brazil is a significant exporter to Europe and Japan.**

**Pig iron**

- **India is beginning to import significant quantities, Brazil is a big exporter**

**Cement  
Machinery /  
Boilers**

- **Brazil is importing significantly from Europe and China, India exports to Africa and Middle East**



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## India will need non-staple agricultural imports from Countries Such as Brazil in large quantities, soon

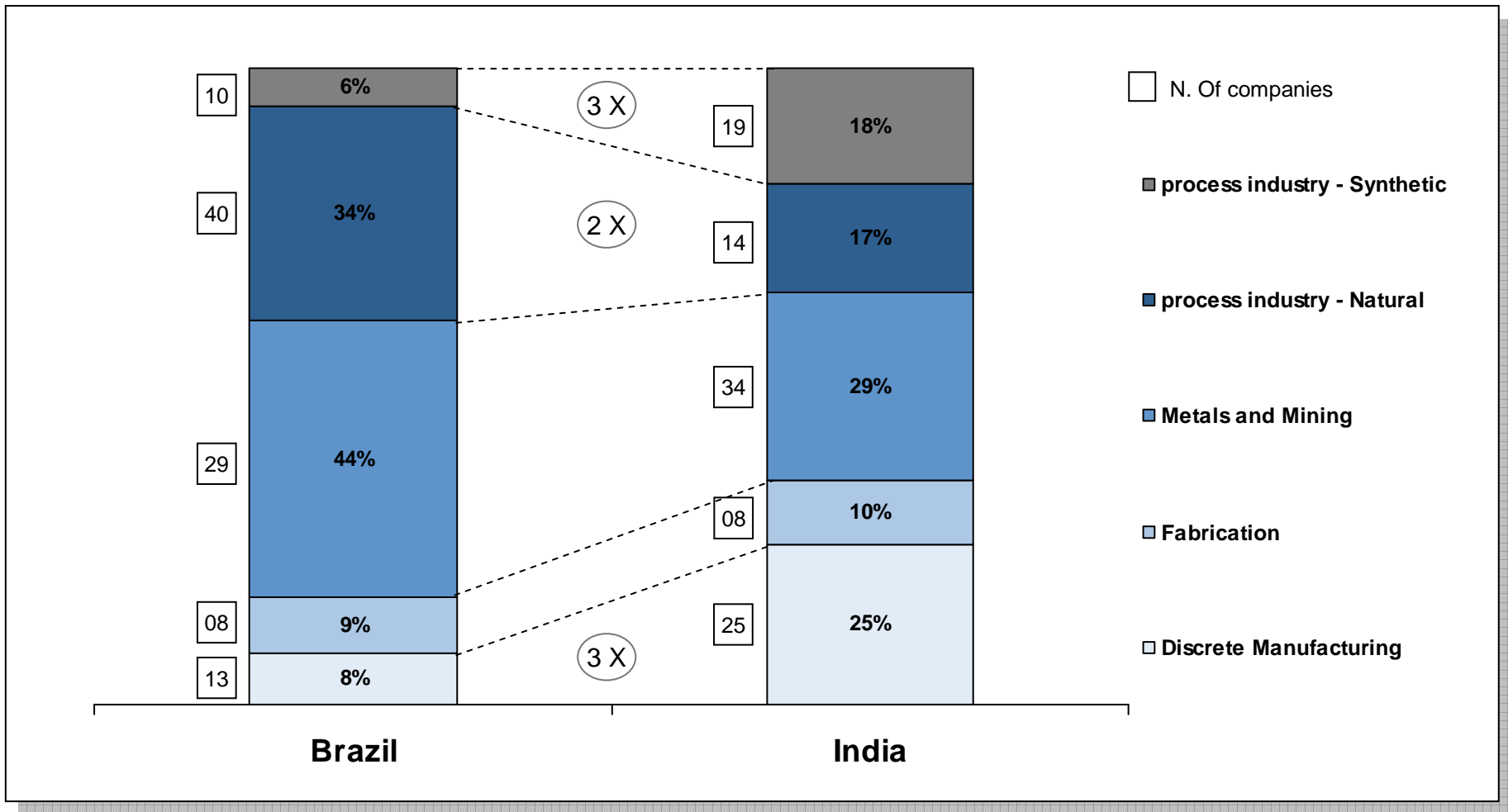
### FACTOR COMPLEMENTARITY: LAND

Characteristic	Brasil	India
Population	200 Mi (2010) 219 Mi ( 2020)	1177 Mi (2010) 1332 mi ( 2020)
Arable Land Availability ( Hectares), 2007	394	169
Utilization of Land ( Hectares) 2007	51	169

Already driving Sugar exports from Brazil, to India, likely to drive Vegetable Oils, Chicken, Fruit Juices and other Non- Staple foods in the future

# 2 Brazilian Giant Process Industry Dominance will be Complemented by Indian Mid-Sized Discrete Manufacturers

## ACTIVITY DISTRIBUTION IN TOP 100 NON-OIL, NON-GLOBAL MANUFACTURING COMPANIES PERCENTAGE %



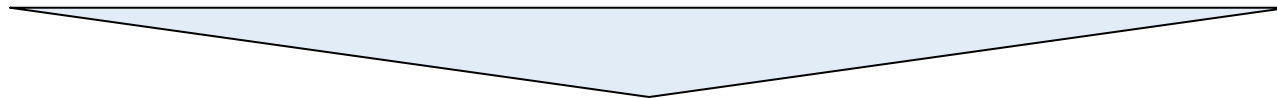


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## Complementary Factor involved is Capital Market Structure , in addition to scale of labor pool

### FACTOR COMPLEMENTARITY: ACCESS TO CAPITAL

Characteristic	India	Brasil
Market Cap	BSE 2009 - USD 1306 Bi	BMF Bovespa 2009 - USD 1337 Bi
	BSE 2009 - USD 647 Bi	BMF Bovespa 2008 - USD 592 Bi
Number of Companies Listed (Other than Investment Funds)	4937 in BSE in 2009 1575 in NSE in 2009	551 in Bovespa by end 2009

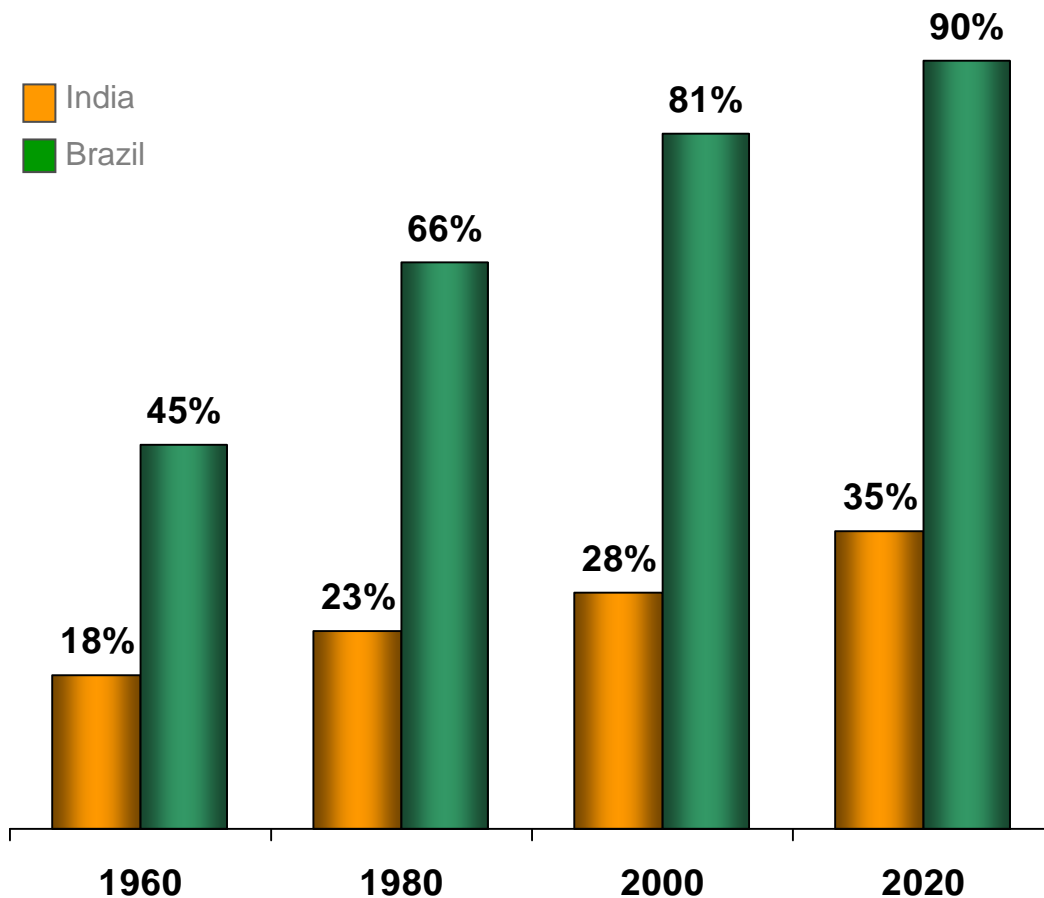


Engineering products and Capital Goods exports from India expected to increase, and significant investments in down stream processing. Brazilian Steel, Celulose and Pulp, Bio Plastics, Processed Foods expected to penetrate India



**India could prefer Brazil to the West for more relevant Urban Technologies, Brazil could adopt low cost urban solutions approved by Indian poor**

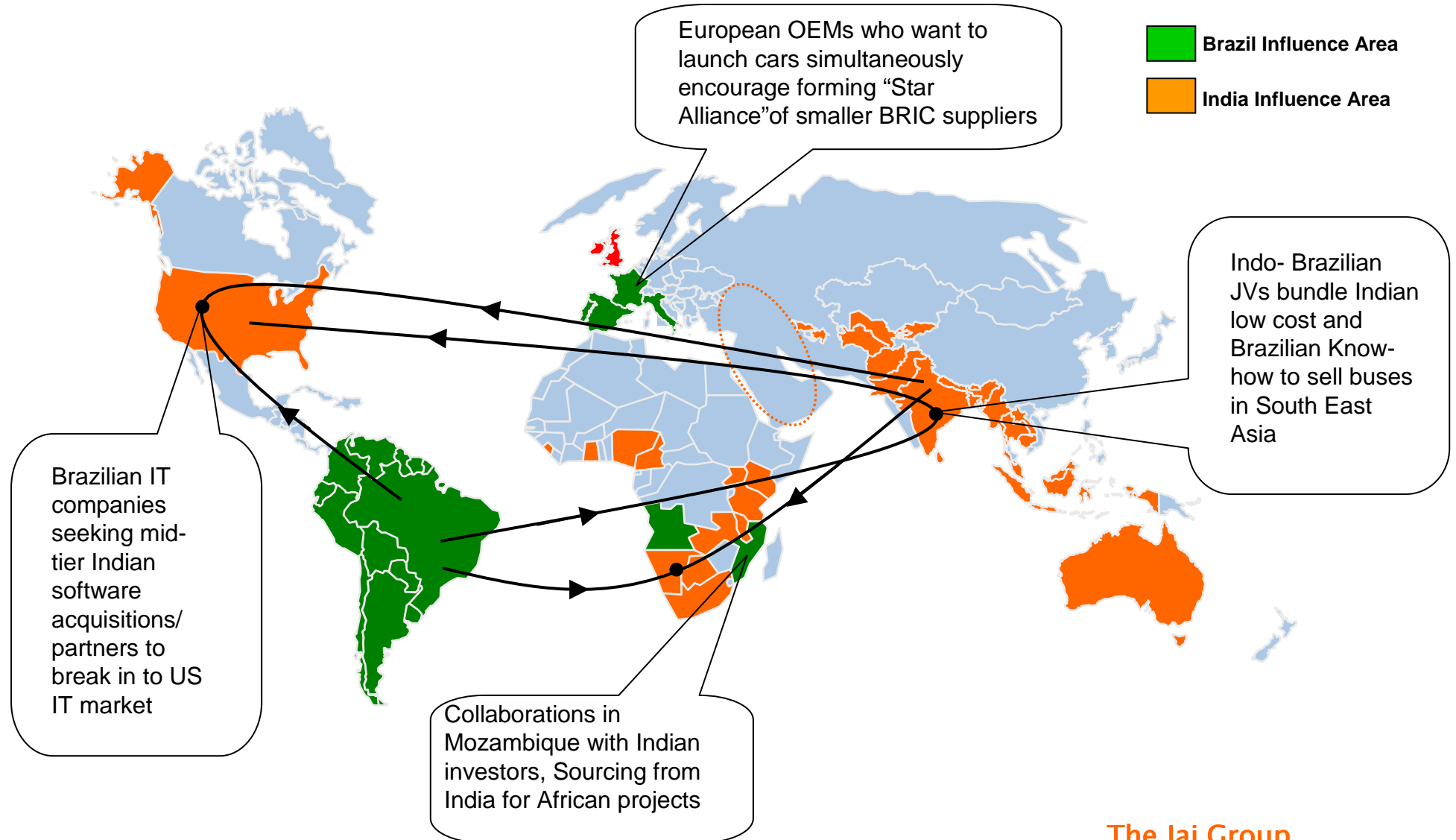
## EXAMPLE OF COMPLEMENTARITY OF KNOW-HOW URBAN SHARE OF POPULATION



- Already driving **Marco Polo's** success in India with Tata, **Docol's** exports of manufactured bathroom fittings, **Gerdau's** long steel production in India, Interest in Brazilian Popular Housing (**Bairro Novo**) and Waste Technology (**Voltas**) and banking Automation by Indian companies (**ICICI Bank**)
- Low Cost Retailing, Cold Storage and Food Processing, all result of greater urbanization other potential sectors
- **Tata Nano**, **Godrej** Chotu Kool, **Bajaj** Work Motor Cycles, some examples of Indian low cost products that have interested Brazil

## Complementary spheres of influence can help reach new markets and creative ways to form Alliances

### A NEW TREATY OF TORDESILHAS?



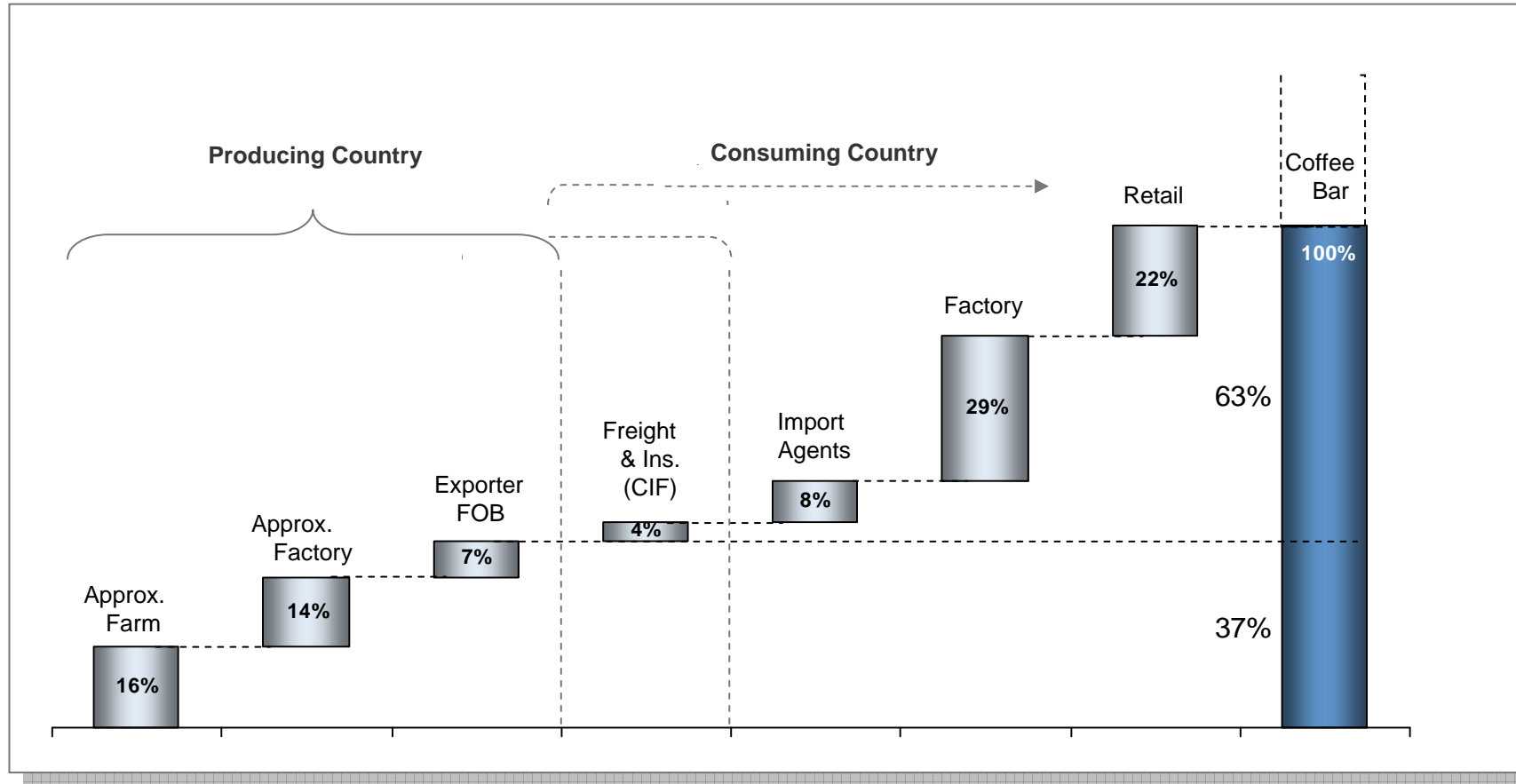


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**Real Value lies downstream in many export markets, so real competition is with the customer value chain and not with another supplier**

**COFFEE VALUE CHAIN: A CLASSICAL EXAMPLE**

% VALUE ADDED





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# Capacity consolidation and down stream integration are two powerful ways India and Brazil can combine forces

## ALTERNATIVE VISIONS OF INDIA- BRAZIL INTERACTION IN SOURCE – SOURCE CONFLICTS



## Potential market conflicts could take place in three areas

### AREAS OF POTENTIAL CONFLICTS

#### Technology

- Both Brazil and India will need western technology to accelerate development

#### Capital

- While Indian capital is cheaper, it will depend on FDI for infrastructure building
- Brazil is already capital scarce and will depend on western world for infrastructure

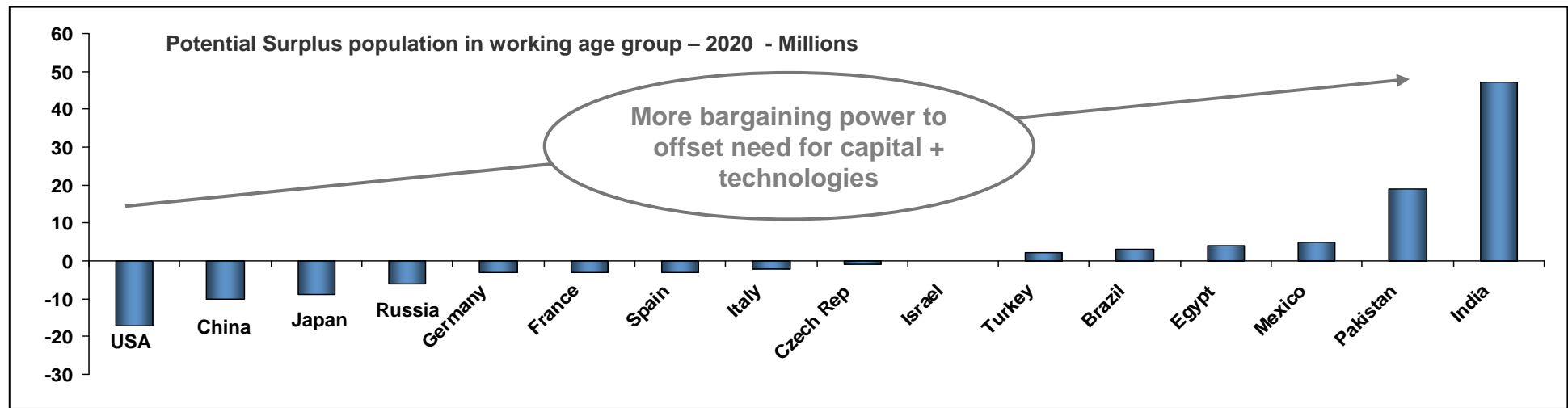
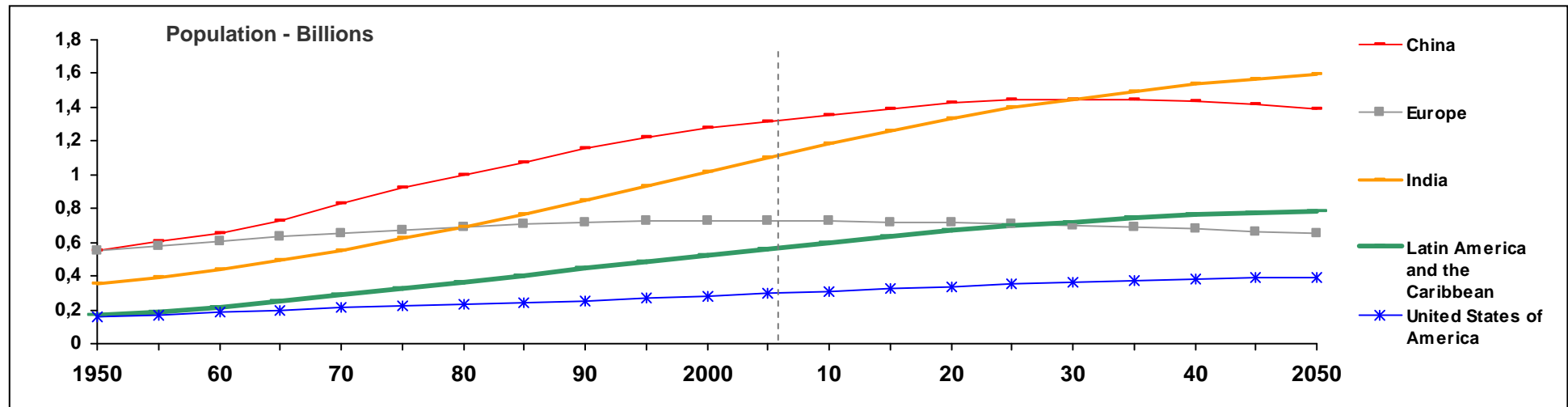
#### Key Resources

- India is unlikely to compete with Brazil for key resources unlike India and China for say Petroleum and Minerals

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## Bargaining power of developing nations expected to increase with working age population deficit in developed world

### THE FUTURE IS OURS



# Contrary to popular perception, India can be an equal if not a better bet than the rich world for Brazil

	Commodity Products	Value Added Product				
		Scale Economies	Labor Value Added	Environment	Brand	Know-how
<i>Example</i>	<i>Coffee, Sugar, Iron Ore</i>	<i>Low cost of chemicals / plastics</i>	<i>Machined Products/ Auto Components</i>	<i>Bio Plastics, Forestry Products from Environmentally Conscious Approach</i>	<i>Branded Foods, Clothing, Cosmetics</i>	<i>Banking Automation, Waste Management, Transportation</i>
Rich World, principally Europe	Not a great consumer	Unlikely to buy from Brazil if Asia/ India is more competitive	Unlikely to buy from Brazil if Asia/ India is more competitive	Premium Prices for Ecological products. Large demand, great opportunity for Brazil	Difficult to build a new brand, spaces occupied	Difficult to offer know-how that is relevant
India	Will increasingly need specific commodities- Sugar and Ethanol	Unlikely to buy from Brazil, but could invest jointly	Unlikely to buy from Brazil, but could do local manufacturing	Unlikely to be a big market	Large Spaces exist for Building brands: Rural India, Food Products	Brazilian Urban Know- How most relevant, Capital Goods in Specific areas- Hydro – Electric, Small Turbines,



## Some summary thoughts on how to further Indo- Brazilian and consequently Intra- BRICS value creation

### EIGHT-FOLD PATH FOR BUSINESS VALUE CREATION

1. **Exploit resource advantages:** India has lesser per capita natural resources, Brazil can add value and build brands in India.
2. **Leverage difference in stages of development:** Brazil has higher degree of urbanization and so greater understanding of technologies in urban transportation, waste management, cold storage, food processing, etc. When China did all this, Brazil was not prepared to go global, now India is doing it!
3. **Unique technologies, build on them:** Ethanol, Civil Aviation, Space, IT and Biotech – transfer to each other for higher scale.
4. **Integrate BRICS capital markets:** Indian capital market has 9.000 companies, great for Brazilians to list, easier than New York and London, will help access for mid-level firms.
5. **Build Global size businesses,** our markets are large by themselves, by combining our internal markets we can overnight create Global Giants: imagine Itau and ICICI Bank merging to form the BRICS Bank
6. **Partner to fight in third party markets:** Brand Brazilian Coffee and Indian Tea together, use same logistics and distribution network in developed countries, cutting costs
7. **Access new markets, become gateway for each other's goods in other markets:** Brazil can reach commonwealth Africa, Middle East and South East Asia through India, for example.
8. **Innovate Jointly:** why not use Indian R & D to cut costs on the next Embraer Jet ? Why not create a Brazilian Bank Automation company and Indian software implementers across the globe ? Why not TATA Nano that runs on Ethanol?



## We would love to talk to Brazilian CEOs who want to expand operations to other BRICS countries

### CONTACT DETAILS

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