

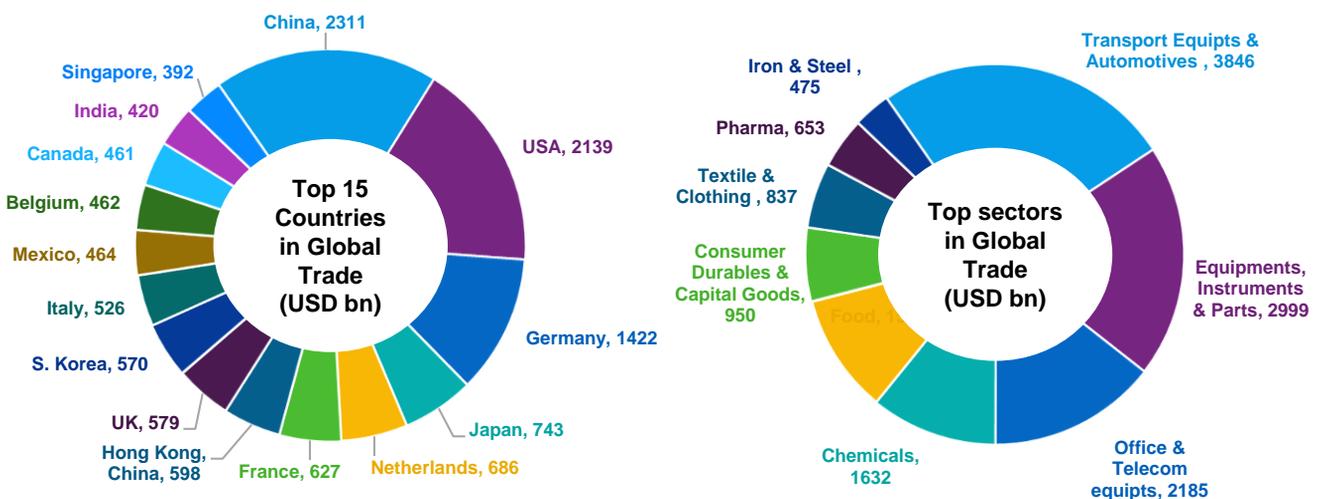
India 2.0: reimagining global trade

May 2020

Currently, global trade flow and economic growth are critically anchored, concentrated and dependent on a few geographies and a few products categories. The current COVID 19 crisis and consequent business disruption have highlighted the **need for diversifying the source of suppliers, reducing concentration of manufacturing bases and broad basing the global value chain.**

The reorientation of global trade flows will need deep analysis of multiple factors such as suitability of the country (in global trade), availability of land, support of proactive and decisive regulations and investment policies, foreign investment norms, tax and regulatory landscape, and the level of technology orientation and adaptability of the country to new ways of thinking in an ever changing global economy.

The choices made by businesses are likely to redirect global value chains to **countries which are optimally positioned with ease of doing business, market potential and adaptability and response time.**



Source: WTO Data Portal. Please note that the above data represented pertains to calendar year 2018

India for the global value chain – India holds promise; its regulatory and investment policy is lining up land, incentives, infrastructure, progressive changes to its foreign investment norms and tax regime and more aggressively reaching out to global companies to increase their business presence in the country.

India offers a **large domestic market and has gained acceptability as a neutral, stable and growth oriented economy which can scale up and serve the global value chain.**

India 2.0: Snapshot

Robust growth

India is amongst **fastest growing** economies in the world, and aspires to be **USD 5 tn** economy and third largest globally by 2025¹



Liberal FDI policy

- Most sectors open for upto 100% foreign investment
- 100% FDI allowed under automatic route in contract manufacturing, single brand retail trading etc.



Competitive tax regime

- Steep **reduction in corporate tax rate to 15%** for new manufacturing companies
- Investor friendly taxation regime for dividend, royalties and technical services



Ease of doing business

Significant improvement in ease of doing business ranking – currently ranked at 63 from 130 in 2016; aims to rank below **50 by 2022**²



Ease in debt norms

Foreign debt norms (**ECB liberalised**) and now permitted in most sectors/activities.



Introduction of GST (“One Nation One Tax”)

Subsumed multiple taxes levied in the erstwhile regime, prior to July 2017



Globally aligned transfer pricing regime

Introduction of Advance Pricing Arrangements, Safe harbor rules to curb litigation



Well aligned international network

Extensive network of double taxation avoidance agreements, and progressive alignment with international best practices



Network of trade agreements

Free Trade Agreements with ASEAN, Japan, S.Korea, Singapore, SAFTA, (RCEP under negotiation), to integrate trade with partner countries



Promoting manufacturing

Increased focus to boost manufacturing in India.

Government to invest USD 21.5 bn by way of incentives and schemes for new manufacturing units⁴



Focus in infrastructure improvement

Government identifies **10 clusters across 9 cities for most attractive investments**. 3,376 industrial parks/estates in 5 lakh hectares⁵

Government planned investments of USD 1.4 tn till 2024³



Strengthened regulatory systems

Multiple regulatory reforms introduced to align with global best practices like insolvency code, amendment of corporate law, accounting standards aligned with IFRS



1. Report of the Working Group on USD 5 trillion Indian Economy, Department for Promotion of Industry and Internal Trade, January 2019

2. Report on Structural reforms are needed to scale up World Bank's Ease of Doing Business ranking; May 2018

3. Government pledges to invest Rs 100L crore in infrastructure, The Times of India, April 2019

4. KPMG Research

5. Fourth tranche of stimulus package announced by the Finance Minister on May 16, 2020

Some key sectoral opportunities

Electronic and Telcom 	<ul style="list-style-type: none"> - Strong manufacturing and consumption base; One of the core sectors for investment promotion
Retail 	<ul style="list-style-type: none"> - Ranked 5th largest in retail sector¹; 100% FDI allowed in e-commerce marketplace and single brand retail
Healthcare 	<ul style="list-style-type: none"> - India - 3rd largest in volume and 13th largest in value²; Large market for medical device, bio-pharma etc.
ENR and Mobility 	<ul style="list-style-type: none"> - Opportunity areas include renewables; electric vehicles; battery manufacturing
Chemical 	<ul style="list-style-type: none"> - Specialty chemicals market witnessed growth of 14%²; strong export demand and proximity to growth markets
Information Technology 	<ul style="list-style-type: none"> - Digital capabilities hub with 75% of global digital talent; expected to grow to USD 350 bn by 2025²
Aerospace and Defence 	<ul style="list-style-type: none"> - Expenditure of Indian travelers expected to be USD 136 bn by 2021²; upto 74% FDI in defence manufacturing
Infrastructure 	<ul style="list-style-type: none"> - Attracted USD 14.9 bn in 2019²; requirement of investment worth USD 739 bn by 2022²



India deepens global value chain engagements

- Lowering costs along value chain (tax, trade, resources, infrastructure and incentives)
- Increased proximity of investors to one of the largest markets (domestic growth)
- Increasing transparency, predictability and stability in tax and regulatory environment
- Expanding the manufacturing and trading ecosystem - opportunities both for **domestic consumption with capability of being developed as an export hub**
- Grant of incentives by the governments – up to 100% of the fixed capital investment

1. Retail Sector Overview, FICCI, accessed on 25 March 2020
 2. CII – Indian API Industry, Invest India IBEF Industry report, March 2020

Key areas where KPMG in India can help



Market entry strategy



Form of India presence & funding options



Supply chain alignment (with respect to trade, customs & tax)



Availment of incentives – advice on availing incentives with the respective state government



Tax and regulatory compliances

Why KPMG in India?

- A committed international corporate tax and regulatory team of experienced professionals who act as trusted advisors to clients
- Given our focus on industry specialisation, the team keeps track of developments in the sector and is well-versed with common issues faced by the industry
- The team in India is well connected within the KPMG's global network of member firms and keeps track of developments in global markets
- Utmost importance given to client and data confidentiality with stringent internal controls and risk policies

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