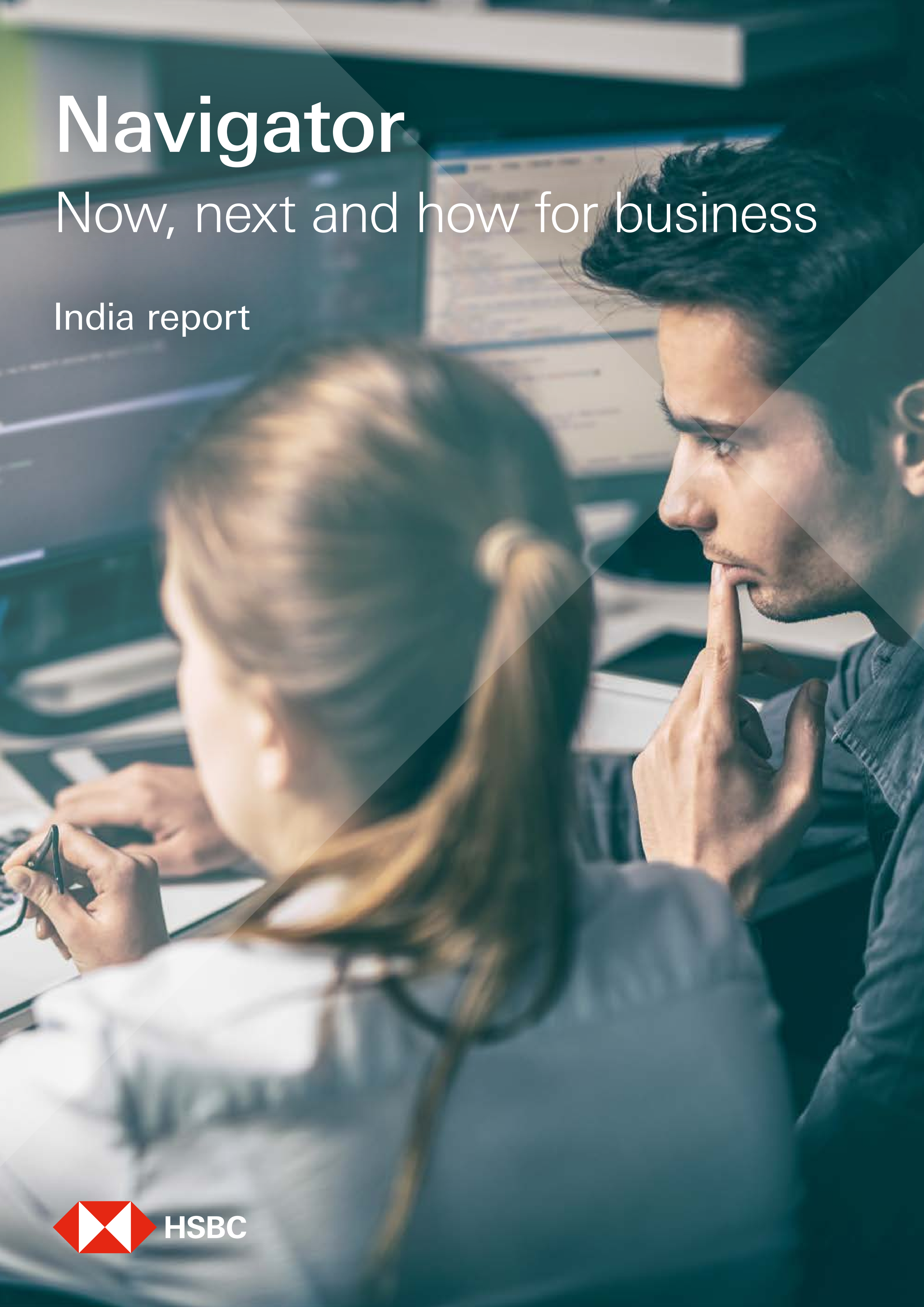
Navigator

Now, next and how for business

India report



HSBC

India

Being hi-tech, focusing East

Domestic events, that depressed GDP growth to a four-year low in 2017, feature little on Indian firms' minds as they begin 2018. There is strong optimism about demand for their products in the global markets, while prospects at home are also picking up. Prospects are bright with trade with emerging Asia expanding rapidly. But firms remain concerned about risks of protectionism harming their prospects in traditional Western markets, chiefly the US.

Short-Term Snapshot

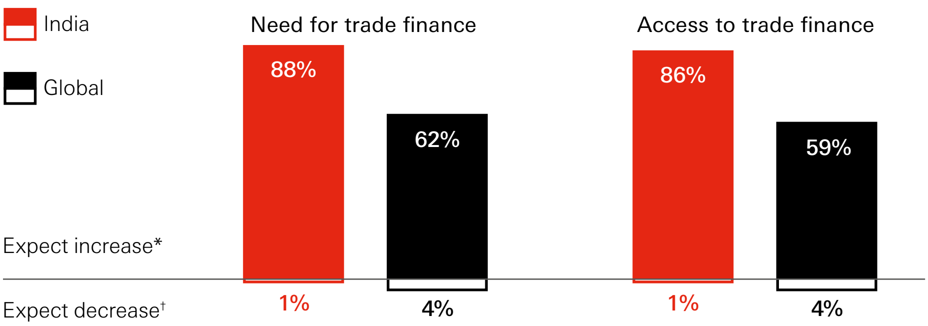
Two key economic policy measures - demonetisation and implementation of goods and services tax - weighed on India's growth in 2017. But a recovery is already underway and should pick up momentum in 2018, supported by stronger consumer spending and a gradual pick-up in investment. Exports will be well placed to benefit from the positive global environment and buoyant world trade growth in the year ahead. This is corroborated by our survey, which shows a high degree of optimism exists among businesses surveyed with nearly all (94% vs. the global average of 77%) saying they expect their trade volume to increase in the next twelve months.

Firms expect robust global demand for their products, technological advancement and growth in e-commerce to boost trade performance. Western markets remain top targets, with survey respondents expecting these to remain the fastest-growing markets for their goods. Looking across Asia Pacific, more businesses in India claim to be currently partnering with Australia than in any other market. Businesses will continue to focus on these partnerships in the next 3 to 5 years, although some spread across markets is also expected.

Action points for business

- Firms should be mindful of the domestic developments and take advantage of the simplification and streamlining of the GST regime to further boost exports, in an environment of positive global demand.
- Domestic lending conditions may tighten, in the wake of the recent banking scandals. Firms should be prepared for this and manage their customers' expectations in advance.

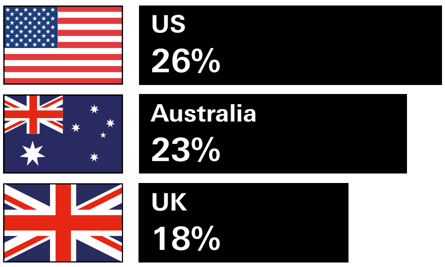
Outlook for trade finance need and access in the next 12 months



*Expect increase = Increase significantly + Increase slightly
†Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

Which are the top 3 markets where your business will look to expand in the next 3-5 years?



Source: TNS Kantar

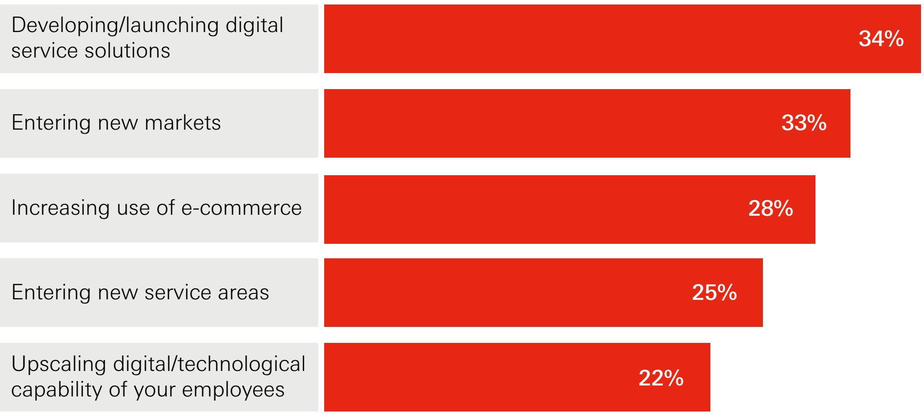
More than 80% of the surveyed firms see their trade finance needs and ability to access it increase over the coming year. Firms continue to worry about transaction costs, exchange rate volatility and regulatory issues, but overall are not too concerned about accessing finance - only 1% expect more difficulty in obtaining credit in the year ahead. However, bank lending terms and conditions may tighten in response to the recent banking frauds, so firms should be mindful of this while scheduling their payments (exporters would also benefit by applying for tax credit refunds in a timely manner to alleviate GST-related stress on working capital needs).

Services are the mainstay of India's exports. While India runs a trade deficit in goods, it is a net exporter of services. ICT services dominate India's services exports, and account for almost half of the total. In 2016, business-to-business (B2B) services and tourism and travel contributed 22% and 13% respectively to total services trade.

Accordingly, the overwhelming majority of Indian firms (81%, 20pp more than the global average) expect their trade in services to increase in the next 12 months. In line with the trend so far, digital services are expected to play a higher role in services growth with key drivers being technology enhancements and e-commerce growth. This is supported by businesses looking to enter new markets & new service areas.

Robust global demand for India's exports, along with rising investment in technology by Indian firms and positive outlook for e-commerce, support short-term trade prospects.

How do you plan to grow your services business?



Source: TNS Kantar

Trade Policy Developments

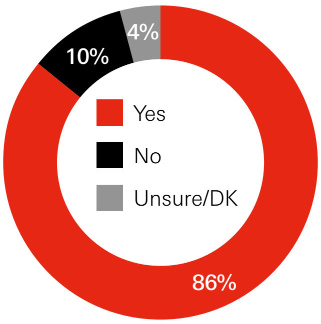
Raising the share of trade with neighbouring economies has been high on India's agenda for some time, and has become even more important given the rising risk of protectionism in the West. However, despite the South Asia Free Trade Agreement (SAFTA) and the ASEAN-India Free Trade Area (AIFTA), progress in actually growing trade with Asian neighbours has been slow. Now all eyes are on the Regional Comprehensive Economic Partnership (RCEP), to which India is an intended signatory. When concluded RCEP would be the world's largest trading block, which will give a meaningful boost to India's goods and services trade prospects and facilitate its 'Act East Policy'.

Of all the countries surveyed, Indian firms are most concerned about protectionism. Survey data shows that almost nine in ten businesses in India feel that governments are turning increasingly protectionist, leading to a rise in the cost of doing international business, altering trade routes and raising hurdles to obtaining trade finance.

Action points for business

- Despite SAFTA, South Asia remains one of the least integrated regions so far. In an environment of rising protectionism in the US, Indian firms should focus more on their backyard, finding mutual grounds to tackle issues such as high transaction costs.
- Firms should position themselves to benefit from the economies of scale provided by the RCEP and China's Belt and Road, instead of campaigning against such initiatives.

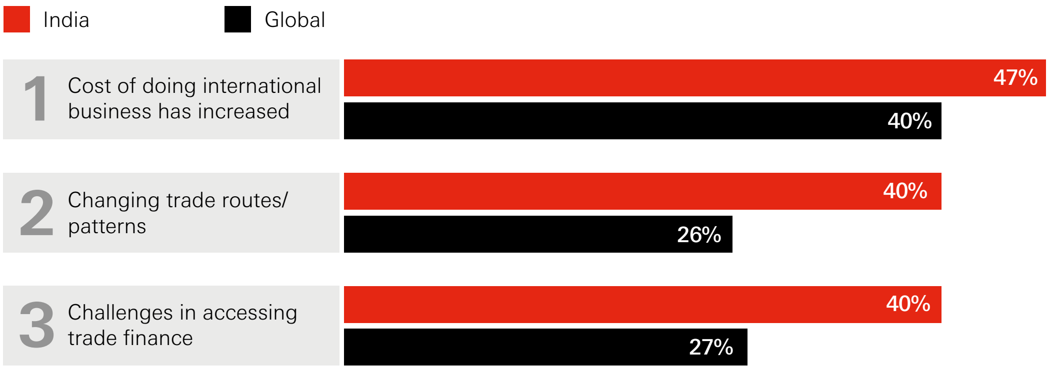
Are governments becoming more protective of their domestic business?



Note: may not total 100% due to rounding

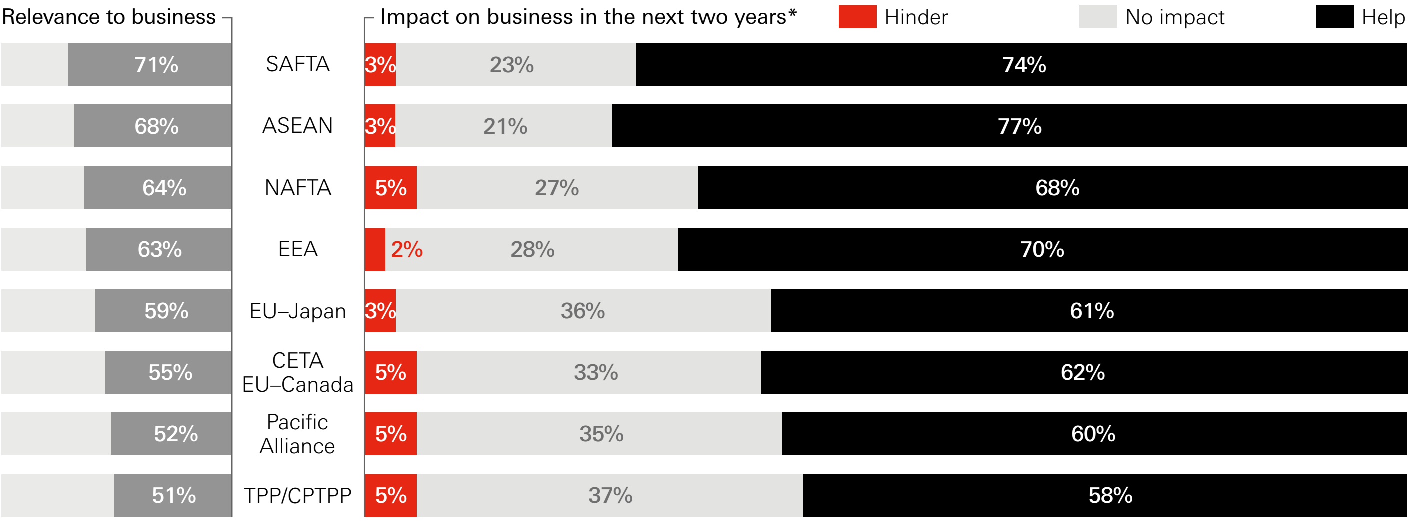
Source: TNS Kantar

Top 3 impacts of protective policies on my business



Source: TNS Kantar

Relevance and impact of trade agreements



Source: TNS Kantar

*May not total 100% due to rounding

As a result of especially-high concern about protectionism, trade initiatives that are likely to lower trade barriers are viewed positively in India. Firms are most united in the positive impact of ASEAN 2025 and SAFTA on their businesses. And perhaps surprisingly, even with the negative press around H1B visas, most firms (63%) believe that US policies and regulatory environment will be beneficial for their businesses. The firms are less optimistic about China's Belt and Road initiative though, with 22% respondents indicating a negative impact on their business.

> Indian firms expect ASEAN 2025 and US policy environment to have the most positive impact on their businesses.

Long-Term Outlook for Trade

India's favourable demographics, a rising middle class and growing infrastructure spending should seal its position as one of the fastest growing economies over the coming decade, and a favoured exports and investment destination. The goods and services tax alone could add 0.4pp to GDP growth over the medium-term, as a result of the government using the proceeds to invest in productivity-enhancing infrastructure and by increasing the efficiency of business organisation. By then India is also expected to be more integrated with the rest of the world through its evolving ICT exports and a vibrant start-up ecosystem. Moreover, India's manufacturing exports will benefit from the revival in the global industrial cycle, as it coincides with increased government efforts to transform India into a global manufacturing hub - 'Make in India' program.

The gains could be even higher if the pipeline of economic reforms is accelerated leading to a substantial improvement in India's investment climate. On the downside though, some key industrial sectors (including infrastructure, power and telecoms) look too heavily-indebted, and need to start paying down their debts to help lower risk in the financial sector.

High value-added exports to rise in importance
Recent trends in India's exports will persist in the long run, with the share of medium and high-tech manufacturing goods becoming increasingly important. In 2030, mineral manufacturers, transport and equipment and petroleum products will be the top three exports sectors, with clothing and apparel not even featuring in top five (as opposed to being third currently).

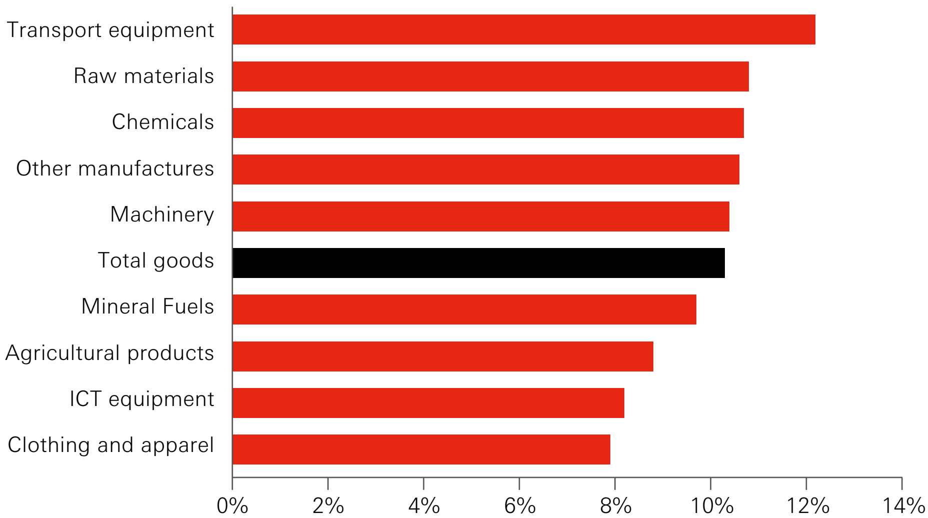
This trend will also be mirrored in the fastest growing export sectors. Transport equipment tops the list, growing slightly above 12% annually in the long run. Between 2017 and 2030, mineral manufactures, transport equipment and petroleum products contribute one third to total goods exports growth for India. Industrial machinery also moves up the ranks, emerging as the fourth largest contributor to goods exports growth in 2021-2030. While this is indicative of India's improving productivity in manufacturing, greater gains to the sector and overall economy can accrue if there is a more even balance between low and high value-added manufacturing.

Action points for business

- Firms should collaborate and campaign with the government to improve competitiveness in manufacturing exports to compensate for the slower, albeit healthy, rate of growth of services exports.
- Making forays into low value-added, labour intensive manufacturing is one way to boost exports. Not only would this take advantage of India's economies of scale, but by mobilise more people into formal employment, would improve prospects for FDI and in turn, trade.

Key sectoral trends persist in the long run, with little shift in the balance of manufacturing exports.

Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	USA	USA
2	UAE	UAE
3	Hong Kong	China
4	UK	Hong Kong
5	China	Vietnam

Note: Ranking among the 24 trade partners covered in the forecast

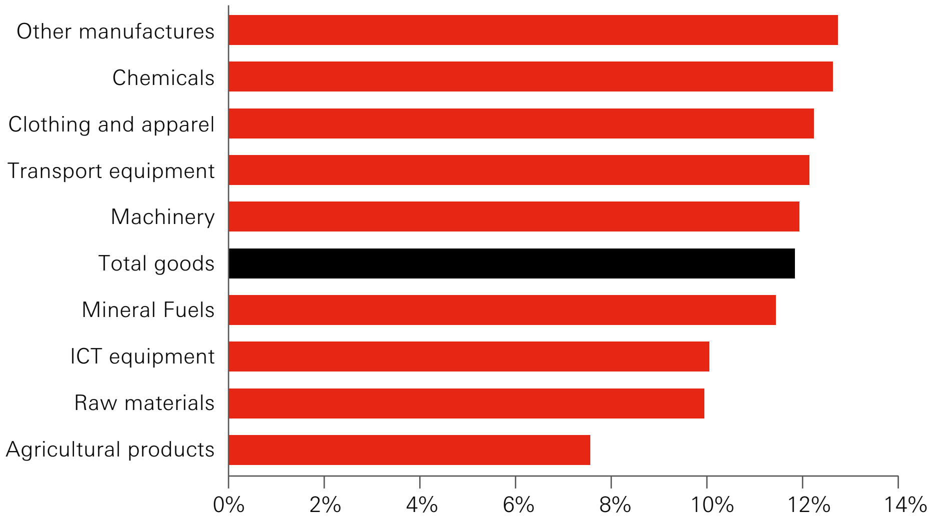
Source: Oxford Economics

By 2030, India will be increasingly exporting goods within the region, with export growth to Asia Pacific outpacing India's exports to Europe and North America. In terms of individual countries, the US and UAE will remain the top two exports destinations., but China will rise in importance and Vietnam will also join the top five list. The top ten fastest growing exports destinations will almost all be in Asia upto 2020. The only exceptions are Brazil, Mexico and UAE. In the long-run, exports to China, Vietnam, Bangladesh and Malaysia are forecast to rise by 12-13% per annum. But the pace could be even faster if key bilateral and multilateral trade agreements are effectively enforced.

Export growth to Asia Pacific will surpass North America and Europe by 2030.

Expanding middle class drives increasing demand for imports
India's import mix reflects its development needs, low endowment of easily extractable natural resources and rising demands of a rapidly expanding middle class. India's still-evolving industrial sector relies heavily on imports of machinery, and we expect industrial machinery to remain the most important sector for goods imports until 2030. This is followed by mineral manufactures and petroleum imports. Despite a strong push by the government towards raising the share of renewables in the energy mix, India's rapidly growing energy demand will continue to rely on the traditional sources of fuel up to 2030. These three sectors are expected to contribute around 40% of total import growth in the near term (2017-2020) and longer-term (2021-2030).

Imports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Top 5 Hotlist origins of goods imports

Rank	2016	2030
1	China	China
2	USA	USA
3	UAE	UAE
4	Saudi Arabia	Saudi Arabia
5	Hong Kong	Indonesia

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

China is India's largest import destination currently and up to 2030. Given its geographical proximity, technological expertise and competitive pricing, it is well positioned to fulfil India's rising demand for industrial machinery and other manufactured goods. The US features second in the list of top-five import sources for India, followed by the oil rich economies – UAE and Saudi Arabia.

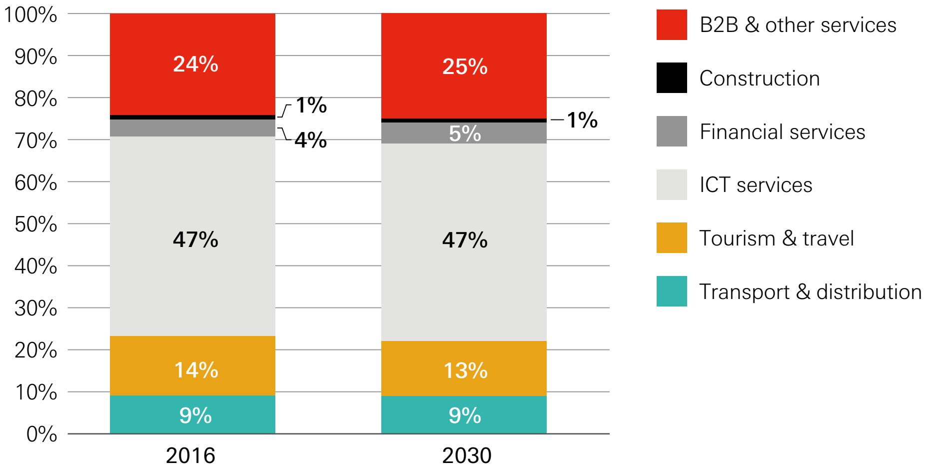
Although this suggests relatively low reliance on Asia-ex China, emerging Asia is the fastest growing source of imports for India in the long run. Vietnam, China and Malaysia increase goods shipments to India by 11-14% per year over the long run, while the US sees its shipments rise only 9% per year. Indonesia also appears as a new entry in the top five import origin rankings in 2030.

Diversifying services export destinations

India's services exports are expected to grow at a healthy pace of 10% annually over 2017-2030, a tad slower than goods exports. India's rising focus on upskilling the workforce will enable it to position itself to reap maximum benefits form services trade liberalisation, facilitated by trade pacts such as RCEP. We forecast ICT services will remain India's largest services exports, contributing close to 50% to total services exports growth, both in the in the short (up to 2020) and long run (2021-2030). Other business services, including finance, as well as transport services exports are other sectors where growth is expected to be resilient. With its well-diversified tourism offering (complemented by an increasingly-important medical tourism sub-sector), we expect exports of travel and tourism services to remain a key part of India's export mix, accounting for 12% of total in 2030.

Services export growth will moderate, but remain healthy as new opportunities arise in Asia and other developing economies.

Sectoral shares in total services exports



Source: Oxford Economics

Top 5 Hotlist destinations of services exports

Rank	2016	2030
1	USA	USA
2	UK	UK
3	UAE	UAE
4	China	China
5	Germany	Germany

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

India's top service exports destinations are largely unchanged between 2017 and 2030, with the US and UK occupying the top two spots. Reflecting the large number of Indian engineering firms reaching out to the Middle East countries, UAE is third. In 2030, UAE will account for nearly one-third of India's total transport and distribution services exports. China and Indonesia, however, are India's fastest growing services exports destination (11% per annum) in the long run. Other developing economies, like Turkey, Malaysia and Vietnam, also feature high in this list.

This reflects India's rise as a tourist destination, while diversifying its larger services exports away from the traditional markets. Indeed, the share of Asia in India's ICT exports has been steadily rising. And with almost a third of Indian firms viewing new markets and services as an important driver of services exports growth, we could see much faster growth in services exports to rest of Asia than currently anticipated. But this would require lowering of services trade barriers, not only in India, but across Asia.

About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC's own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics' suite of models used to ensure consistency between HSBC's forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter's competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics' Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- For trade in goods, sectors are classified according to the UN's Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics' long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

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