

INDIA UNTANGLING THE SUPPLY CHAIN

Numerous reasons have recently led to a comprehensive review of India's strategic engagement with its trading partners. For various reasons, this has affected trade with countries that share a land border with India – and the most affected is China which is India's second largest trading partner after USA.

The Covid outbreak has affected several industries in India. The economy is reeling and jobs are diminishing. During this time a border confrontation with China has brought about a fundamental re-alignment in India's strategy of engagement which disrupts the supply chain for many companies doing business in India.

India has put in to place many restrictions - be it listing out 101 defence items which must be made in India by 2025 and immediately banning 106 mobile applications for national security – including the ever popular Tik-Tok application owned by a Chinese company.

A plethora of measures have been rapidly enacted:

- bringing in Bureau of Indian Standards (BIS) specifications on products being imported in to India;
- a steep duty increase on certain imports (solar, toys); initiating anti-dumping probes on numerous products (aluminium foil 80 micron, chemicals, polyester);
- amending the Foreign Direct Investment (FDI policy);
- restricting government procurement from nations sharing a land border with India and
- mandating country of origin marks on goods sold via e-commerce sites.

Skewed nature of Import dependency on China

Statistically, China accounts for 14% of India's import while India accounts for 3% of China's import. However, India's dependency on China cannot merely be stated in statistics. The importance of this trade relationship was alluded to by the Chinese Ambassador to India who said "*China advocates win-win cooperation and opposes a zero-sum game. Our economies are highly complementary, interwoven and interdependent. Forced decoupling is against the trend and will only lead to a 'lose-lose' outcome.*"

It is far more complex as majority of imports from China are of necessary ingredients for core sectors. Figures suggest that organic chemicals, electronic components & mechanical appliances form 60% of import from China. These imports form the backbone for multiple domestic industries. If one wades a little deep in these statistics, the real picture emerges- 65% of API requirements for pharma, 80% of solar panels, 84% of electronic parts, semi – conductors are sourced from China.

Difficulties Faced by Exporters

Clearly the border situation has precipitated matters to a point where China's trade with India has been severely impacted. A series of unilateral actions taken by the Government is of concern to exporters and importers of Chinese goods into India both for the measures taken, and measures *still to be taken*. The impact of these changes have hit several industries hard: Those who make in India undoubtedly see an opportunity with the exclusion of the China presence; those who import need to rapidly re-jig their supply chain and those who have long term ambitions in India are exploring manufacturing in India.

Fixing the Supply Chain

Companies need to react fast and urgently re-visit their strategy for the Indian market:

- Where products are hit by changes in the FDI policy there is an urgent need to find alternative sources of supply
- Tariff barriers through trade remedial measures need to be defended before the DGTR so as to ensure smooth flow of goods and reasonable rates and products which have an increase in basic duties will need to be addressed through a combination of “Make in India” and potential FTAs.
- Other non-tariff measures such as BIS mandatory standards and country of origins marks need to be complied with

If the full gamut of measures is deployed, preferential trade agreements are to follow, aligning India with like-minded partners who will trade fairly and without conflict. Indeed, the world seems to be heading in that direction.

The Way Ahead

India’s approach to the future seems to be guided by its ambition to be “self-reliant” & to promote exports through an aggressive “Make in India” strategy. Clearly, the process is ongoing and we can expect several more measures to make these ambitions a reality. The government is clearly committed, industry see this as a path to recovery from the Covid impact, and consumers seem supportive of this strategy for multiple reasons, ranging from job security to national pride. If executed well, it could be a game changer, and lead to an alliance of like-minded trading partners who will re-align based on geopolitical ambitions. India is a market of a billion plus aspiring people. A young work force of consumers who cannot be ignored.

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Economic Laws Practice is a 19-year old firm with six offices across India. With 200+ qualified professionals – lawyers, chartered accountants, company secretaries and economists – we assist clients on transactional, advisory, litigation and regulatory matters. Ranked amongst the top ten law firms in India (RSG Report 2019), ELP is recognized as a top tier firm by Chambers Global, Legal 500, IFLR 1000 and Asia law Profiles.

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