

INDIA - UNTANGLING THE SUPPLY CHAIN

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.

These and other reasons have recently led to a comprehensive review of India's strategic engagement with its trading partners. The new regulations as they have been drafted 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.

Through a rapid spate of notifications, 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 reasons – including the ever popular Tik-Tok application owned by a Chinese company or establishing mandatory standards for products sold in India. And, it seems this is just beginning as there is much speculation and conjecture about what will come next:

A plethora of measures have already taken effect:

- 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, chemicals, polyesters);
- amending the Foreign Direct Investment (FDI policy) for countries who share a land border with India;
- restricting government procurement from nations sharing a land border with India and
- mandating country of origin marks on all 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 numbers.

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.

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."

Movement of Goods into India Disrupted

Exporters and importers are suddenly faced with tariff and non-tariff barriers which has drastically affected their supply chains. These series of unilateral actions taken by the Government is all the more disconcerting to exporters not only for the measures taken, but measures *still to be taken*.

BIS standards apply at component level and there is a back-up of pending applications awaiting clearances. Most of these appear to be from China.

The impact of these changes have hit several industries hard: Those who seek to make in India undoubtedly see an opportunity; 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, but sourcing carefully.

Fixing the Supply Chain

To tackle the prevailing scenario, the Government has multiple tariff and non-tariff measures at its disposal, such as licensing regime for goods manufactured by priority sector; imposing quantity restriction through quota system; revamp mandatory prescription(s) of product standards (already done for electronic items like LCD, Laptops) introduce central import monitoring system to track & control surge of import (already in place for Steel).

For the first time, the Government is aggressively pursuing a dual strategy of import de-growth and an aggressive campaign inviting exporters to make their products in India.

Companies need to react fast, and urgently re-visit their strategy for the Indian market. Goods must be able to flow with certainty of regulation and least burden into India:

- Where products are hit by changes in the import policy/high tariff there is an urgent need to find alternative sources of supply
- Trade remedial measures need to be defended before the DGTR so as to ensure smooth flow of goods at reasonable rates
- Products which (will) have an increase in basic duties need to be addressed through a combination of "Make in India" and potential FTAs that India has in the pipeline.
- Other non-tariff measures such as BIS mandatory standards and country of origins marks need to be complied with as a priority so as not to disrupt supplies

India is re-aligning India's trade 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. The process is ongoing and we can expect several more measures to make these ambitions a reality; however in the short term this is going to be hugely disruptive for those who have their supply chains dependent on China .

While the Government is clearly determined to grow trade with like-minded nations, industry sees 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. The question is whether your business is ready to tackle these changes and is ahead of these curve?

If executed well, it could be a game changer, and lead to an alliance of like-minded trading partners who will trade based on geopolitical ambitions. India is a market of a billion plus aspiring people. A young work force of consumers who cannot be ignored and more interestingly it is well positioned to be a supply hub for global ambitions displacing China from its present dominant position as 'factory to the world'.

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Solutions for Business

ELP has been supporting our clients on all aspects concerning the movement of goods across borders since close to two decades now. We work with partners and clients around the globe to find innovative and pragmatic solutions within the framework of the law to support our clients. Our wide gamut of offerings and deep understanding of issues around customs, trade and tax enable us to structure optimal supply chains to ensure certainty of supplies, predictability of regulations and commercial prudence.

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