IACC

Apex bilateral Chamber for Indo-US business

INDO-AMERICAN CHAMBER OF COMMERCE

Solving the Indian Equation: the Uncertain and Evolving nature of US – India Trade Ties

6th August 2019 | The Lalit Great Eastern

The world around us is in turmoil these days whether domestic or international. The Persian Gulf is jittery with tankers being captured on both sides and a tariff war is now turning into a currency war which can destabilize world markets and create collateral damage to other economies in the process. Nothing is constant, things are rapidly changing, and we need to keep on top of things if we want to run our businesses successfully in the midst of all this.

Mr. Anil Vaswani, Regional President, IACC opened this interactive session mentioning that China has pledged to retaliate after US President Donald Trump vowed to impose 10% tariffs on $300 billion of Chinese imports. We are hearing that Beijing is "weaponizing" its currency, allowing it to significantly weaken in value versus the American dollar. A weaker yuan makes Chinese exports more competitive, or cheaper to buy with foreign currencies.

What we are here to discuss today is how to turn these challenges into opportunities.

- How can India capitalize on this trade war?
- How can we step up our game and fill the gap?
- What are the export opportunities that will become more competitive for us if tariffs are imposed on China?
- Which products and sectors offer export growth potential?
- What are the risks that Indian importers and exporters might face in the coming months?

Mr. S.K.Sarkar, National President, IACC shared some very important data with the experts and the attendees of the discussion. He mentioned that the call during Obama's time was two-way trade of $500 billion. Presently at $142 billion. India is a member of Missile Technology Control Regime (MTCR), Wassenaar Arrangement, Australia Group. But China has blocked us from the the Nuclear Suppliers Group. These elite clubs are for use of nuclear power for civilian purposes. Indo-Pacific Economic Corridor and 2+2 Dialogue has helped us sign COMCASA (Communication Compatibility and Security Agreement) with the US. Countering America's Adversaries Through Sanctions Act (CAATSA) places India at a disadvantage in defense purchases from Russia, named under this Act along with North Korea & Iran. India has signed STA-1 (Strategic Trade Authorization) which puts our country at par with NATO allies.

Below would be the statistics showing the Indo-US trade deficit:
Goods: $21.3 billion in 2018- 7.1% decrease over 2017
Services: $3 billion in 2018- 32.5% down from 2017.

Feather in India's cap since most countries has a deficit on this account. Our IT Services helped.

India's average applied tariff is 13.8% which is below the bound rate of WTO but above the global average of around 10%. Donald Trump calls India 'Tariff King'. $5 trillion economy needs continued growth of 9-12% over the next 5 years. Investment rate target has to be 38% as against the present 29-30%, a tall task.

Vandana Yadav, Managing Director, West Bengal Industry Development Corporation and Secretary, Micro Small & Medium Enterprises joined us as our Chief Guest and the Keynote Speaker.

She identifies the largest commodities between exported from Bengal as the following –

1. **Iron & steel** is the backbone of West Bengal's economy. The MSME has a big scheme of Foundry Pump known as the Howrah Foundry Pump. Government has been supporting the initiative by providing infrastructure. The government supports the initiative by providing soft skills training, construction of roads, power, etc. The government is open to proposals from the manufacturers and business industry seeking the government's help for capacity building.

2. **Leather** – West Bengal has Asia's largest leather manufacturing unit. We need to go from basic processing to higher quality goods, quality certification, and develop the ecosystem to help this sector to thrive – which is the government's role. We want the industry to concentrate on generating high-quality goods which would earn good revenue and eventually help everyone. The government has been and is extremely supportive to develop infrastructure and help the industry with other benefits to having the system in place.

3. **Textiles** – very important in terms of the worldwide range which the sector covers. Indian garments are exported to all parts of the world. However, we need to move up the value chain – How do we do that? Do we need to take care of the environmental conditions so that the impact on the environment can be minimized, can the government provide common facilities like branding and designing, do we need to bring in buyers? The government urged the industry stakeholders to kindly come forward and inform them about their demands to further expand our base in foreign countries.

4. **Electronics components/engineering goods** – The government would be very keen to hear from the industry on their demands and we would try to comply with the industry needs.

Gems and jewelry is another important sector having major exports from Bengal. One of our showpiece industrial park is the Ankurhati Park in Howrah, developed by ITC where we try to provide all types of common facilities like hallmarking, providing testing facilities, R&D tie-ups, etc. The government is inviting the association to come forward and work with them to further help them.

To sum up, the government's role can be divided into two pillars –

1. Create infrastructural ecosystem to help the industry to flourish.
2. Policy set-up – enabling environment to take care of the softer aspects for the growth of a sector i.e. whether it is in terms of the tariff regulations, quality, non-tariff barriers. This has a lot to do with the Government of India and not with the state. Our limitations come down to the infrastructure - whether it is to do with the port, logistics, time is taken to get the consignment from and to the port, the government is aware of these issues and we are looking into these.

Two initiatives are undertaken by the government –

One of the major bottlenecks West Bengal faces is to do with the ports. There has been a major development in this segment, thanks to the Calcutta Port Trust. Besides that, the government is inaugurating the **Tajpur Port** – which will be operational by this year-end. A smaller port in Kulti is also being developed by the government to help the exit routes get a bit smoother.

Second is the easy logistics cost – in case we can work on the cost efficiency and time – it will a huge profit for all. Two major projects undertaken to make this successful would be the initiation of two **logistics hubs: one in Kharagpur and another one in Durgapur** – to be open by this year-end.

The government is keen to work with the industry and is looking forward to a wish list to understand how the government can collaborate to expand their base. The government is looking forward to providing the facilities to help the industrialists from Bengal to prosper.

Given such background, we had a panel discussion with experts from each of the strong industry segment of Bengal talking about the scenario at present and the way forward – given the current relationship between the US & China.

The discussion was moderated by Mr. Ambarish Bharech, Partner, E&Y LLP. Our panelists were –
Mr. Ravi Sehgal, Chairman, Engineering Export Promotion Council
Mr. Sushil Patwari, Chairman, FIEO
Mr. Adhar Sahni, President, Indian Leather Product Association
Mr. Abhishek Rungta, Founder & CEO, Indusnet Technologies, President TiE
Mr. Anil Kariwala, MD, Kariwala Industries

We have tried to summarise the discussion with a focus to major key areas affecting the bilateral trade –

Policy concerns: India's policies in comparison to other countries are complex and not user-friendly.

Mr. Kariwala, a successful entrepreneur in the textile industry said, "Unless policies are framed and unshackled, the industry will not be able to grow. The hassle that one has to go through to operate in India – to get the necessary approvals for outward remittance, returns to be filed is much more in India in comparison to other countries." Mr. Patwari added that India's system is very slow and it is very difficult to reach out to address these issues. Regarding the Iron & Steel and Engineering products, Mr. Sehgal added that the Indian price of iron & steel is at a disadvantage. Government is intervening and the steel majors are also in the process to work out a process/method by which iron & steel can be provided at international prices to the exporters from India.

A question to the moderator was thrown in between the discussion on what difference do he find in policy difference in France & India? The major issue is with the policy stability – their policies do not change as frequently as India. It is a big deterrent from a private investor perspective. The market size is another major factor, the ability to invest in large scale set-up, etc. is much more. However, they have their challenges – ageing population, decreasing demand. Between the two: India is in a better position because of our demographic dividend.

Quality is another big difference. While there are a lot of changes happening in India, focus on quality is significantly different. Opportunity perspective is however more in India.

Industry concerns: What should the MSME players do given such a situation on India economy? Why are they hesitant in investing in capacity building?

Mr. Sahni, talking in the context of the leather industries answered - simply because of finance costs. It outweighs any cost that they make for themselves. For ease of business: some onus lies on us. The industry needs to trust the government to understand the essence of policies. We should also think about how can we bring in the expertise to make world-class products. We need to leverage our biggest advantage i.e. the Indian market. More than trying to make exports, we should get the major players in India and help them to set-up their base in our country – this would help us to learn from them. The stability of Indian policies is a big hurdle to attract any foreign company to come to India.

Do we see a similar trend in engineering & textiles where local companies from the US would be interested in set-up a shop in India?
Mr. Sehgal, Chairman, EEPC India says, not just US, the European companies: because of labor costs and pollution laws most of the companies want to shift to India. However, due to bottlenecks anticipated in terms of the infrastructure support, etc. hold the investors back. Engineering is a capital intensive industry meaning. The crux is if the government wants capacity expansion – first, they have to redefine the MSME laws to the current/practical level.

IT services exports to the US from India are big. How do we see the issues with HiB visa form IT environment and how do we see Bengal in such a scenario.

Mr. Abhishek Rungta, President, TiE Kolkata added to the discussion saying that the software export industry has shaped itself as human resource export industry. We train individuals, and the best of the individuals we train are exported to the US. Mr. Rungta wishes to go against the industry sentiment and mention that H1B restriction is a blessing in disguise for India.
As now, India will not be exporting our talent to other countries. Once the H1B has slowed down, Indians have come back and are trying to build IP and software for India and then trying to export to these countries.
Another interesting turn is, a lot of investors from the US and Japan have settled in India. However, the irony is the IP that they create in our country still belongs to the same venture capitalists – they are hiring Indian talent to create products which are further labeled as a foreign product and then sold in the market. Why is this happening?
1. India investors/business is not being able to provide the environment that the young generation needs to create the product in India with Indian ownership.
2. The product creation methodology is not respected. The perception of the Software industry is measured only by the no. of people you hire and not by the no. of IP/value add business you have created with ownership in your country.

Challenges are related to certification, perception, and quality -

What are the key initiatives that FIEO is taking which will be helpful to major stakeholders in the Industry? How can the associations benefit them?
Mr. Patwari: FIEO has identified a list of products that can be exported to the US. We are planning to take delegations to the US, to felicitate joint ventures and help in sourcing reliable partners for the industrialists.

Mr. Sehgal added, from the engineering perspective, there are some sub-segments which can play a bigger role, a lot of opportunities lies in Bengal.

Iron & Steel, Aluminium and other items are there too. After analysis, it has been discovered that potential items which may be exported from India are: industrial valves & gadgets of engineering items.
Another major threat India has is the Free Trade Agreement between New Zealand, Australia & China with the ASEAN and other countries – this is the backdoor entry for China. There is a lot of pressure on India to sign that agreement. Once it is done, we will have cheap things coming in which will destroy the manufacturing capacity of India. We are discussing these areas with the government jointly.
We have identified 25 engineering products which can be focused on where Bengal can play a vital role. Most of the Chinese drop in exports has been compensated by an export rise from Mexico, Taiwan, and Vietnam. China has set up these satellite units six months in advance as they anticipated such development earlier. Here, Chinese have a value addition of 30% however the product is Taiwanese. This is something where India has to research and Bengal can gain the largest if we invite such overseas large manufacturers to set-up units where 30-40% value addition can be done to expand their capacity and then it can be done eventually.

The only disadvantage in Bengal is most of iron and steel industry is power-intensive and the power cost here is phenomenal at 8.5-9rs. Within Bengal we have the DBC at 3.5-4.5 rs in Durgapur & Asansol belt which can be taken advantage of by most of the industrial belt coming up on Bombay highway, presently denied this advantage.

From the textile perspective, Mr. Kariwala added that India does not have enough prestige for the international market. The government should create a platform where the importer can review or send anonymous feedback on the quality and price of the product. This has been used by major companies like Zomato, Swiggy, Uber, etc. This increases the reliability of the exporter.

GSP:
Out of 5.6 billion of exports to the US, 2.7 billion is contributed by the engineering products. Now exports on the engineering items have fallen. We have highlighted some products (harmonious goods) to the government where India's duty is lower than in China. We are encouraging those exporters to expand their base. There are certain fallacies in the system – like the policies.

India contributes only 3% of the leather demand in the US. WB has the largest leather hub in Asia. The government has always been supporting, but we request the government to help us with the following to help us expand our base and increase our production –
a. Relationship between India & US is more dependent on what relation India had with China. Such a foundation on our policies may not help India in a longer run.
b. A lot of US buyers have been coming to India and but are not impressed with our capacities. Leather industry in Bengal focuses on products made by our skilled labourers – it is a handicraft based industry. We need to have a plug and play system, where either the government or the private investors can get the machines/facilities to the state. This can be then shared with the local entrepreneurs allowing them to bring in their expertise and business. To get a full-fledged equipped factory demands a lot of investment which is very difficult in today's world.
c. Many years ago, the government stopped us from exporting finished leathers. But the livestock available is not of a high grade – now the tanner is interested to sell the leather rather than upgrading it. ILPA requests the government to get a policy where we are allowed to export/sell the leather which is not required. This will help the tanner to think of up-gradation and to come up with better quality products.
d.West Bengal needs testing laboratories. As an association body, we are ready to share our expertise to help the government to come up with a modern and testing laboratory.

The interactive discussion was well attended with 80+ entrepreneurs and industrialists from various sectors.

Mr Anil Vaswani, Regional President, IACC - East delivering the welcome remarks

Chief Gues: Ms Vandana Yadav, MD, West Bengal Industrial Development Corporation and Secretary, Micro Small & Medium Enterprises delivering her keynote speech

Mr Ambarish Bharech, Partner, EY LLP moderating the session

L-R: Mr Abhishek Rungta, President, TiE Kolkata, Mr Adhar Sahini, President, Indian Leather Products Association, Mr Sushil Patwari, Chairman, Federation of India Export Organisation, Eastern Region, Mr Ambarish Bharech, Ernst & Young LLP, Ms Vandana Yadav, MD, WBIDC, Mr Ravi Sehgal, Chairman, EEPC India, Mr Anil Vaswani, Regional President, IACC, East, Mr S.K.Sarkar, National President, IACC, Mr Anil Kariwala, MD, Kariwala Industries.