

Insights: July - September, 2021

India Economic Update Report

This Issue:

India Economic Performance in Jul-Sept 2021
India gears up to roll out 5G

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India's economy recovered with a 8.4% growth in Q2 FY22, as the pandemic situation improved

India's economy accelerated in the July-September quarter of 2021, as GDP growth reached 8.4% YoY. The drop in new Covid-19 cases along with the reopening of businesses helped contribute to the increase.

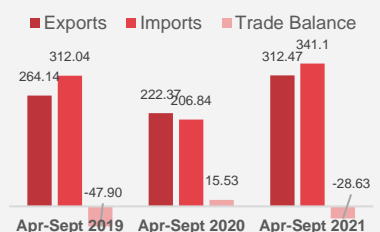
As one of the economies hardest hit by the Covid-19 pandemic, India is on the road to recovery with a 8.4% GDP growth in the latest quarter of 2021, amounting to 473.5 billion USD. However, the growth rate in the quarter is much lower compared pre-pandemic level; in 2019 the growth rate of the same quarter was more than 12%. The two sectors which had strong growth rates and were major contributors to the GDP in the quarter were agriculture and mining, with respectively 4.5% and 15.4% growth compared to the same period in 2020.

The growth was attributed to the improvements in the pandemic situation in India, after struggling with the outbreak of the Delta variant during the first months of the year. The number of new infections fell sharply during the Jul-Oct quarter 2021: from 400,000 cases per day in May 2021, to 10,000 cases per day in September 2021. Parallel to the accelerating pace of vaccination, India is gradually reopening its manufacturing and businesses.

India's trade balance in September was negative despite a healthy growth in exports

India's total exports of goods and services in September 2021 were estimated to 54.06 billion USD, up 21.4% YoY. Total imports in September 2021 were around 68.49 billion USD, showing an increase of 70% YoY and 44.11% compared to September 2019.

India April - September Overall Trade Balance 2019-2021



Source: India Commerce and Industry Ministry

Combining goods and services, the trade balance of September 2021 was estimated to be negative 14.43 billion USD, compared to a positive 4.23 billion USD in September 2020, a decrease of (-)441.40%. The widened trade deficit in September reflects an increase in inventories ahead of the festive season, coupled with a boost in crude purchases amid rising oil prices.

India gears up to launch 5G network in 2022

As the fourth largest market for 5G worldwide, India is preparing for the launch of the network in 2022. Yet the road to the rollout of 5G has not been smooth for the country.

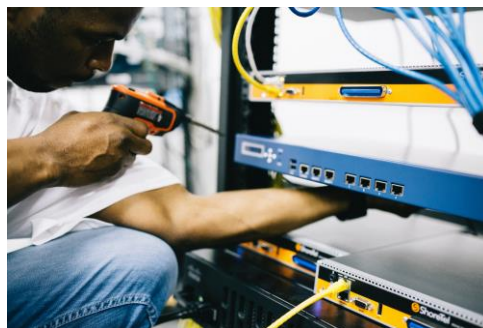


5G is the next generation of mobile communication technology, operating at 28, 38 and 60 GHz bands. The inventors estimated that 5G networks will be about 10 times faster than current 4G networks, opening opportunities to increase global GDP by around 2 trillion USD in key sectors such as healthcare, retail, mobile and manufacturing.

Globally, India is the fourth largest market for 5G smartphones, just behind Japan, USA, and China. The 5G market in India was worth 43 million USD in 2020 and is estimated to reach 251 billion USD by 2025, growing at an impressive CAGR of 96.69% over the period 2021-2025. India has much to gain from 5G as the technology can be applied to boost the growth of many sectors in the country, such as agriculture, automotive, manufacturing, healthcare, and energy. For example, the Indian agriculture sector is currently struggling with a lack of data collection and analysis, low farm returns, and unstable prices. 5G can alleviate the problems by enabling smart irrigation, livestock monitoring and precision farming.

Acknowledging the benefits that 5G can bring to the nation, the Indian government is pushing hard to adopt a 5G network. At the inauguration of the India Mobile Congress 2021, reliance chairman and managing director Mukesh Ambani emphasized that the rollout of 5G should

become the country's top priority. In May 2021, India's Department of Telecommunications approved major mobile operators in the nation such as Reliance Jio, Bharti Airtel, Vodafone Idea and MTNL to conduct 5G trials. Companies were allowed to use the test a spectrum of bands to find the most suitable one, including the mid-band (3.2 GHz to 3.67 GHz), high-band (24.25 GHz to 28.5 GHz) and low-band (700 MHz). The decision to carry out 5G trials in both urban and rural areas, has stimulated the research and development ecosystem to develop innovative applications suitable for commercial needs.



However, the rollout preparation faces several critical challenges. Big names like Samsung, OPPO, OnePlus and Xiaomi have all introduced 5G smartphones to the Indian market. However, the costly electronic chips used inside make the phones expensive and unaffordable to a large number of Indian consumers. In addition, there are still regulations and frameworks that the government need to set in place before the market is ready for a rollout, e.g. licensing terms and regulations for frequency and prices.

Addressing the issues, network providers have been pushing the Indian government for regulatory clarity and to provide financial support to consumers to increase 5G smartphones' affordability. Despite the bumpy road, the country is determined to launch 5G in 2022.

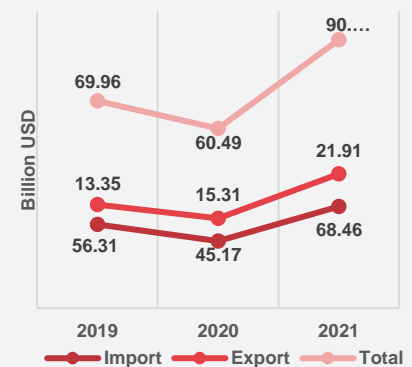
Despite tensions, India-China trade turnover exceeds 100 billion USD



According to data released by the General Administration of Customs of China in October 2021, two-way trade turnover from January to October 2021 reached 102.29 billion USD, of which the trade balance is strongly tilted towards Beijing. China's exports to India reached 78.33 billion USD while the opposite way was only 23.96 billion USD.

Despite the border conflict, India has still been heavily dependent on importing goods from China. In the first half of the year, India exported 14.72 billion USD to China, up 69.6%, and imported 42.76 billion USD, up 60.4%, mainly due to the purchase of medical equipment. India's largest exports to China are iron ore, cotton, and other raw material-based commodities. India imports a large number of Chinese medical equipment.

India-China trade Jan-Sept 2019-2021



Source: General Administration of Customs of China

The extraordinary increase in trade between the two nations indicates that the effects of political tension in 2020 have eased up, and the India - China trade relationship shows signs of recovery.



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