



VDMA Web Seminar

on "Quality Sourcing Solutions
from India for European
Manufacturers"

Sourcing from India to minimise supply chain challenges

13TH JANUARY 2023

RESTRICTED CIRCULATION

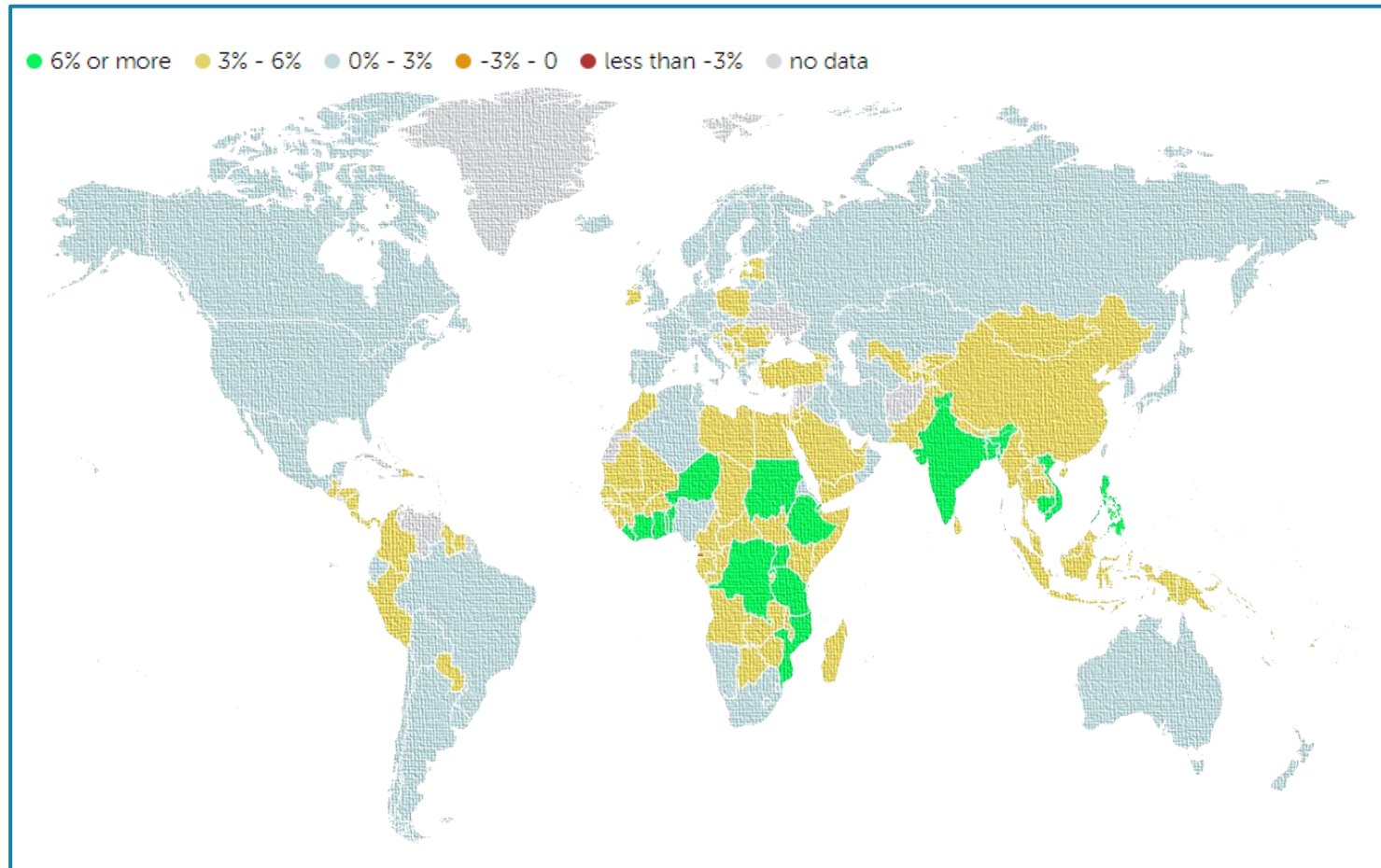
AVALON
GLOBAL RESEARCH



Real GDP growth rate comparison: India and the world (2022-30)

India is the only major economy that will achieve steady GDP growth rate of 6% or more until 2030

Real GDP growth map (2022-30)



KEY INSIGHTS

- India is expected to register annual GDP growth of ~6% or more between 2022 and 2030. This can be ascribed to higher government investments in infrastructure, corporate tax cuts, incentives driving capital investments with the aim of making India the world's manufacturing hub.
- In the near term, several European nations are expected to register relatively low GDP growth, primarily due to market saturation and geopolitical conflicts. The ongoing Russia-Ukraine conflict has caused significant supply chain disruptions and elevated energy prices across Europe. Inflation in the EU (including Turkey) is also expected to last owing to supply pressures in bulk commodities.
- Low business and household sentiment coupled with weaker global economic conditions and high uncertainty are expected to hold back investments within European countries, thus paving the way for Asian growth.

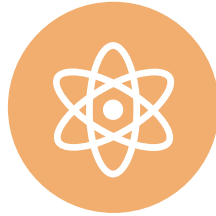
Source: IMF, AGR analysis

India as a manufacturing hub: Key pointers



BUSINESS POLICIES

Ease of doing business score has drastically improved for India; gaining 14 positions in two years



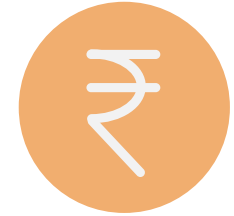
LOW MANUFACTURING COST

India currently has the lowest labour cost worldwide and will have competitive energy prices by 2030 with diversification to NRE sources



MANUFACTURING RESILIENCE

India's manufacturing output bounced back strongly after COVID displaying a V-shaped recovery



CAPEX PLANS

Capex plans totalling USD50bn is in the pipeline in the current decade, supported by Gol's incentive schemes



PRO FTA REGIME

Gol is actively promoting FTA scheme to make India part of the global supply chain



ROBUST MSME SECTOR

Robust and export-oriented MSME sector is leading the way post the COVID-pandemic



R&D TALENT POOL

India has the advantage of a demographic dividend and a skilled, yet cost-effective labour force in the engineering sector

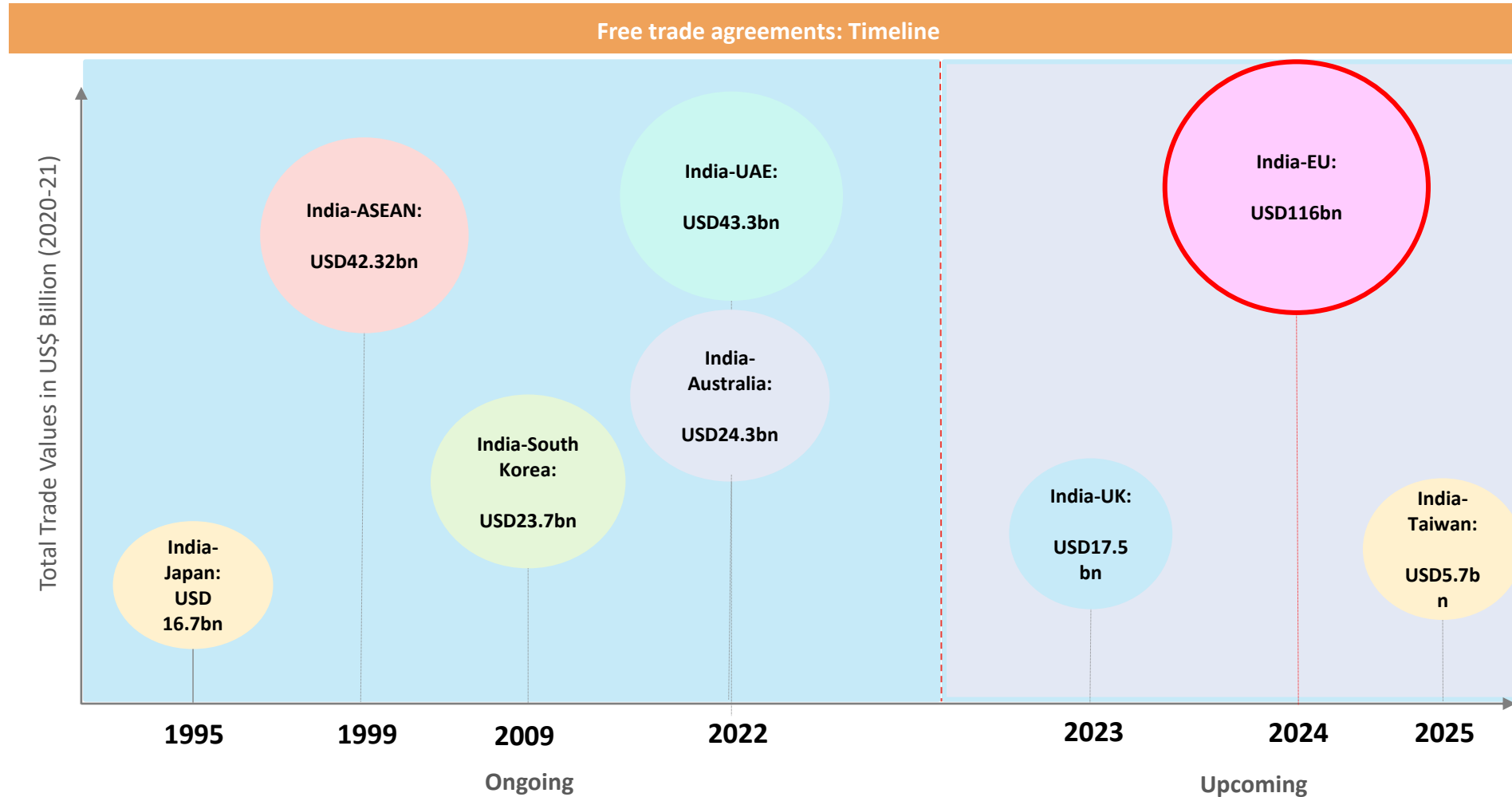


QUALITY PROCESS

German, American and Japanese companies, with R&D and manufacturing hubs in India, are a testament to the quality of manufacturing and sourcing

India – Current and upcoming FTAs

India-EU FTA is under discussion: an early harvest agreement is expected by 2024



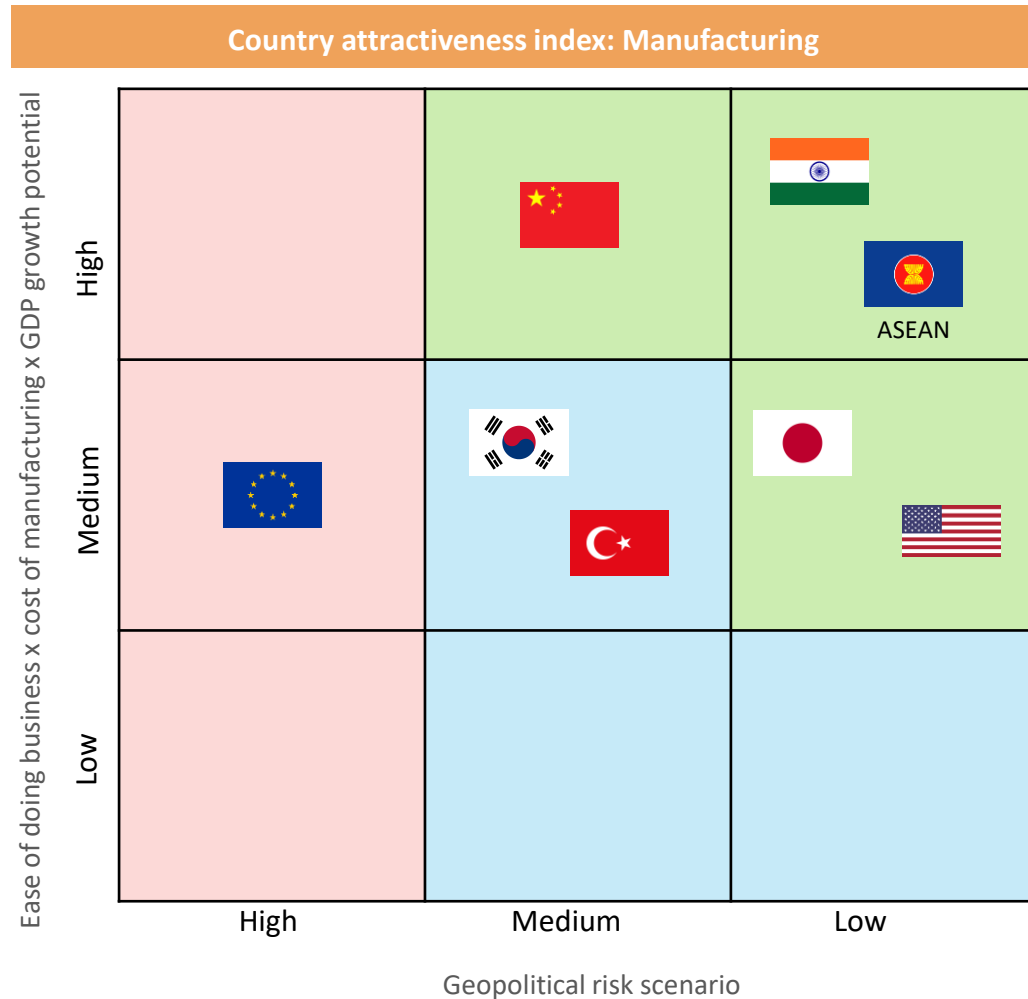
KEY INSIGHTS

- FTAs with the UAE and Australia were recently completed
- Along with the two signings, India now has FTAs with five major economies/blocs
- India's bilateral trade through FTAs totalled USD150bn (2020-21)
- Trade between the current bloc is expected to rise in double digits over the next decade

Source: Ministry of Trade and Commerce of respective countries, AGR analysis

Business competitiveness & risk assessment for major economies

India & ASEAN are better suited to share the 'Factory to the World' title with China



China currently a medium-risk country

- With the re-emergence of COVID cases in China, the country faces a short-term risk of supply chain disruptions. Even though China has shifted from a zero COVID policy, the recent spate of hospitalizations have increased the possibility of localized lockdowns and restrictions.
- Geopolitical tensions over Taiwan Straits is a cause for concern in terms of the medium risk profile.
- China is still high on the attractiveness scale due to superlative business policies.

India rising

- Government focus on the manufacturing sector to increase productivity coupled with recent strides in ease of doing business are catalysts for manufacturing setups.
- India is reaping the benefits of a demographic dividend and high availability of skilled manpower, especially in manufacturing.
- Manufacturing costs are on par with ASEAN and second only to China which is now being bridged with economies of scale.

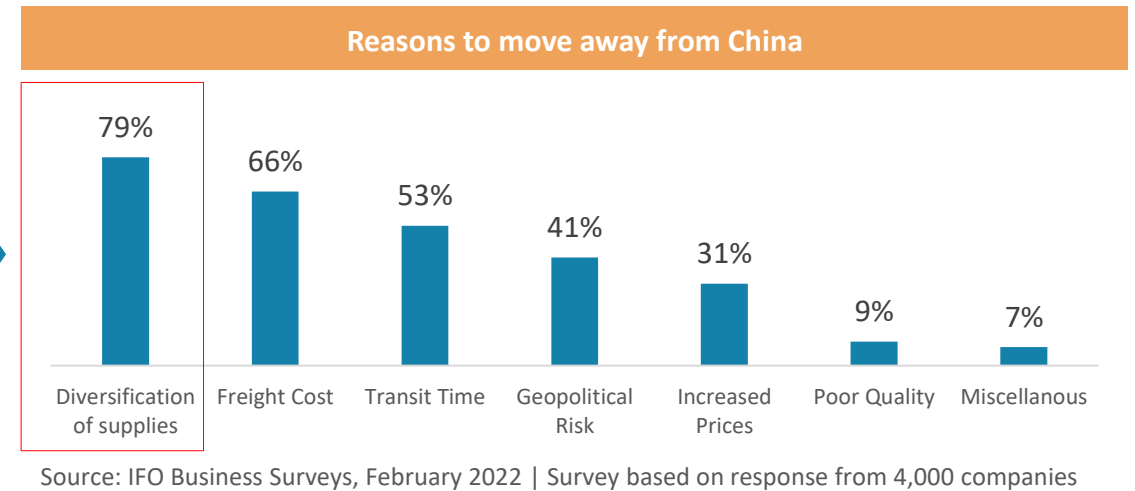
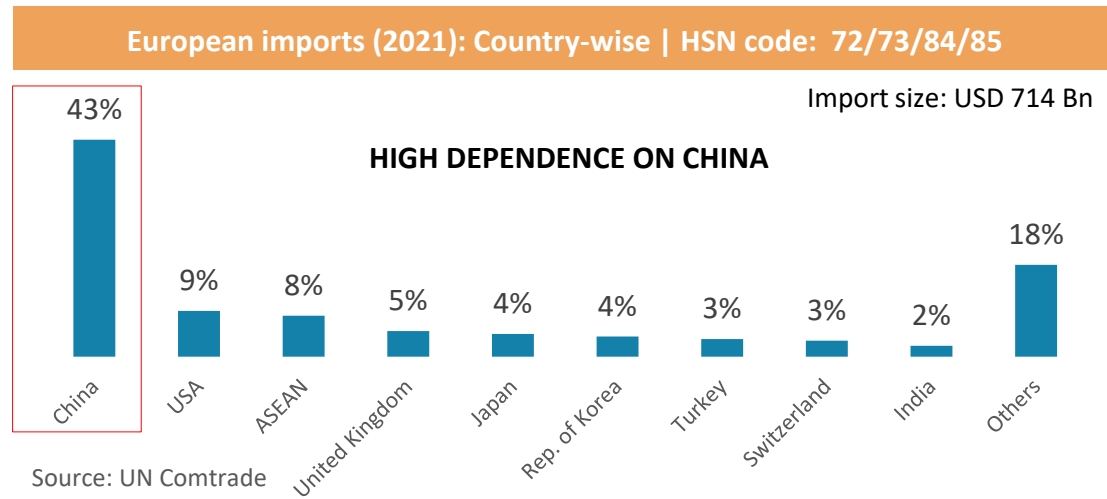
Competitiveness of ASEAN economies

- Proximity to China, and thereby, access to low-cost raw materials has helped ASEAN integrate into the global supply chain dynamics
- A host of FTAs have given these countries access to 60% of the global market at zero/low duty preference
- Government policies promoting FDIs has helped several MNCs set up base in the ASEAN region

Source: World Bank – Ease of Doing Business Report-2020, AGR analysis

High trade dependency of China in European imports

Diversification of key supplies is the dominant reason to move away from China



Incidences of coupling geopolitical issues with trade

“China stopped exporting rare earths to Japan. This came after the Japanese Coast Guard arrested a Chinese captain over an incident off a mutually claimed archipelago in the East China Sea. Only when the Chinese captain was released two months later did China start supplying rare earths to Japan again”

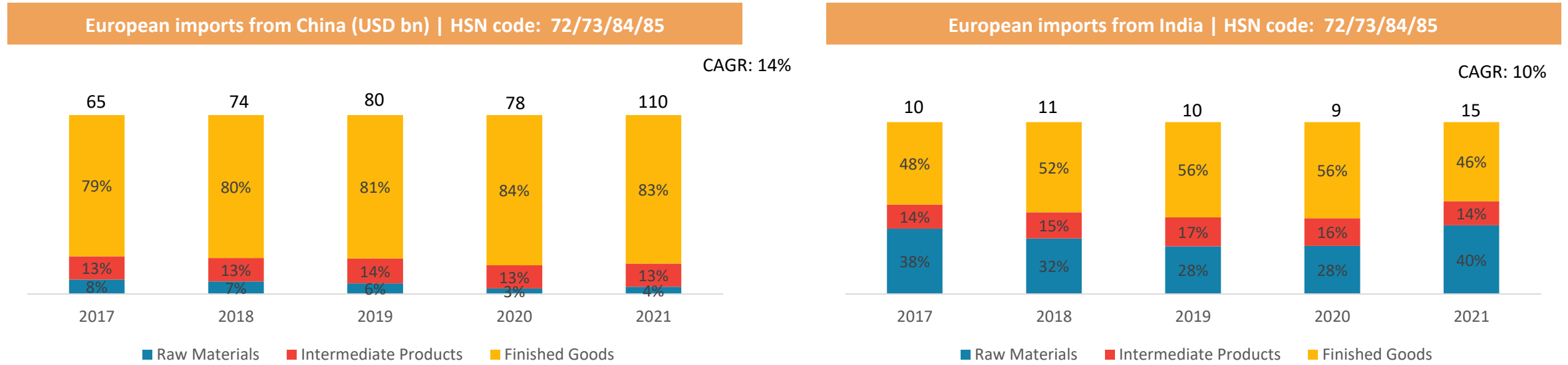
“When Taiwan opened a diplomatic representation in the Lithuanian capital of Vilnius, China removed Lithuania from its customs system and put massive pressure on other European companies to also forgo Lithuanian advance payments for exports to China”

Source: AGR analysis

HS Codes Considered: Raw Materials: HS 72 – Iron and Steel Intermediate Products: HS 73 – Articles of Iron and Steel Finished Goods' 84 – Machinery, Mechanical Appliances, Nuclear Reactors, Boilers, thereof HS 85 – Electrical Machinery, Equipment and Parts

Trade comparison of India , China with the EU

Major export segment for China is the finished goods , whereas it is raw material for India



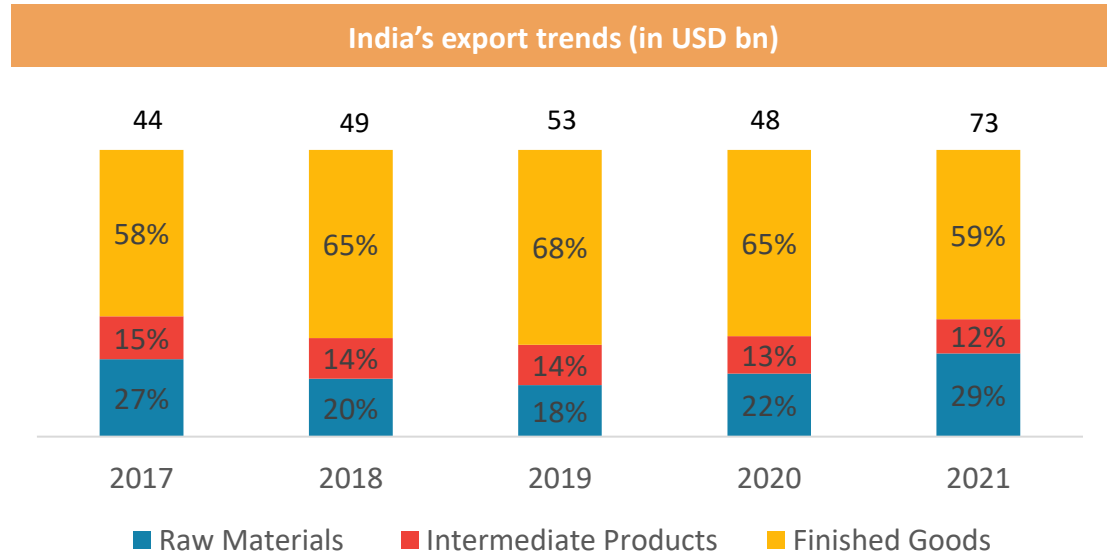
KEY INSIGHTS

- Raw material (iron and steel) exports from India to Europe increased steadily compared to that from China which has been declining continuously since 2017. This indicates **India’s high capability to cater to the European market for raw materials used in the manufacturing industry.**
- The EU can look towards diversifying the import country base for intermediate goods and can consider India for the same, **especially for forged or stamped articles of iron and steel, for which it depends on China (~17% of total imports)**
- **For finished goods, India’s contribution has been increasing at a slow pace when compared with China**

Source: Trade Map, UN Comtrade, AGR analysis

India emerging as a top sourcing country for finished machinery/machine goods supplies

Finished goods contribute approximately 59% to total exports from India, with major importer destinations being the US, Germany, the UAE, China, the UK and Thailand



Top countries importing from India

Categories	Countries
Raw Materials	China, Italy, Belgium, Vietnam, UAE, Nepal, Turkey
Intermediate Products	US, Germany, UK, UAE, Netherlands, Italy
Finished Goods	US, Germany, UAE, China, UK, Thailand



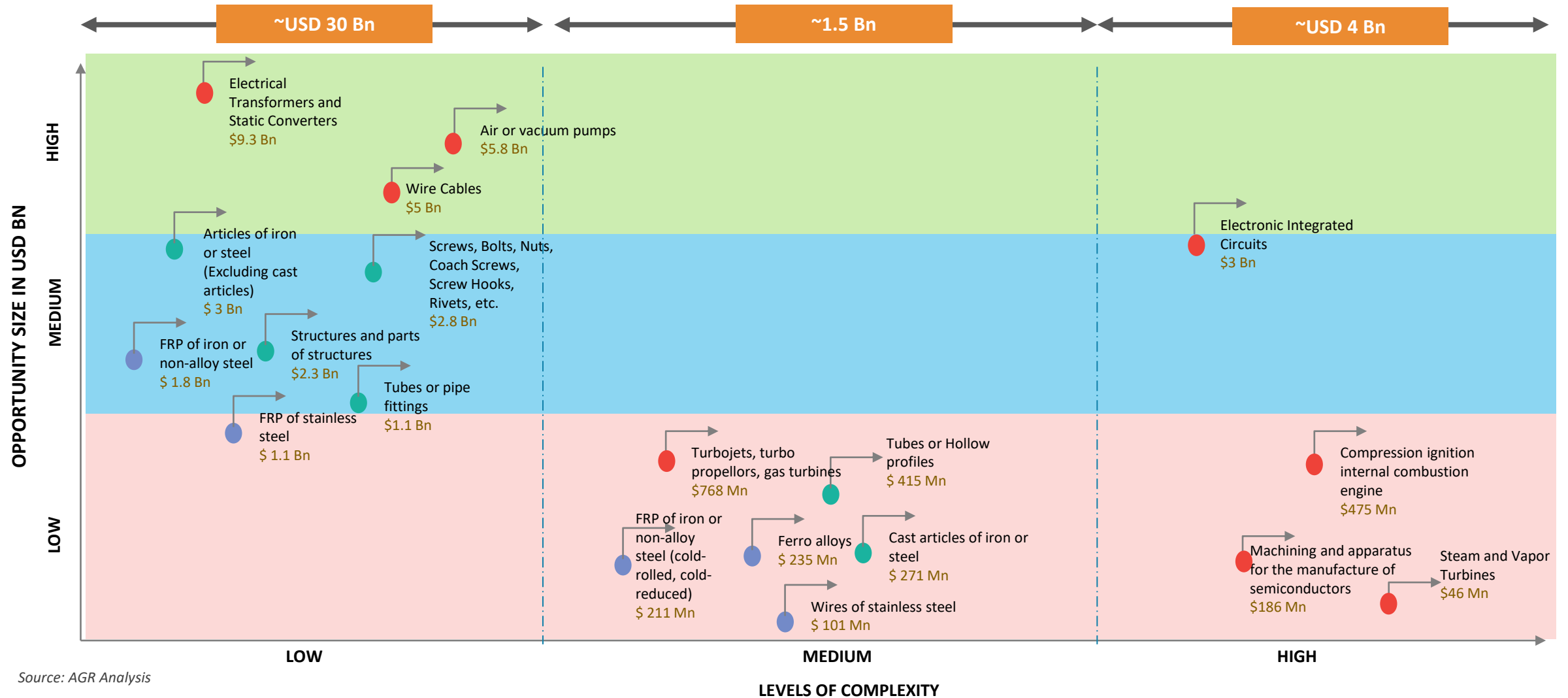
KEY INSIGHTS

- **Finished goods continue to be the major export category for India, with the absolute value increasing approximately 69% from USD25bn in 2017 to USD43bn in 2021.**
- Major importers of Indian finished goods include the US, Germany, the UAE, China, the UK and Thailand.
- **Among finished goods, turbojets, turbo propellers, gas turbines, transmission shafts, diesel or semi-diesel engines and pumps, including air or vacuum pumps, constitute majority of the country's exports.**
- Raw material exports from India rose nearly 81% to USD21bn in 2021 from USD11bn in 2017.

Source: Trade Map, UN Comtrade, AGR analysis

Snapshot of opportunities present to diversify Chinese supplies from India

Major opportunities are present in finished goods exports & Indian companies have the expertise to be a partner of choice



Source: AGR Analysis