

Auto Bytes

July 2020

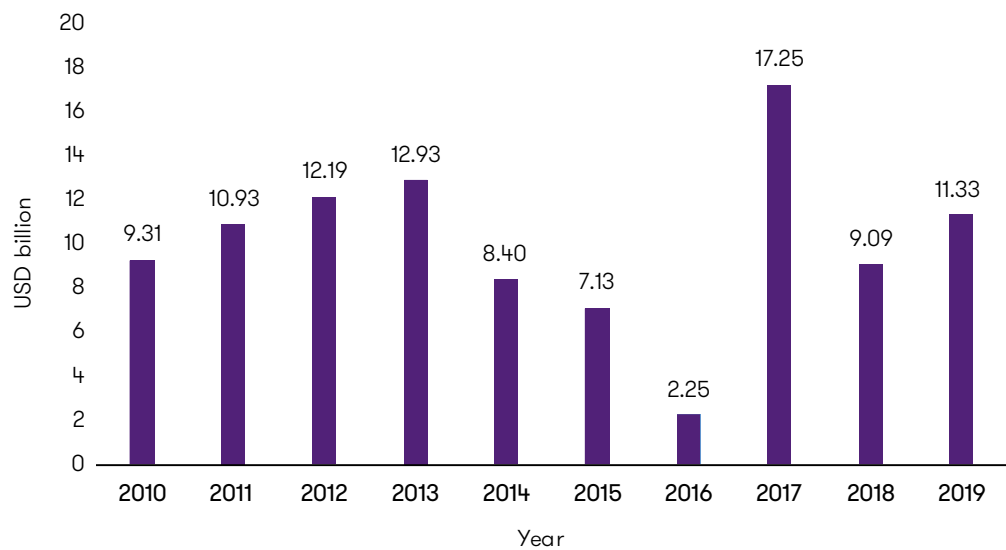


India's free trade agreements - how automotive business would respond?

The automobile industry in India saw robust growth in the last two decades. The entry of global auto majors into the country altered the automobile manufacturing landscape significantly by making India a prominent exporter of automobiles.

Exports of vehicles from India increased to USD 11.33 billion in 2019 from USD 9.09 billion in 2018, indicating the growing capability of the industry to meet international standards and the increasing acceptance of automobiles manufactured from India in the global market.

India exports of vehicles



The industry today stares at challenges arising out of an economic slowdown and a pandemic. The COVID-19 pandemic has created far reaching long-term implications on the industry's trade and growth projections and it has entered its worst recession. The World Trade Organization (WTO) has projected global merchandise trade to plummet between 13% and 32% in 2020 due to the COVID-19 pandemic.



India and foreign trade

India has 42 trade agreements (including PTAs) of which 13 are in effect, 16 are under negotiation, 12 are proposed/under negotiation/study and one is signed but not yet implemented.

The top five trading partners of India are the United States of America (USA), China, the United Arab Emirates (UAE), Saudi Arabia and Hong Kong. In Asia, India encourages foreign investment in the automobile sector and allows 100% foreign direct investment (FDI) under the automatic route. It is one among the top countries with maximum number of free trade agreements (FTAs) and preferential trade agreement (PTAs) either in operation or under negotiation.

So far it has signed FTA or Comprehensive Economic Partnership Agreement (CEPA) deals with ASEAN, Japan, Malaysia, Republic of Korea (ROK), Thailand and Singapore, among others. India is vigorously pursuing the conclusion of negotiations under the Doha Development Agenda (DDA) while negotiating bilateral, regional and multilateral trading arrangements.

The benefits from the FTAs, however, have been very limited for India. The rising trade deficit has forced India to fix the

Relooking FTAs

Foreign investors and companies are now eyeing other Asian countries, including India, after coronavirus slumped China's economy. Renegotiating tariff rates with mutual recognition of standards should resolve asymmetrical tariff commitments and entry of non-tariff entry barriers. The review of FTAs would make them more user-friendly, simple and trade facilitative for businesses. It would also induce automotive players, looking for an alternate source of suppliers and manufacturers, to identify diversified locations to meet their import needs.

The utilisation rate of FTAs needs to increase for both partnering countries under agreement. The countries must also encourage rationalisation and flexibility of rules of origin, upgrade origin administration, improve business participation in FTA consultations and strengthen institutional support systems for small and medium enterprises.

There are 70 million traders and majority of them are micro, small and medium enterprises (MSMEs) in India. These MSMEs are also dependent on Chinese raw, semi-finished and finished products such as iron and steel, auto components and other parts required for vehicle manufacturing. The halt of exports from China has affected MSMEs the most. It has once again brought to the need to reduce dependency on China and increase manufacturing in India.

trade balance with FTA partners. India has proposed to put in place an auto-trigger mechanism to safeguard any sudden surge in imports from the Regional Comprehensive Economic Partnership (RCEP) countries, especially China, with which it suffers a USD 3.6 billion trade deficit.

India backed out of the proposed FTA under RCEP in 2019 after the group did not assuage its concerns over being swamped by imports and putting its domestic industry and agriculture at risk. The trade bloc then offered India a package to return to the negotiation table, taking into account the country's concerns over tariff base rates and special trade safeguards. Therefore, India holds key opportunities to develop country-specific strategies to strengthen its overall position in international trade.

The time is opportune for the country to realise its potential and serve the upcoming possibilities and rising opportunities from the rest of the world.

During FY20, India's exports contracted 4.8% to USD 314.3 billion while imports shrank 9.1% to USD 467.2 billion, leaving a trade deficit of USD 152.9 billion.

The impact of COVID-19 on China is visible in its falling FDI and outbound investments. In Q1 2020, FDI in China came down 10.8% y-o-y to USD 31.2 billion. In the same quarter in 2019, the FDI had grown 5.8% y-o-y to USD 136.71 billion. Meanwhile, outbound investment declined 8.2% y-o-y to USD 110.6 billion.

India's manufacturing Purchasing Manager's Index (PMI) fell to 27.4 in April 2020 from 51.8 in March 2020 and far below market consensus of 42. India's services PMI fell to 5.4 in April 2020 from 49.3 in March 2020 and far below market expectations of 40.0.

Until February 2020, exports from India touched USD 292.9 billion while imports stood at USD 436.03 billion.

Vehicle exporting countries

Rank	Exporter	% change	Bilateral trade
1	Germany	-8.20%	FTA under negotiation ²
2	Japan	-1.10%	CEPA ¹
3	United States	9.20%	FTA talks initiated (Ministry for Commerce and Industry) ²
4	Mexico	0.60%	PTA, Global Systems of Trade Preferences (GSPT) ¹
5	Canada	-0.70%	CEPA under Negotiation ²
6	South Korea	5.80%	CEPA ¹
7	Belgium	13.30%	FTA under negotiation ²
8	United Kingdom	-8.30%	FTA under negotiation ²
9	Spain	-2.10%	FTA under negotiation ²
10	Slovakia	9.20%	FTA under negotiation ²
19	China	0.10%	PTA, Asia Pacific Trade Agreement (APTA) ¹
22	India	-5.30%	

Automotive parts exporting countries

Rank	Exporter	% change	Bilateral trade
1	Germany	-8.30%	
2	United States	-5.90%	
3	China	-3.50%	
4	Japan	-8.90%	
5	Mexico	3.10%	
6	South Korea	-2.60%	
7	Czech Republic	-3.20%	FTA under negotiation ²
8	Italy	-4.50%	FTA under negotiation ²
9	Poland	-1.0%	FTA under negotiation ²
10	France	-10.90%	FTA under negotiation ²
19	India	-0.021%	

*Percentage change in the value of overall export in 2019 compared to 2018.

1. Agreements in effect with India

2. Agreements under negotiation with India

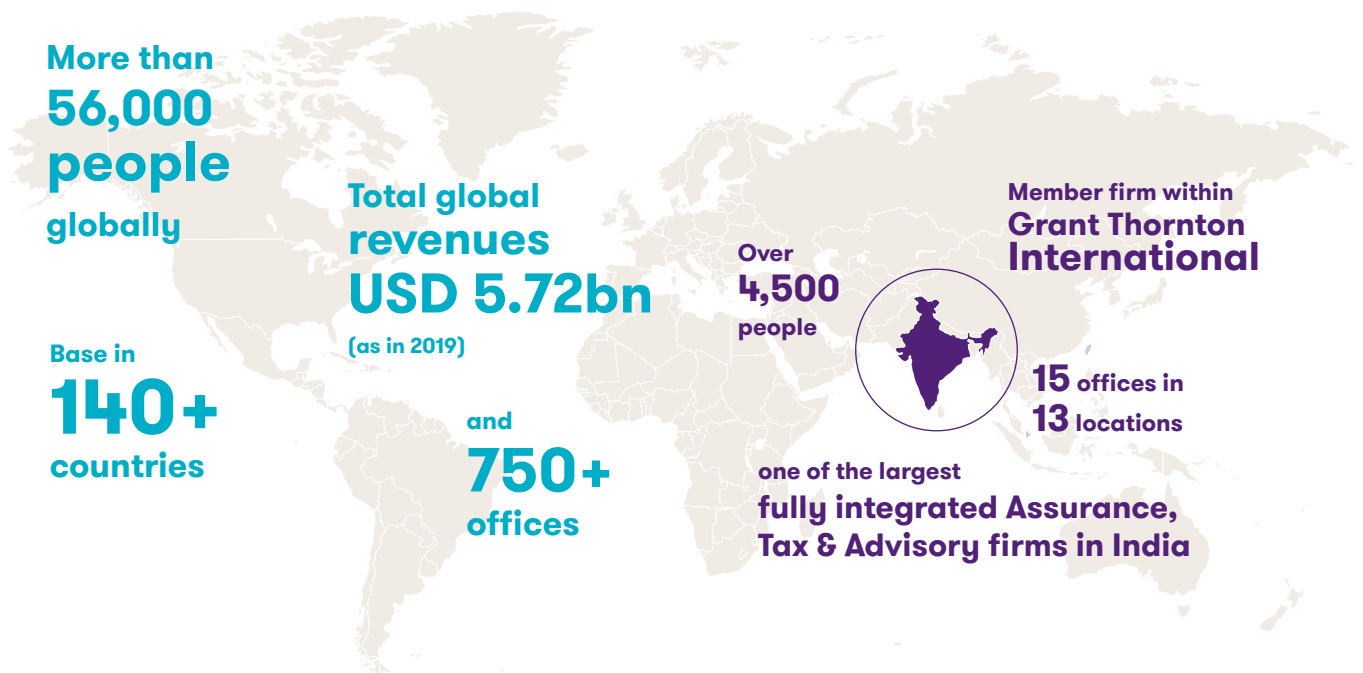
Our view

The automotive sector in India has long been dependent on China for critical imports. In order to ramp up domestic production, suppliers from the USA, the EU, ASEAN countries, South Africa and others may fill the gap vacated by China. In this, a free trade agreement with a focus on non-tariff measures would support India gain access to higher quality, lower-priced goods.

The COVID-19 crisis may increase Indian competitiveness and capital inflows if the government provides incentives and other advantages to foreign investors to complement their business plans in India.

Thus, the countries should be encouraged to renegotiate the FTAs/PTAs being an effective approach to integrate into global economy and strengthen trade relations, as well as particularly, an important supplement to multilateral trading agreements between nations. Time is ripe to ease out restrictions and relax legalities and prohibitions. A plethora of emerging opportunities for the Indian automobile industry stands to be capitalised.

About Grant Thornton



Sources:

- Economic survey of India
- Ministry of External Affairs
- DGFT, Ministry of Commerce and Industry
- Trade Promotion Council of India
- Worldstopexports
- Financial Express
- ET



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