PERSPECTIVES

J.S. HELD INDIA BULLETIN
Investing in India: Business Opportunities on the Rise

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

India is the future right now.

Welcome to the J.S. Held India Bulletin Series.

These bulletins will serve as an update on the Indian economic growth story. In this first edition we will attempt to focus on the quintessential question: ***Why India?*** We will shed light on the emerging opportunities while simultaneously underscoring the challenges for multinational Latin American companies (***Multilatinas***) investing in India. We will examine growth of foreign direct investment in India. We also will identify how and where the experts with extensive knowledge of the legal, regulatory, and other risks in the region can make the Indian business expansion experience streamlined and rewarding for ***Multilatinas***.

INTRODUCTION: WHY INDIA?

India is the world's fastest-growing major economy, projecting a gross domestic product (GDP) growth of 6.8% in the current fiscal year and 6.1% in 2023. The Indian economy is set to overtake Germany as the fourth-largest economy in 2025 and become the third largest, overtaking Japan, by 2027. In 2021–2022, India saw the highest foreign direct investment (FDI) inflow of USD 83.57 billion, which represents a 20-fold FDI increase in the last two decades, second only to China. To promote FDI, the Indian government has put into place a policy that permits up to 100% FDI in most economic sectors and activities. This liberal policy is likely to continue to attract FDI investment with USD 100 billion in inflows expected in 2022–2023.

Another interesting fact that has emerged is the ***de-coupling*** of the Indian equity markets from the western and Asian markets. This separation is being attributed to strong growth in domestic demand and net buying by Domestic Institutional Investors (DII), which has made the market independent of Foreign Institutional Investors (FII). As the table at the top of the next column shows, while FII have been withdrawing funds from the Indian market, it is the DII's buying which has kept the market vibrant (see Figure 1).

	FII (USD million)	DII (USD million)
Date	Net Purchase	Net Purchase
Nov-22	2,749.55	-768.45
Oct-22	-59.64	1,131.34
Sep-22	-2,232.72	1,721.92
Aug-22	2,686.05	-862.03
Jul-22	-800.94	1,286.10
Jun-22	-7,086.87	5,682.83
May-22	-6,621.03	6,199.46

Figure 1 *- FII vs DII investments-NIFTY 50*

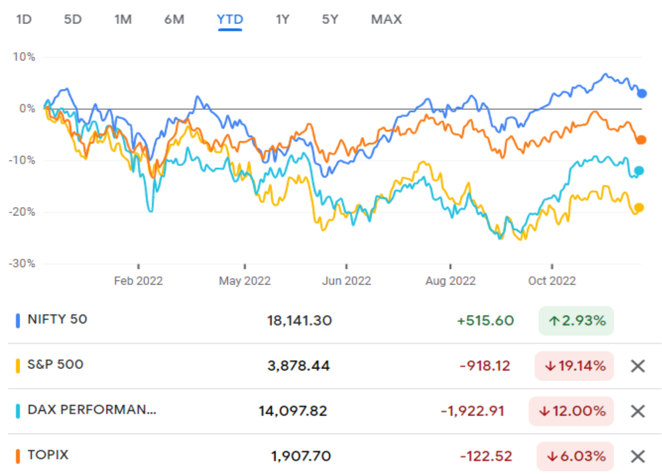

Figure 2 *- Comparative Performance-Major Indices*

This trend has also led India's NIFTY 50 index to outperform the U.S. S&P 500, the German DAX, and the Japanese TOPIX indices (see Figure 2 above). In addition, market indicators of economic growth, such as retail inflation, currency value, foreign exchange reserves, real estate prices, and manufacturing data are all showing healthy trends.

A Bright Future: India as the Next Manufacturing Hub

In the wake of COVID 19-led supply chain disruptions, global organizations have moved to restore order and certainty to their supply chains. In doing so, they have adopted the ***China Plus One*** strategy. The Indian government has identified this opportunity and is taking proactive steps to cash in on this prospect.

However, for India to be seen as a favorable manufacturing destination, it must overcome two challenges: (1) improving the country's infrastructure, and (2) improving the ease of doing business.

For infrastructure, the government has increased infrastructure spending by 35% (to USD 60.43 billion) for the year 2022-2023, and the same year-over-year investment is likely to continue in the near term. With regards to the second challenge, the government's ***Production Linked Incentive*** scheme has also been extended to 14 industry sectors and promises incentives worth an estimated USD 24.3 billion to international companies willing to set up manufacturing in India. Furthermore, the National Master Plan for Multi-modal Connectivity (NMP) also called ***Gati Shakti*** (Speed and Strength), is addressing the issue of Last Mile Connectivity. These combined initiatives have propelled India's position within the World Bank's Ease of Doing Business Ranking by 17 places to 63rd in the world. To continue to improve India's ranking, the current government has also set up the Department for Promotion of Industry and Internal Trade (DPIIT), to serve as a ***single-window*** clearance mechanism for incoming investors and assist them in navigating the Indian bureaucracy.

While the Indian government is focused on improving the regulatory environment and providing stronger property protection rights, the country also has an enormous demographic advantage. By 2030, India will have the largest and youngest working population. This will not only drive an increased domestic demand for goods and services but will also ensure that a massive pool of skilled workers required for high-end manufacturing is readily available. An added benefit is the large English-speaking workforce, as English is taught in most Indian schools as a second language. This has significant ramifications for foreign manufacturers setting up factories in India as it saves them the cost of translating training material and modules, as well as time required to ***upskill*** the existing workforce.

India and LATAM Business

India-LATAM trade has increased by 50% in the last 10 years. The top three trade partners in the region are Brazil, Argentina, and Mexico. India-Brazil bilateral trade stood at USD 11.5 billion in 2021 and is projected to rise to USD 15 billion in the coming years[1]. India-Argentina trade increased by a remarkable 72% in 2021, touching USD 5.7 billion,[2] and India-Mexico trade now stands at the USD 5 billion mark.

Figure 3 *- India- LATAM Trade*

At present, there are approximately 50 companies based out of Latin and Central America that have investments in India. However, the economic track record for these Multilatinas has been mixed. What factors set the successful companies apart? While Cinepolis, KidZania and Grupo Bimbo have flourished by expanding into smaller cities, acquiring local brands, and making their products affordable for the Indian consumer, several other companies – Marcopolo, Pollo Campero and Gerdau – have exited the Indian market after experiencing substantial financial losses.

Business Environment in India: Advantages and Disadvantages

Doing business in India is a nuanced affair, but market entry research coupled with an assessment of the legal and regulatory risks can substantially increase the chances of success. Some aspects that make India unique are:

- The business culture of India is distinct from the rest of the continent. This makes the comparison of India to

[1] Financial Express- Jun 7 2022
[2] India- Argentina Trade

China, or another Asian country, perilous. India should perhaps be viewed more like a continent than a country.

- The structure of India's government can mean vast variations in laws and regulations exist in different states, depending on which political party is in power.
- Changing regulations is a common risk of conducting business in India. Authorities can use obscure sections of the law to unexpectedly attack a foreign corporation. While this seldom occurs, it can pose a serious setback to business ventures. Vodafone, for example, was surprised with a multibillion-dollar capital gains tax payment after purchasing telecom assets in India through a Hong Kong transaction in 2008.[3]
- Corruption is viewed as a significant risk by foreign investors. India is placed 86th out of 180 countries in Transparency International's Corruption Perceptions Index in 2021.[4]

Navigating India's Evolving Business Landscape

When considering a risk advisory consultancy to perform political and business risk analysis for entering a foreign market such as India, a company needs to retain a firm with global experience and specialized on-ground knowledge of the region. India is a federal country with 28 states—some of which have been historically ruled by pro-business regimes, while others, by pro-labor political factions. A vigorous market entry risk analysis should be conducted to understand the differing regulations, political environment, and historical tendencies of social unrest. Even projects that have had the support of central and state governments have been opposed by local populations, environmentalists, and non-governmental agencies. Business deals that looked advantageous at first have ended up in protracted legal disputes or have fallen victim to labor strikes. It is also critical to undertake a deep dive into the 'off-balance sheet' reputational risks associated with potential acquisitions, investments, partnerships, and supply chains.

CONCLUSION

It is India's time to shine as a beacon of stability and economic prosperity in Asia, and there are only two kinds of investors left in the world; ***those who have invested*** in India and those ***who will be investing*** in India. For Multilatinas and other new or existing investors in India, they need to retain a global consultancy with the expertise, technology, and experience that can help them successfully navigate the complex yet financially rewarding landscape of the growing Indian market.

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[3] Practical Law's Arbitration blog dated 21 December 2020
[4] The United Kingdom's website dated 17 June 2021

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