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Doing business in India

India is primed for growth, with significant steps being taken to improve the business environment. Recent efforts to encourage manufacturing and infrastructure development and support SMEs are driving renewed interest and opportunities for companies wanting to do business in, and trade with, India.

Geopolitical and economic overview

India's exports increased by 6.16% year-on-year to US$27.45bn in January 2021, driven primarily by growth in the pharmaceutical and engineering sectors, with imports rising 2% to US$42bn, according to provisional data from the ministry of commerce.

It's welcome news for a nation trying to reverse the economic impact of one of the world's most stringent Covid-19 lockdowns and an unprecedented large-scale reverse migration of labour.

According to the UN, India's economy is projected to grow at 7.3% in 2021, having contracted by an estimated 9.6% last year. The Centre for Economics and Business Research forecasts India becoming the world's third-largest economy by 2030, overtaking the UK in 2025, Germany in 2027 and Japan in 2030.

A new spending plan is expected to kick-start action. The government's much-anticipated Rs34.5 lakh crore 2021-22 Budget "provides every opportunity for [the] economy to raise and capture the pace that it needs for sustainable growth", said Finance Minister Nirmala Sitharaman during her Budget speech at the start of February.

The plans outline commitments of unparalleled sums of money to critical priorities such as infrastructure, spanning roads, power generation, bridges and ports; financial lending, including the creation of a development financial institution (DFI); and healthcare.

"The government has very explicitly stated its desire to continue to work at an unprecedented pace in helping the country get back on its feet," says Mayank Gupta, Head of Trade, Treasury and Trade Solutions, South Asia at Citi.

Today, Gupta says, India is in a sweet spot. "Political stability coupled with the government's focus on ease of doing business is paying dividends. Infrastructure is constantly improving, demographics are favourable, the currency is range bound and interest rates are at historical lows. All this makes India a very attractive alternative destination for companies to build a presence and reorganise their supply chains."

The foreign direct investment (FDI) figures look positive. According to the UN Conference on Trade and Development (UNCTAD), India's FDI levels jumped 13% in 2020 compared to the year before, boosted by investment in the digital sector, which has attracted record numbers of deals in areas such as e-commerce platforms, data processing services and digital payments.

"Starting towards the end of 2020 and going into 2021, there have been a few positive developments. Governments have been able to roll back lockdowns in most territories. Goods and services tax (GST) collections and fuel consumption have witnessed a reasonably strong bounce back as the economy starts getting back on its feet. The overall environment has become much more optimistic," says Gupta.

Trade opportunities

India's trade environment has responded well. "Both imports and exports have seen a change of trajectory; exports more so, and this has had a direct bearing on employment numbers in the country," says Gupta.

Although India has long been a renowned hotspot for back-office services trade, for the last several years it has also been seeking to establish itself as a global manufacturing hub, an ambition aided by the government's 'Make in India' campaign.

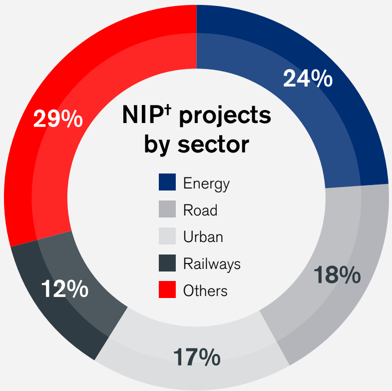
In a bid to further boost these efforts, in 2020 the government signed off on a new Production Linked Incentive scheme to encourage local and foreign enterprises to invest in the country's manufacturing sector.

The scheme, outlined in the recent Budget to be worth Rs1.97 lakh crore over the next five years, is available to 13 sectors, including technology, telecoms and pharmaceuticals. It aims to remunerate manufacturers for increasing total manufacturing output and reward them for increasing the production of key goods in India. Similar schemes have been rolled out for manufacturers of large-scale electronics, medical devices and bulk drugs.

For the last few years, technology companies, such as Apple and – more recently – Xiaomi, have been shifting some of their production to India. The country is now the second-largest mobile manufacturer in the world, after China.

It is hoped that more sectors will follow the same trajectory. "Driven by government policies, we have seen other sectors like telecom equipment, semiconductors, electric vehicles, laptop manufacturers and other consumer electronics manufacturing ecosystems looking at India as their preferred destination," says Gupta.

"At Citi, we speak to parent companies and their subsidiaries around the world, and we're seeing unprecedented interest in India, its policies, and the opportunities it presents. We'll continue



† The Indian government's National Infrastructure Pipeline

RS1.97 LAKH CRORE FOR 13 SECTORS OVER THE NEXT 5 YEARS

The Indian government's commitment to create manufacturing champions, as outlined in 2021/22 Budget

Mayank Gupta, Citi

"Political stability coupled with the government's focus on ease of doing business is paying dividends."

Snapshot

Currency in India	Ease of doing business	Economic growth
Indian rupee	63* (ranked out of 190 countries)	7.3%**

*World Bank Group: Doing Business 2020
**UN forecast for 2021

to see how this plays out, but we've already seen many clients and companies in the handset manufacturing ecosystem either setting up or ramping up presence in India."

Overcoming challenges

In its Doing Business 2020 report, the World Bank highlights India as one of 10 economies that has made "notable improvement".

New labour laws codified at the start of this year around employment conditions, social security and occupational health, and safety and working conditions, are expected to improve India's ease of doing business ranking even further.

Executing reforms in a timely manner, policy simplification and digitisation are demonstrative of an improving business environment, says Gupta.

Despite the good headway that the country is making, there are still areas for development. "Improvements are notable, but India still has some distance to cover to truly tap into its true potential," he adds.

Infrastructure, too, still has some way to go. In its 2019 Economic Survey, the Organisation for Economic Co-operation and Development (OECD) notes that labour-intensive manufacturing exports and foreign investment can be boosted by further improvements to infrastructure, in particular transport and energy provision.

But one must give credit where it is due, says Gupta. "The country is trying, including at the highest level within the Prime Minister's office, to roll out the red carpet and encourage companies to come into India."

This includes introducing new mechanisms and measures – such as the services of a dedicated relationship manager – to assist foreign investors set up facilities. Elsewhere, the government has implemented electronic invoicing for business-to-business transactions under the GST regime as part of its Digital India campaign.

"Whether it is easing FDI, simplifying the process of coming in and setting up, or digitising and helping ease of business, there are many things that the government is doing to facilitate this."

Financing support

Indian infrastructure projects have at times struggled to secure long-term capital. Moreover, over the years, many of India's DFIs have transformed into large-scale commercial banks. The planned launch of the government's new DFI, with a capital base of Rs20,000 crore, will mean that the country will not only have its stated ambitions with regards to infrastructure, but also the financing to go with it, says Gupta.

Another area in need of attention is access to financing for India's micro, small and medium-sized enterprises – the country's employment generators and vital cogs in its supply chains – which, according to the World Bank, contribute 30% to its GDP and 40% to exports. Today, only about 8% of these companies are served by formal credit channels.

Again, the government has introduced plans to increase the flow of financing to these companies – especially necessary today, given their severe financial constraints as a result of the Covid-19 crisis.

One such initiative is the Trade Receivables Discounting System (TReDS), an electronic platform for facilitating the financing of trade receivables of MSMEs through multiple financiers. According to the Receivables Exchange of India, one of the three entities that has been operating TReDS, since its launch in 2017 the platform has processed over Rs24,000 crore-worth of invoices, helping more than 14,000 MSMEs with better liquidity and access to funds.

Elsewhere, the state's Nirvik export credit insurance scheme, first unveiled in 2019, aims to increase insurance cover with an up to 90% government guarantee on the principal amount and interest, while also reducing premiums for SME exporters and simplifying procedures for claims and settlements.

"The market is evolving. Historically, it was only the state banks that were lending to these companies, but now we've seen some of the private and multinational banks – as well as corporates who want to ensure that their suppliers are well-funded – getting involved," says Gupta.

"At Citi in India, we have also made that conscious shift, where instead of thinking of the corporate as a singular customer, we're using tools to provide liquidity into its wider ecosystem. With our ability to service both large corporates and SMEs, we have greater visibility of the flow within this ecosystem, and a lot of data and analytics around that to support new credit opportunities."

Citi's "Doing business in…." series, exclusive to **GTR**, takes a look at the practicalities of doing business in, and engaging in cross-border trade with, high-growth, complex markets. This first instalment focuses on India, and showcases the views of Mayank Gupta, Head of Trade, Treasury and Trade Solutions, South Asia at Citi.