

**CROSS CUTTING ASPECTS**

**INDIA**

# ECONOMY

- India's population is 23 times that of South Africa
- Its GDP about four times SA's.
- The Indian economy is the 10th largest in the world.
- Norm for growth is 6% p.a.
- The Indian economy is to become one of the largest mass markets in the world.

# GROWTH

- *Growth in the Indian economy is supported by:*
  - *Investment that is 25% of GDP*
  - *financed by a savings rate of 28% of GDP*
  - *where household savings is 75% of total savings.*
- *India's high investment ratio is on a sound footing*
- *India strives to raise gdp growth to 8% pa*

# REFORM

- India and South Africa switched from inward to outward oriented trade and industrial policies since the early 1990's.
- This meant the scrapping of import quotas and the reform of import tariffs and the down phasing thereof.
- India adopted
  - a market related exchange rate;
  - the privatisation of industries and
  - deregulation (de-licensing)

# REFORM Cont

- Reforms resulted in FDI that together with the vibrant IT services sector and the upcoming middle class consumers, are expected to support high growth.
- The sectors that have been opened up to foreign competition by reforms are contributing to significant expansion in the production and quality of durable consumer goods; motor cars; scooters; consumer electronics; computer systems; and white goods.
- Future manufacturing performance will depend on more reform especially of state owned heavy industry.
- The appetite for reform by the present coalition government seems to be less than that of its predecessors.

# CONSTRAINTS

- The main constraints on growth are:
  - Inadequate infrastructure,
  - Opposition to privatisation
  - Restrictions in hiring and firing in the labour market
  - Improper access to finance for the small scale sector
  - Bureaucracy
- The main obstacles that need to be addressed by the government include
  - reducing entry and exit barriers for the manufacturing sector and
  - reducing and then removing infrastructure bottlenecks.

# INFRASTRUCTURE

- India's infrastructure faces the twin challenges of expansion and modernisation.
- The Infrastructure Development Finance Corporation (IDFC) that was established in 1997 extends long-term loans and guarantees to enable infrastructure projects to be executed.
- The major areas requiring upgrading and investment is the transportation sector – roads, ports and airports, which poses a serious obstacle to FDI in the country.
- A second major area is power generation.
- Incentives are to be extended to investors to participate in the enhancement of infrastructure.

# INEFFICIENCIES

- *Inefficiency overhangs in large pockets of the Indian economy in the hands of the public sector poses a threat to sustained growth in India.*
- *This is critical in:*
  - *almost all of the different types of infrastructure,*
  - *banking and*
  - *some manufacturing industries.*
- *Initiatives to improve the situation are hampered by stringent labour markets and opposition to privatisation.*
- *Thus, foreigners find India less attractive than for example China where foreign direct investment abounds in an autocratic market orientated environment.*

# FDI -ADMINISTRATION

- *The Indian government has a legacy of protectionism toward the economy that left an inefficient bureaucratic system that proves to be a deterrent to FDI.*
- *The government addressed bureaucratic obstacles for foreign investors through the creation of investment agencies for investment approvals*
- *Coherence and consistency among trade policy of both the Union and the State Governments happens through the Inter-State Trade Council that promotes involvement of the States in export promotion; assist in developing export related infrastructure; assist in removing taxes and local levies imposed on inputs required for export production; and assist VAT refunds for exporters, which is time consuming and adds to transaction costs.*
- *The government has made it a priority to reduce corruption..*

# FDI-INCENTIVES

- **The Indian Government has a range of incentives and concessions available to eligible corporations in certain specific industries:**
  - **tax holidays for corporate profits,**
  - **accelerated depreciation allowances**
  - **deductibility of certain expenses subject to certain conditions.**
  - **concessions on profits of new undertakings and location in special economic zones.**
- **Various rebate and duty drawback schemes to promote exports.**
- **Incentives are to be introduced for investment in certain infrastructure sectors, which include telecommunication, ports, airports, railways, roads, energy and construction development.**
- **Tax incentives, customs duty concessions for imports of equipment/machinery and the implementation of Special Economic Zones within the country would be further incentives for investment. .**

# FDI-Sectors

- *FDI into India targets the IT and automotive industries and some metal industries.*
- *The retail sector offers major opportunities but FDI is not fully allowed in this sector.*
- *Intellectual property rights in India, including patents, trademarks, copyright issues and industrial designs is protected by a well-established statutory, administrative and judicial framework that is constantly improved.*
- *Under Indian law, private enterprises are allowed to set prices at a level that covers total cost and provides adequate return on the capital employed. However, public enterprises are not able to operate in the same way. This has led to much controversy in India with regard to price policies in public sector enterprises i.e for these enterprises to make a profit as opposed to operations just covering costs. In addition, the pricing policies are not uniform in all public enterprises.*

# TRADE AGREEMENTS

- India supports multi-lateral trade relations through the WTO.
- Since it believes that the multilateral system cannot drive south-south trade as such, India is pursuing bilateral and regional trade agreements.
- RTA movements within Asia have also encouraged India to establish trade agreements with Japan, China, Korea and the ASEAN countries, all of them pursuing RTAs, within and outside the region.
- Agreements with countries, groups of countries/ trading blocks were signed over a very wide spectrum in Asia.
- Negotiations are contemplated with Bangladesh, Australia, Japan and Israel and are to take place with SACU and the Gulf Cooperation Council

# TRADE AGREEMENTS RATIONALE

- Ongoing talks take place with some developed countries such as Australia and Japan for possible FTAs.
- However, India's current strategy is to secure economic relations with key developing countries:
  - **firstly within the Asian region and**
  - **secondly with selected countries in other regions.**
  - **Delhi seeks to tie the trade interests of its South Asian neighbours with its own growing economy.**
- While the agreements focus on trade facilitation some extend beyond that in the form of Comprehensive Economic Cooperation agreements.

# SACU-INDIA AGREEMENT

- .Negotiations for a PTA between South Africa and India will depart from a position where average tariffs levied on imports from India are substantially lower than for South African exports to India.
- The Indian automotive, textiles and garments, chemicals, pharmaceuticals, engineering and agricultural machinery industries are among those expected to benefit from trade agreements.
- India would probably also negotiate for benefits in the South African services sectors.

# THREATS

- The Indian economy is adapting from a protective past to the demands of globalisation.
- Reforms produced growth of more than 6% p.a. with a vision to sustain 8% growth p.a.
- Reforms are threatened by serious infrastructure constraints, stringent labour regulations and opposition to privatisation.
- A range of incentives is in force that includes tax holidays, accelerated depreciation, tax concessions, EPZ and other development zones' Liberal draw back of duty compensation to exporters apply and exporters have preferential access to finance.
- India's priority is to conclude trade agreements with Asian countries/trading blocks. A PTA with South Africa may thus be less important than with its Asian neighbors.

# THREATS CONT.

- NAMA introduces a degree of uncertainty with respect to future MNF tariff levels that may render bi-lateral concessions pre-mature.
- The Indian economy is 4 times South Africa's and the population 23 times. Its economy is the 10th largest in the world with high growth potential. South Africa is more open to international trade (66% of gdp) than India (31%)
- Indian exports to South Africa are expanding and because of the difference in size and trade intensity, the impact on the South African market can be much more extensive than the other way round.
- Although legislation is considered to be sufficient concerns about the safeguarding of international property rights continue to prevail among foreign investors..

# OPPORTUNITIES

- A PTA with India will start off with South African tariffs lower than India's with the benefit of the likelihood that Indian tariffs being lowered more than South Africa's.
- The Indian market is expanding and thus offers business opportunities Growing prosperity is expected to be sustained by exports, India's IT services sector and its growing middle class consumers.
- Prevalence of non-tariff barriers, cumbersome bureaucracy and a predilection for the use of trade remedies may distract from the attractiveness of trade.
- The Indian market should preferably be entered in partnership with a local business counterpart.