US-China Trade Tension: India, an alternative destination for American Investment

The article has been authored by:

Nimish Shah
Vice President
North America Sales and Marketing

Manoj Gidwani
Vice President
Global Marketing

The USA and China are two of the world's leading economies and have been the largest trading partners globally. The two countries have complementary strengths – while the USA has significant technological prowess, China is a manufacturing behemoth.

For the past few years, the US government has raised concerns about China's protectionist practices. However, recently there has been a palpable tension in the USA regarding the trade deficit with China, and there is aggressive push questioning these practices.

The trade deficit with China is nearly 50% of the USA's total trade deficit[1]. The USA's announcement of an increase in tariff to 25% on goods manufactured in China, which account for nearly 40% of their total imports from China, could significantly impact China's plans to move into high-value manufacturing. China has responded by levying tariffs on goods manufactured in the USA worth USD 110 billion, which account for 92% of the USA's exports to China.

Both countries have several critical issues to discuss, which will require a shared dialogue. However, after several talks, both countries have still not been able to reach a mutual understanding.

Implications

In today's globalized trade, businesses are more interdependent than ever before. The supply chain is tightly integrated to ensure the play in the global markets. The current differences between China and the USA, have resulted in fear of a global economic slowdown. Inflation has also started inching upwards[2] due to the demand-supply imbalance. While large multinationals have spread their manufacturing bases across multiple countries, a lot of mid-sized companies have substantial investments locked into China.

Additionally, global organizations, including American MNCs, are facing pressure due to the rising cost of importing from China. Manufacturing in China is not as lucrative as before. Considering these scenarios, it is advisable for firms to diversify their manufacturing and structure them in such a way that they do not become hostage to such trade wars.

1 International Trade Administration, May 2019

2 Trading Economics, Bureau of Economic and Business Affairs, May 2019

Exploring alternatives

The current scenario presents an opportunity for global companies to explore other countries to base their manufacturing operations. The South East Asian, African, and Latin American markets are possible prospects for US-based companies. In particular, developing and transitioning economies such as India not only provide a stable manufacturing base but also introduce a growing captive consumption market for goods, due to the population size and mix.

In May 2019, the US-India Strategic and Partnership Forum (USISPF) said that 200 American companies are in a quest to move their manufacturing base from China to India following the general elections in India[3]. These firms are looking to hedge their investments in China by diversifying their manufacturing base to India.

India as an investment destination

As the world's largest democracy, India presents a favorable business environment with a robust financial and legal system to support any business setup. Several policy reforms and incentives have been introduced in the country recently. India has witnessed a jump of 78 places in the World Bank's Ease of Doing Business ranking to 77th place, from the 155th place, from FY 16 to FY 18[4].

In addition to attractive FDI norms, the Indian government is encouraging foreign investment through incentives such as capital subsidies, tariff reductions, etc. for new setups. These benefits are amplified by a significant skill development of the Indian workforce, coupled with reductions in manufacturing costs driven by the Make in India initiative. Additionally, India has a large English-speaking populace, providing a base of competent professionals and labor.

In terms of infrastructure, India has 12 major ports and 200 intermediate ports[5] that facilitate trade throughout the country and globally by providing inroads to South-East Asian markets. Furthermore, India presents the next pool of unserved and under-served customers due to which it is increasingly becoming an investment hub for global companies. These factors, coupled with a young population, rising per capita income, and a consumption-driven economy, present an attractive destination.

India is progressively reforming its tax environment by globalizing its tax structure. With the introduction of the Goods and Services Tax (GST), the center standardized indirect taxation, with a uniform, nation-wide structure. This was a significant step towards simplifying tax requirements and compliances for businesses.

Further, the Ministry of Corporate Affairs has introduced a new SPICe (single day – single stage) company registration. This has brought down the processing time for incorporating a new company to 4-5 working days[6]. The government is continually striving to reshape the current tax structure to make the environment business friendly, smooth, and seamless.

There are several factors that make India an attractive destination for global investment. The recent re-election of the incumbent government provides both – stability and potential for policy evolution and reform. In the current global landscape, India's young and progressive business environment provides an effective springboard into the South-East Asian market. As a stable fast-growing economy with a significant resource pool as well as captive market, India has the edge over other developing nations.

3 USISPF news article, April 2019

4 World Bank Ease of Doing Business Rankings, October 2018

5 InvestIndia.org, December 2018

6 Central Board of Indirect Taxes and Customs, October 2018

About **SKP**

SKP is a multidisciplinary group that helps global organizations meet the needs of a dynamic business environment. Our focus on problem-solving, supported by our multifunctional expertise enables us to provide customized solutions for our clients.

Our cross-functional teams serve a wide range of industries, with a specific focus on healthcare, food processing, and banking and financial services. Over the last decade, SKP has built and leveraged capabilities across key global markets to provide transnational support to numerous clients.

We provide an array of solutions encompassing Business Consulting, Business Services, and Professional Services. Our solutions help businesses navigate challenges across all stages of their life-cycle. Through our direct operations in USA, India, and UAE, we serve a diverse range of clients, spanning multinationals, listed companies, privately owned companies, and family-owned businesses from over 50 countries.

Our team provides you with solutions for tomorrow; we help you think next.

Contact **Us**

India - Mumbai
Urmi Axis, 7th Floor
Famous Studio Lane, Dr. E. Moses Road
Mahalaxmi, Mumbai 400 011
India
T: +91 22 6730 9000
E: IndiaSales@skpgroup.com

UAE - Dubai
Emirates Financial Towers
503-C South Tower, DIFC
PO Box 507260, Dubai
UAE
T: +971 4 2866677
E: UAESales@skpgroup.com

USA - Chicago
2917 Oak Brook Hills Road
Oak Brook, IL 60523
USA
T: +1 630 818 1830
E: NorthAmericaSales@skpgroup.com

skpgrp.info@skpgroup.com

www.skpgroup.com

linkedin.com/company/skp-group

twitter.com/SKPGroup

facebook.com/SKPGroupIndia

youtube.com/c/SKPGroup