India: Market Profile

Major Economic Indicators

	2014	2015	2016
Population (million)	1,276#	1,293#	1,310^
GDP (US$ billion)	2,043	2,091	2,289^
Real GDP growth (%)	7.2	7.3	7.5^
GDP per capita (US$)	1,601#	1,617#	1,747^
Consumer price inflation (%)	5.9	4.9	5.1*
Exchange rate (per US$, period average)	61.02	64.1	67.16*
Exports (US$ billion)	328.4	259.7*	267*
Imports (US$ billion)	472.4	390.1*	387*
Export growth (%)	+2.5	-2.1*	+2.8*
Import growth (%)	-2.1	-17.4*	-0.8*

Sources: CEIC, IMF, EIU, WTO, RBI and India's Ministry of Commerce and Industry
IMF Estimate
* EIU Estimate
^ IMF Forecasts

Latest Development

- India is expected to remain the world's fastest-growing major emerging economy in 2016 with a projected growth of 7.5%, after expanding 7.3% in 2015.
- In August 2016, the Indian Parliament passed the Goods and Services Tax (GST) bill, a landmark reform expected to transform India into a more unified market.
- The *Reserve Bank of India (RBA)* adopted a consumer price inflation (CPI) based target of 2%-6% over the next five years and cut its policy rate from 6.5% to 6.25% in October 2016 in response to the dampening in CPI.
- Reforms introduced by Prime Minister Modi, including FDI cap relaxation and the "Make in India" Initiative, have brightened India's medium-term outlook.
- In November 2016, Modi announced to replace the current Rs500 and Rs1,000 banknotes with new Rs500 and Rs2,000 banknotes to crack down on "black money".

- India's cumulative FDI reached US$289 billion as of March 2016, with US$1.4 billion and US$1.9 billion attributed, respectively, to the Chinese mainland and Hong Kong.
- India's exports plunged by 2.1% in 2015 while imports fell by 17.4% over the same period.
- India was the third largest export market for Hong Kong in the first nine months of 2016, rising 14.4% YOY to US$11 billion.

Current Economic Situation

Economy

India is the third largest economy in Asia after China and Japan. Its service, industry and agriculture sectors respectively account for 59%, 24% and 17% of the country's GDP. Major sectors include finance, insurance, real estate, construction, heavy manufacturing, retail and wholesale trade.

India's economy expanded 7.3% in 2015, with the industry and service sectors being the major growth drivers (expanding 7.5% and 7.2% respectively), while the agricultural sectors recorded much slower growth of 1.7%. According to the IMF, India is expected to grow at 7.5% in 2016, surpassing China in terms of GDP growth.

The *Reserve Bank of India (RBA)* adopted a consumer price inflation (CPI) based target of 2%-6% over the next five years, and cut its policy rate from 6.5% to 6.25% in October 2016 to take advantage of the dampening in CPI, which declined to 5% YOY in August from 6% YOY in July 2016. This *RBA* rate cut was the first made by the new monetary policy committee led by Urjit Patel, the new *RBA* governor who took office in September 2016. The monetary policy statement after the rate cut said that headline inflation was moving to a "central trajectory of 5% by March 2017", though it warned of the possibility of some upside risk.

India's wholesale price index (WPI), which had been a primary gauge of inflationary pressures and locked in a long deflationary, started edging back into the positive territory from March 2016 with the September WPI rising 3.6% YOY.

External trade

India's exports plunged by 2.1% in 2015, while imports fell 17.4% in the same period. India's major export markets included the UAE, the US, the Chinese mainland, Singapore and Hong Kong. Major import sources were China, the UAE, Saudi Arabia, Switzerland and the US.

India depends heavily on its service industries for economic expansion, and it holds a dominant share of the global offshore information technology and business process management (IT-BPM) market. According to *NASSCOM*, an industry association in India, the IT-BPM industry is estimated to contribute to about 10% of India's GDP and account for more than 38% of total services exports. Exports of IT-BPM services are mainly to the developed countries, in particular the US and Europe. The revenue from IT-BPM services is estimated to grow 12% in FY2015-16, making them one of the fastest growing sectors in India.

Economic reforms

After a landslide victory in the 2014 general elections, Narendra Modi became India’s 14th prime minister. The pro-business government that he once led in Gujarat had achieved the highest GDP growth among Indian states for many years. Therefore, his premiership has instilled stronger business and consumer confidence with growing hopes in India of fiscal consolidation, infrastructure and investment reforms, boding well for India's long-term economic outlook and retail industry growth.

In its Union Budget 2016, the Indian government continued to roll out reform initiatives and reform measures, with a targeted focus on rural and infrastructure development. While promising a phased reduction of corporate income tax (CIT) from 30% currently to 25% in four years in the previous budget, the government fell short of initiating the CIT reduction. In fact, excise duty was raised from 10% to 15% on most tobacco products, and luxury cars would be subject to higher capacity tax. Companies with revenue less than Rs 5 crore (about US$0.75 million) are to be taxed at 29% plus surcharge.

In August 2016 the Parliament passed the landmark GST bill, marking an important milestone in Modi’s economic reform. A uniformed GST, expected to be introduced in April 2017, is to replace the current Value-Added Tax (VAT) and many other indirect taxes, will simplify the tax structure. Besides, GST can help unify India into a single market and significantly improve ease of doing business. The GST rate and implementation details are being negotiated, though it is assessed that a GST rate set at around 18% would largely be revenue neutral between the Centre and the States.

Other reform measures having been introduced by the Modi government include relaxation of limits on FDI ownership of different sectors, which is covered below under the section of *Investment Policy*.

On 8 November 2016, Modi made a surprise announcement to replace the current Rs500 and Rs1,000 bank notes with new Rs500 and Rs2,000 bank notes. This measure is introduced to serve multiple aims of cracking down black money, tax evasion, counterfeit notes and terrorist money laundering.

Retail boom

India is riding on a retail boom bolstered by its fast expanding middle class and young consumers. The India’s retail market size, currently estimated at about US$600 billion, is projected to grow at an average annual growth rate of 12% to reach US$1,000 billion by 2020. With the world’s second largest population (more than 1.2 billion), India has a huge consumer base with increasing discretionary spending.

The *National Council for Applied Economic Research (NCAER)* projects that the share of middle class as a share of the country’s population will increase from 13.1% in FY2009-10 to 20.3% by FY2015-16, reaching 37.2% by FY2025-26. An expansion of middle-class population will create many opportunities in India’s retail sector.

In addition, retail channels in India have been fast modernising, and professionally managed malls and online shopping are becoming increasingly popular across the country. Organised retail currently accounts for an estimate of 7% of India’s retail market and is expected by research company *A.T. Kearney* to keep growing on account of urbanisation and new investments. It is also noted that retailers are expanding in tier-2 and 3 cities due to the high real estate costs in major state capital cities.

Since November 2011, FDI is allowed up to 100% in retail trade in single-brand products in India. In 2013, the previous federal government permitted 51% foreign-ownership in multi-brand retail (MBR), but left implementation to individual states. The UK's *Tesco* entered into a joint venture with *Tata Group* to operate MBR supermarkets. In February 2016, India's Food Processing Minister proposed that 100% FDI be granted so as to benefit farmers and reduce inflation.

Investment Policy

India's economic policies are designed to attract significant capital inflows on a sustained basis and encourage technology collaboration. Almost all sectors are open to FDI, except for atomic energy, lottery business, gambling and betting, and some forms of retail trading. The Modi government has relaxed FDI rules for various sectors, as in the table below.

India's FDI Rules by Industries

Industry	FDI limit
Medical devices	100%
Telecommunications	
Asset reconstructions	
Single-brand retailers	
Construction, operation and maintenance of specified activities of Railway	
Non-scheduled air transport	74%
Ground handling services – Civil Aviation	
Satellites – establishment and operation	
Credit information companies	
Cable Networks	49%
Air transport services – scheduled air transport	
Commodity exchanges	
Infrastructure companies in securities market	
Insurance and sub-activities	

Source: The Department of Industrial Policy and Promotion of India

More FDI information can be found at the website of the *Department of Industrial Policy and Promotion (DIPP)*. On the other hand, DIPP has set up a joint venture with the *Federation of Indian Chambers of Commerce and Industry (FICCI)* and various state governments to promote inward FDI. *Invest India* is responsible for promoting and facilitating investments to India, acting as the first reference point for overseas investors to offer handholding services. Under India's foreign investment policy, two routes are available for foreign investors, depending upon the industry and the levels of investment contemplated:

1) Automatic Route

Foreign investment proposals under the automatic route will not be subject to any government approval, provided the requisite documents are filed with the Reserve Bank of India within 30 days of receipt of funds. Qualified sectoral investment includes hotels & tourism, and courier services, etc.

2) Government Route

All other proposals for foreign investment, which are not covered under the automatic approval route, are subject to government approval. For investment proposal below USD750 million, the proposal will be approved by the *Foreign Investment Promotion Board (FIPB)*, while proposals above this amount will be approved by Cabinet Committee on Economic Affairs. More information can be found at the official website of *FIPB*.

Foreign investment

Modi launched the "Make in India" (MII) initiative in September 2014, with the aim of transforming India into the world's manufacturing hub through actively courting foreign direct investment (FDI) in the manufacturing sector. As a partial assessment of the economic benefit due to the MII, India had recorded an FDI inflow of US$61.6 billion between October 2014 and May 2016, up 46% compared to the 20 months prior to the MIII launch. As of March 2016, India's cumulative inward FDI amounted to US$289 billion, up 16.1% YoY.

Mauritius was the largest FDI source for India as of end-2015, with a cumulative FDI of US$93.7 billion or 34% of total FDI stock, followed by Singapore (US$43.1 billion; 16%) and the UK (US$22.7 billion; 8%). The services sector attracted the highest FDI inflow (US$48.1 billion), followed by construction (US$24.2 billion) and computer software & hardware (US$20.4 billion).

Inward FDI from the Chinese mainland and Hong Kong amounted to, respectively, US$35.7 million and US$31.9 million in the first three months of 2016, with respective cumulative FDI standing at US$1.4 billion and US$1.9 billion.

Inward and Cumulative FDI from the Chinese mainland and Hong Kong (US$ mn)

Inward FDI			
	2014	**2015**	**March 2016**
Chinese mainland	140.8	869	35.7
Hong Kong	90.3	567.6	31.9
Cumulative FDI			
	2014	**2015**	**March 2016**
Chinese mainland	453.8	1,322.8	1,358.5
Hong Kong	1,286.3	1,853.9	1,885.7

Source: Department of Industrial Policy & Promotion, India

Bangladesh–China–India–Myanmar (BCIM) Economic Corridor

Under the *Belt and Road (BnR) Initiative*, China intends to set up economic corridors with many countries in the region, including the Bangladesh-China-India-Myanmar (BCIM) Economic Corridor, which was jointly proposed by China and India in 2013. This BCIM corridor is expected to help trade and investment of concerned countries, particularly enhancing trade with northeastern Indian provinces.

Trade Policy

India's government has embarked on economic liberalisation since 1991 and continued to work towards a more open trade regime. There has been elimination of quantitative restrictions, simplification of import licence application and reduction of import tariffs. Since 1992, the government has loosened the licensing requirement for imports of capital goods. In March 2001, the government abolished the system of special import licences and the restricted list of imports, leaving only a small negative import list.

Free trade agreements

India has concluded several free trade agreements (FTAs) with countries and regions including Singapore, Malaysia, Thailand, Sri Lanka, Nepal, the ASEAN, Korea, Chile and Japan. Currently, India is negotiating FTAs with Australia, Canada, Egypt, Indonesia, Israel, Mauritius, New Zealand, Peru and the EU. The Indian government has indicated that more FTAs will be concluded and signed in 2016.

Double taxation agreements

Hong Kong and India concluded an *air services agreement* in 1996. A comprehensive double taxation treaty between Hong Kong and India, however, is still under negotiation.

Hong Kong's Trade with India

India was the third largest export market for Hong Kong in the first three quarters of 2016. Hong Kong's total exports to India expanded 14.4% YOY to US$11 billion during this period. Major export items included pearls, precious and semi-precious stones (US$4,837million, 43.2% share, +33.9% YOY), telecom equipment & parts (US$3,930 million, 35.1% share, +1.2% YOY), silver & platinum (US$335 million, 3.0% share, -30.3% YOY), computers (US$287 million, 2.6% share, +18.6% YOY) and electrical apparatus for electrical circuits (US$188 million, 1.7% share, +74.1% YOY).

On the other hand, India was Hong Kong's seventh largest source of imports in the first three quarters of 2016. Hong Kong's imports from India expanded 9.3% YOY to US$9 billion for the period. Major import items included pearls, precious & semi-precious stones (US$6,079 million, 67.4% share, +4% YOY), jewellery (US$2,148 million, 23.8% share, +32.7% YOY), leather (US$164 million, 1.8% share, -24.0% YOY), petroleum oils (other than crude) (US$124 million, 1.4%) and telecom equipment & parts (US$65 million, 0.7% share, +1.2% YOY).

(US$ million)	2015			Jan- Sept 2016		
	Value	Change (%)	Ranking	Value	Change (%)	Ranking
Total Exports	13,055	+8.1	4	11,201	+14.4	3
Domestic Exports	70	-69	18	40	+26.5	17
Re-exports	12,985	+9.5	4	11,162	+14.4	3
Imports	10,630	-13.7	9	9,023	+9.3	7
(of which re-exported)	10,554	-3.5	7	9,671	+21.7	6
Total Trade	23,685	-2.9	7	20,225	+12.1	7
Trade Balance	2,425	-	-	2,178	-	-

Source: Census and Statistics Department, Hong Kong

India's Economic Involvement in Hong Kong

Many Indian companies have established offices in Hong Kong. As of June 2015, there were 12 Indian companies with regional headquarters in Hong Kong, 15 with regional offices, and 37 with local offices. The range of businesses includes trading, banking, IT and logistics.

Tourists from India to Hong Kong fell 8.4% YOY to 39,411 in the first three quarters of 2016, accounting for 1% of total visitors to Hong Kong in that period.

More Information

More information on the Belt and Road countries' economic and investment environment, tax and other subjects that are important in considering investment and doing business are available in The Belt and Road Initiative: Country Business Guides.

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