



India: The Next Global Manufacturing Hub

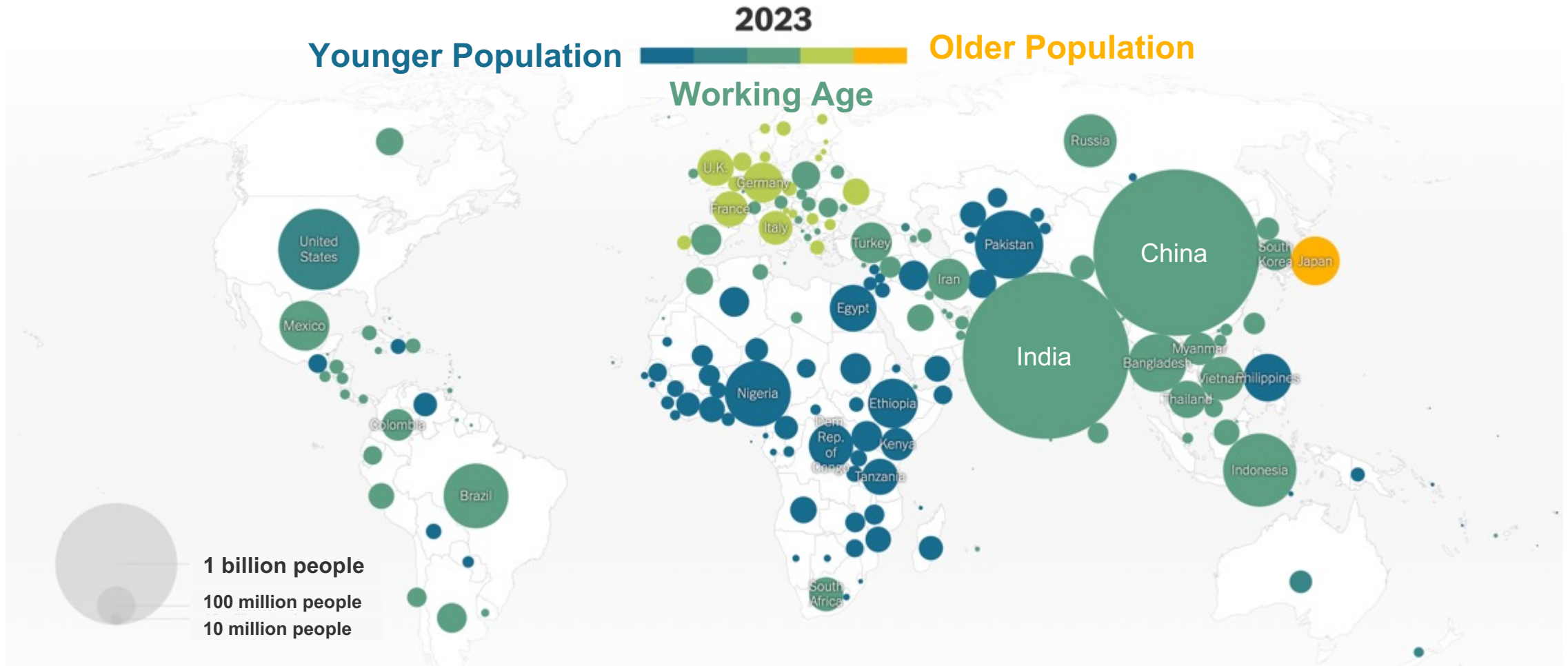
Sathit Talaengsatya

Economic Research and Investor Relations

20 September 2023

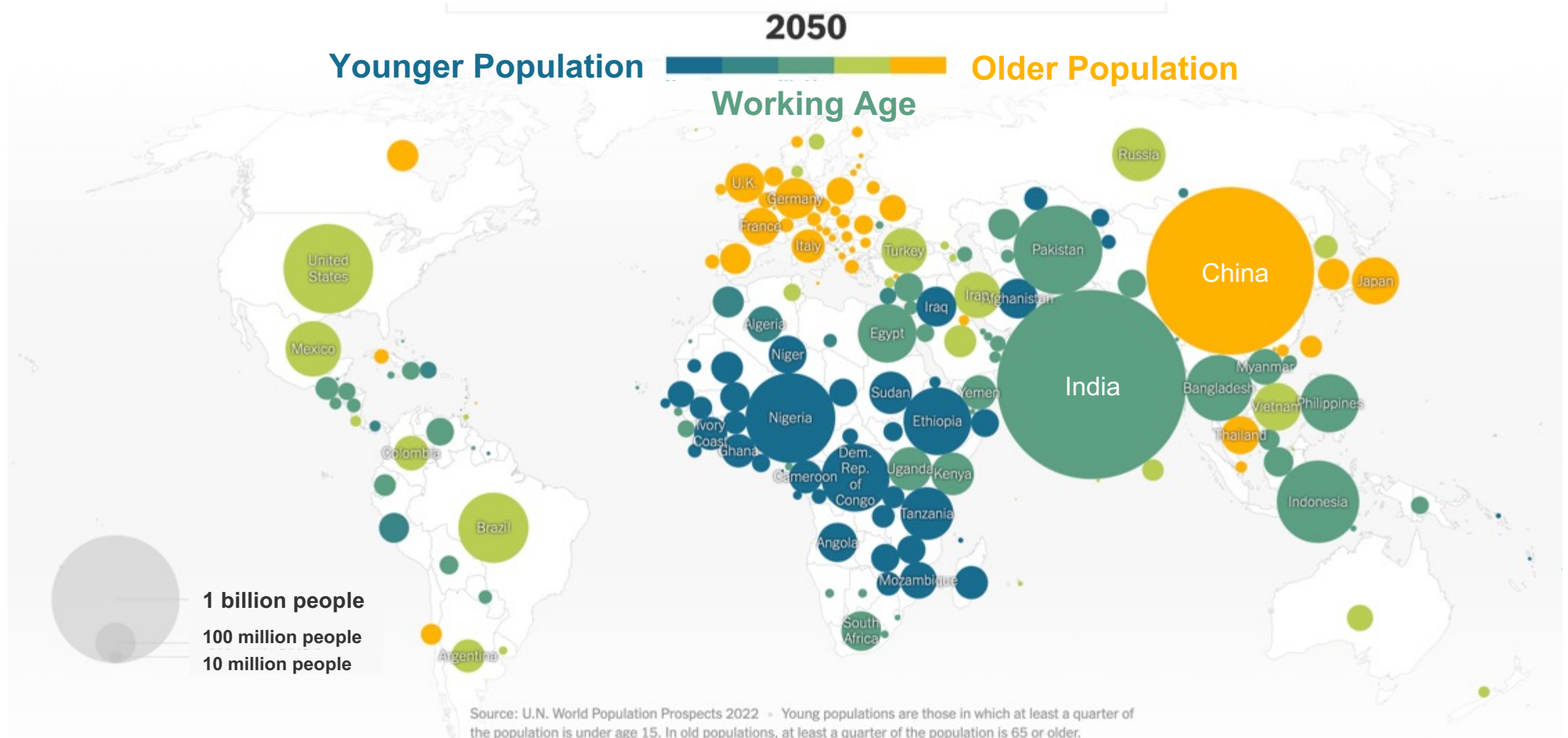
Private and Confidential

Where will be **your production base** and **your market** if you have to choose one?



Source: The New York Times, How a Vast Demographic Shift Will Reshape the World

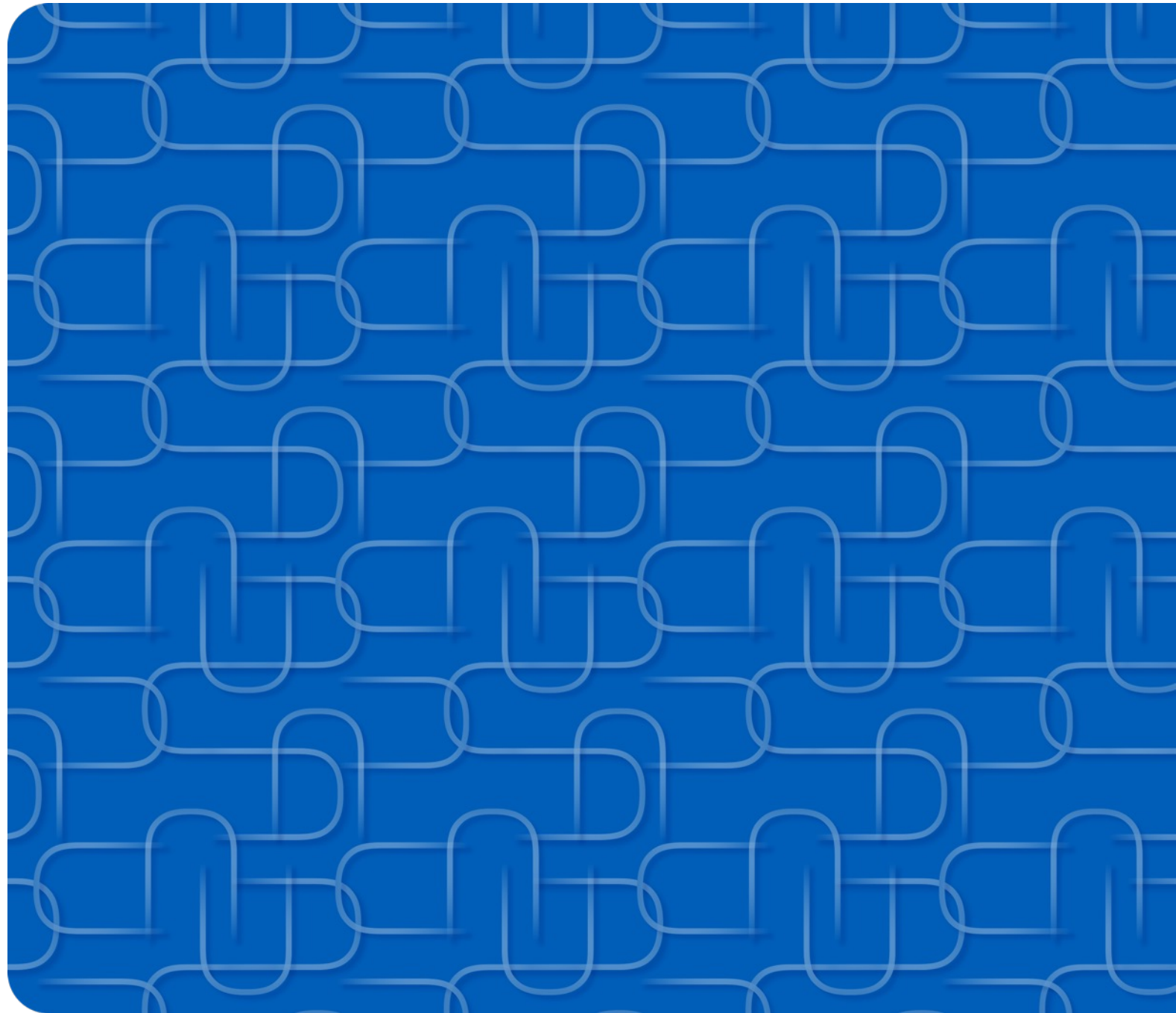
Looking ahead into 2050, your answer is still the same?



Source: The New York Times, How a Vast Demographic Shift Will Reshape the World

Why India?

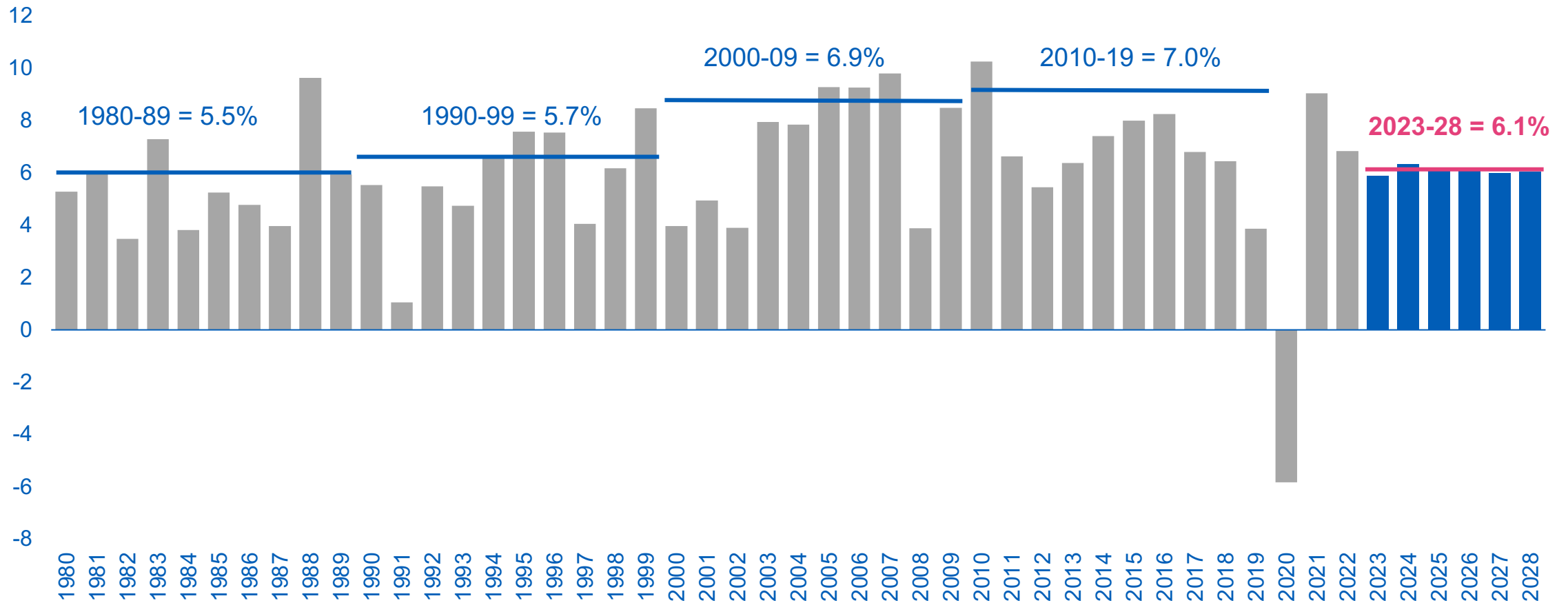
I. India's Economic Structure and External Environment



India has enjoyed high growth since the reforms in 1990s

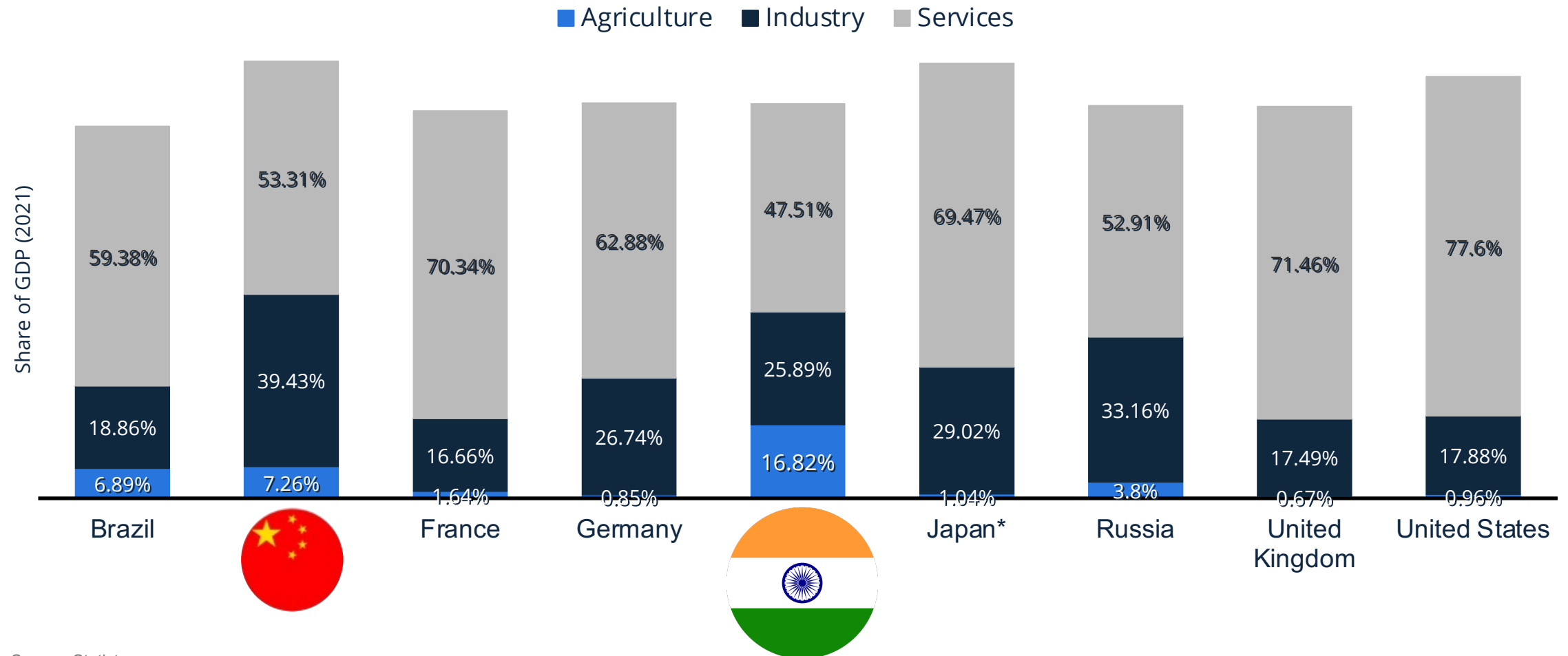


India's Economic Growth (%YoY)



Source: IMF WEO Database (April 2023)

The economy has been driven by the service sector with a sizeable agriculture sector



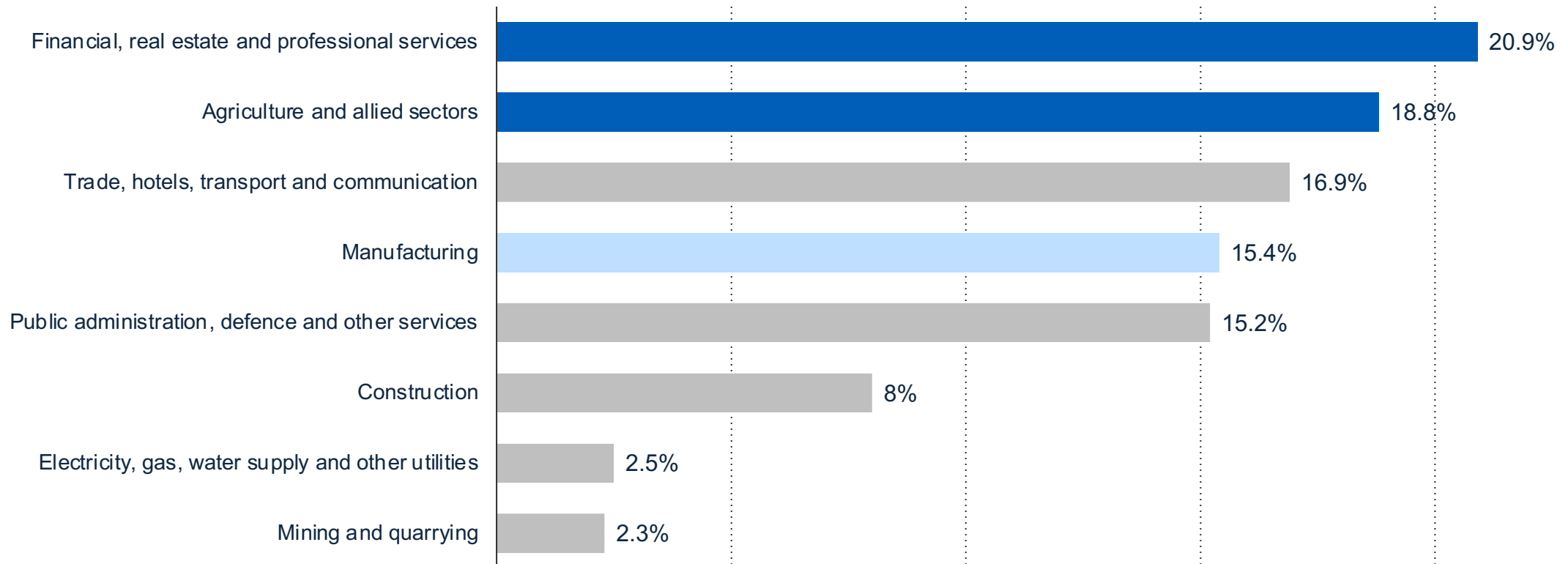
Source: Statista

Financial, real estate and profession services play key roles in the economy



GVA distribution in India FY 2022, by sector

Share of GVA

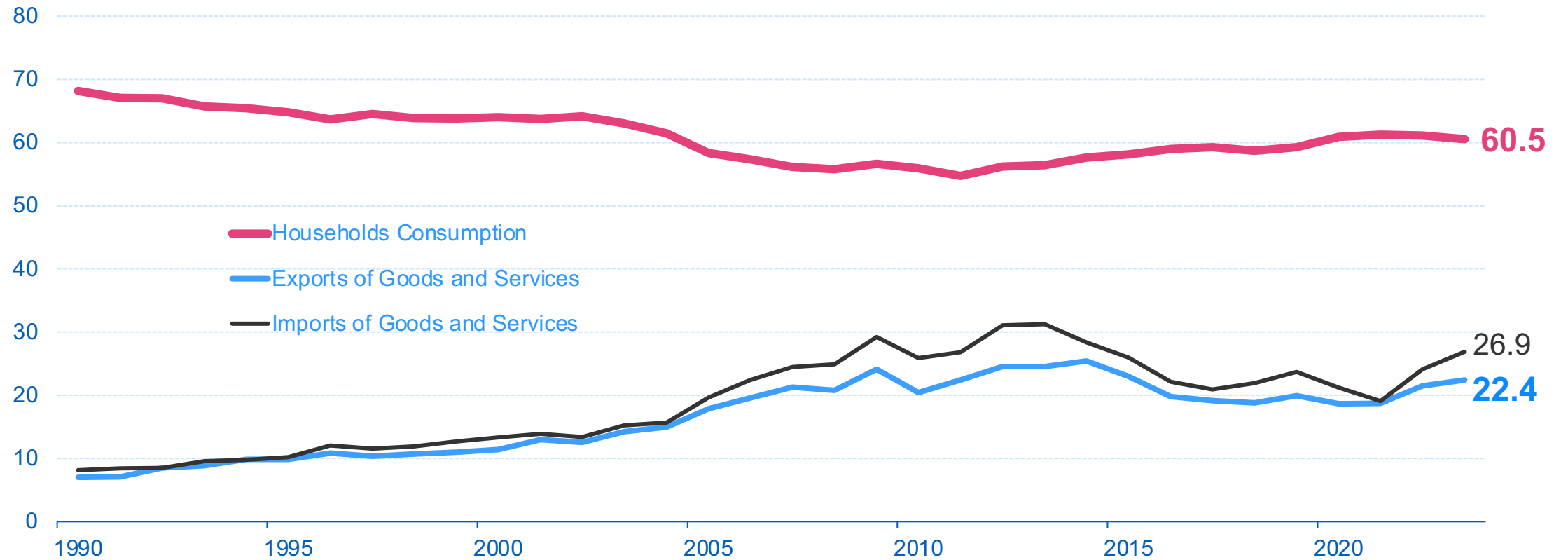


Source: Statista

Household consumption is the main growth driver...



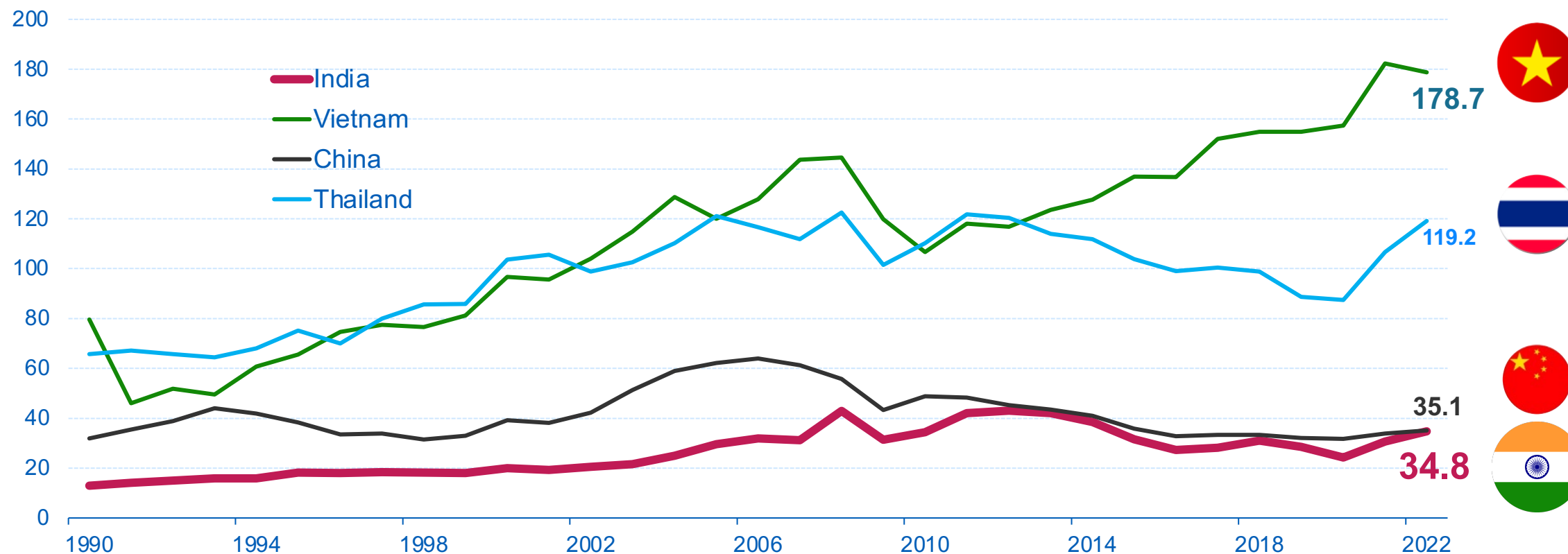
Structure of India's Economy: Expenditure Side (% of GDP)



Source: World Bank Databank

...and India has a low degree of trade openness





Goods Trade (% of GDP)



Source: World Bank Databank

Tariff protection in South Asia is generally higher than in East Asia with rising nontariff measures

Barriers to Goods and Services Trade

Country	Simple Average MFN-Applied Tariffs		Nontariff Measure Implemented, 2017–20 ³	Services Trade Restrictiveness Index (MRE)
	Agriculture (%)	Manufactures (%)		
 India	32.2	38.8	177	65.7
Pakistan	15.4	13.5	45	28.3
Bangladesh	17.6	17.5		44.2
Sri Lanka	25.5	27.1	5	38.2
Maldives	18.3	10.8		–
Nepal	14.8	14.6	6	42.9
Afghanistan	5.8	9.4 ²		–
Bhutan	41.4 ¹	41.9		–
 China	15.6	13.9	284	36.6
Korea	49	56.8	153	23.1
Indonesia	8.5 ¹	8.7	49	50.0
 Thailand	25.2 ¹	29.0	88	48.0
Malaysia	14.7	7.7	24	46.1
Philippines	9.7	9.8	121	53.5
 Vietnam	24.2 ¹	17.2	43	41.5

Sources: World Trade Organization 2009, 2020; and World Bank 2012.

Note: MFN = most favored nation; MRE = most recent estimate.

¹Most recent estimates from 2007.

²Most recent estimates from 2018.

Source: IMF (2023), South Asia's Pa³ Includes all nontariff measures (initiated and in force) imposed on all members from January 1, 2017, to January 6, 2020.

The degree of integration through FTAs between East Asia and South Asia remains limited

Assessing South Asia–East Asia FTAs				
Name of Agreement	Date Concluded	Goods Liberalization	Services Coverage	Deep Integration
Asia–Pacific Trade Agreement	1976	Limited	Excluded	Shallow
India–Singapore FTA	2005	Relatively fast	Comprehensive	Limited
Pakistan–China FTA	2007	Gradual	Some	Limited
Pakistan–Malaysia FTA	2008	Limited	Some	Limited
ASEAN–India FTA	2010	Gradual	Excluded	Shallow
India–Korea FTA	2010	Gradual	Comprehensive	Moderate
India–Japan FTA	2011	Relatively fast	Some	Deep
India–Malaysia FTA	2011	Relatively fast	Some	Moderate
Indonesia–Pakistan FTA	2013	Limited	Excluded	Excluded
Singapore–Sri Lanka FTA	2018	Relatively fast	Comprehensive	Deep

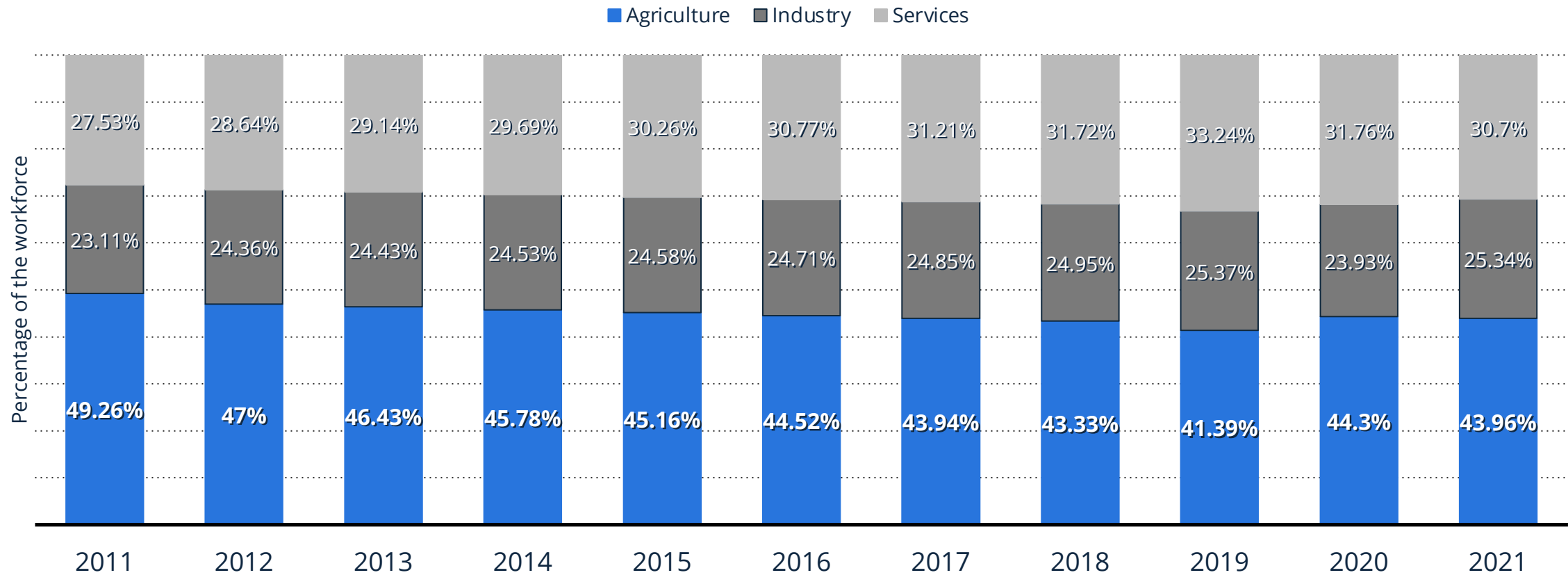
Source: Author’s assessment based on the methodology outlined in Wignaraja, Ramizo, and Burmeister (2013).

Note ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement.

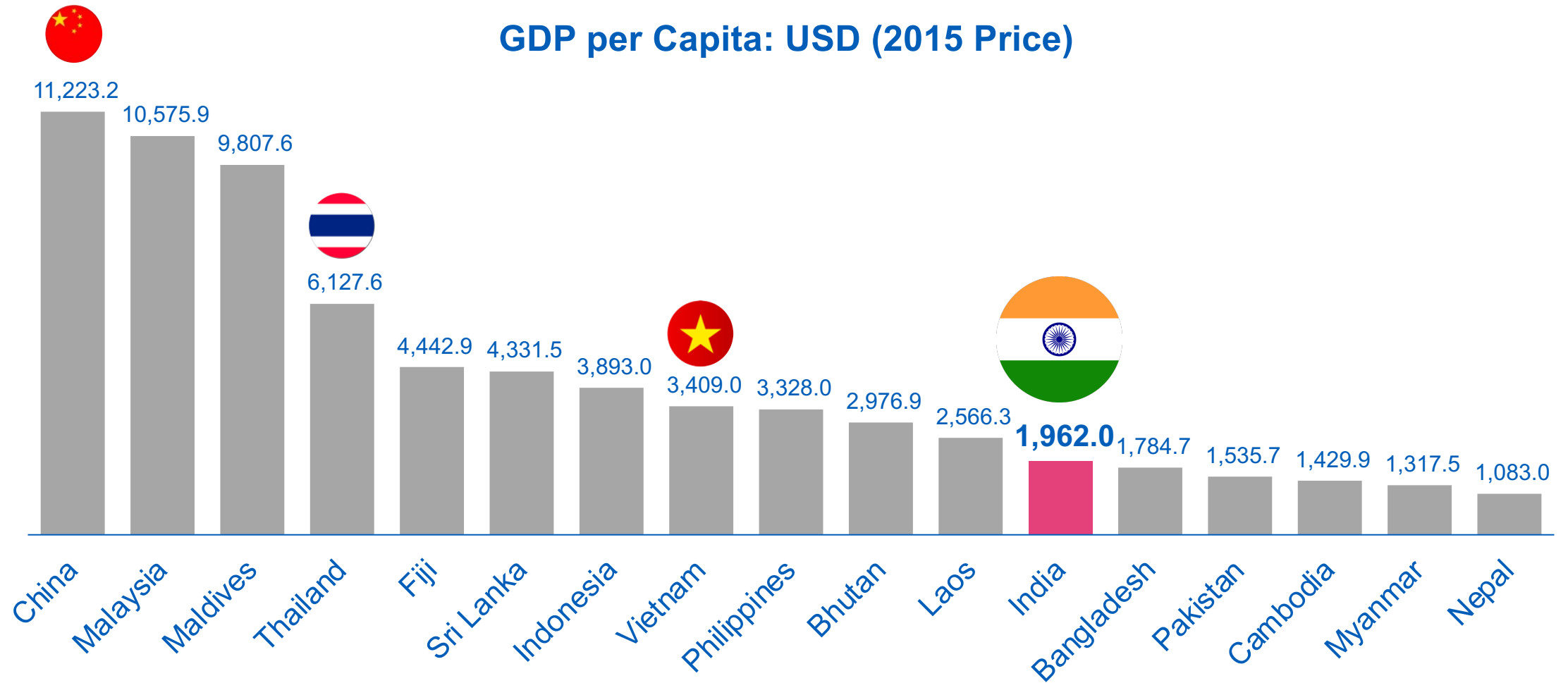
A sizeable of Indian workforce is in the agricultural sector



Distribution of the Workforce across Economic Sectors



India's GDP per Capita remains low compared to that of regional peers



Source: World Bank Databank

Global megatrends will underpin India's position in the international arena

Global Environment VUCA/BANI



1 **Deglobalization**



2 **Shifting Economic Power and Polarization**



3 **Demographic Changes**



4 **Rapid and Broadening Urbanization**



5 **Individual Empowerment**



6 **Health and Wellness Awareness**



7 **Social Instability and Inequality**



8 **Technological Disruption and Transformation**



7 **Environment and Climate Change Awareness (ESG)**



10 **Collaborative business and ecosystems**

Macro picture

People

External backdrop

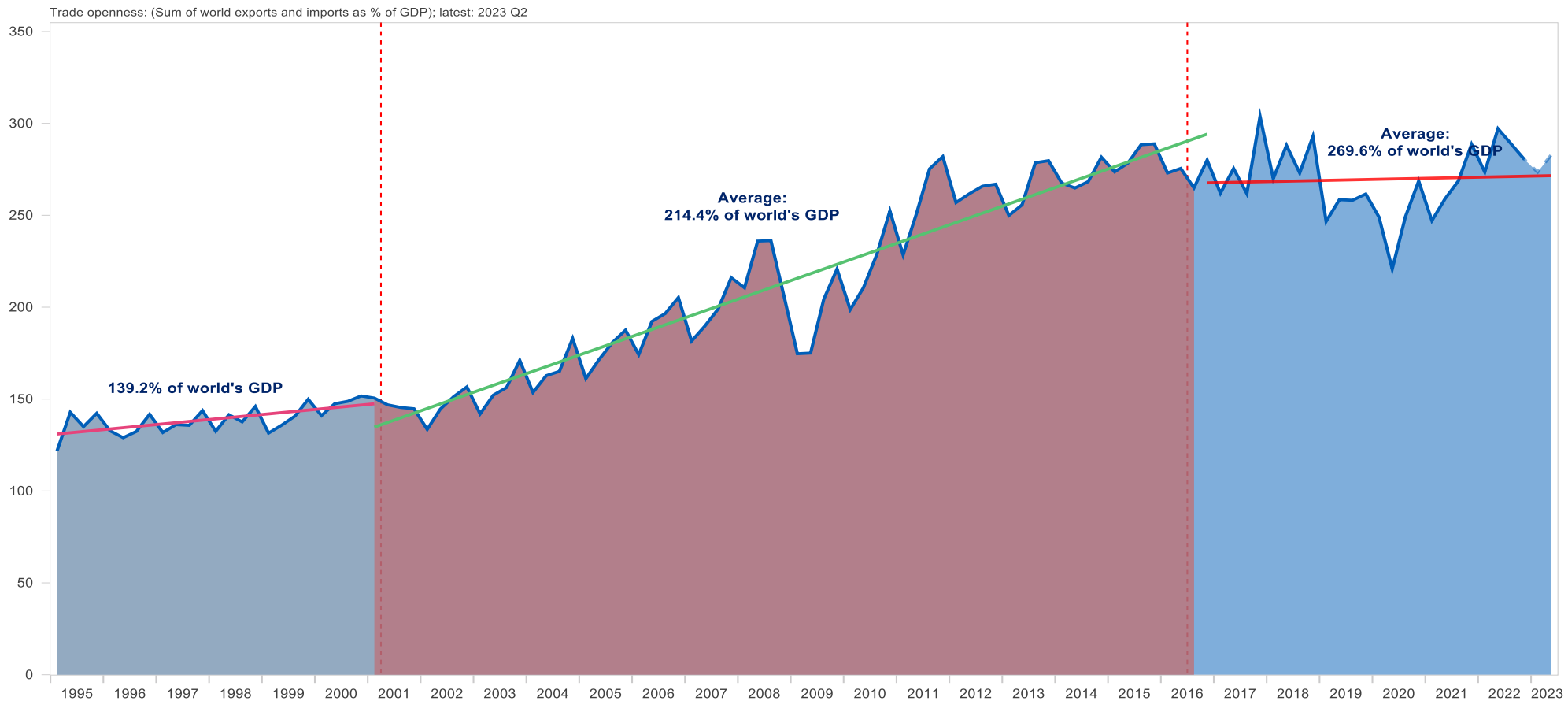
Regionalization/de-globalization of trade and supply chains



“Globalization is almost dead” – pace of globalization has stagnated at least

World - Globalisation Slowing Down?

Trade openness fell after global financial crisis and Trump came to power

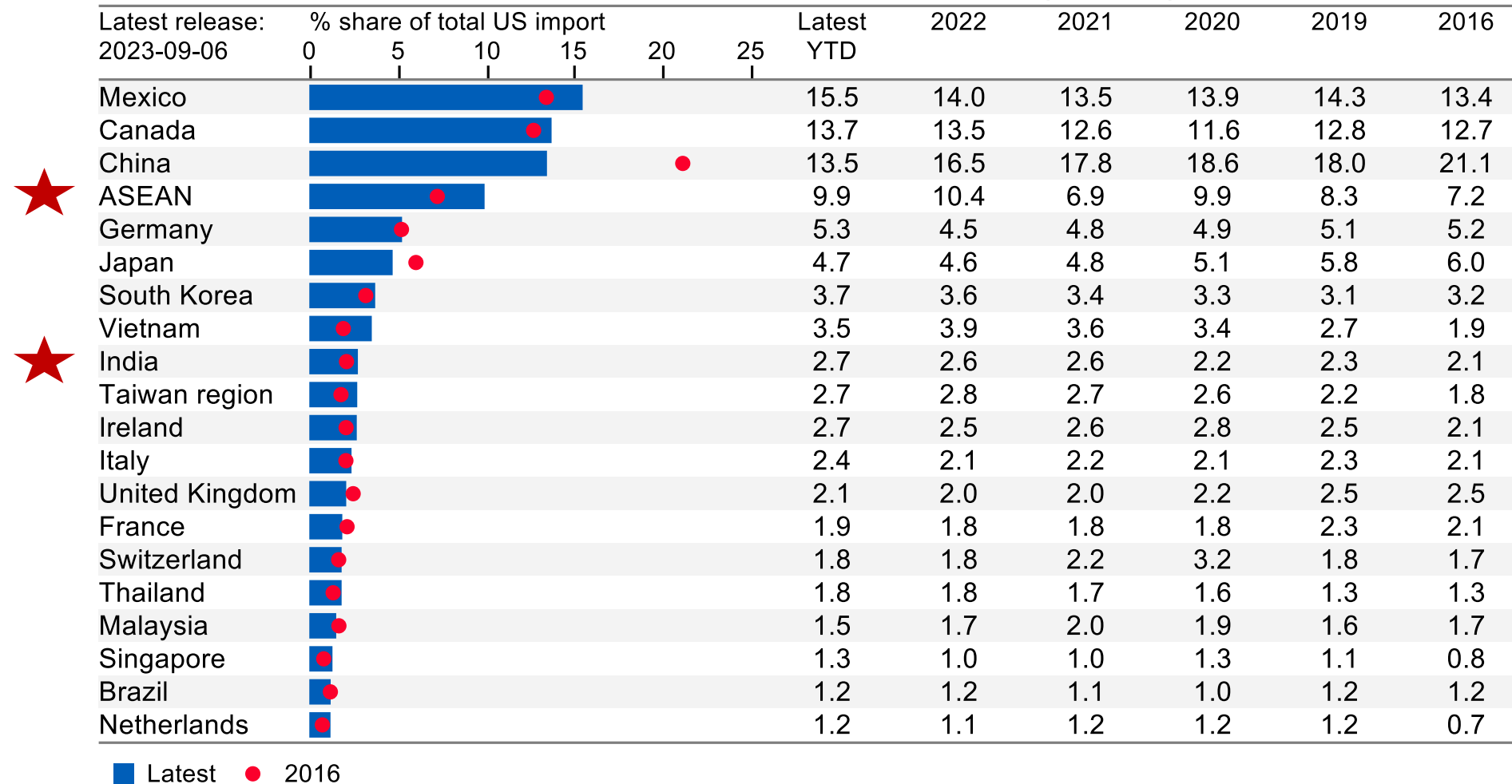


Source: Macrobond, UOB Global Economics & Markets Research

Regionalization/de-globalization of trade and supply chains

US imports - Shifts in trade dynamics are in favor of India and ASEAN as tensions and restrictions build...

United States: Top Import Sources, YTD (% share)



Source: Macrobond, Global Economics & Markets Research

Regionalization/de-globalization of trade and supply chains



China trade partners: Shifts in trade flows dynamics in favor of ASEAN and India...

China: Top Exports Destinations, YTD (% share)

Source:	% share of China's exports	YTD	2022	2021	2020	2019	2016
China Customs	0 5 10 15 20	Jul 2023					
ASEAN		16.0	15.4	14.5	14.9	14.1	12.5
European Union (EU)		15.4	15.9	15.4	15.3	17.3	16.2
United States		14.5	16.5	17.0	16.8	16.9	17.9
HK SAR		7.5	8.2	10.3	10.4	11.1	13.4
Japan		4.8	4.8	5.1	5.8	5.9	6.2
South Korea		4.6	4.6	4.5	4.5	4.6	4.5
Vietnam		4.0	4.0	4.3	4.3	3.8	2.9
India		3.4	3.3	2.9	2.6	3.1	2.8
Russia		3.1	1.9	1.9	2.0	1.9	1.7
Netherlands		3.1	3.3	3.0	3.1	2.9	2.7
Germany		3.1	3.3	3.4	3.4	3.3	3.1
Malaysia		2.7	2.6	2.2	2.1	2.1	1.8
Singapore		2.5	2.0	1.7	2.3	2.1	2.3
Mexico		2.4	2.1	2.0	1.8	1.9	1.5
Thailand		2.3	2.2	2.1	2.0	1.8	1.9

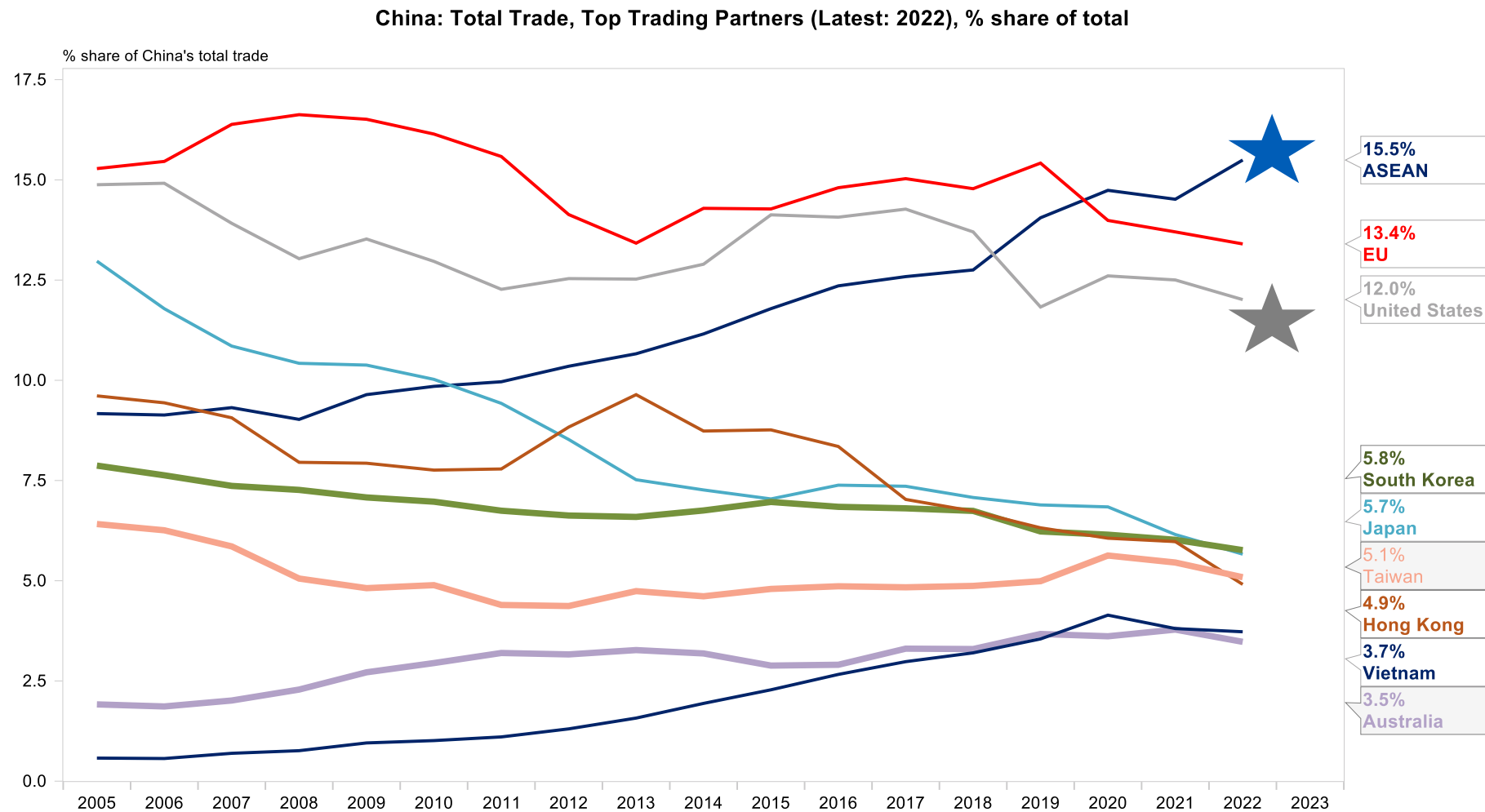
■ Latest ● 2016

Source: Global Economics & Markets Research

Regionalization/de-globalization of trade and supply chains



China trade partners: Diverging trends in trade flows dynamics



Source: Macrobond, UOB Global Economics & Markets Research

Why India again?

India is on the path to become the next global manufacturing hub



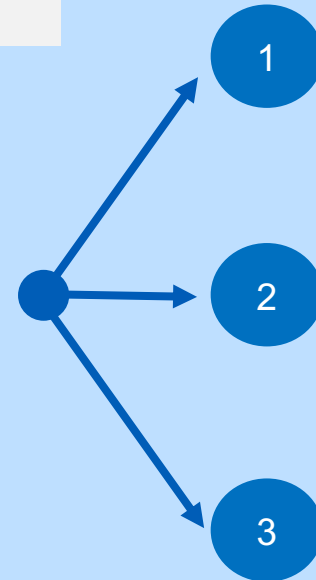
- 1 India could emerge as a new global manufacturing hub and a key player in the global supply chains.
- 2 India could emerge as the next global sizeable consumer market.

Favorable fundamentals underpin the bright long-term growth prospects for India

Global Megatrends



Economic Growth and Long-Term Prospects



Population

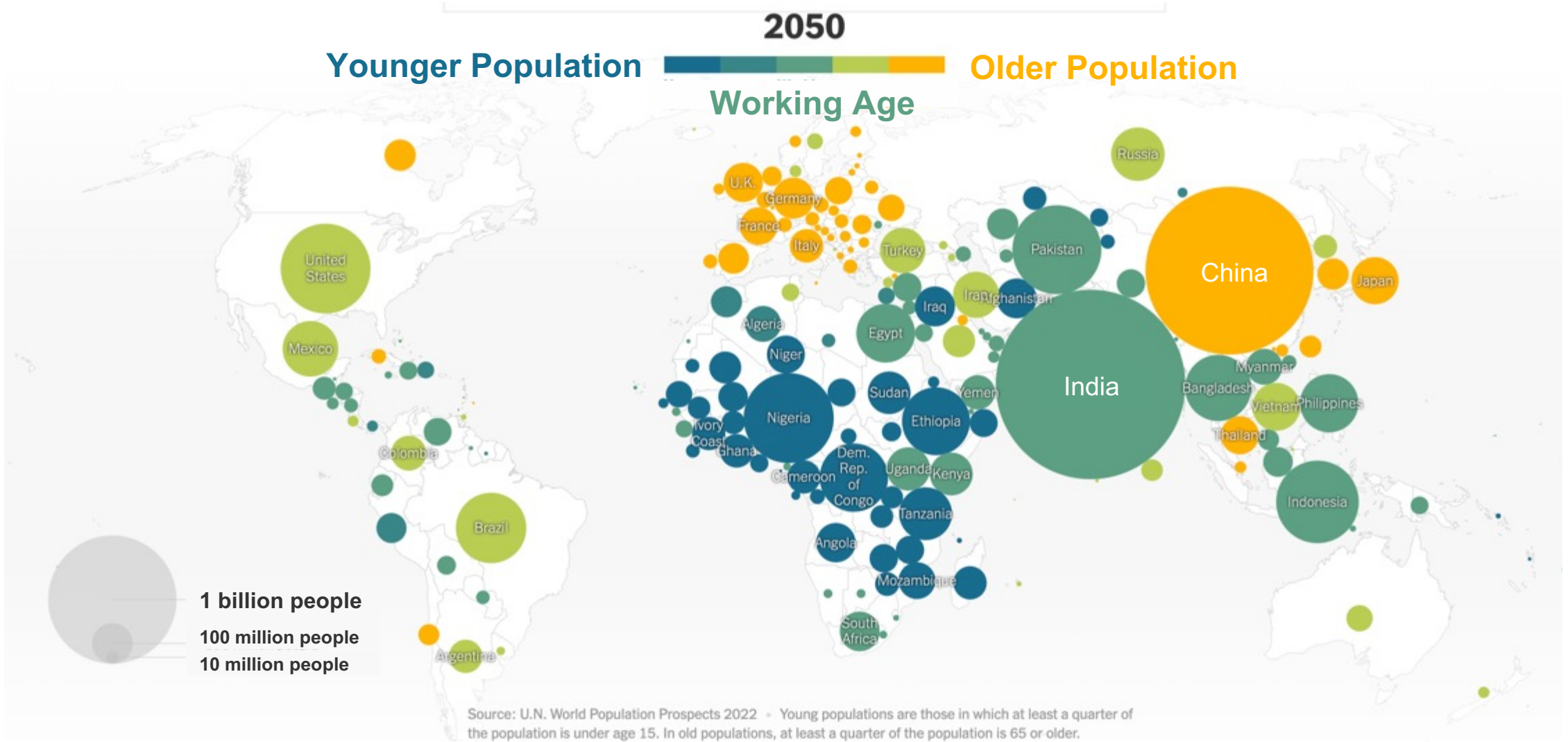


Capital Goods and Investment



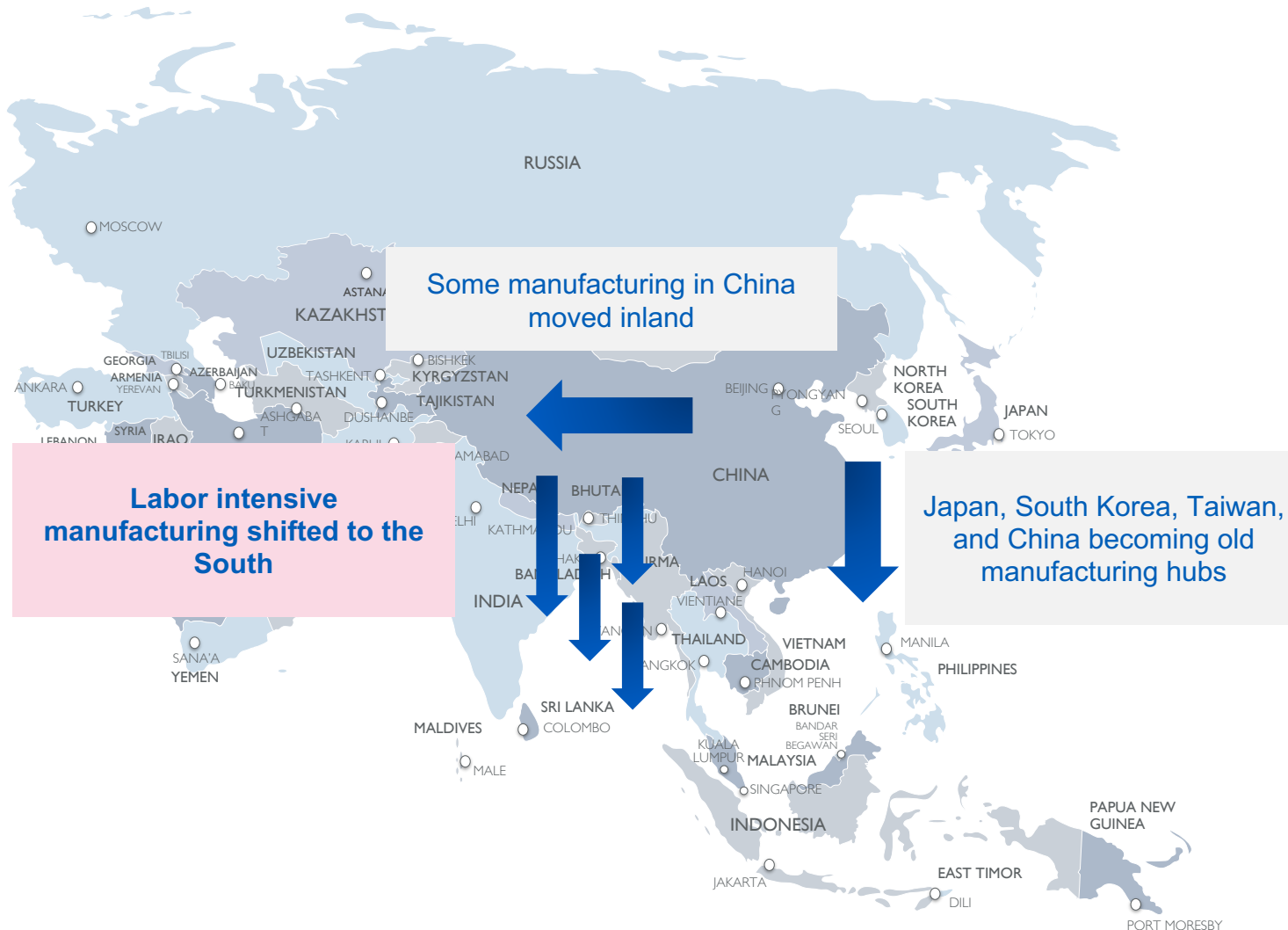
Technology, institutions, and policies

India's population will remain young in 2050

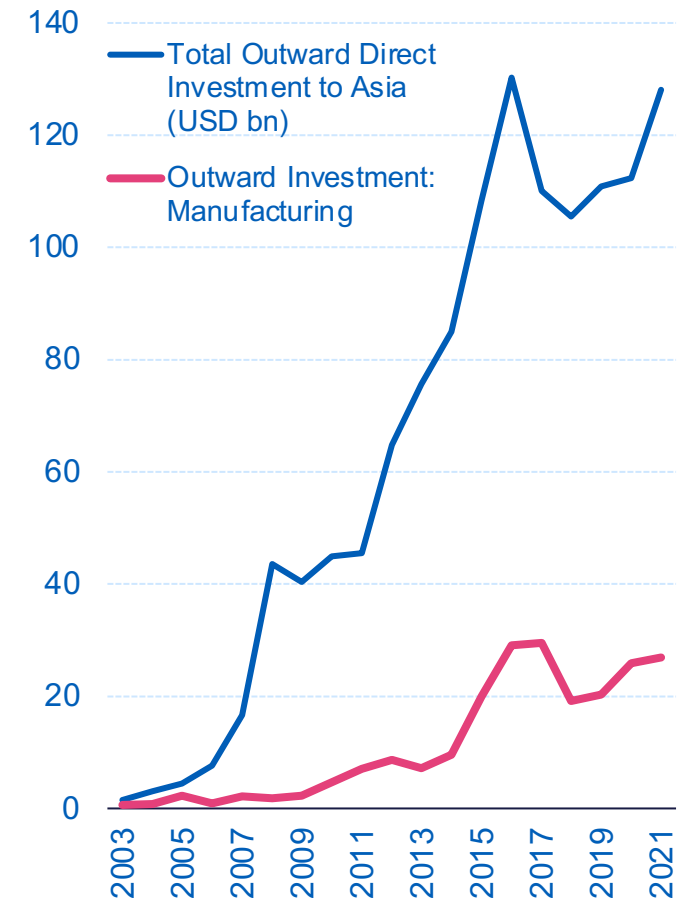


Source: The New York Times, How a Vast Demographic Shift Will Reshape the World

Deglobalization will accelerate the shift of low-cost manufacturing out of China



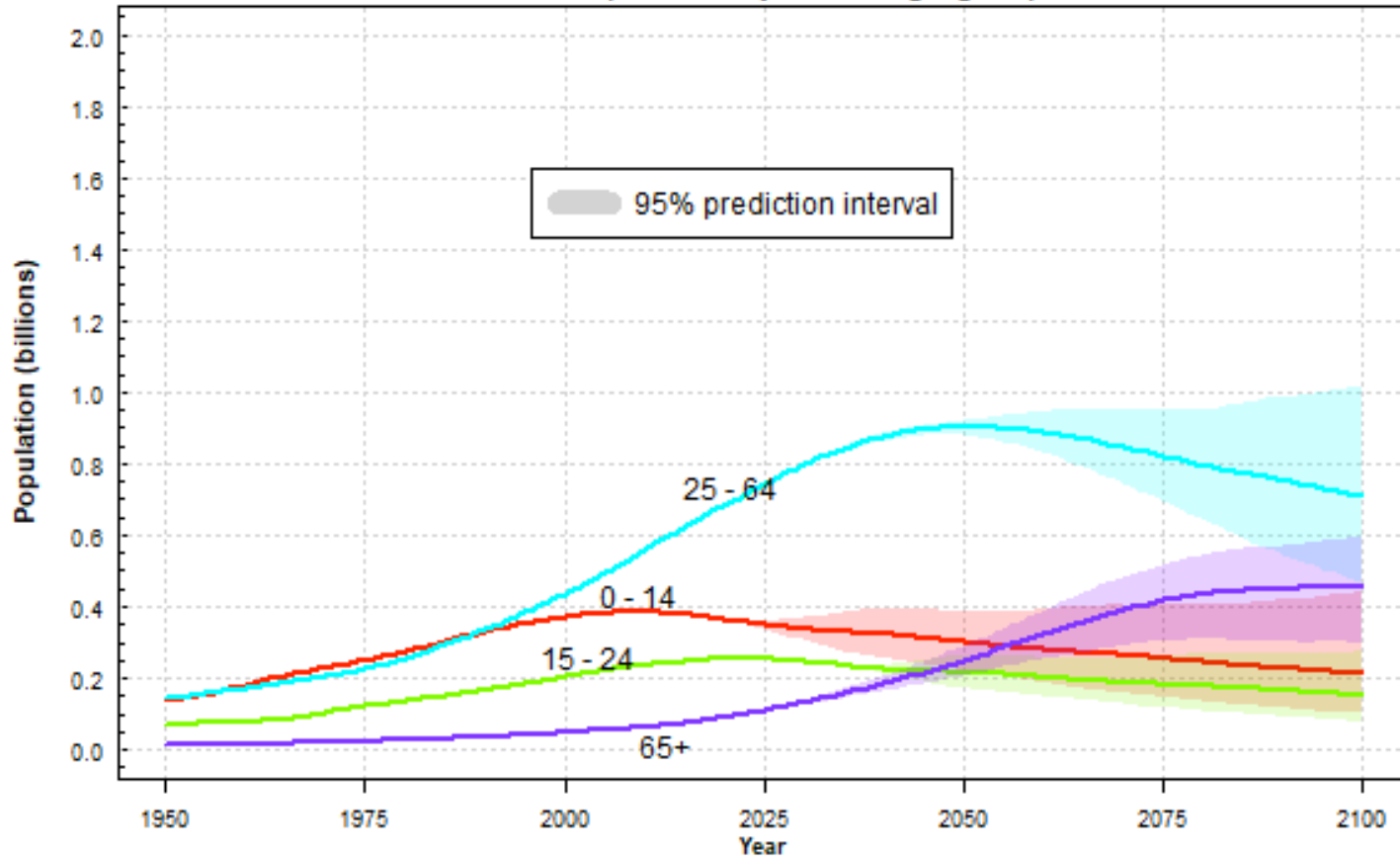
China's Outward Direct Investment to Asia (USD bn)



Source: Ministry of Commerce, China and UOBT

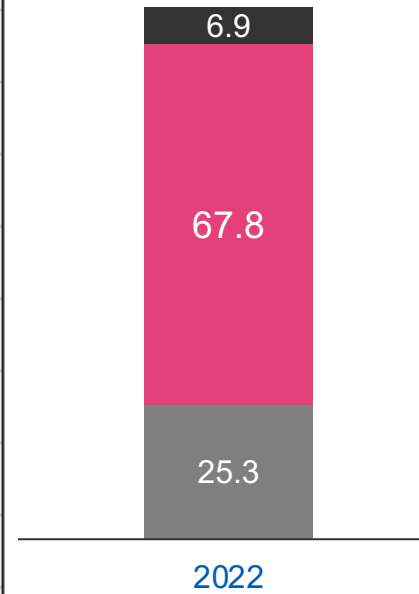
Demographic structure is conducive to manufacturing booms

India: Population by broad age groups

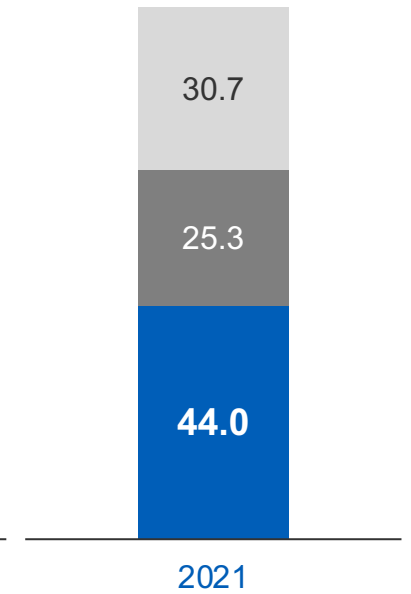


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Population Structure (% of Total)



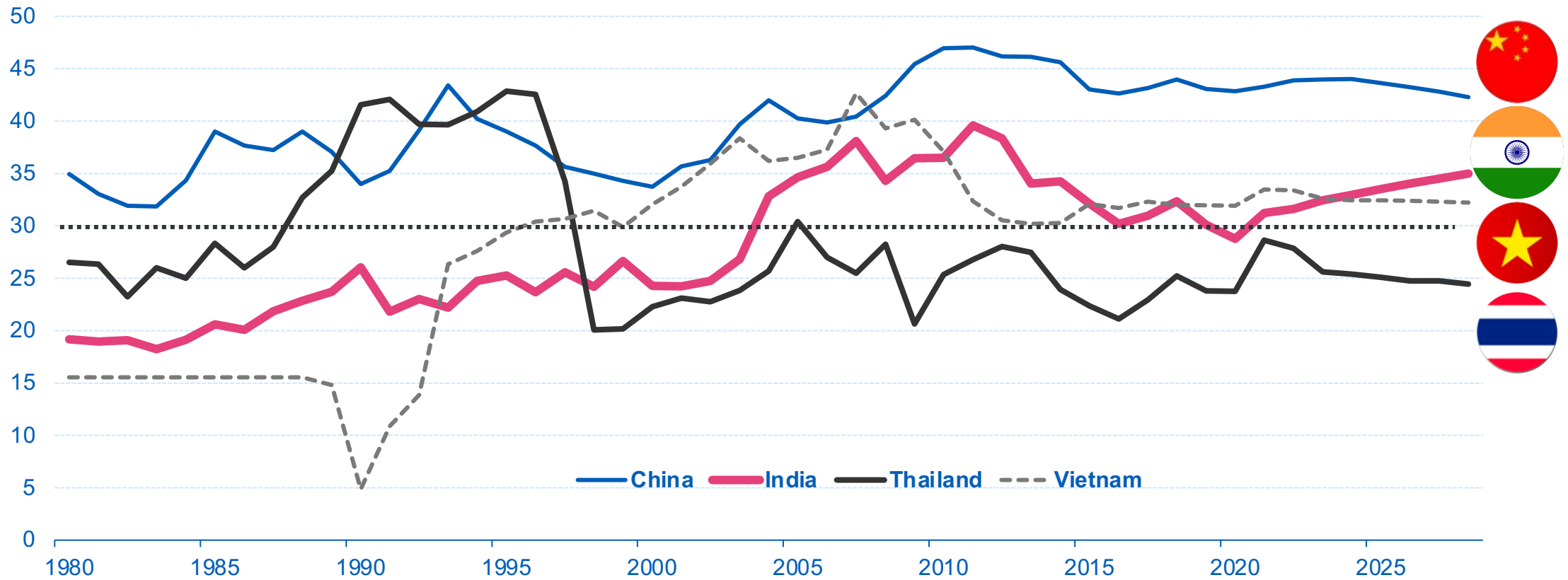
Employment Structure (% of Total)



- Aged 65 and Above
- Service
- Industry
- Aged 15-64
- Agriculture
- Aged 0-14

Productive capability will be growing

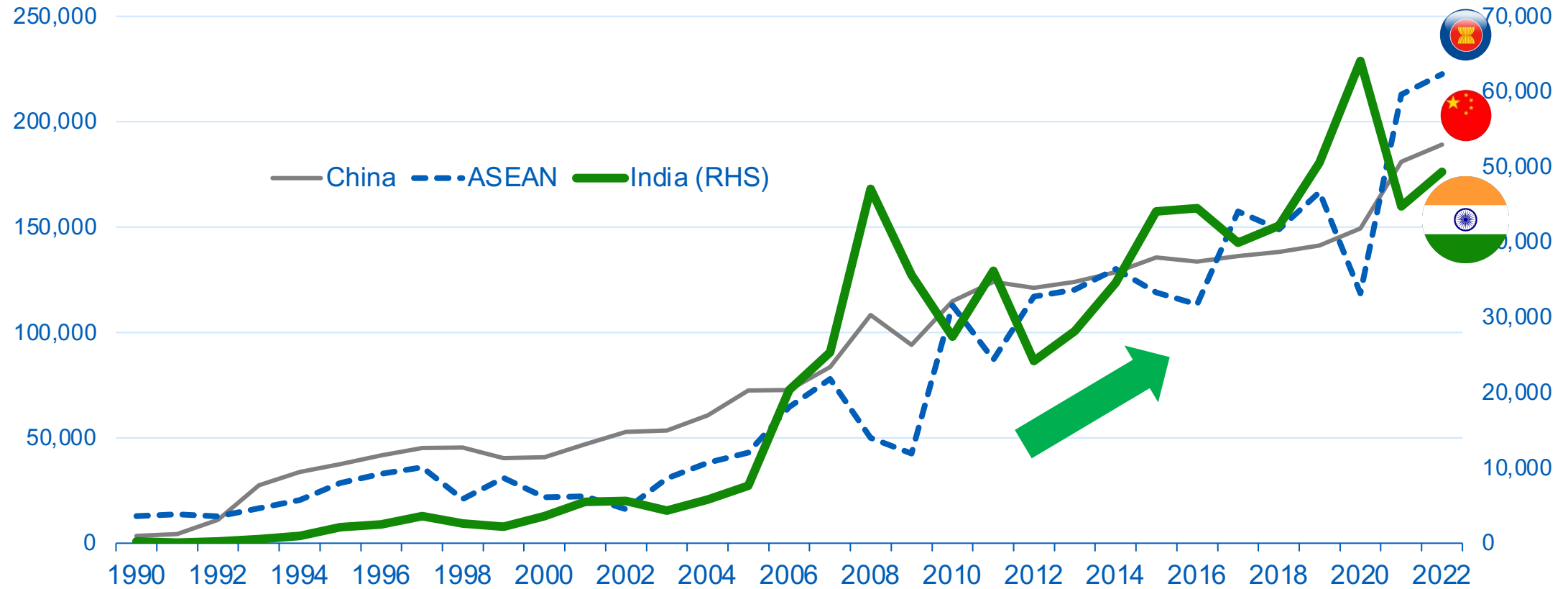
Total Investment (% of GDP)



Source: World Bank Databank

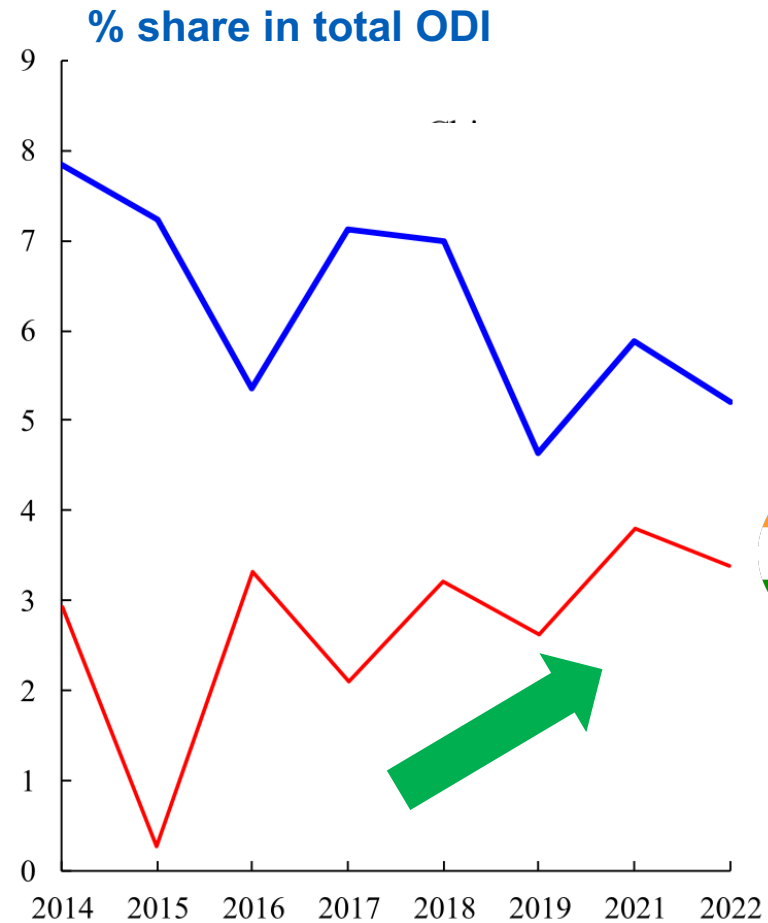
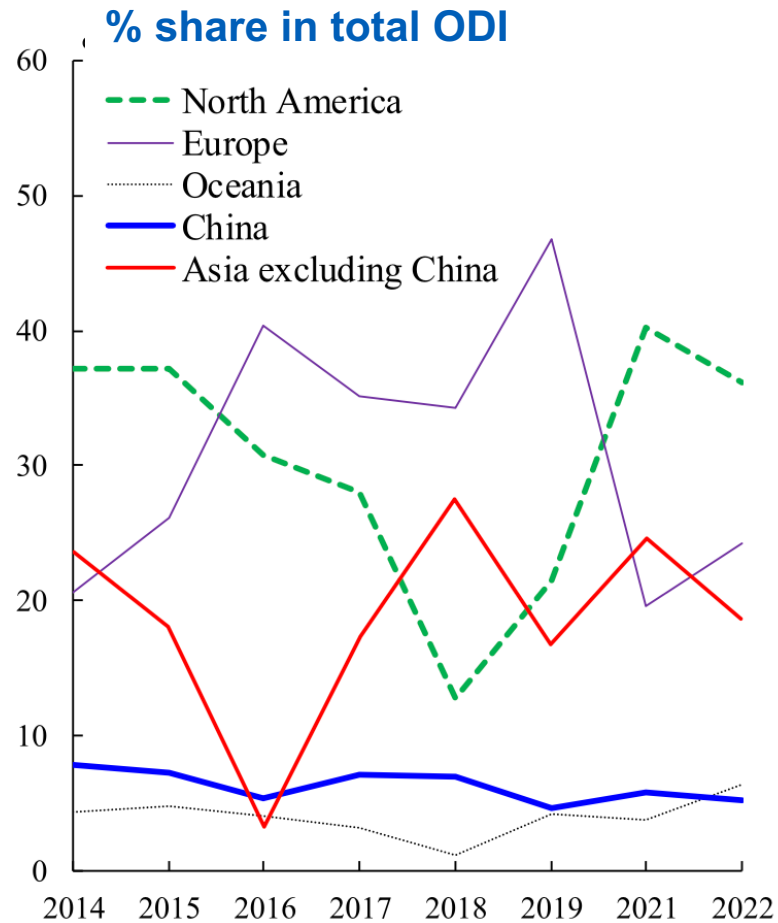
FDI inflows to India is on the rise

FDI inflows, by region and economy, 1990–2022 (USD mn)



Source: World Bank Databank

Japan's Outward Direct Investment (ODI) to India has been rising

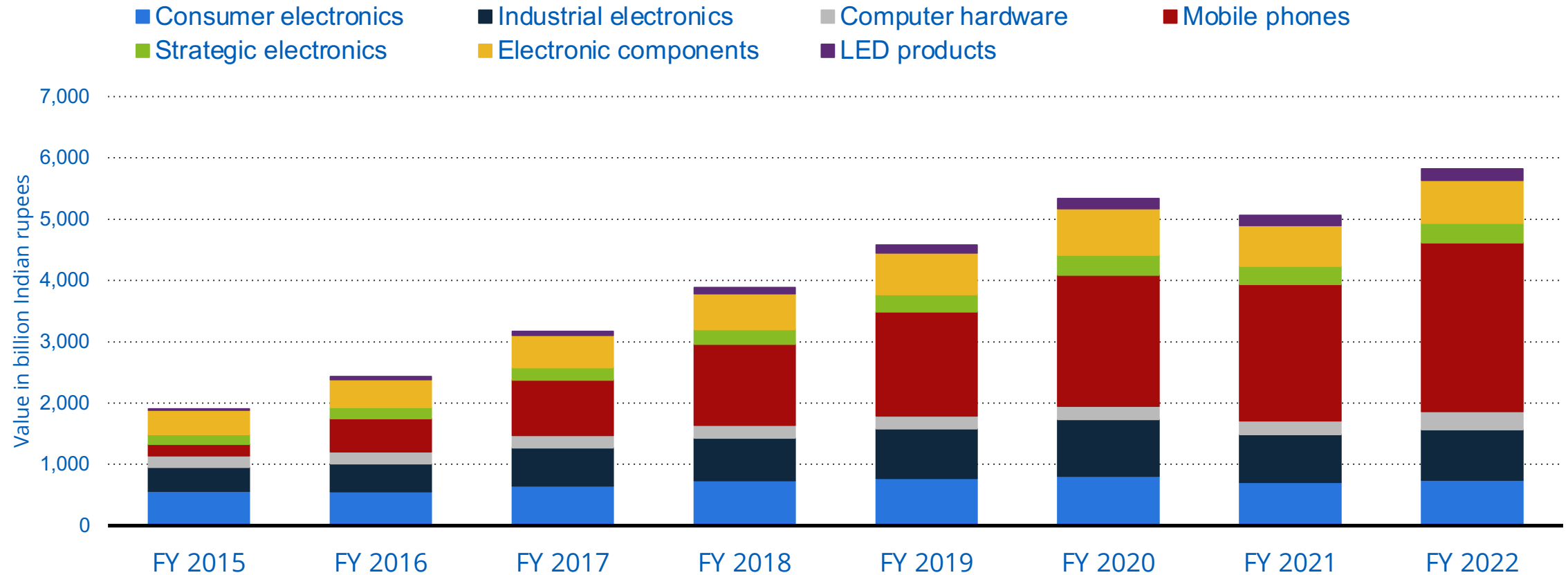


Source: Bank of Japan

Make in India Initiative could drive manufacturing growth



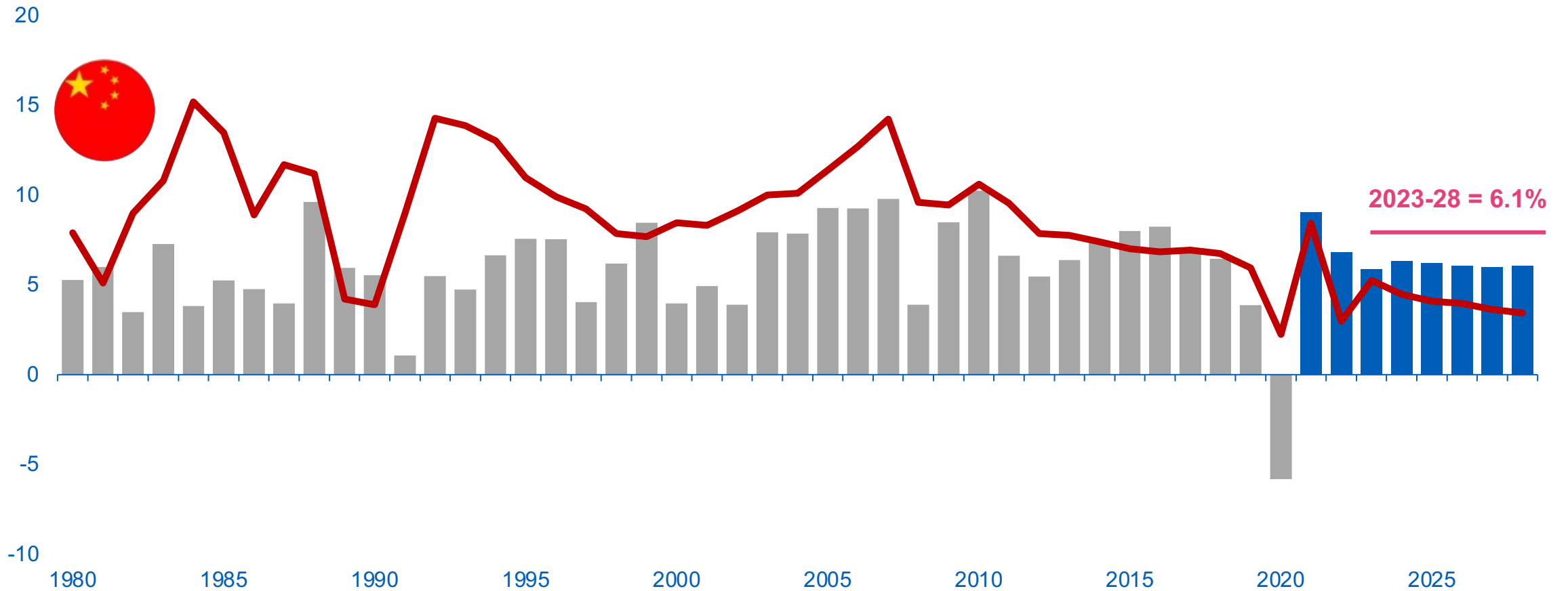
Manufacturing output of electronics sector in India FY 2015-2022



Source: Statista

Tailwinds will boost India's medium-term growth

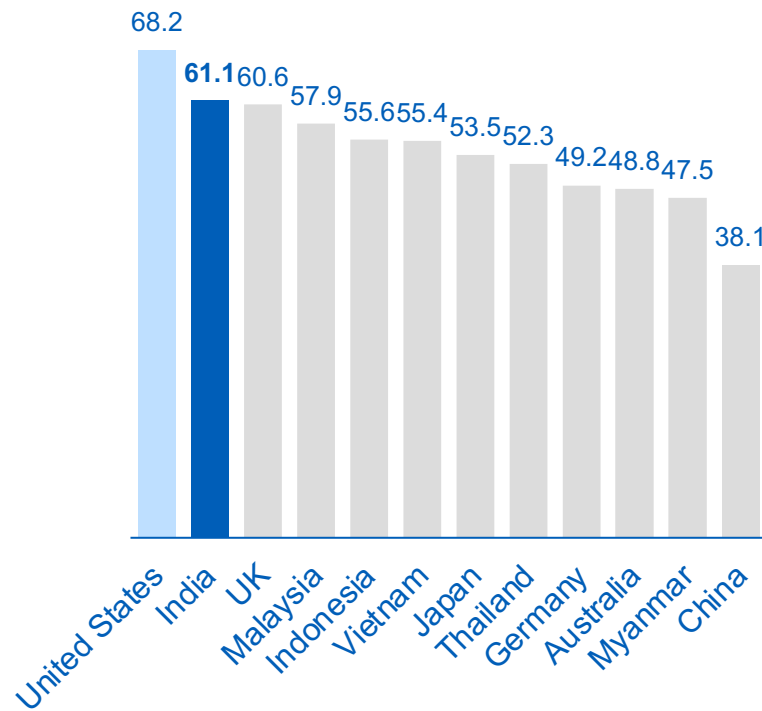
India and China's Economic Growth (%YoY)



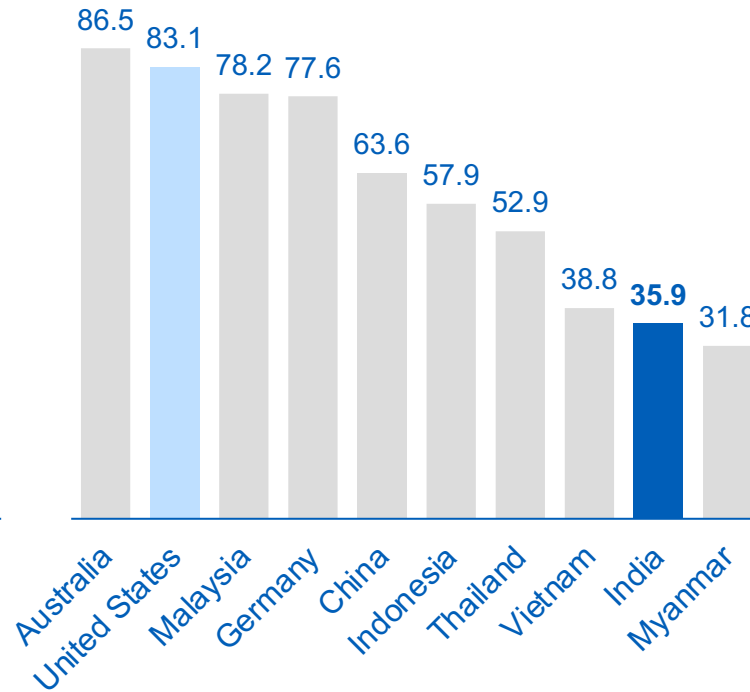
Source: IMF WEO Database (April 2023)

Room for further urbanization remains ample

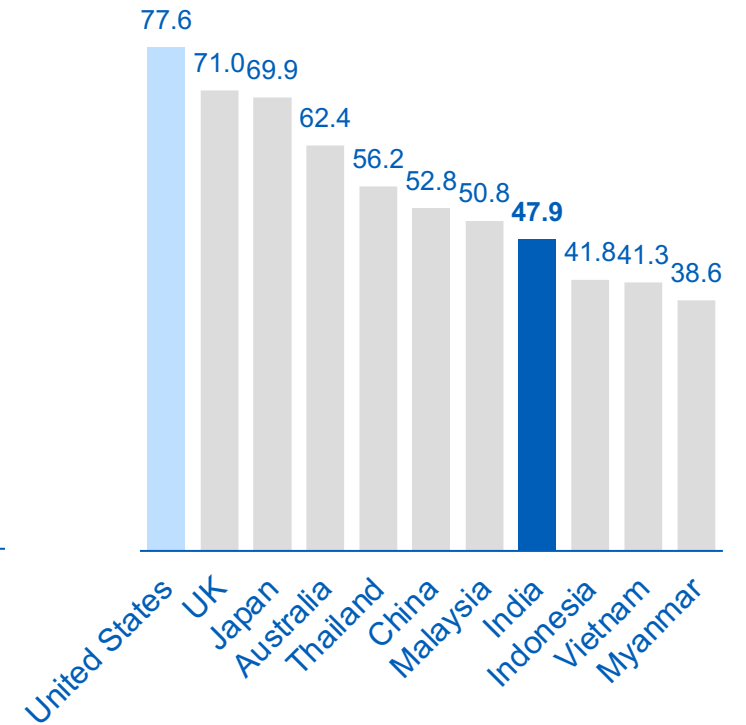
Final Consumption Expenditure: Households and NPISHs (% of GDP, 2022)



Urban Population as % of Total Population (2022)

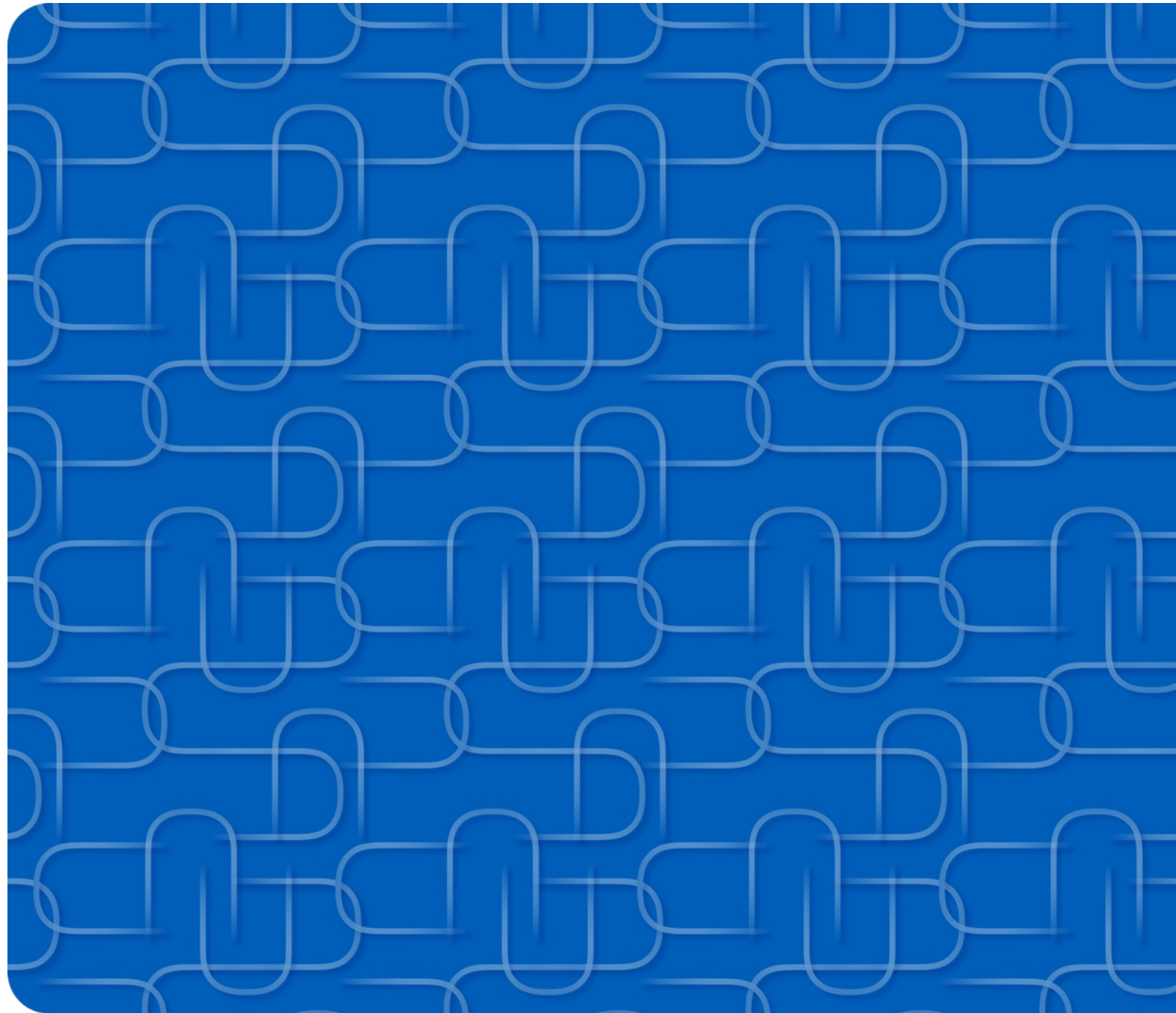


Gross Value Added- Services (% of GDP, 2022)



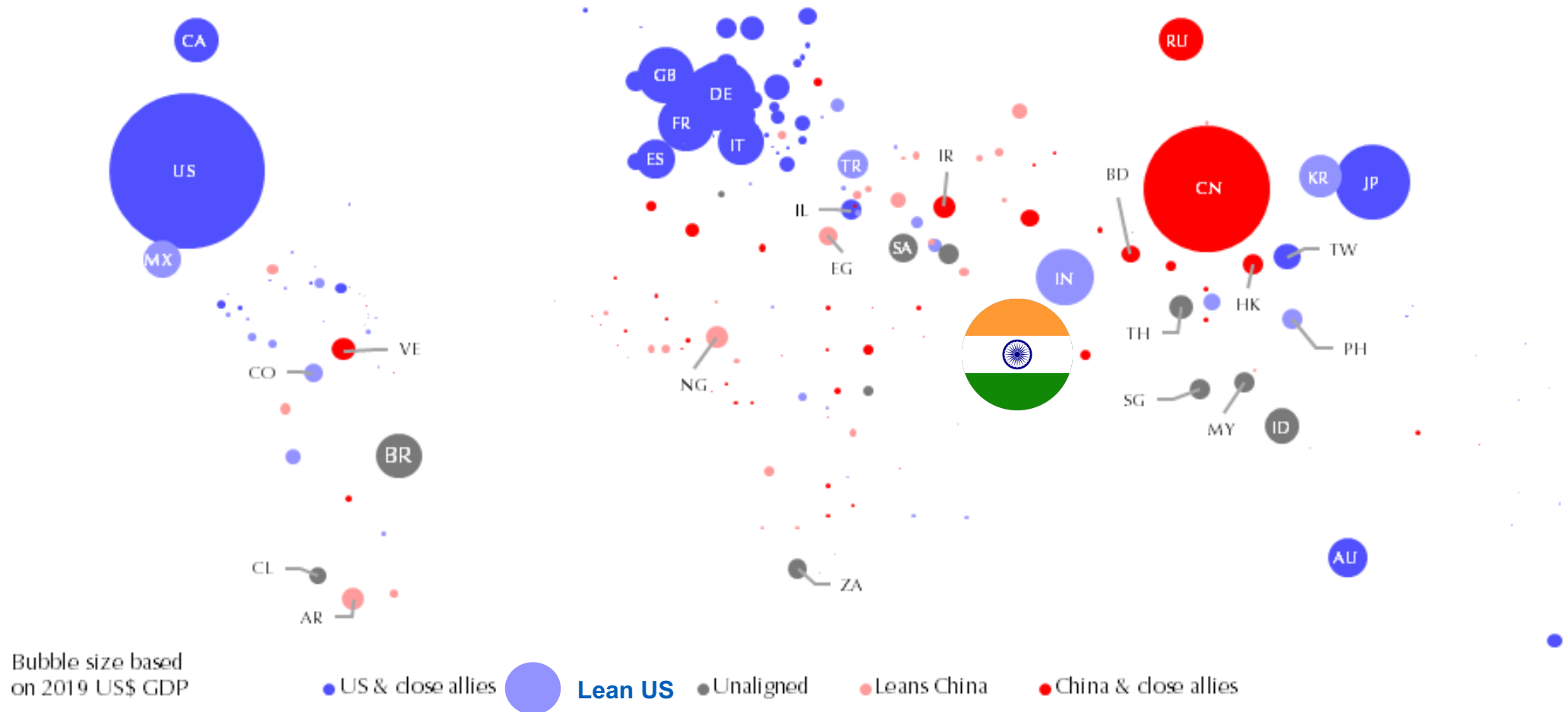
Source: World Bank Databank

II. India and the Global South

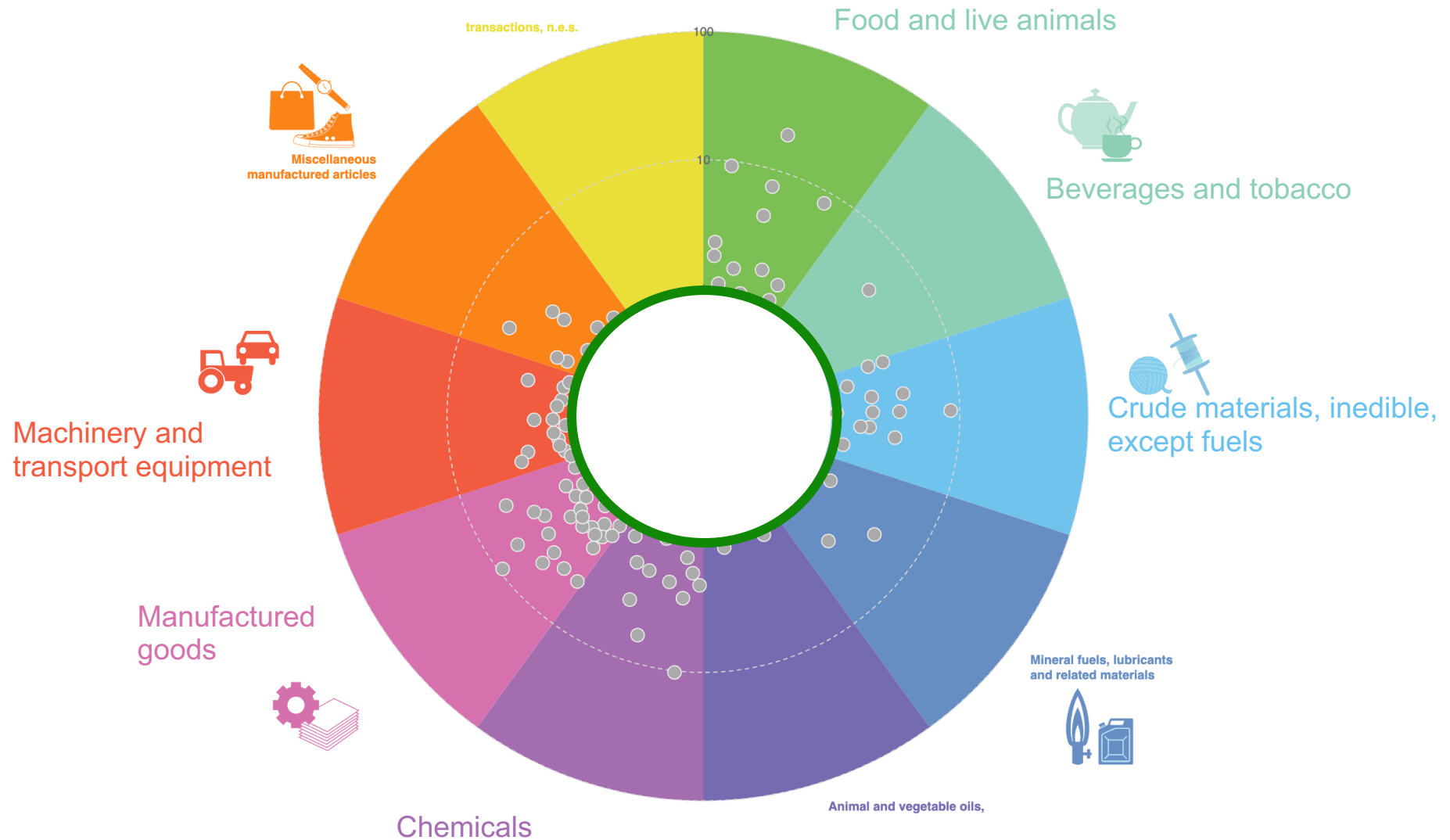


India could connect different regional supply chains amid global trade tensions

Current Global Alignment towards the US and China



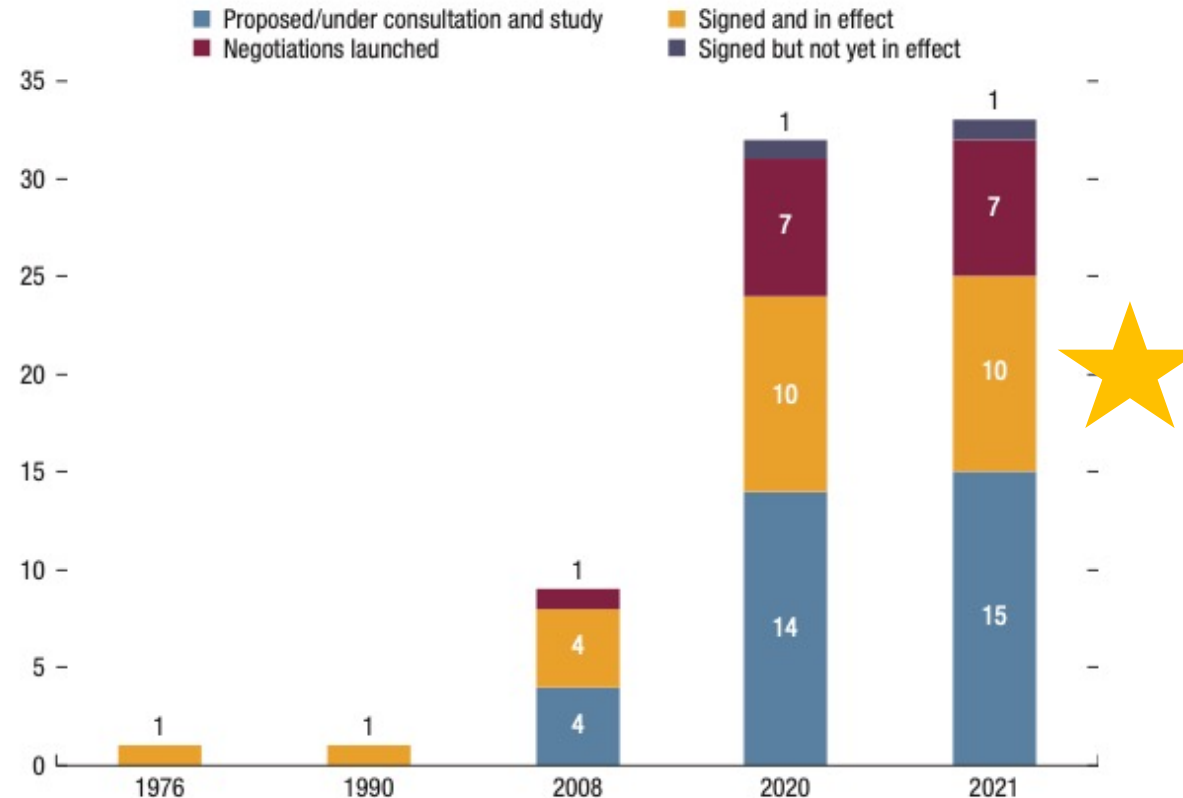
Revealed Comparative Advantage of India- Manufacturing



Source: UNCTAD

However, it needs to deepen and engage in free trade agreements and liberalization

Growth in FTAs between South Asia and East Asia, by Legal Status (number of FTAs)

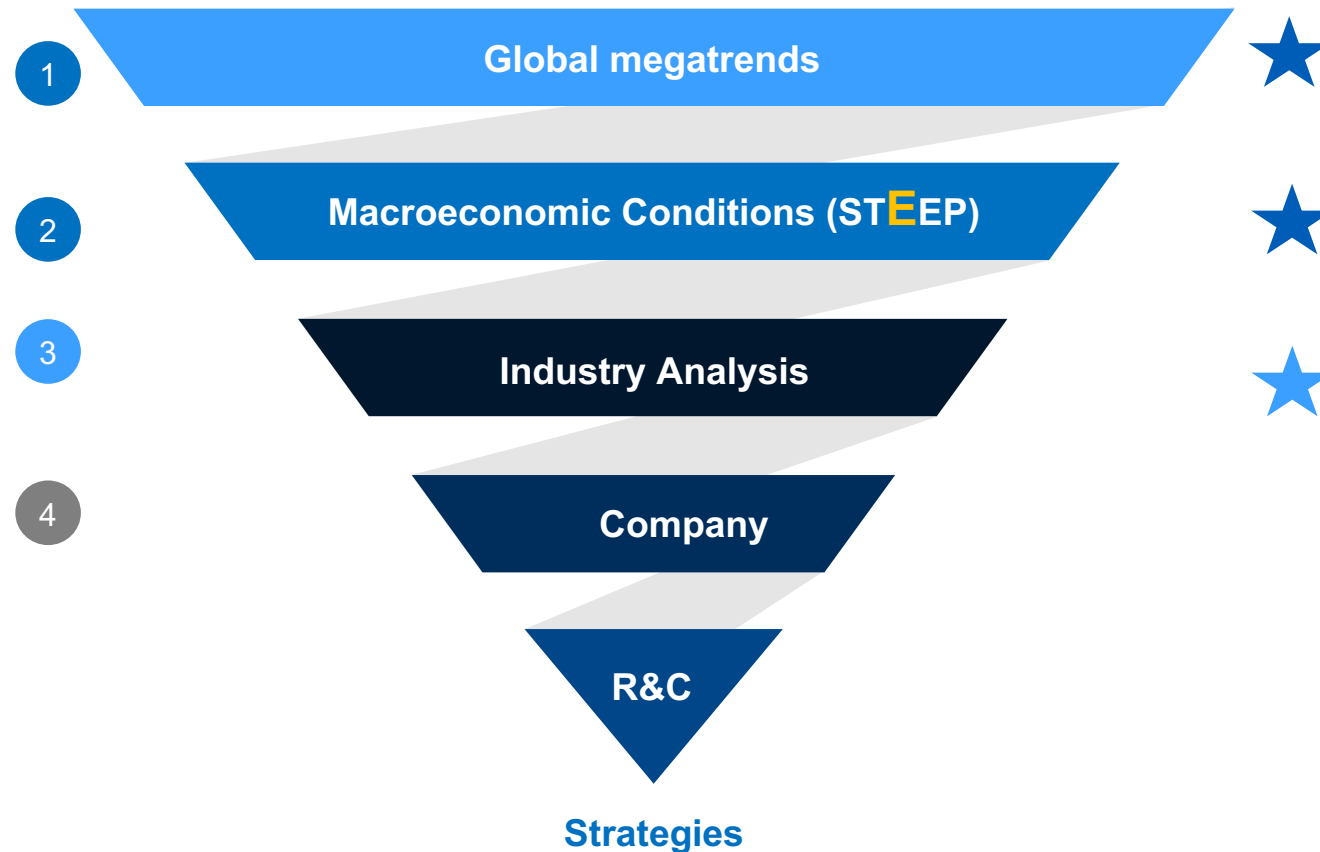


Source: Asian Development Bank 2021.
Note: See Annex Table 10.1 for definitions of FTA status. FTA = free trade agreement.

Understanding **megatrends** and **long-term macro prospects** helps you to maintain or even gain **new competitive advantages** through the right strategies



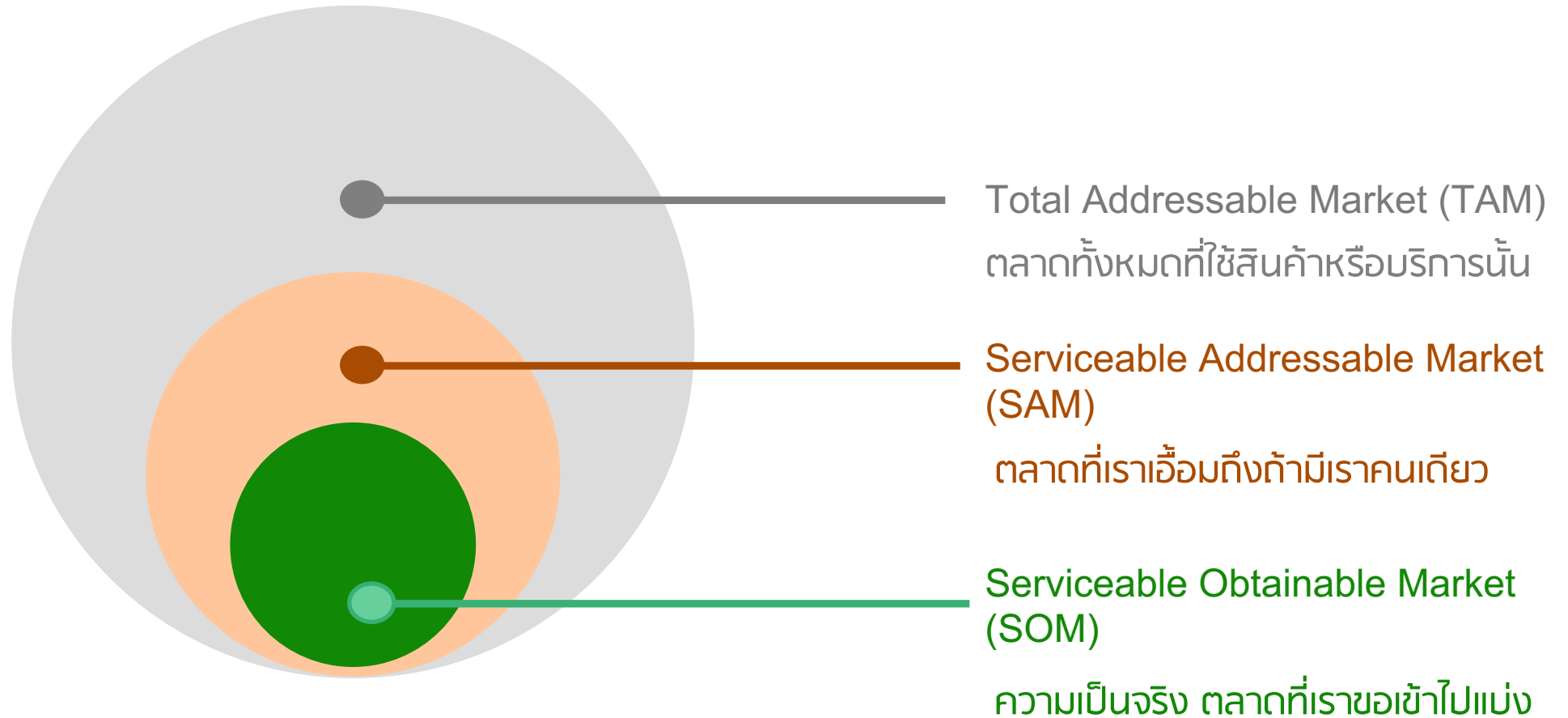
An Analytical Framework



Finding the right market for your business



TAM SAM SOM: Market Size





Right By You