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T&A CONSULTING

INDIA TRADE INSIGHT

INSIDE THIS ISSUE

There is excitement in the air as May begins. A positive performance of India's domestic industry in the previous fiscal was praiseworthy. India's Index of Industrial Production (IIP), which represents eight core industries, grew at 4.5 per cent in 2016-17.

April is usually the beginning of summer in most parts of India. It is also the beginning of the new financial year, a month for the government and the industry to reflect upon their past year performance and strategise a future roadmap for the year ahead. Speaking of a future roadmap, Prime Minister Narendra Modi has expressed his positive intent to change India's April-March financial year to January-December calendar year. He has directed State governments to take initiatives in this regard. The shift, according to the Prime Minister, would align India's financial year with the standard global practices, and better position it to respond to the country's economic needs. Last month, India achieved a much-awaited breakthrough with regards to the Goods and Service Tax (GST) framework. The Parliament passed four legislations to pave the way for implementation of GST from its scheduled date of July 1. So far, eight states have passed their respective state legislation to facilitate the landmark bill. The government has recommended a four-tier tax structure — 5 per cent, 12 per cent, 18 per cent and 28 per cent. Luxury and demerit goods will attract an additional cess to compensate the States for revenue loss during the first five years of the GST roll out. Clearance of the GST seems to have generated overall positive sentiments. Last year India's GDP grew at 7.1 per cent, particularly dragged down by a sluggish manufacturing sector, rising input cost and subdued bank credit. There are many compelling indicators that prove that May will be just as productive.

Indian internet economy may reach USD 250 billion by 2020

India's internet economy is projected to reach USD 250 billion by 2020 from its current USD 100-130 billion, according to a BCG (The Boston Consulting Group) – TiE (The Indus Entrepreneurs) report. This growth will be led by the country's expanding e-commerce and financial business (valued at about USD 40-50 billion a year) and increasing numbers of mobile internet users. India has recently emerged as the second largest user of mobile internet, currently estimated at 409 million. This number is expected to touch nearly 735 million by 2020. As the number of mobile internet users sees a rapid growth, the average data consumption will also multiply at least 10-14 times by 2020 due to a myriad availability of 4G enabled devices, reliable high-speed data and multiplication of digital content. A strong addition to internet users and significant growth in data consumption will further drive the country's internet economic growth.

The recent report fits aptly into India's 'Digital India' mission that underlines the government's commitment to promote technology and innovation in the country. Indian internet economic boom also remains relevant to the global internet economic growth prospects that project a 16 per cent growth for the developing nations and 8 per cent for the developed ones.

The expansion of Indian internet economy will generate new market growth opportunities across various sectors, including agriculture, automobile, health, smart cities, transportation, supply chain management and waste management. It thus presents opportunities for both Indian and global businesses, especially for the small and medium enterprises (SMEs), as they look to conduct their businesses online in increasing numbers. However, their adaptation to the digital economy will bring with it a plethora of challenges in the areas of tech talent, barriers around payment, inconsistent regional logistics and immature consumer behaviour. Unsurprisingly though, the government, as well as the industry, remains upbeat about the economic opportunities.

DHL to invest USD 268 million in Indian logistics industry post-GST.

German logistics major Deutsche Post DHL Group is planning to invest USD 268 million in its India operation by 2020. The investment decision is aligned with DHL's expansion plans in one of the world's fastest growing logistics markets, projected to expand at 15-20 per cent in the next five years. The latest investment is aimed at consolidating the company's distribution centres across the country.

Deutsche Post AG chief executive officer Frank Appel was upbeat about the GST and its positive impacts on the cargo and logistics industry. Appel said the new tax framework will create opportunities to optimise the logistics network based on cost and service quality instead of arbitrage tax systems. It will encourage more manufacturers and they will no longer have to worry about multiple tax provisions. DHL currently has 45 service centres, providing access to 598 cities & more than 33,000 locations in India.

Key
Announcements

Some foreign companies have recently expressed their interest in India's value chain in the manufacturing sector.

- DHL has announced its plans to invest USD 268 million in Indian logistics industry post - GST.
- South Korean automobile maker Kia Motors has announced its India entry plan with an initial investment of USD 1 billion.

FDI
Outward FDI

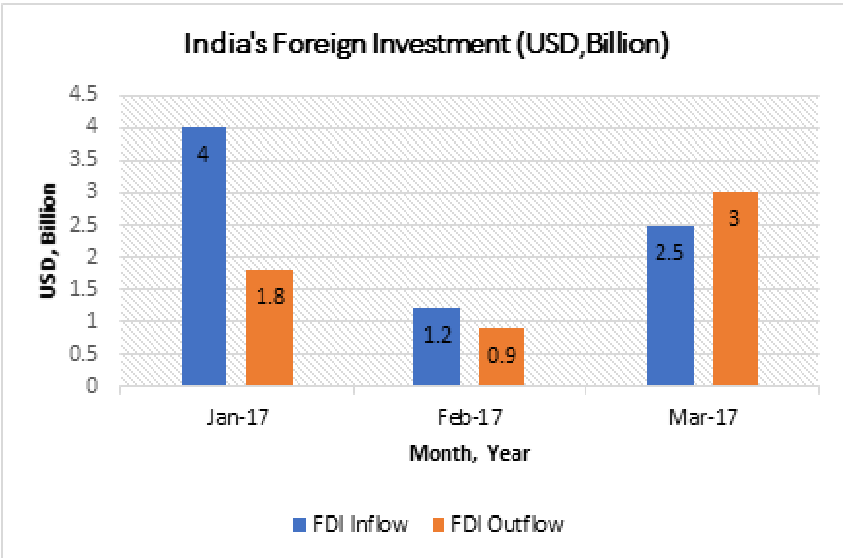
- On the FDI front, India's foreign investments inflow jumped 9 per cent to USD 43.48 billion in 2016-17. In March FDI inflow was USD 2.45 billion.
- The most exciting news came from India's OFDI (Outward Foreign Direct Investment) segment, which registered more than three-fold jump to about USD 3 billion in March from USD 868 million in February 2017.

Ikea plans to double product sourcing from India to USD 690 million by 2020

Global furniture retailer Ikea plans to double its sourcing from India to about USD 690 million by 2020 to support its 361 stores across 45 countries. Currently, the company sources furniture and furniture-related articles worth almost USD 345 million from the country. Ikea says its sourcing commitment is in line with Indian Government's 'Make in India' initiative that encourages foreign companies to invest in the country's manufacturing strength.

Ikea has proposed to set up 25 stores by 2025 with a total investment of USD 1.65 billion. Its first store will come up in Hyderabad later this year. Almost 70 per cent of the company's sourced materials are textile, and the rest are sofas, mattresses, and kitchen accessories.

Ikea is also looking to expand its sourced product basket and will include other materials including furniture, consisting of sustainable materials such as bamboos and acacia. The world's largest furniture retailer received India's approval five years ago to set up stores as part of the government's single-brand retail policy which currently requires 30 per cent local sourcing.



Source: Department of Industrial Policy and Promotion (DIPP), Reserve Bank of India (RBI), May 2017

Italy seeks to strengthen trade and investment ties with India

Italian Deputy Minister of Economic Development, Ivan Scalfarotto(L) with Indian Commerce and Industry Minister Nirmala Sitharaman (R)

Italian Deputy Minister of Economic Development, Ivan Scalfarotto, led a 140-member delegation to India with a common objective of strengthening trade and investment relations with the world's fastest-growing major economy. Italy - Europe's 2nd largest manufacturing hub — is seeking greater collaboration in India's smart cities, green and clean technology, machinery, leather, automotive, textile, marbles and food processing industries. The visiting side said they were looking forward to the implementation of Goods and Service Tax (GST) framework, which, according to Scalfarotto, will enhance foreign capital in India from Italy.

Last year, Indo-Italian trade was USD 8.3 billion. The Italian minister revealed Italy aims to take their bilateral trade to USD 9.2 billion in 2018. The visiting participants highlighted some of the major challenges faced by the Italian companies in India. Among others included the country's complex bureaucratic system, complex taxation and ease of doing business. They, however, remained positive about the GST and said a successful implementation of the new tax framework will address some of their core issues in the Indian market. Italy is the 13th largest investor in India, and its FDI to India stood at about USD 2.2 billion between 2000 and 2016.

India amends Company Law to attract higher foreign investments

Following a considerable decline of foreign investment inflow in India in February, the Government amended Company Laws to better facilitate mergers and acquisitions of smaller companies.

The decision was aimed at improving the country's ranking in ease of doing business and attracting higher investment from abroad.

The new law will exempt companies with a turnover up to USD 155 million from seeking approvals from Competition Commission of India for mergers and acquisition.

India's foreign investment inflow in February fell to just USD 1.2 billion from almost USD 4 billion a month ago. Foreign direct investment outflow in February, too, remained significantly lower at just USD 868 million.

Foreign investments made by Indian firms in March, however, grew more than three-fold to USD 3 billion from USD 868 million in February. Meanwhile, India's imports in March grew 45.25 per cent to USD 39.67 billion over the level of imports valued at USD 27.31 billion in March 2016.

Indian economic growth may touch 8 percent post-GST

India is set to emerge as the third-largest global economy by 2030, pushing Japan – the current third-largest economy behind only the US and China – to fourth place and Germany to fifth, according to United States Department for Agriculture Economic Research Service. The report said Indian economy will grow at an average 7.4 per cent annually to USD 6.84 trillion by 2030, thus making it even bigger than the economies of Germany (USD 4.38 trillion) and Japan (USD 6.37 trillion).

At the projected growth rate, India's total annual economic output will reach almost double than that of Britain (USD 3.6 trillion) and France (USD 3.44 trillion) in the next 15 years. Meanwhile, International Monetary Fund (IMF) Managing Director Christine Lagarde continues to remain bullish on Indian economic growth. In a recent report, IMF assumed India to expand at over 8 percent post-implementation of Goods and Services Tax. Not surprisingly, the UK is estimated to grow at just about 2 per cent this year and 1.8 per cent in 2018, dragged down mainly by the negative impacts of Brexit.

NITI Aayog, too, estimated Indian GDP to grow at 8 per cent over the next 15 years and thus see more than three-fold expansion at USD 7.25 trillion by 2030. By 2050 India is projected to emerge as the second largest economy, only behind China.

Of late, India's economic growth story has kept the world's attention, as it grew a whopping 170 per cent between 2005 and 2016, while the world economy registered around 30 per cent growth.

Modi sets up a committee to work out January-December financial year

India's Prime Minister Narendra Modi is in favour of replacing India's April-March financial year with the regular calendar year, i.e. January-December, a move, according to many, would better position the Government to respond to the country's economic needs, but would have serious short-term implications. Modi said the change in financial year was especially important for the country's agriculture-heavy economy. He feels that the budget should ideally be announced immediately after the receipt of agricultural revenue for the year. If the proposal is adopted, the union budget will be presented in either October or November. At present, India's budget cycle suffers due to insufficient data on crop income, monsoon forecast, which creates a problem and a sense of uncertainty while drafting the income-expense chart. This further creates difficulties for the government in formulating the union budget. The change would also align India's financial year with the standard global practices. Many major multinationals follow calendar years as their fiscals. In India, they have to follow two fiscals which make their business operations difficult. The industry, however, feels otherwise. It said this change would create a huge avoidable disruption for the country's trade and industry.

The entire infrastructure in terms of taxation systems, accounting software and human resource practices would have to undergo a transformation, a practice, according to the industry, would cost billions of rupees for big and small industries. The Government, as well as the industry, is gearing up for GST implementation on July 1. If the new tax framework is adopted then both Government and companies will have to bear a huge cost.

Kia Motors setting up USD 1.6 billion plant

South Korea's automobile manufacturer Kia Motors is entering India, with an initial investment of USD 1.6 billion in the world's fastest-growing car market. The company will set up its new factory in the state of Andhra Pradesh. The new facility will be established by late 2019. The 2.5 million square meter plant will have annual production capacity of 300,000 units. In its first phase, Kia will produce compact sedans and compact sports utility vehicles best suited to the Indian market. Andhra Pradesh state Chief Minister Chandrababu Naidu said the project will boosts the country's Make in India vision to develop it as an international manufacturing hub. He assured Kia Motors to personally monitor the project's progress every month. Kia Motor is a sister concern of Hyundai Motor, which produces 650,000 cars annually and covers 17 per cent of the passenger car market only behind Maruti Suzuki India's 47 per cent.

India is currently the world's fifth largest automobile market. With a population of over 1.25 billion, it is expected to emerge as the world's third-largest car market by 2020. Many global automobile manufacturers have been betting on India's irresistible automobile industry. Recently, Volkswagen and Skoda signed MOUs with Tata Motors for their long-term co-operation. In January, French automaker PSA Group signed an agreement with CK Birla Group, thus acquiring a majority stake in Hindustan Motors Finance Corp. Last November, Japan's Suzuki Motor announced an additional investment of about USD 405 million for a second plant in Gujarat, thus taking its total investment to around USD 498 million in the state. Another Japanese company, Isuzu Motors, is investing about USD 467 million to roll out its D-MAX V-Cross, an adventure utility vehicle, from its plant in Andhra Pradesh.

Image Courtesy: The Economic Times, April 2017

India explores new markets for FTAs

US Commerce Secretary Wilbur Ross last month signalled that an India-US Free Trade Agreement (FTA) is not out of the question, even though no serious discussions has commenced on the topic of a free trade agreement thus far. Currently, India and the US do not have any exclusive trade pact, and their bilateral trade is governed by the mandate of WTO. India's FTA with the Eurasian Economic Union, which includes Belarus, Kazakhstan, Russia, Armenia and Kyrgyzstan as its member nations, seems to have moved forward. India is reportedly joining the group as an FTA partner.

India and Australia last month acknowledged that they need to reinvigorate talks on their long-stalled FTA deal. Australia assured India that it would look into the issues of tariffs and labour mobility – main areas of concerns between the two sides. India has also started the process of negotiating an FTA with Georgia. Last month, they decided to initiate a joint feasibility study on the possible areas of collaboration under a bilateral FTA.

Britain, too, is keenly looking at a potential India-Britain FTA post-Brexit. The UK feels that the two countries have enough untapped trade potential to mitigate the possible impacts of Brexit on its exports to the EU. This loss can be made up by building on underdeveloped links with countries like India and making it a priority in its trade negotiations. India on its part said the two countries can start a formal dialogue on a possible bilateral trade agreement only after the completion of Brexit.

India's FTA negotiations with the European Union remain unproductive. Various rounds of discussions have taken place; various European countries have visited India to speed up the FTA process, but the discussions do not seem to be moving up in an intended direction.

All the eyes, however, will once again be looking at India when it participates in the Regional Comprehensive Economic Partnership (RCEP) meeting in Manila this month. Many RCEP member countries - (consisting of 10 ASEAN members i.e. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam and their six FTA partners namely Australia, China, India, Japan, South Korea and New Zealand) - have accused India of selfishly blocking the RCEP trade deal.

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BUSINESS WITH INDIA STARTS HERE ...

The Newsletter "India Trade Insight" is an initiative by T&A Consulting to provide emerging opportunities for foreign companies looking to "Doing Business in India". The Newsletter provides an overview of Indian Government's initiatives towards ease of doing business, major announcements related to Greenfield investments, M&A and latest figures on Foreign Direct Investment.

T&A is a boutique advisory firm with extensive experience of working with overseas enterprises towards achieving successful and accelerated entry into India.

T&A's portfolio of market entry services includes opportunity assessment, feasibility studies, partner identification (Joint Venture, distributor, vendor, licensee and franchisee) competitor analysis, price benchmarking, location identification, technology collaboration and local representation.

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T&A Consulting (Northern India Representative of Hungarian National Trading House) exhibited at Smart City Expo 2017, New Delhi

T&A exhibited at the Smart City Expo[1], New Delhi as the official representative of Hungarian National Trading House in India. The event ended on a very positive note for the participating Hungarian companies. T&A Consulting successfully arranged more than 15 focused B2B meetings for the participating Hungarian companies and had joint meetings with over 65 visiting companies.

Some of the Hungarian technologies on offer were water treatment- services, smart street lights, smart logistics, potable water cleaning technology, especially for the rural India with capacity of 3,000 l/day, and e waste collecting vehicle.

1Smart City Expo: Exhibition focused on the needs of urban development and sustainability.

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