

Giving India-Mexico trade a push

HARI SESHASAYEE

Commerce Secretary Rita Teatonia's recent visit to Mexico has garnered less attention than one would expect from a bilateral high-level group (BHLG) meeting in a G20 country. Nonetheless, the visit and the BHLG are notable for both countries. They come on the heels of a recent trip by Prime Minister Narendra Modi to Mexico, and bring to the fore the increase in political will in the bilateral relationship. This has been triggered primarily by a deepening of commercial ties between the two countries over the past decade.

Indian companies are increasingly conscious of Mexico's significance as a global growth market and a manufacturing hub, and perhaps more importantly, as a member of the North American Free Trade Agreement (Nafta). Besides, Mexico is a major global trader, and its exports and imports were more than India's in 2015. Bilateral trade stood at \$5 billion in 2015-16 and Mexico is now India's largest export destination in Latin America.

While the bilateral relationship is multifaceted, three specific elements presently underpin the India-Mexico relationship: automobiles, information technology and investments.

The automobile sector is arguably the most important in the India-Mexico bilateral. Both countries are major manufacturers and exporters of automobiles. India is the world's sixth largest producer of motor vehicles, just ahead of Mexico in seventh place. Much of India's production supplies the large domestic car market, so it is not surprising that Mexico's car exports at \$32.84 billion far outweigh those of India (\$5.39 billion).

More importantly, for the second year in a row now, Mexico has been India's largest export destination for cars. India exported more cars to Mexico than it did to the United Kingdom, Italy and Sri Lanka combined in 2015-16. This is remarkable, especially given the numerous obstacles these exports face — a seven-week shipment time, average tariffs of 34 per cent for Indian car exports against zero-duty imports from competing countries like the US, Japan and Germany, not to mention the left-hand drive.

Despite being the largest global customer for India's car exports, there is little talk of Mexico among Indian carmakers. There is a reason for this: the largest exporters of cars from India to Mexico are Volkswagen, General Motors, Hyundai and Ford. International carmakers that chose India as a hub for manufacturing exported over 100,000 cars to Mexico in 2015.

In addition to the trade in automobiles between India and Mexico, both countries also collaborate through investments in the auto component sector. Indian companies have 15 manufacturing and assembly plants in Mexico, for everything from transmission parts and tyres to automotive lighting products and wiring harnesses. Two

Mexican auto-parts companies also have facilities in Jamshedpur and Gurugram, providing exhausts, fittings and vehicle chassis to companies like Maruti Suzuki.

Another important sector is information technology (IT). Ten Indian IT companies have offices in Mexico, and they collectively employ roughly 10,000 people. Many of these companies expanded to Mexico in order to take advantage of near-shoring, i.e. outsourcing business and IT processes to clients in a similar time zone and geography, in this case, primarily the US. Like automobile manufacturers, IT companies also reap the benefits of Nafta, which offers near-zero import duties, and various concessions and incentives to do business with the US and Canada.

Notably, these Indian companies service Mexican and regional Latin American clients — not only the US — like Banamex, América Móvil (owned by the four-time richest person in the world, Carlos Slim) and the Inter-American Development Bank. One Mexican company, Softtek, also provides SAP solutions based out of Bengaluru. The synergy in this sector is bound to grow in coming years, as Indian IT companies look to capture a larger share of the IT market in Mexico and Latin America.

India and Mexico are becoming significant investors in each other's countries, and

this goes beyond IT and automobiles. Over 45 Indian companies have offices in Mexico, and 13 Mexican companies have invested \$800 million in India. These investments are in varied sectors, including pharmaceuticals, IT, automobiles, textiles, electrical engineering and mining. Several Indian pharmaceutical companies are in Mexico, and some like Dr Reddy's and Lupin have

acquired local manufacturing plants. Mexican companies too have investments in India; the most innovative are arguably Cinépolis, the only international cinema exhibitor in India, and Kidzania, a chain of indoor theme parks for kids. These companies may have a relatively smaller footprint compared to European investors, but they are just getting started. The same goes for Indian companies in Mexico.

Despite the increase in commercial ties, India and Mexico still have a long way to go. Mexico may be India's largest export destination in Latin America, but it is still only India's 26th largest export destination. In trade terms, India is more important to Mexico than the other way around, since India is Mexico's 13th largest export and import partner; Mexico exports more to India than it does to Italy, and imports more from India than it does from France. A trade agreement between India and Mexico, or better yet, between India and the Pacific Alliance (a bloc that includes Mexico, Chile, Colombia and Peru) may go some way in increasing bilateral trade. This will take time; for now, both countries should focus on keeping up the momentum.

The writer, a Latin America analyst, is with CII. The views are personal