सत्यमेव जयते

Economic Diplomacy & States Division

Ministry of External Affairs

INCREASING THE BILATERAL TRADE IN GOODS BETWEEN INDIA & FRANCE TO **EUR 15 BN** BY 2022

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The India – France relationship has evolved due to calibrated efforts made by both the countries over the last decade. France is among the top foreign investors in India. Today, more than 1,000 French companies across a wide range of sectors are in India and employ approximately 300,000 people. The Foreign Direct Investment stock of French companies in India reportedly stands at around EUR 20 Bn.

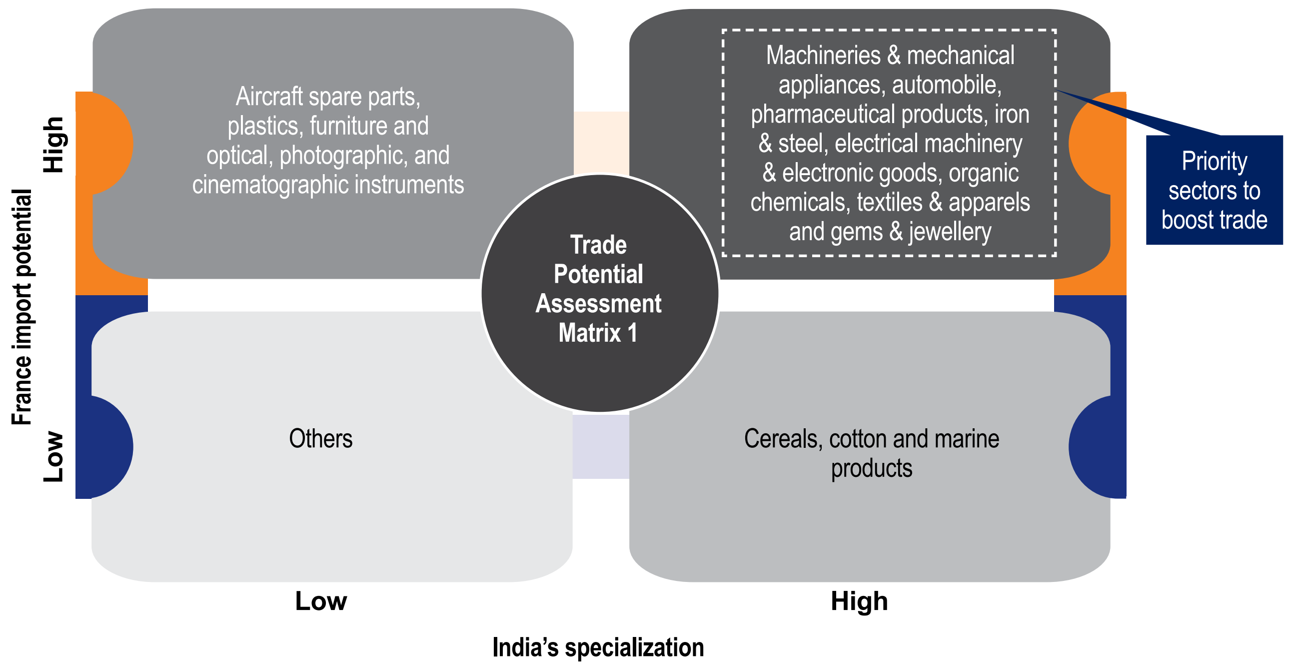
France is among India's top five trading partners in the European Union (EU). Total bilateral merchandise trade value between India and France in 2018 amounted to EUR 11.5 Bn, growing at a CAGR of 9.93% from 2014 to 2018. The exports from India reached EUR 6 Bn in year 2018 with an increase of 12.09% in comparison to previous year. Balance of Trade has been in India's favor (EUR 0.5 Bn in 2018).

India's main exports to France include: Textiles (21% of total exports of India), Non-Metallic Minerals (18%), Consumer Goods (14%), Chemicals (8%) and Agriculture & Food Processing (8%)

Top French exports to India include: Aviation & Defense (47%), Machinery & Mechanical Appliances (13%), Electronic Machinery & Electronic Goods (10%), Chemicals (8%), and Healthcare & Pharmaceuticals (7%).

At its current average annual growth rate of 10.27%, the trade value is expected to reach EUR 17 Bn by 2022. However, targeted policy interventions are needed to ensure that the growth is sustained year-on-year and a minimum trade value of EUR 15 Bn is achieved by 2022.

Thrust sectors that can help improve the bilateral trade between India and France have been identified. These sectors have significant export potential for India. However, they face challenges in the form of high tariff rates, safeguard duties, imposition of import quotas and other restricting regulations. These key sectors have been arrived at based on a potentiality analysis wherein France's import potential is mapped to India's specialization. The outcome is a 2x2 matrix which helps identify the top sectors in the top right quadrant as shown in the sample below.



KEY SECTOR CHALLENGES & RECOMMENDATIONS

	CHALLENGES	RECOMMENDATIONS
Gems & Jewellery	1. Eventual graduation of jewellery products from EU Generalized System of Preferences (GSP) Scheme 2. Fierce competition from global brands such as David Yurman, Tiffany & Co., Alex and Ani etc. 3. Strict compliances in the European market	1. Indirect benefits for Indian exporters should be created by the Government so as to compensate for the loss of duty benefit for European buyers, as a result of graduation of GSP benefit for Indian jewellery products. These indirect benefits may be generated in way of providing Merchandise Exports from India Scheme (MEIS) and Interest Equalization Scheme benefit to the industry 2. Technology Advancement is required to produce and supply high quality Gems & Jewellery (G&J) products to cater the French demands
Automotive	1. Definition of an SME player in the sector 2. Partnership with local suppliers for technology and quality transfer 3. Fixed Emission Norms 4. Market awareness	1. A broader definition of the term Micro, Small and Medium Enterprises (MSME) will enable key exporters to enjoy benefits. In March 2018, a cabinet resolution was floated regarding the definition of MSMEs but was denied a formal ruling. Tier 2 and 3 suppliers coming into the fold of MSMEs will greatly boost exports in this sector 2. Although joint ventures have largely remained an elusive concept to mid and small automotive suppliers, French players have shown interest in partnering with local Indian firms to enter the market and gradually pilot and launch full scale production. A platform to assist these JVs is required 3. Indian vehicles cannot be exported easily since EU norms are far more stringent than the existing Indian emission norms. As India moves to Euro 6 by 2020, exports will see a marked increase 4. Most exporters are focused on markets that have fewer entry barriers such as Latin America or Asian markets. France needs to market the opportunity to Indian exporters with a concerted effort on quality and emission standards to boost bilateral trade
Textiles	India's main competitors in the textile space i.e. Bangladesh, Pakistan and Sri Lanka enjoy duty free access to France. Vietnam is also poised to enjoy the same. On the other hand, Indian imports have to bear a duty on various products ranging from 10-14% (different products in the textile segment face different duties). Textiles and apparels are a single digit profit industry and hence cannot prosper with such differentials	Cotton yarn and fabric shipments are struggling because of the duty disadvantage faced by Indian exporters. If France wants to increase trade with India, they have to provide a level playing field. India should pursue a Free Trade Agreement (FTA) with EU similar to the ones Bangladesh, Sri Lanka and Pakistan enjoy. India EU FTA can prove to be a game changer to increase India's Textile & Apparel exports to EU Further, Indian textiles and apparel industry requires World Trade Organization (WTO) compliant export incentives
Machinery & Mechanical Appliances	Many Indian MSMEs are specialized in making industrial and engineering products but lack information about potential buyers in France	Creating a detailed database of French companies that look for serious suppliers in India would be of great help to Indian MSMEs Also, trade fairs/shows for each sector should be organized in France which would facilitate one-on-one interaction between French companies and Indian suppliers
Iron & Steel and Engineered Goods	If steel imports into the EU exceed the import quota, a safeguard duty of 25% is imposed, which affects iron and steel as well as engineered goods	Relaxation of safeguard duty would augur well for exports from India

	CHALLENGES	RECOMMENDATIONS
Agriculture & Food Processing	**Honey:** India is specialized in producing natural honey. Despite it being eligible for GSP benefits, the tariff rate still remains high, making our honey more expensive	India should ask for lowering duty on natural honey or consider incentives to compensate for the high duty
	Basmati Rice: Exports from India have dropped following the introduction by the EU of a tolerance of 0.01 mg/kg (instead of 1 mg/kg previously) on Tricyclazole, a pesticide commonly used by farmers in India. Similarly this year, the Commission in Brussels, following a recommendation from DG Health (Sanco), has published a regulation lowering the tolerance on Buprofezin from 1 mg/kg to 0.01 mg/kg. This regulation shall apply from August and may further impact exports from India negatively	While we stay optimistic about prospects of cooperation in Agriculture and Food processing sector between our two countries, it is important that we tackle various sanitary and phytosanitary measures that hinder the trade of agriculture products Encouraging Indian farmers to reduce pesticides and fungicides like Tricyclzole and Buprofezin would boost exports. **The Punjab Government is reaching out to farmers through various means to dissuade use of Tricyclazole. Other states should also follow suit**
	Bananas: Quality and transportation issues act as a constraint for India to export bananas to Japan and EU which mainly import from countries like Philippines	Grand Naine is an internationally recognized superior breed of banana grown in Maharashtra and Gujarat. Reducing tariff barriers for such special varieties can help boost exports
	Fresh Grapes: One of the recent key issues incudes the Residual Monitoring Plan (RMP) that is made to ensure low levels of unwanted residue in the product	RMP may be reconsidered during bilateral talks in order to increase exports. Varieties such as **2A clone and 'Shweta seedless' are preferred in the EU. Focus on cultivating these could help trade**
	Meat: Even a slight variation in the permissible limits of Aflatoxin in meat products results in the rejection of the consignment	**Aflatoxin levels can vary due to transportation.** Thus, although our products meet European standards when tested before shipment, the level will tend to increase when the shipment reaches the importing nation. This fact should be taken into account and slight variations in the permissible limits allowed

IMPACT SIMULATION

ESTIMATES OF TOTAL ADDITION TO TRADE

Trade estimates have been arrived at by taking two scenarios into consideration. Scenario 1 is conservative and assumes that the priority sectors and products with high export potential continue to maintain their historical five year growth trajectory. Scenario 2 is optimistic and considers a progressive case where Government policies, flagship programs, and favorable conditions coalesce to push growth above the average growth in the past five years.

INDIA'S EXPORT TO FRANCE

Among top merchandise goods that India exported to France, three products registered strong growth in the past five years. These include:

- Machinery & Mechanical Appliances
- Automobiles
- Pharmaceutical Products

While these products alone can add anywhere between EUR 1-2 Bn to the bilateral trade, depending upon the scenario, the key reasons to believe that they will do so include three fundamental reasons. **First,** with the Make in India program aiming at facilitating investment and building best in class manufacturing infrastructure in the country, India's exports of high value manufactured goods could register strong growth in the coming years. **Second,** India's automobile sector is highly competitive and manufacturers keep investing to further strengthen their competitiveness, leaving them better placed to compete with other nations. **Third,** India's cost advantage in pharmaceuticals and its advantage as a generic producer and exporter makes it an attractive source for France.

INDIA'S IMPORT FROM FRANCE

The three key products which have the maximum potential to add to the bilateral trade include:

- The Internet of Things (IoT) market (41% growth basis India's push for a digital and connected economy)
- Infrastructure (Owing to India's push for infrastructure-led development)
- Plastics (The goal of the Indian Government to doubling the per capita plastics consumption by 2022)

These three products together could add around EUR 1 Bn to total trade between the two nations. Other key sectors of focus include high and semi-high speed rail systems, India's Medical Devices and Diagnostic industry which is expected to register strong growth and the country has around 70% import dependency in such devices.

While bilateral trade between India and France will continue to grow with most sectors showing little to modest growth, the sectors identified through the analysis in the previous pages offer the best chance to add target of EUR 5 Bn in trade by 2022. Concrete recommendations identified in the next chapter indicate ways to take these sectors from Scenario 1 to Scenario 2, thereby turbocharging the bilateral trade growth.

	Estimated Addition in trade (in EUR Bn)	
	Scenario 1- Conservative	**Scenario 2- Optimistic**
India's exports to France	1.46	3.1
India's imports from France	0.5	1.3
Total Estimated addition in bilateral trade	1.96	4.4

METHODOLOGY

The first step in our analysis was to conduct trade potentiality analysis. This was done by comparing India's exports to the world with France's imports from the world. This helped us identify priority sectors from India's exports perspective. A similar analysis was carried out to identify priority sectors from France's exports perspective. These sectors were used as a base to move towards a tariff line, within each sector, that has high potential to boost trade. The names of these sectors were interpreted based on the description given by 2-digit HS code.

We used the following procedure to identify a tariff line with high trade potential. First, within each sector (i.e. 2-digit HS code), top 10 import items of France with 4-digit HS code were selected and compared with the top 10 export items of India. Up to five matches were considered for a further drill down, in cases where five matches were not possible, the maximum number of matches were selected. The 4-digit HS codes were expanded to obtain 6-digit codes which account for more than 50% of the trade value of the 4-digit header of France's imports from the world and compared that with a similar 6-digit code under India's exports. If both were found matching, that product was chosen and its corresponding tariff rate was identified, otherwise we have not proceeded further. This procedure was followed for all sectors identified through the potentiality analysis - both from India's exports as well as France's exports perspective.

In the next stage of our analysis, the bilateral trade between India and France was studied. India's top 10 merchandise exports as well as imports goods were identified, and their trend was analyzed. Based on their growth in the last five years, their future growth was extrapolated. While doing so, aerospace and parts was excluded because this item has been highly volatile. We also projected trade value for merchandise goods with untapped trade potential (i.e. goods that both countries are specialized in).

The objective of this analysis was to identify a list of products through potentiality analysis and the bilateral trend growth. As mentioned above, goods that both countries are specialized in were considered as goods with untapped potential and added to the list. In other words, **the aim was to cover in this analysis not only goods that could play a pivotal role in achieving the desired increase in the bilateral trade (EUR 5 Bn) but also items that could give a further boost to trade.** We extrapolated values of India's top export and import items, as well as goods with untapped trade potential, and attempted to link those values with the desired increase in the bilateral trade. **This approach was followed, as many of the goods identified through the potentiality analysis are already within the top export and import list. Also, it may not be possible to immediately change the composition of the top exports and imports list.** Addressing the challenges facing other goods identified through the potentiality analysis would further support the trade.

Additionally the following was undertaken for each identified sector:

1. A deep dive analysis was undertaken for each priority sector upto 6-digit HS codes to understand tariff and non-tariff barriers and how trade can be increased in these sectors. Primary stakeholder consultations included Government bodies, global sector champions, SME exporters/importers and key trade associations
2. The breakup of trade at different stages in the value chain was studied by technology intensity to understand key barriers which may not have been covered in the earlier analyses. This yielded additional factors of consideration in key sectors such as Textiles, Agriculture, Gems & Jewellery and Engineered goods
3. Additionally, top trading countries were studied in order to understand how France/India can achieve import substitution. These included four primary analyses as follows:
    1. Bilateral trade between India and France
    2. Region-wise analysis: Indian states and French regions
    3. Trade of India with the World and EU
    4. Trade of France with the World and EU
4. Furthermore, the top sectors and products that could contribute to an increase in bilateral trade were analyzed through two scenarios - conservative and optimistic and impact values were derived
5. Finally, key commodities under priority sectors were analyzed to reveal findings that were corroborated by primary and secondary research. Recommendations have been developed based on the analyses highlighted above

LIMITATIONS

1. Services trade data has been excluded from analysis, as per the scope of work defined at the beginning of the engagement
2. This study is not exhaustive, as it does not include all 99 commodities (by 2-digit HS Code). It analyses sectors that currently account for a large share in trade between the two countries, as well as sectors that could emerge as major contributors to trade. French bodies such as Business France and Indo-French Chamber of Commerce and Industry have a limited mandate to operate in India and do not capture or analyze trade data
3. Directorate General of Foreign Trade (DGFT), Ministry of Commerce were contacted and it is observed in several sectors that France is not a priority country of focus, since the trade data with India skews to prioritize other EU countries such as Germany etc

KEY OBSERVATIONS

India's Foreign trade & EU's relevance

India & France Trade: Bilateral Trade

INDIA'S FOREIGN TRADE & EU'S RELEVANCE

India is the 9th largest trading partner of the EU and accounts for 2.3% of total trade or EUR 91.5 Bn. EU, on the other hand, is India's largest trading partner and accounts for approximately 13% of India's total trade in goods. Trade in goods between the EU and India have grown by three times over in the last 16 years from EUR 28 Bn in 2002 to the most recently available figure of EUR 91.5 Bn in 2018. Services, another important component of the trade between EU and India, stood at EUR 16.6 Bn in 2018 while the imports stood at EUR 17.1 Bn indicating a trade deficit, at least in the Services sector. The sector remains important because of its ability to attract Foreign Direct Investment, especially from EU countries such as Germany, Netherlands, France, Italy, Belgium and the UK.

India's Exports to EU Members

EU Member State	EUR Mn	% of India in extra-EU imports
United Kingdom	7,992	2.9
Germany	6,770	1.9
Italy	5,147	3.2
Belgium	4,799	3.8
France	4,229	2.5
Netherlands	4,195	1.5
Spain	3,662	2.9
Poland	1,646	2.8
Sweden	669	1.7
Denmark	660	2.7
Portugal	622	3.8
Ireland	568	2.2
Austria	513	1.4
Czech Republic	409	1.3
Hungary	403	1.8
Greece	361	1.5
Romania	299	1.6
Slovenia	213	2.2
Finland	210	1.2
Slovakia	155	1
Bulgaria	140	1.6
Malta	128	6.6
Croatia	126	2.6
Cyprus	73	2.3
Latvia	69	2.2
Lithuania	47	0.5
Estonia	31	1.1
Luxembourg	8	0.2

India's Imports to EU Members

EU Member State	EUR Mn	% of India in extra-EU Exports
Germany	10,668	2
Belgium	7,971	7.5
France	5,652	2.9
United Kingdom	4,619	2.2
Italy	3,577	1.8
Netherlands	2,214	1.5
Spain	1,276	1.3
Sweden	1,184	2.1
Austria	781	1.8
Poland	656	1.6
Czech Republic	592	2.3
Finland	563	2.3
Denmark	419	1.2
Ireland	353	0.6
Romania	304	2
Hungary	203	1.1
Portugal	118	0.8
Bulgaria	100	1.1
Greece	97	0.7
Slovenia	92	1.1
Lithuania	60	0.5
Estonia	58	1.6
Slovakia	49	0.5
Luxembourg	30	1.4
Latvia	23	0.6
Cyprus	19	1.1
Croatia	16	0.3
Malta	13	1.2

Source: Eurostat, Latest Figures available from 2017. Extra-EU Trade refers to trade between EU Member States and non-EU countries (in this example, India)

Key Takeaway
The figures above indicate that there are seven EU member states wherein India exports goods in excess of EUR 3 Bn. With France ranked as the 5th biggest EU export destination for goods, the seven member states account for more than 83% of the total exports in the region. The same seven EU member states are also India's top import destinations with a combined value of 86% of total import requirement from the EU.

INDIA'S TRADE WITH TOP 5 EU IMPORTERS

1. India's major exports to UK and Germany are in the sectors of Machinery & Mechanical Appliances and Apparels. India doesn't enjoy GSP benefits on Textiles, leading to higher tariffs of 9.6% as compared to Bangladesh and Pakistan. Revisiting the textile tariffs shall help in boosting exports in apparels and other textiles
2. India's major exports to Belgium are Precious Metals/Jewellery (approx. 19 times as compared to France). Antwerp in Belgium being a global diamond hub, is the 3rd largest importer of diamonds from India (after Hong Kong and USA) at approx. USD 1.67 Bn with 7.1% share of total exports from India
3. India's major exports to Italy are in Iron & Steel (approx. eight times as compared to France). France's steel imports are primarily from EU countries with share of approx. 88.5% at USD 11.04 Bn in the total imports of USD 12.48 Bn. India has not been extended GSP benefits for Iron & Steel

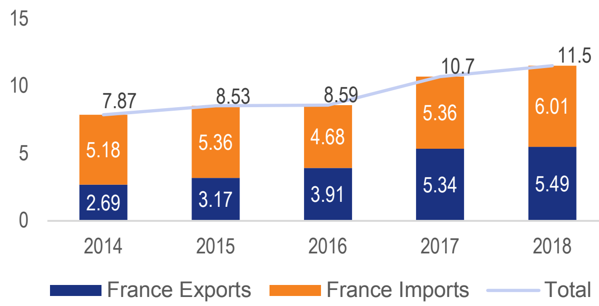
INDIA & FRANCE TRADE: BILATERAL TRADE

India and France have trade relations dating back to the 17th century and in the current times, the India – France relationship has evolved due to the calibrated efforts made by both the countries over the last decade. A strategic partnership was established between India and France in 1998 and there has been significant progress in all areas of bilateral cooperation through regular high-level exchanges at the Head of Government levels and growing commercial exchanges including in strategic areas such as Defense, Nuclear Energy and Space. France was the first country with whom India entered into an agreement on nuclear energy, following the waiver given by International Atomic Energy Agency and the Nuclear Suppliers' Group, enabling India to resume full civil nuclear cooperation with the international community. There is also a growing and wide-ranging cooperation in areas such as trade and investment, culture, science and technology and education.

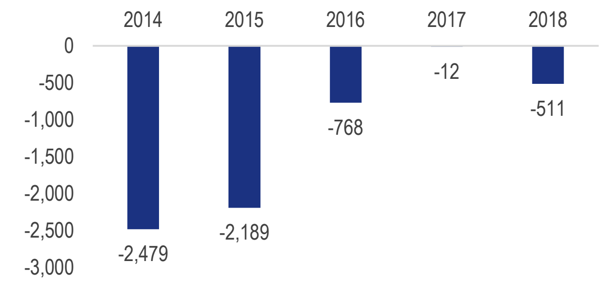
The bilateral trade in goods between France (the world's 7th largest economy) and India (the world's 5th largest economy) grew at a four year Compounded Annual Growth Rate (CAGR) of 9.93% between years 2014 and 2018. Average annual growth rate of bilateral trade in goods is around 10.27%.

Bilateral trade between France and India in 2018 increased to EUR 11.5 Bn from EUR 10.7 Bn in 2017.

France-India Total Bilateral Trade in EUR Bn

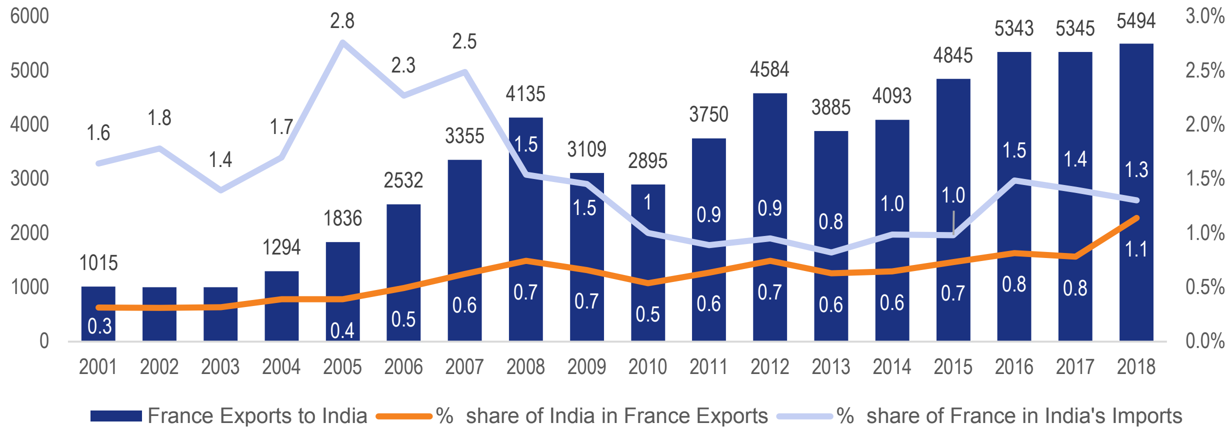


Balance of Trade (From France's point of view)



Key Takeaway
A study of France's exports to India (Goods and Services) from 2001 to 2018 indicates steadily increasing exports and an increasing share of India in France's overall exports (1.14% in 2018). However if we look at France's share in India's imports, it is steadily declining from 2012 onwards with only one uptick in 2016. It is currently at 1.3%.

France Exports to India in EUR Mn

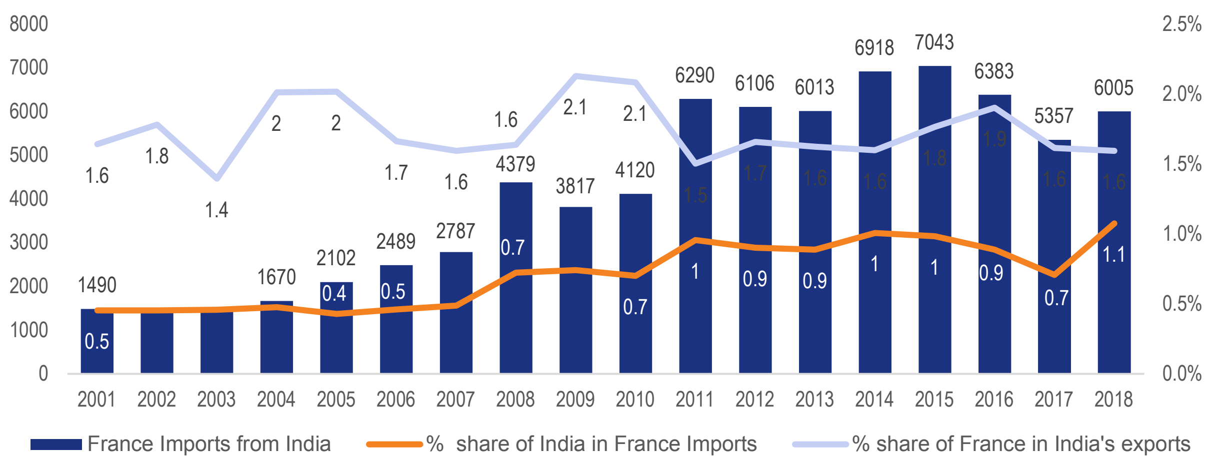


Source: ITC Trade map International trade statistics and India Director General of Foreign Trade EXIM Databank

A study of France's imports from India (Goods and Services) from 2001 to 2018 indicates imports were increasing upto 2015, and have been steadily declining thereon. India's share in France's imports has been largely stable upto 2017. In 2018 India's share in France's imports increased to 1.08% due to increase in import of Chemicals, Consumer Goods, Gems & Jewellery, Machinery & Mechanicals, Metals and Non-Metallic minerals.

France's share in India's exports has also been declining and is currently at 1.59%.

France Imports from India in EUR Mn



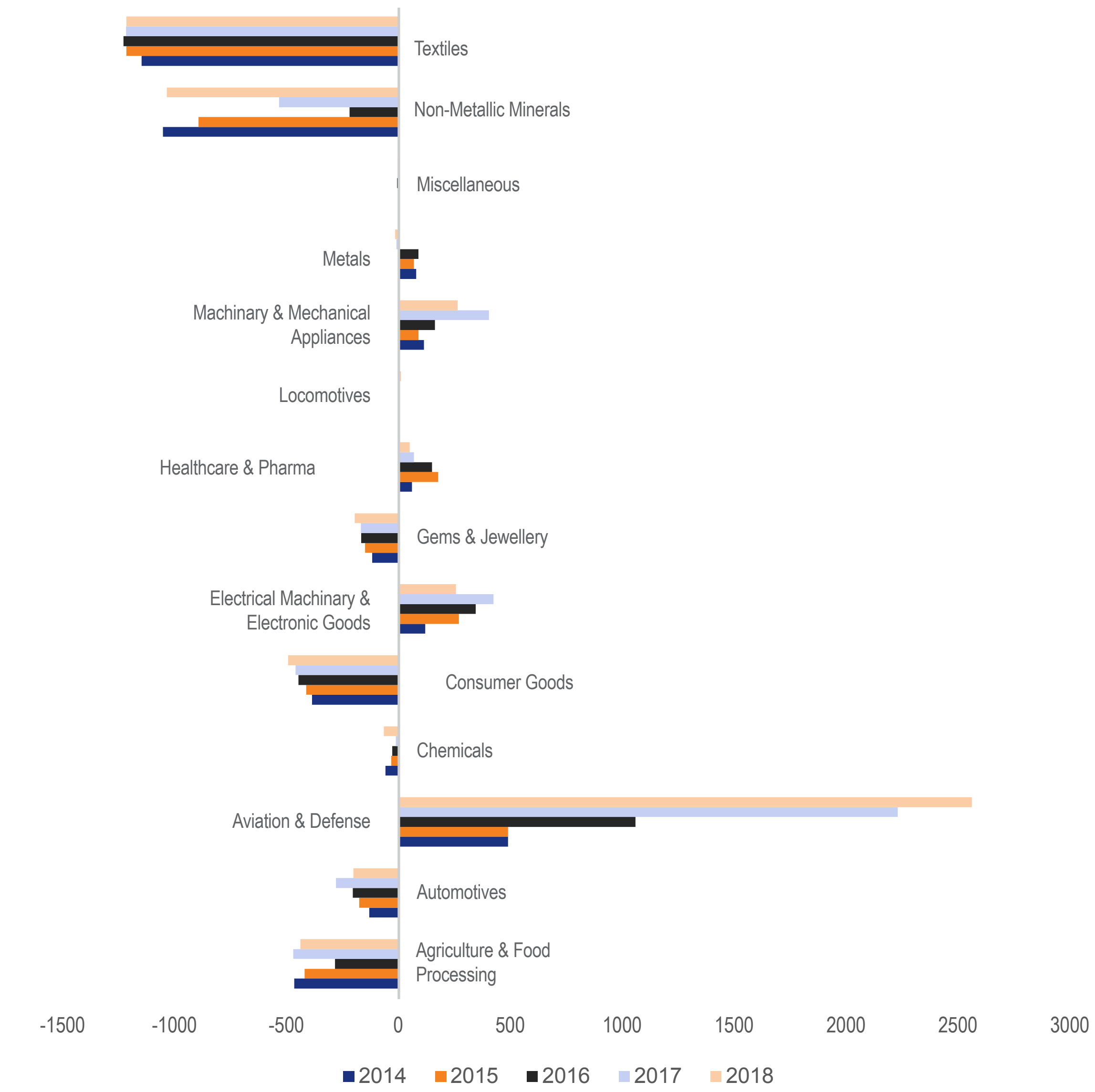
Source: ITC Trade map International trade statistics and India Director General of Foreign Trade EXIM Databank, KPMG Analysis

Key Takeaway
The Balance of Trade has largely been in India's favour since 2008. However the trade deficit gap has been steadily declining since 2014. Currently, France has a trade deficit of EUR 0.5 Bn in 2018.

SECTORAL BREAKDOWN OF BILATERAL TRADE

Bilateral trade between France and India is dominated by five key sectors - Services, Aviation & Defense, Textiles, Non-Metallic Minerals and Consumer Goods. France's top imports from India are predominantly in four key sectors - Services, Textiles, Non-Metallic Minerals and Consumer Goods.

Sectoral Balance of Trade (From France's point of view)



Source: UN Comtrade Data, KPMG Analysis

Key Takeaway
Aviation & Defense, Services, Electrical Machinery & Electronic Goods, Machinery & Mechanical Appliances dominate French exports to India. In 2018, these sectors together accounted for over 70% of France's exports to India. Aviation & Defense is the major export sector and in 2018, it amounted to 47.3% of total exports of France to India.

KEY ANALYSES

- Bilateral Trade: Sectoral Decomposition
- Bilateral Trade: Sectoral Analysis
- Potentiality Analysis - The Opportunity
- Impact Simulation

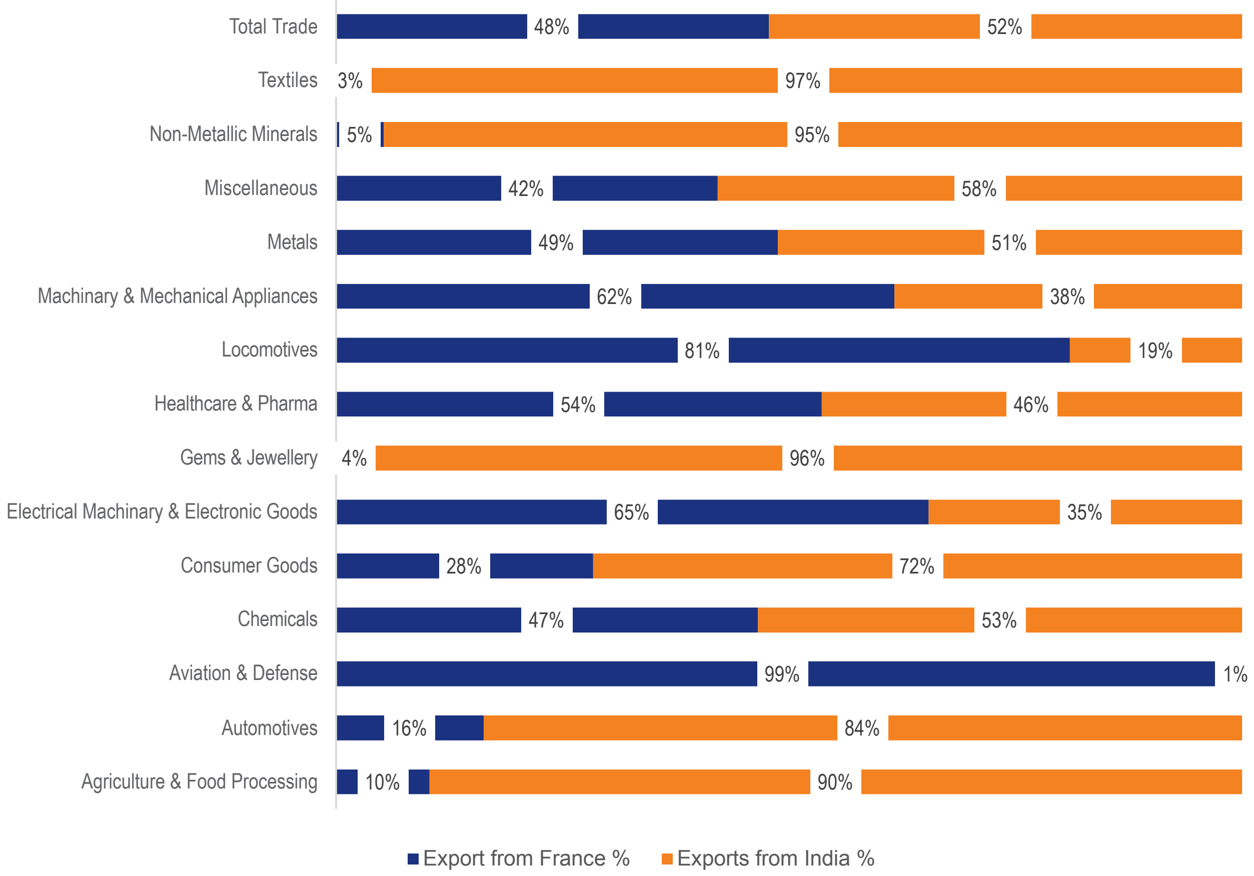
BILATERAL TRADE: SECTORAL DECOMPOSITION

An analysis of the Sectoral Balance of Trade breakdown in 2018 reveals the following:

1. India's trade surplus sectors with France are Textiles, Non-Metallic Minerals, Gems & Jewellery, Consumer Goods, Automotives and Agriculture & Food processing
2. France's trade surplus sectors with India are Aviation & Defense, Machinery & Mechanical Appliances, Electronic Machinery & Electronic Goods and Locomotives
3. The trade is largely balanced in the following sectors: Miscellaneous, Healthcare & Pharma and Chemicals

The sector-wise balance of trade is depicted as below

Sector-Wise Balance of Trade Break Down in 2018 in



Source: UN Comtrade Data, KPMG Analysis

India's top exports to France in 2018 are:

1. Textiles (21% of total exports of India)
2. Non-Metallic Minerals (18%)
3. Consumer Goods (14%)
4. Chemicals (8%)
5. Agriculture & Food Processing (8%)

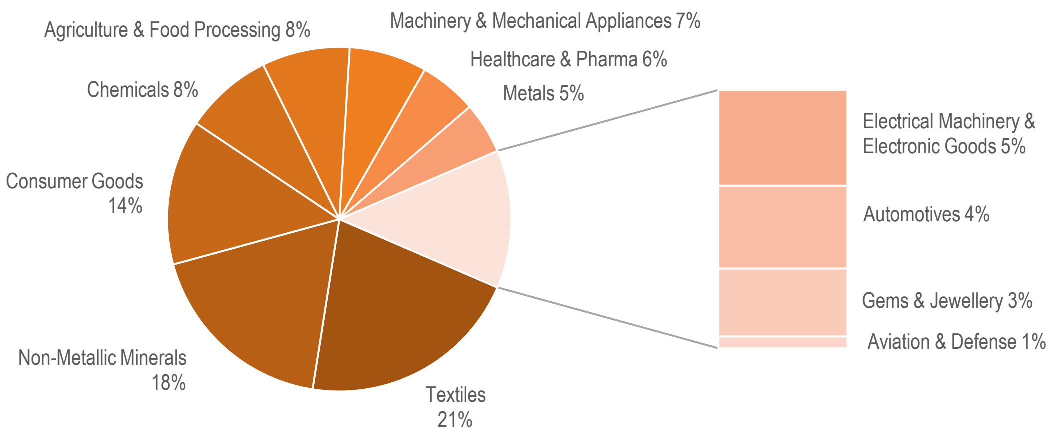
Key Takeaway
The top three sectors make up 53% of the total Indian exports to France. India contributes to only about 0.70% of France's total pharma imports from the world. France's major import segment in pharma sector is that of medicaments to which India's export contribution is only about 1.06%.

France's top exports to India in 2018 are:

1. Aviation & Defense (47%)
2. Machinery & Mechanical Appliances (13%)
3. Electronic Machinery & Electronic Goods (10%)
4. Chemicals (8%)
5. Healthcare & Pharmaceuticals (7%)

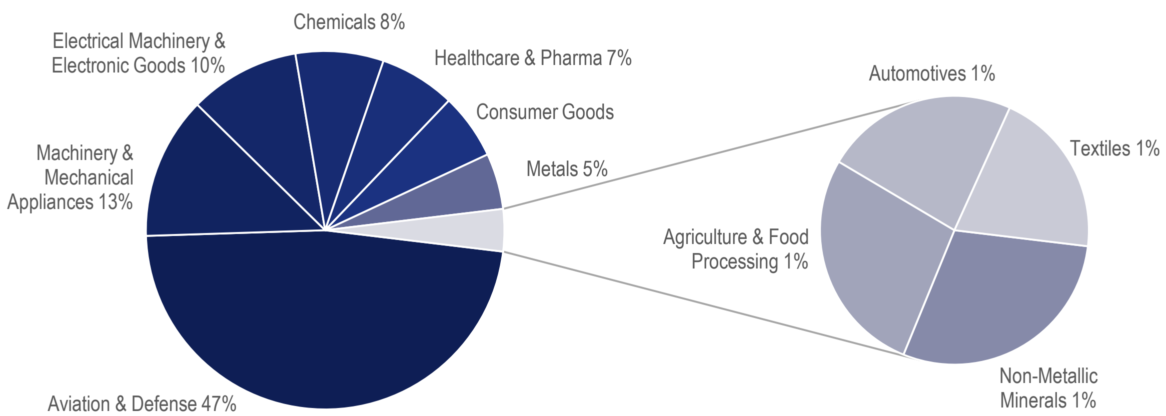
Key Takeaway
The top three sectors make up 70% of total French exports to India.
Note: Locomotives make up 0.28% of French exports to India and have not been included in the graph for representational purposes.

India's major exports to France in 2018



Source: UN Comtrade Data, KPMG Analysis

France's Major Exports to India in 2018



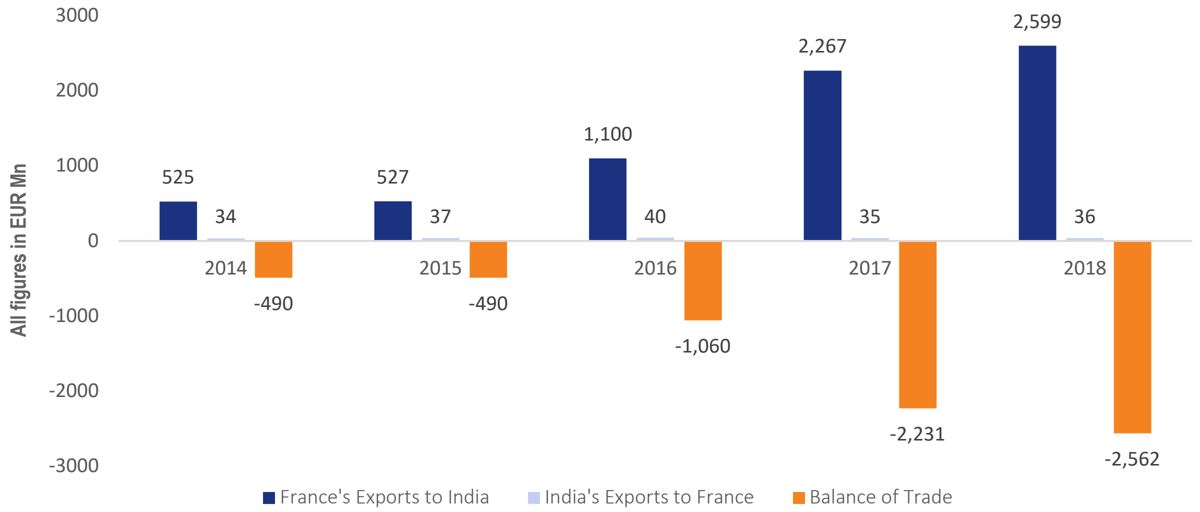
Source: UN Comtrade Data, KPMG Analysis

BILATERAL TRADE: SECTORAL ANALYSIS

AVIATION & DEFENSE

Aviation & Defense is the top traded sector and contributes 23% to the total bilateral trade. It is the top export of France to India and has formed ~50% of French exports to India since 2016.

French Exports (5Yr CAGR): 37.72% || Indian Exports (5Yr CAGR): 1.12%



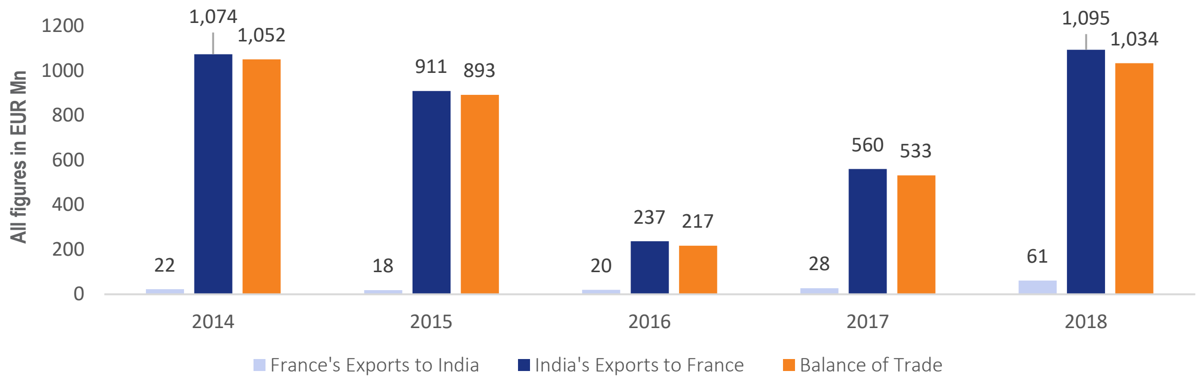
Source: UN Comtrade Data, KPMG Analysis

French Exports in Aviation & Defense have grown at a CAGR of 37.72% from 2014 to 2018. The Trade deficit for India has been steadily increasing.

NON-METALLIC MINERALS

Non-Metallic Minerals is the 3rd largest traded sector and has contributed 10% to the Indo-French Bilateral Trade in 2018. It is among India's top three exports to France. France imported EUR 1095 Mn worth of Non-Metallic Minerals from India, which formed 18% of the total Indian exports.

French Exports (5Yr CAGR): 22.27% || Indian Exports (5Yr CAGR): 0.39%



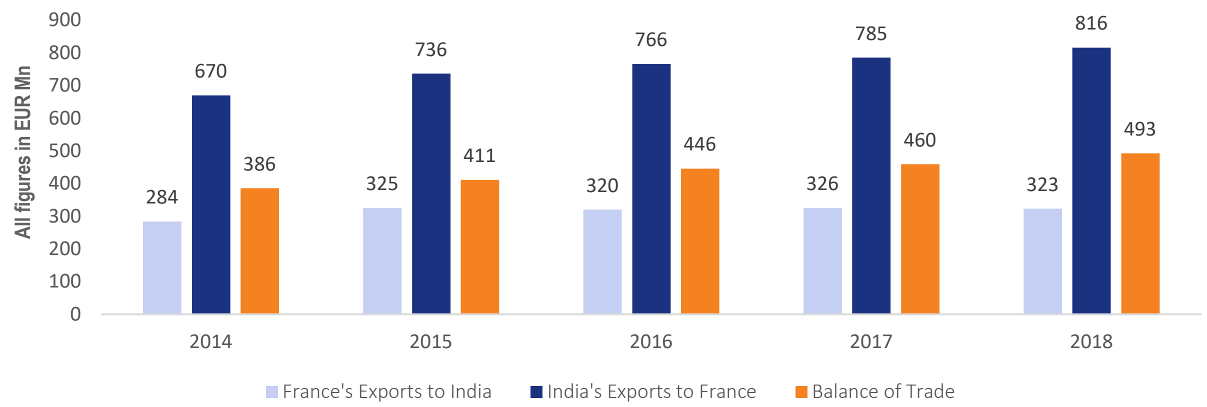
Source: Eurostat, Latest Figures available from 2017. Extra-EU Trade refers to trade between EU Member States and non-EU countries (in this example, India)

Trade in Non-Metallic Minerals was declining steadily till 2016 and then picked up pace subsequently. Indian exports grew ~200% year on year from 2016 onwards, while French exports grew at a CAGR of 22.27%.

CONSUMER GOODS

Consumer Goods is the 5th largest traded sector and contributes 9.9% to the Indo-French Bilateral Trade in 2018. It is also India's 3rd largest export to France. France imported EUR 816 Mn worth of consumer goods from India which formed 14% of the total Indian exports. The Balance of Trade in Consumer Goods is largely in India's favour.

French Exports (5Yr CAGR): 2.6% || Indian Exports (5Yr CAGR): 4.02%



Source: UN Comtrade Data, KPMG Analysis

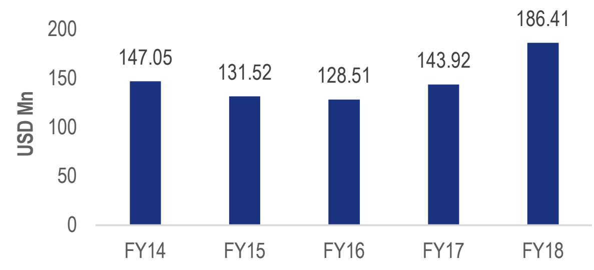
Trade in Consumer Goods is relatively stable year-on-year and grew at a 5 year CAGR of 3.6% from 2014 to 2018. Indian exports grew faster than French exports at 4.02% from 2014 to 2018. Consumer Goods have the potential to increase bilateral trade by a billion euros, if the following specific commodity groups within the sector are promoted:

Consumer Goods with high export potential to France	Key Observations
Plastics	The European Union plans to regulate endocrine disruptors and has raised concerns over 69 of these chemicals, 39 of them will have a direct impact on India. Reducing the use of endocrine disruptors in plastics could help Indian exporters enhance their exports to France
Furniture	Minimal environmental impact and long term sustainability in Furniture is crucial to European consumers. If Indian exporters strengthen their green claims by complying with sustainability standards, they would be in a better position to tap into opportunities offered by France

Under Consumer Goods, Electrical Machinery & Electronic Goods is a potential focus sector as per our potentiality analysis and have been covered on page no. 32-33.

Our trade potentiality matrix reveals that France is specialized in the manufacture of plastic products, and India's import potential of them is high. So this sector could be one of the focus areas to boost trade. India's imports of plastics from France stood at USD 186.4 Mn in FY18, registering an average growth of 7.2% in FY14-18. **With an annual consumption of around 13 Mn tons of plastics, India offers attractive opportunities for French manufacturers.** France is also a major importer of plastics products -- its total import of such products was USD 24 Bn in 2017. Food-grade plastic products are one of the areas that Indian exporters might be interested in. However, **non-tariff barriers in terms of the high cost of certifications of food grade plastics products is a concern for Indian exporters, SMEs in particular.**

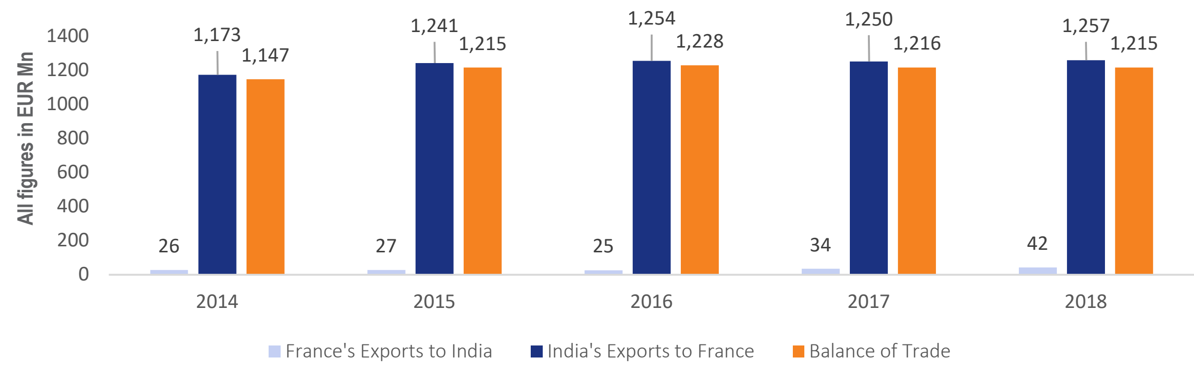
India's imports of plastics from France have been on the rise



TEXTILES

Textiles is the 2nd largest traded sector and contributed 11% to the Indo-French Bilateral Trade in 2018. It is also India's top export to France. France imported EUR 1257 Mn worth of textiles from India which formed 21% of the total Indian exports. The Balance of Trade in Textiles is largely in India's favour.

French Exports (5Yr CAGR): 9.88% || Indian Exports (5Yr CAGR): 1.4%



Source: UN Comtrade Data, KPMG Analysis

Trade in Textiles is relatively stable year-on-year and grew at a 5 year CAGR of 1.62% from 2014 to 2018. However French exports grew at a CAGR of 9.88% from 2014 to 2018, while India's exports grew at 1.4% in the same timeframe.

Top 5 Commodities to boost India's exports to France

HS Code	Commodities	France import, 2017 (USD Mn)	Top 3 import sources	India's share in France's total import	EU's Tariff on India	Key Observations
610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	1382.5	Bangladesh (31.7%)India (11.6%)Turkey (9.63%)	11.60%	9.60%	1. Bangladesh has GSP and has a tariff of 0% 2. Turkey is part of the European Customs Union and it enjoys preferential treatment, it is levied 0% tariff on this product 3. India has GSP, however it is still taxed 9.6% on its goods, whereas neighboring Pakistan and Bangladesh enjoy 0%. Pakistan is part of EU's GSP+ scheme, where developing countries pay lesser tariffs and are offered additional incentives 4. China faces the same tariff rate as India. Nevertheless, it emerged as a leading supplier of apparel products to the EU, owing to cheaper costs. However, the cost of production has gone up in China, which had them phase out textiles. This opens up opportunities for Indian exporters
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles; of cotton, knitted or crocheted	1039.2	China (28.6%) Bangladesh (20.7%)Italy (7.65%)	3.98%		
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles; of man-made fibers, knitted or crocheted	1249.9	China (45.15%) Bangladesh (14.96%) Cambodia (6.5%)	0.52%		
620462	Trousers, bib and brace overalls, breeches and shorts; women's or girls', of cotton (not knitted or crocheted)	1127.3	China (27.27%) Bangladesh (20.86%)Turkey (10.43%)	1.61%		
620342	Trousers, bib and brace overalls, breeches and shorts; men's or boys', of cotton (not knitted or crocheted)	1375.1	Bangladesh (28.49%)China (11.71%)Pakistan (9.98%)	4.33%		

Top Commodities to boost France's exports to India

HS Code	Commodities	India's import, 2017 (USD Mn)	Top 3 import sources	France's share in India's total import	India's tariff on France	Key Observations
620342	Trousers, bib and brace overalls, breeches and shorts; men's or boys', of cotton (not knitted or crocheted)	80.55	Bangladesh, China, Spain	0.06%	25% or INR 135 per piece, whichever is higher	1. Bangladesh enjoys exemption in Basic Customs Duty 2. China re-exports textiles to India from Bangladesh 3. Spain is imposed the same tariff as France, being a part of the EU
620433	Jackets and blazers; women's or girls', of synthetic fibers (not knitted or crocheted)	7.65		1.33%	25% or INR 390 per piece, whichever is higher	
620462	Trousers, bib and brace overalls, breeches and shorts; women's or girls', of cotton (not knitted or crocheted)	32.31		0.87%	25% or INR 135 per piece, whichever is higher	
610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	30.98		0.36%	25% or INR 45 per piece, whichever is higher	

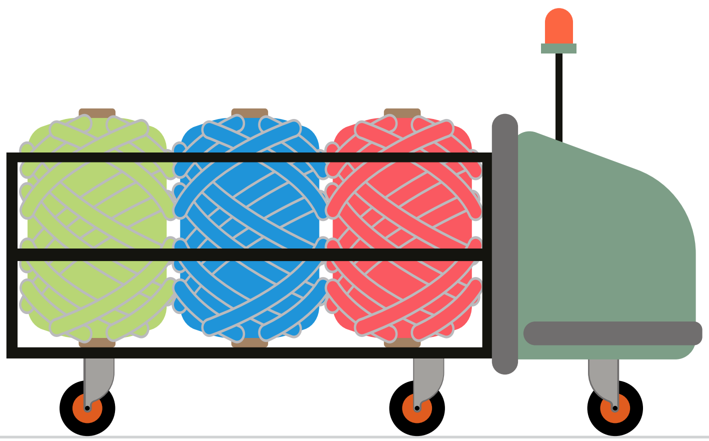
TEXTILES: HANDLOOM FABRICS

India has a long tradition of excellence in making high quality handloom products with extraordinary skills and craftsmanship, which are unique in the world.

Indian handlooms are exported to various parts of the world and EU and can broadly be found under the following 2-digit HS codes pertaining to Textile product. (Specific handloom products are available at a 10-digit HS code level).

2-digit HS Code	HS Code Description	France Import 2018 (USD Mn)	Annual growth in value from 2014 to 2018 % pa	India's Share in France's import	EU's tariff range on India	Key Observations
61	Articles of apparel and clothing accessories, knitted or crocheted	565	-3%	5%	7 – 10%	1. India's exports in handlooms has largely been declining primarily due to increase in influx of machine made textiles from China, Vietnam and Philippines 2. Countries like Bangladesh, Sri Lanka and Pakistan enjoy preferential duty and have zero tariffs 3. Growth in power looms has impacted handlooms in the domestic market segment as well
62	Articles of apparel and clothing accessories, not knitted or crocheted	598.6	~0%	5%	9 – 10%	
63	Other made-up textile articles; sets; worn clothing and worn textile articles	197.6	4%	7%	5.5 – 9.6%	
57	Carpets and other textile floor coverings	53.73	2%	10%	6 – 8%	
50	Silk	2.21	-20%	4%	3 – 7%	
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	0.012	20%	<1%	0 – 8%	
52	Cotton	16.34	~-5%	5%	4 – 8%	
54	Man-made filaments; strip and the like of man-made textile materials	5.97	-2%	1%	4 – 8%	

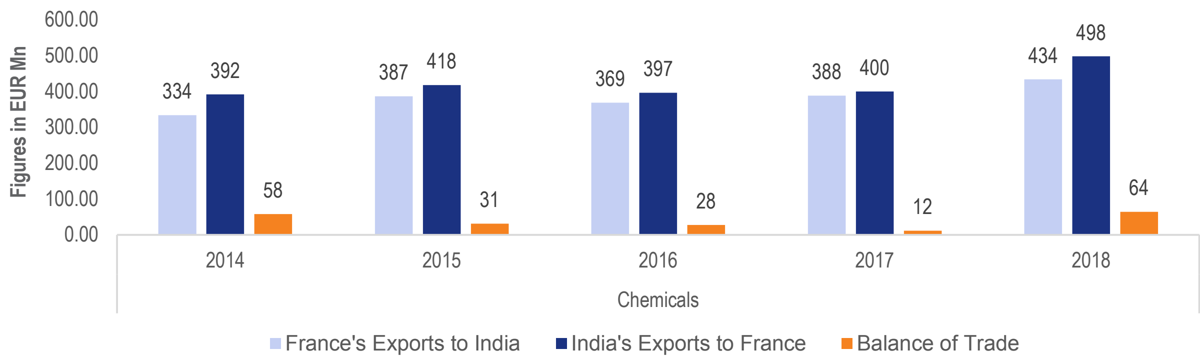
In order to boost handloom exports, the following measures will have to be taken:
1. Lowering of tariffs in order to compete with products from other south-east Asian countries
2. Promotion and branding of Indian handloom products in France
3. Protection of Indian handloom by the Government of India through means of welfare



CHEMICALS

Chemicals sector account for the sixth largest bilateral trade between India and France and contributed 8% in 2018. France imported EUR 498 Mn worth of chemicals from India which formed 8% of the total Indian exports. The Balance of Trade in Chemicals sector is distributed evenly between the two countries.

French Exports (5Yr CAGR): 5.34% || Indian Exports (5Yr CAGR): 4.90%



Source: UN Comtrade Data, KPMG Analysis

Trade in Chemicals sector witnessed a muted CAGR 5.10%, considering that France's Chemicals sector is the sixth largest in the world and India imported chemicals worth EUR 39400 Mn in the year 2018.

Top Commodities to boost India's exports to France

HS Code	Commodities	France import, 2017 (USD Mn)	Top 3 import sources	India's share in France's total import	EU's Tariff on India	Key Observations
293339	Heterocyclic compounds; containing an unfused pyridine ring (whether or not hydrogenated) in the structure, n.e.c. in 2933.3	754.8	USA (43.6%) Germany (16.24%) China (10.68%)	4.48%	0%	1. India enjoys zero tariff on organic chemicals, hence trade barriers if any would largely consist of non-tariff barriers 2. The EU's criteria for identifying endocrine disruptors is a major obstacle to India's chemicals exports to France. Of the 69 chemicals identified by the EU as Endocrine Disrupting Chemicals (EDCs) in a draft measure from 2016, 34 products are registered in India, so their exports are directly affected by this decision. Complying with Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) regulation has also been difficult for Indian exporters, small and medium exporters, in particular, mostly due to high registration fees
294190	Antibiotics; n.e.c. in heading no. 2941	662.2	USA (72.77%) China (8.79%) Italy (3.7%)	0.87%		
293499	Nucleic acids and their salts, other heterocyclic compounds, n.e.c. in heading number 2934	499.8	Germany (16.24%) Ireland (14.5%) Belgium (12.77%)	5.68%		
290250	Cyclic hydrocarbons; styrene	436.1	Netherlands (75.22%) Belgium (9.1%) Germany (7.59%)	0.00%		

Top Commodities to boost France's exports to India

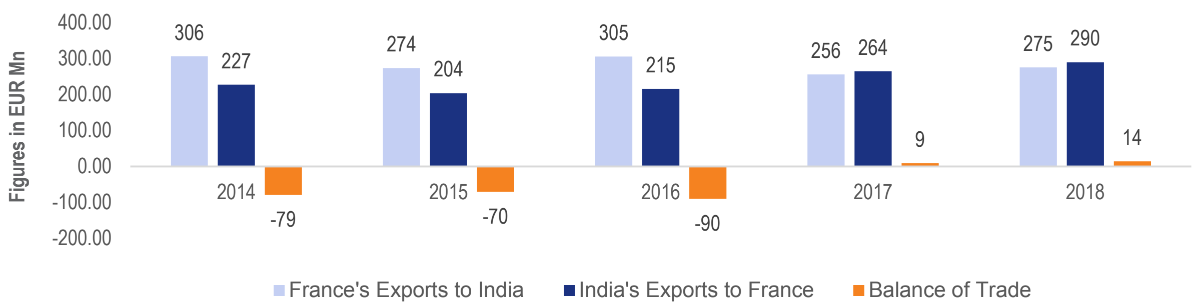
HS Code	Commodities	India import, 2017 (USD Mn)	Top 3 import sources	France's share in France's total import	India's Tariff on France	Key Observations
290531	Alcohols; acyclic, diols; ethylene glycol (ethanediol)	1024.4	Saudi Arabia, Kuwait, Singapore	0.01%	10%	India imports from countries closer to it in terms of distance as compared to France
290250	Cyclic hydrocarbons; styrene	937.8		1.28%		
290243	Cyclic hydrocarbons; p-xylene	798.7		0.00%		
290511	Alcohols; saturated monohydric, methanol (methyl alcohol)	570.3		0.01%		

Source: UN Comtrade Data, KPMG Analysis

METALS

Metals account for EUR 565 Mn or 4.91% of the total bilateral trade between India and France. France imported EUR 289 Mn worth of metals, which forms 4.8% of the total goods exported from India. The Balance of Trade is predominantly shifting in favour of India.

French Exports (5Yr CAGR): -2.09% || Indian Exports (5Yr CAGR): 5%



Source: UN Comtrade Data, KPMG Analysis

Trade in the Metals sector has been relatively stable. However, there were steel restrictions. In March 2018, the Commission initiated a safeguard investigation on imports of steel into the EU in response to similar restrictions taken by the United States. In July, the Commission adopted provisional measures in the form of a 'tariff-rate quota' that places a 25% duty on imports above a certain level. On 20 December, the Commission proposed to the 28 EU member states that those provisional measures should continue until July 2021.

This initiative is seen as unnecessary, especially as European steel producers are benefiting from long-term high prices and excellent capacity utilization rates. Their financials also indicate that the market situation is in their favor. More importantly, the EU's Auto sector needs to import steel to fill supply-chain gaps, given its extremely tight access to EU steel production. As a result, measures to limit steel imports risk negatively impacts competitiveness of European automakers and their exports.

Top Commodities to boost India's exports to France

HS Code	Commodities	France import, 2017 (USD Mn)	Top 3 import sources	India's share in France's total import	EU's Tariff on India	Key Observations
720827	Iron or non-alloy steel; flat-rolled, width 600mm or more, (not corrugated), plated or coated with zinc (not electrolytic ally)	959.12	Netherlands, Belgium, Germany	1.60%	0%	France predominantly imports iron and steel from EU nations, however India enjoys zero tariff on Iron and Steel
720712	Iron or non-alloy steel; semi-finished products of iron or non-alloy steel; containing by weight less than 0.25% of carbon, of rectangular (other than square) cross-section	452.17	Germany, Brazil, Belgium	0%		
720917	Iron or non-alloy steel; in coils, flat-rolled, width 600mm or more, cold-rolled, of a thickness of 0.5mm or more but not exceeding 1mm	385.34	Belgium, Netherlands, UK	0.02%		
720839	Iron or non-alloy steel; in coils, without patterns in relief, flat-rolled, of a width 600mm or more, hot-rolled, of a thickness of less than 3mm	372.01	Belgium, Netherlands, Germany	5.90%		
721913	Steel, stainless; flat-rolled, width 600mm or more, hot-rolled, in coils, of a thickness of less than 3mm	367.87	Belgium, Spain, Italy	0.20%		

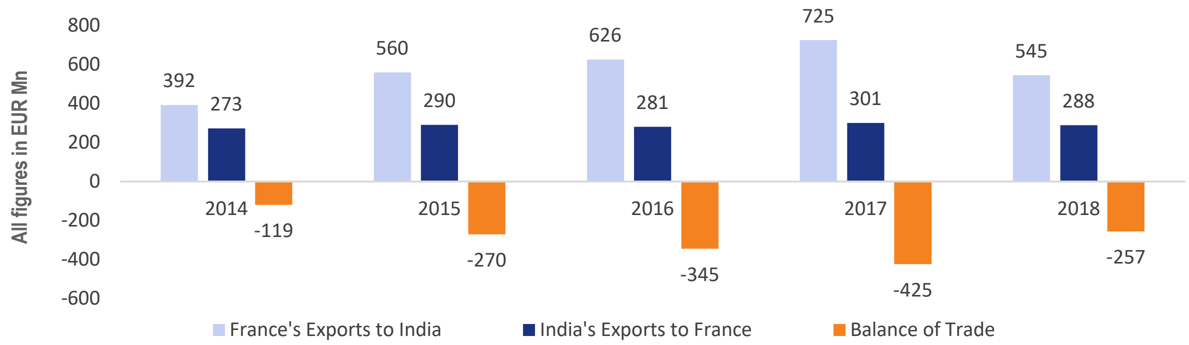
Top Commodities to boost France's exports to India

HS Code	Commodities	France import, 2017 (USD Mn)	Top 3 import sources	France's share in France's total import	India's Tariff on France	Key Observations
721990	Steel, stainless; flat-rolled, width 600mm or more, n.e.c. in heading no. 7219	782.67	China, USA, Belgium	0.92%	15%	France has a high share in India's import of Rolled Steel, hence there is potential for France to export other types of steel to India if it develops a product specialization
722511	Steel, alloy; flat-rolled, width 600mm or more, of silicon-electrical steel, grain-oriented	438.79	Japan, Russian Federation, China	3.07%	20%	
721070	Iron or non-alloy steel; flat-rolled, width 600mm or more, painted, varnished or coated with plastics	427.52	China, Rep. of Korea, Vietnam	0%	15%	
720839	Iron or non-alloy steel; in coils, without patterns in relief, flat-rolled, of a width 600mm or more, hot-rolled, of a thickness of less than 3mm	405.36	Belgium, China, Iran	0%	15%	
720851	Iron or non-alloy steel; (not in coils), flat-rolled, of a width 600mm or more, hot-rolled, without patterns in relief, of a thickness exceeding 10mm	371.59	Rep. of Korea, France, Indonesia	16.85%	15%	

ELECTRICAL MACHINERY & ELECTRONIC GOODS

Electrical Machinery & Electronic Goods is the 7th largest traded sector and has contributed 7.24% to the Indo-French Bilateral Trade in 2018. It is France's 3rd largest export to India after Aviation & Defense and Machinery & Mechanical Appliances and contributed 10% of French exports to India in 2018.

French Exports (5Yr CAGR): 6.8% || Indian Exports (5Yr CAGR): 1.12%



Source: Eurostat, Latest Figures available from 2017. Extra-EU Trade refers to trade between EU Member States and non-EU countries (in this example, India)

Trade in Electrical Machinery & Electronic Goods declined in the year 2018 as compared to the previous year. Total trade grew at a CAGR of 4.62% from 2014 to 2018. The top importing source for both India and France is China.

Top Commodities to boost India's exports to France

HS Code	Commodities	France import, 2017 (USD Mn)	Top 3 import sources	India's share in France's total import	EU's tariff on India	Key Observations
851712	Telephones for cellular networks or for other wireless networks	6,680.60	China (70.1%), Vietnam (23.9%)	Negligible	0% tariff preference as per GSP (R 12/978) - General arrangements %	1. China and Indonesia enjoy 0% tariff preference as per GSP (R 12/978) 2. India also enjoys a zero tariff
851762	Communication apparatus	4,599.30	China (30.8%) , US (9.2%), Mexico (8.6%)	0.20%		
854239	Electronic integrated circuits; n.e.c. in heading no. 8542	1,863.10	Malaysia (27.9%), Other Asia (21.1%), US (11.3%)	0.30%		
853710	Boards, panels, consoles, desks and other bases;	1,608.50	Germany (34.5%), US (7.1%), China (6.8%)	0.10%		
850440	Electrical static converters	1,501.20	China (25.3%), Germany (10.1%), Indonesia (9.5%)	5.40%		
854430	Insulated electric conductors; ignition wiring sets and other wiring sets	1,432.10	Morocco (30.6%), Tunisia (27.5%), Romania (11.8%)	1.10%		

Source: UN Comtrade Data, KPMG Analysis

In order to make exports from India feasible, **domestic manufacturing also has to be cost-effective.**

- Currently in India, electronics and IT hardware goods are imported and the domestic manufacturers just import CKD/ SKD and assemble the same, adding no substantial value
- Neither the value chain nor the ecosystem for domestic manufacturing and substantial employment is created
- **Many ASEAN countries have already built a robust manufacturing base and have a well settled value chain in the electronics sector which India needs to compete with**
- India needs to be a manufacturing hub for electronics and IT hardware and be a part of the global value chain
- This will be possible only when there is large scale domestic production with the huge volumes making the domestically manufactured goods competitive in the global market as they can also benefit from economies of scale. This will automatically open the gates for exports

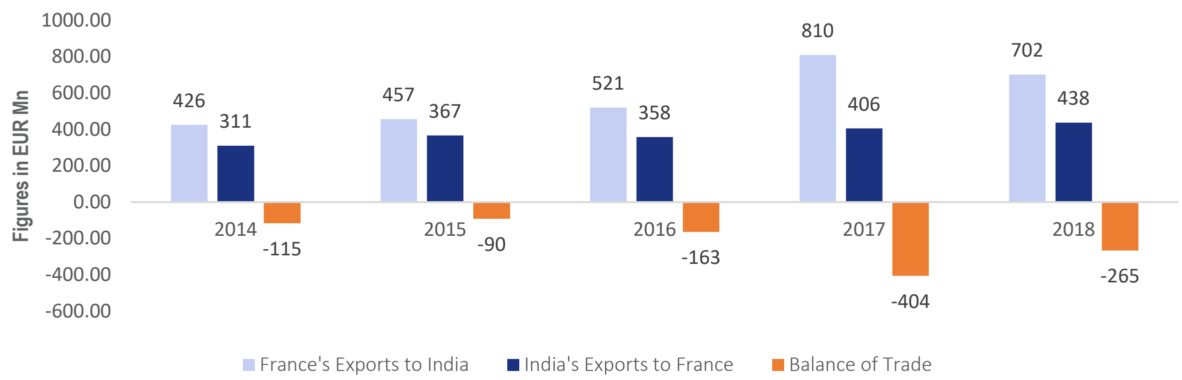
Top Commodities to boost France's exports to India

HS Code	Commodities	India's import, 2017 (USD Mn)	Top 3 import sources	France's share in India's total import	India's tariff on France	Key Observations
851770	Telephone sets and other apparatus for the transmission	11284.4	China, Vietnam, Rep. of Korea,	0.20%	10% 15%	1. India has a uniform basic customs duty on all countries 2. France can boost exports in these commodities if it is able to develop production capacities
854239	Electronic integrated circuits; n.e.c. in heading no. 8542	10293.3	Rep. of Korea, China, Other Asia nes., Singapore	0.27%	7.50%	
850440	Electrical static converters	1148.3	China, Germany, Japan	0.81%	10% & 15%	
854231	Electronic integrated circuits; processors and controllers,	937.4	China, Singapore, Malaysia	0.48%	Free	
853690	Electrical apparatus; n.e.c. in heading no. 8536	467.2	China, Rep. of Korea, Japan	2.72%	10%	

MACHINERY & MECHANICAL APPLIANCES

Machinery & Mechanical Appliances sector constitutes 9.91% of bilateral trade between India and France and is the 4th largest traded sector. The sector contributes EUR 437.61 Mn of the total exports from India. The Balance of Trade has off lately shifted in favor of France.

French Exports (5Yr CAGR): 10.53% || Indian Exports (5Yr CAGR): 7.07%



Source: UN Comtrade Data, KPMG Analysis

Trade in Machinery & Mechanical Appliances sector has witnessed a significant growth in the past five years. Exports from France to India have grown at 10.53%, while Indian exports to France in this sector have grown at 7.07%.

Top Commodities to boost India's exports to France

HS Code	Commodities	France import, 2018 (USD Mn)	Top 3 import sources	India's share in France's total import	EU's Tariff on India	Key Observations
840999	Parts for internal combustion piston engines	2185.8	Germany, Italy, China	0.70%	0%	1. France primarily imports Machinery & Mechanical Appliances from EU countries 2. India enjoys zero tariff but to increase its exports in this sector, it needs to develop a specialization
848180	Taps, cocks, valves	1790.6	Germany, Czech, Italy	2.50%		
841330	Pumps for internal combustion piston engines	682.3	Germany, Sweden, Italy	0.20%		
841391	Pump parts	637.5	Germany, Italy, Denmark	1.10%		
841370	Other pumps	451.9	Germany, Italy, Sweden	3.50%		

Top Commodities to boost France's exports to India

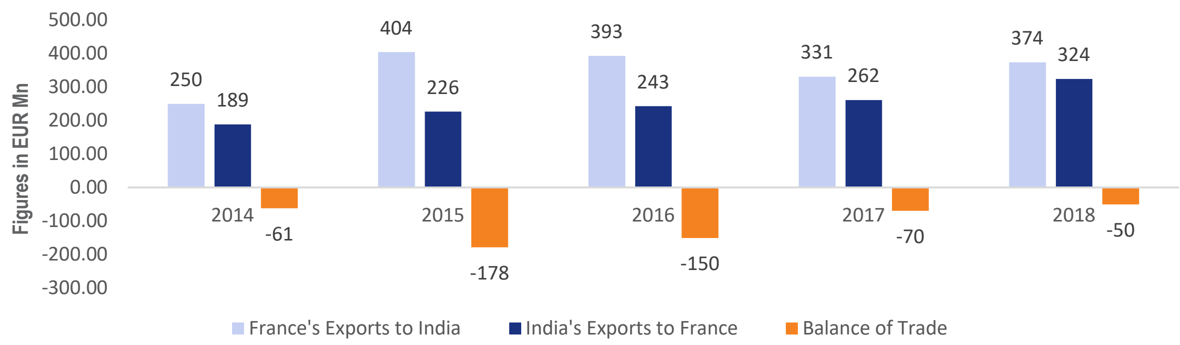
HS Code	Commodities	France import, 2017 (USD Mn)	Top 3 import sources	France's share in France's total import	India's Tariff on France	Key Observations
847130	Automatic data processing machines; portable, weighing not more than 10kg, consisting of at least a central processing unit, a keyboard and a display	2801.75	China, Singapore, Malaysia	0.01%	0.00%	1. France has a significant contribution in exporting Turbo jets 2. China is the top competitor when it comes to exporting Machinery & Mechanical Appliances
841112	Turbo-jets; of a thrust exceeding 25kN	2022.66	USA, France, Germany	4.50%	7.50%	
848180	Taps, cocks, valves and similar appliances; for pipes, boiler shells, tanks, vats or the like, including thermostatically controlled valves	722.96	China, Germany, USA	5.00%	7.50%	
843149	Machinery; parts of machines handling earth, minerals or ores and n.e.c. in heading no. 8431	625.68	China, Rep. of Korea, Japan	0.70%	7.50%	
841480	Pumps and compressors; for air, vacuum or gas, n.e.c. in heading no. 8414	554.5	China, Thailand, Germany	0.70%	7.50%	

Source: UN Comtrade Data, KPMG Analysis

HEALTHCARE & PHARMA

Healthcare & Pharma is one of the key sectors in the Indo-French bilateral trade, accounting for a significant 6.07% of the total trade between India and France. France imported EUR 323.75 Mn of Healthcare and Pharmaceutical products which forms 5.4% of the total exports from India.

French Exports (5Yr CAGR): 8.38% || Indian Exports (5Yr CAGR): 11.4%



Source: UN Comtrade Data, KPMG Analysis

The Healthcare and Pharma sector reported a significant growth from 2014-2018. Indian exports to France grew at 11.4% whereas the French exports grew at 8.36%.

Top Commodities to boost India's exports to France

HS Code	Commodities	France import, 2018 (USD Mn)	Top 3 import sources	India's share in France's total import	EU's Tariff on India	Key Observations
300490	Medicaments	11268.97	USA , Germany, Ireland	0.97%	0%	Since India enjoys zero tariff, it needs to increase its specialization in these sectors in order to boost exports
300220	Vaccines for human medicine	1127.86	Belgium, UK, (4%)	Negligible		

While the growth in pharmaceutical exports to France from India is high (5 year CAGR of 11.4% from 2014 to 2018), India's share in France's total imports is only 0.97% which indicates there is a high scope for increased penetration of Indian pharma in the French Market.

The non-tariff barriers that EU has historically imposed on India include requirement of WTO—Good Manufacturing Practice certification, import bans, antidumping measures and pre-shipment inspection among others.

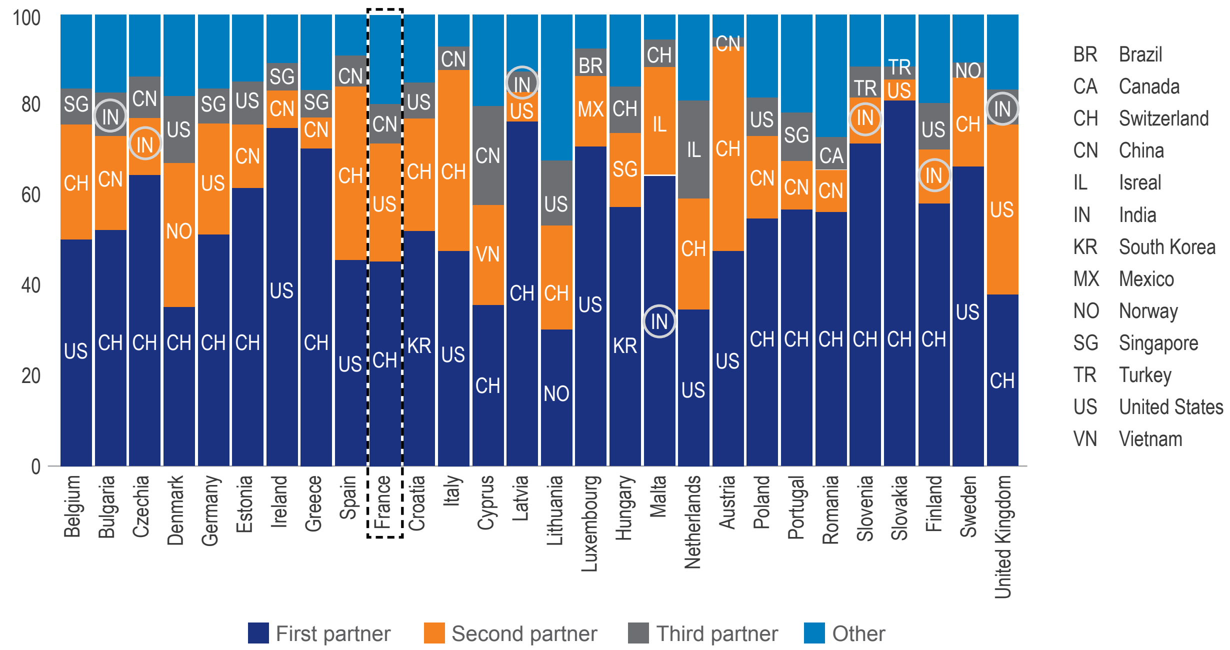
US is the largest export for India, accounting for approx. 30% of India's pharma exports. Similarly, for India, UK is the third largest export market in the world and largest in Europe, accounting for 3.2% of total pharma exports.

It is also worth noting that the trade in goods between France and the UK is characterized by intra-sector trade. The greatest intra-sector trade comes first from the automotive sector, second from aircraft and aerospace, and third from **pharmaceutical preparations**.

India's Pharma exports to top 10 countries (USD Mn)						
Rank	Country	2015-16	2016-17	2017-18	Change% FY-18	Contribution% FY-18
1	U S A	5514	5564	5116	-8	30
2	South Africa	605	485	583	20	3
3	U K	564	550	557	1	3
4	Russia	374	383	469	22	3
5	Nigeria	437	398	467	17	3
6	Germany	348	333	388	17	2
7	Brazil	326	337	384	14	2
8	Kenya	332	325	255	-22	1
9	Australia	233	237	254	7	1
10	France	232	209	251	20	1
Total of top Ten		8964	8822	8723	-1	51
Grand Total		16912	16785	17276	3	100

The United States and Switzerland dominate extra-EU imports. Switzerland appeared 26 times as one of the top 3 partners and the United States 19 times. China appeared 13 times as a top 3 partner, India 7 times and Singapore 6 times. No other country appeared in the top three more than three times. In total, 13 different countries are among the top 3 partners.

Top 3 partners for extra EU-28 imports of medicinal and pharmaceutical products by Memeber State, 2018 (%)



Source: Eurostat (online data code:DS-018995)

Amongst the EU Member States, Germany accounted for a quarter of all extra-EU exports (EUR 40 Bn) followed at some distance by Ireland (EUR 25 Bn), Belgium (EUR 20 Bn), France (EUR 15 Bn), the United Kingdom and the Netherlands (both EUR 14 Bn) and Italy (EUR 11 Bn).

Four countries had shares higher than 10% for medicinal and pharmaceutical products in their total extra-EU exports. These were Ireland (36%), Denmark (25%), Belgium (19%) and Slovenia (16%).

The Netherlands and Belgium (both EUR 14 Bn) and Germany were the largest importers of medicinal and pharmaceutical products in 2018. Ireland (12%), Malta, Austria and Belgium (all three 11%) had high shares of medicinal and pharmaceutical products in their total extra-EU imports.

Extra-EU trade in medicinal and pharmaceutical products by Member State, 2018 (EUR Mn and %)

	Extra-EU trade (EUR Mn)			State in total Extra-EU trade (%)	
	Export	Import	Balance	Export	Import
Eu-28	169270	78016	91254	8.7	3.9
Belgium	19859	14319	5540	18.5	10.6
Bulgaria	323	180	143	3.7	1.5
Czechia	323	401	-78	1.2	1.1
Denmark	8848	983	7864	24.6	3.8
Germany	39745	13379	26367	7.3	3.7
Estonia	14	23	-9	0.3	0.6
Ireland	24917	3774	21143	35.9	11.9
Greece	242	398	-156	1.5	1.5
Spain	5603	3721	1882	5.7	2.7
France	15071	4561	10510	7.5	2.6
Croatia	304	273	30	6.4	5.1
Italy	10887	7422	3465	5.4	4.3
Cyprus	158	62	96	5.3	1.6
Latvia	231	73	158	5.2	1.8
Lithuania	245	47	198	2.1	0.5
Luexembourg	1	31	-31	0.0	1.3
Hungary	1484	1042	443	7.7	4.0
Malta	43	165	-122	4.0	11.1
Netherlands	14157	13572	585	9.0	4.6
Austria	4368	4010	358	9.8	10.9
Poland	767	804	-37	1.8	1.2
Portugal	351	256	95	2.5	1.4
Romania	218	281	-63	1.4	1.3
Slovenia	1424	724	700	16.0	6.2
Slovakia	40	155	-115	0.3	1.0
Finland	402	207	195	1.5	1.0
Sweden	4915	710	4204	8.6	1.6
United Kingdom	14330	6442	7887	6.6	2.4

Source: Eurostat (online data code:DS-018995)

CHALLENGES FACED BY INDIAN PHARMA EXPORTERS

- Some Indian companies, including Ranbaxy, have been fined or their products banned by the US FDA and its EU counterpart for violations of quality standards and authenticity of data
- There is a shortage of qualified pharmaceutical scientists for research and development work
- While the exports are dominated by a few large players, there are many small and medium companies that need technological and infrastructural support
- There is a need to strengthen the Indian regulatory system and train people for the industry in collaboration with educational institutions
- Indian companies have profited from mass producing those products whose patents have expired. But they need to move beyond this business model and become innovative, with more investment in research
- Pharmaceuticals are not a focus area for China; it is its 39th largest export item. But China has started catching up fast. For India, pharma is of greater importance, as it is its fifth-largest export item. Given this significance and the competitive advantage that India has, the Government and the Indian pharmaceutical industry should work out a comprehensive strategic policy to increase exports in the future. According to a June 2016 study by Assocham, India's pharma exports could reach USD 20 Bn by 2020

Top Commodities to boost France's exports to India

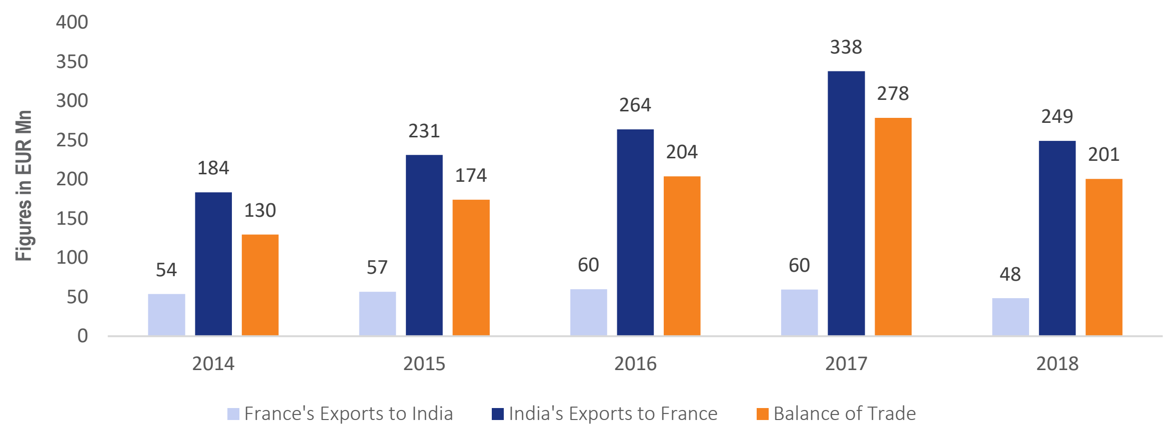
HS Code	Commodities	France import, 2017 (USD Mn)	Top 3 import sources	France's share in France's total import	India's Tariff on France	Key Observations
300490	Medicaments; consisting of mixed or unmixed products n.e.c. in heading no. 3004, for therapeutic or prophylactic uses, packaged for retail sale	707.89	USA, Germany, Switzerland	2.50%	10%	France has a significant contribution in vaccines, cultures of micro organisms as well as diagnostic reagents
300220	Vaccines; for human medicine	245.84	Indonesia, Belgium, France	15.10%		
300290	Toxins, cultures of micro-organisms (excluding yeasts) and similar products	82.54	USA, Germany, Denmark	9.80%		
300390	Medicaments; (not containing antibiotics, hormones, alkaloids or their derivatives), for therapeutic or prophylactic uses, (not packaged for retail sale)	39.93	Germany, Nepal, China	0.20%		
300630	Pharmaceutical goods; opacifying preparations for x-ray examinations, diagnostic reagents designed to be administered to the patient	35.56	China, Ireland, France	6.00%		

Source: UN Comtrade Data, KPMG Analysis

AUTOMOTIVES

Automotives form a miniscule 2.58% of the total bilateral trade but have a high potential. The Balance of Trade is largely in India's favour. Trade in the sector was increasing till 2017 but declined in 2018.

French Exports (5Yr CAGR): -2.13% || Indian Exports (5Yr CAGR): 6.29%



Source: UN Comtrade Data, KPMG Analysis

India's exports to France were on an increasing trend till 2017 but declined in 2018. Emission norms of automobiles also affect the trade in automotives. French automotives exports to India have been relatively stable and are low largely due to high tariffs imposed.

Top 5 Commodities to boost India's exports to France

HS Code	Product	Import value (USD Mn)	Top three import sources	Non-EU Import source	India's share	EU's tariff	Key Observations
870332	Vehicles cylinder capacity over 1500 but not over 2500cc	12693.3	Germany (37.2%), Spain (17.4%), UK (6.5%)		Negligible	6.5% (GSP countries)	The top import sources are from EU countries and India needs to develop specialization in order to compete with Japan and China to boost exports
870323	Vehicles; cylinder capacity over 1500 but not over 3000cc	4454.9	Germany (26.8), Japan (14%), Spain (11.4%)	Japan	Negligible	6.5% (GSP countries)	
870840	Vehicle parts; gear boxes and parts thereof	2761.9	Germany (27.1%), Japan (23.3%), Netherlands (13.4%)	Japan	0.39%	0	
871120	Motorcycles (including mopeds) and cycles; exceeding 50cc but not exceeding 250cc, with or without side-cars; side-cars	162.4	Japan (26%), China (25.2%), Italy (13.3%)	Japan, China	2.13%	4.5% (GSP countries)	India is eligible for GSP benefits, enjoying concessional tariff rates
871140	Motorcycles (including mopeds) and cycles; exceeding 500cc but not exceeding 800cc,	245.9	Japan (61.6%), Thailand (17.8%), Germany (8.5%)	Japan, Thailand	0.12%	4.5% (GSP countries)	

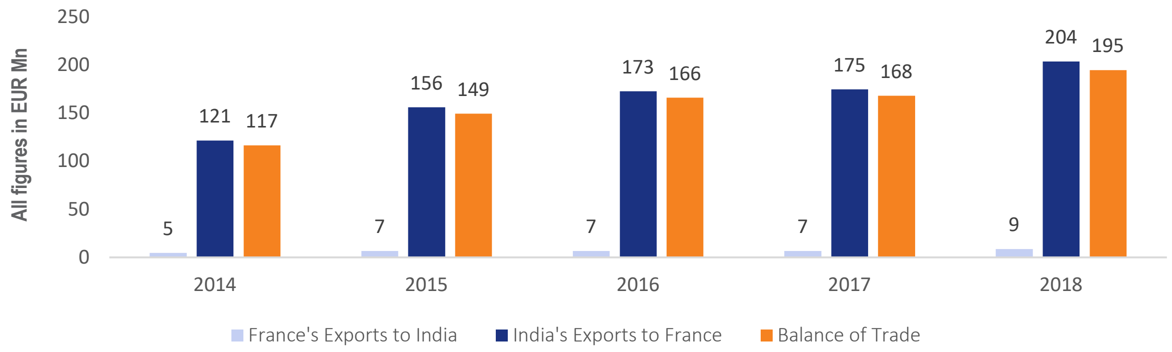
Top Commodities to boost France's exports to India

HS Code	Commodities	India's import, 2017 (USD Mn)	Top 3 import sources	France's share in India's total import	India's tariff on France	Key Observations
870899	Vehicle parts and accessories; n.e.c. in heading no. 8708	1697.75	China, Rep. of Korea, Germany	1.20%	15%	India imposes a very high tariff on vehicles
870840	Vehicle parts; gear boxes and parts thereof	947.15	Japan, Rep. of Korea, Germany	2.40%	15%	
871410	Motorcycles (including mopeds); parts and accessories	343.87	China, Japan, Thailand	0.03%	15%	
870333	Vehicles; with only compression-ignition internal combustion piston engine (diesel or semi-diesel), cylinder capacity over 2500cc	65.91	UK, Thailand, Japan	0.00%	125%	
870332	Vehicles; with only compression-ignition internal combustion piston engine (diesel or semi-diesel), cylinder capacity over 1500 but not over 2500cc	60.94	Sweden, Belgium, UK	0.00%	125%	

GEMS & JEWELLERY

Gems & Jewellery forms a miniscule 1.85% of the total Indo-French bilateral trade but it has a huge potential. Trade is largely dominated by India's exports to France which have been steadily increasing.

France's Exports (5Yr CAGR): 12.62% || Indian Exports (5Yrs CAGR): 10.89%



Source: UN Comtrade Data, KPMG Analysis

Top Commodities to boost France's exports to India

HS Code	Commodities	France import, 2017 (USD Mn)	Major sources	Major non-EU import source	India's share in France's total import	EU's tariff on India	Key Observations
710391	Stones; rubies, sapphires and emeralds, worked (other than simply sawn or roughly shaped), not strung, mounted or set	306051453	Colombia (19.01%) Myanmar (16.91%) Mozambique (13.23%)	Colombia (19.01%), Myanmar (16.91%) Mozambique (13.23%)	8.72%	0.00%	All top importing sources enjoy a zero tariff including India, hence India has a level playing field. A detailed analysis on this sector has been appended subsequently
711319	Jewellery; of precious metal (excluding silver) whether or not plated or clad with precious metal, and parts thereof	4077.5	Switzerland (23.73%)Italy (8.3%)UK (5.28%)		2.13%	0.00%	

HS Code	Commodities	France import, 2017 (USD Mn)	Major sources	Major non-EU import source	India's share in France's total import	EU's tariff on India	Key Observations
710812	Metals; gold, non-monetary, unwrought (but not powder)	631.7	Spain (52.76%) Switzerland (19.38%) Germany (10.51%)	Guinea (7.45%)	Nil	0.00%	
710239	Diamonds; non-industrial, (other than unworked or simply sawn, cleaved or bruted), but not mounted or set	752.3	Israel (24.49%) Belgium (20.37%)UK (11.96%)	Israel (24.49%)	8.37%	0.00%	

Top Commodities to boost France's exports to India

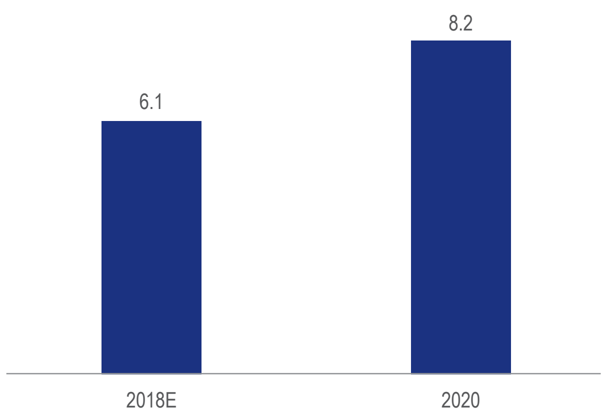
HS Code	Commodities	India's import, 2017 (USD Mn)	Top 3 import sources	France's share in India's total import	India's tariff on France	Key Observations
710812	Metals; gold, non-monetary, unwrought (but not powder)	36090.22	Switzerland, UAE,Ghana	0.00%	10%	India imposes the same tariffs on France, Belgium and Switzerland being a part of the EU
710231	Diamonds; non-industrial, unworked or simply sawn, cleaved or bruted, but not mounted or set	19438.59	UAE, Belgium, Russia	0.00%	10%	
710691	Metals; silver, unwrought, (but not powder)	2802.98	Hong Kong, China, Russia	0.00%	10%	
710310	Stones; precious (other than diamonds) and semi-precious stones, unworked or simply sawn or roughly shaped, not strung, mounted or set	838.23	Hong Kong, UAE, Zambia	0.00%	10%	
710391	Stones; rubies, sapphires and emeralds, worked (other than simply sawn or roughly shaped), not strung, mounted or set	855.42	Hong Kong, Are Thailand, UAE	0.02%	10%	
711319	Jewellery; of precious metal (excluding silver) whether or not plated or clad with precious metal, and parts thereof	688.82	Areas-nes, USA, Rep. of Korea, UAE	0.27%	15%	
711790	Jewellery; imitation, of other than base metal, whether or not plated with precious metal	31.32	China, Thailand, USA	0.10%	20%	

MEDICAL DEVICE INDUSTRY AND ITS IMPORT POTENTIAL

Overview of Medical Device Industry

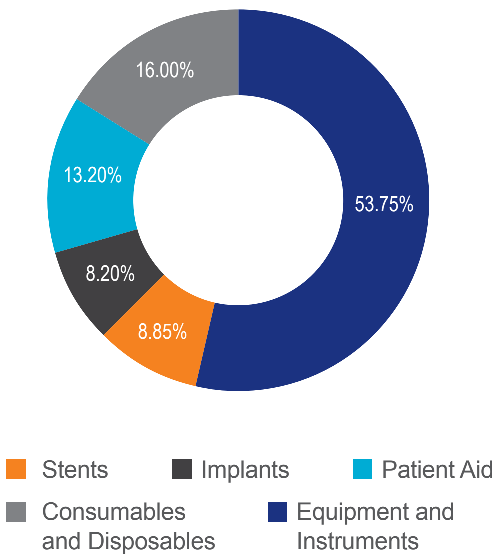
- India is the 4th largest Medical Device market in Asia, after Japan, China and South Korea. Globally, India is ranked as the 20th major medical market in the world
- The size of Medical Device market in India is estimated to be approximately USD 6.1 Bn in 2018. It has increased by a CAGR of 13% during 2009-18 period
- Going ahead, the size of Medical Device market in India is expected to reach USD 8.2 Bn by 2020

Indian Medical Equipment Industry (in USD Bn): Growth forecast



Source: Dun & Bradstreet Research

Indian Medical Device Market

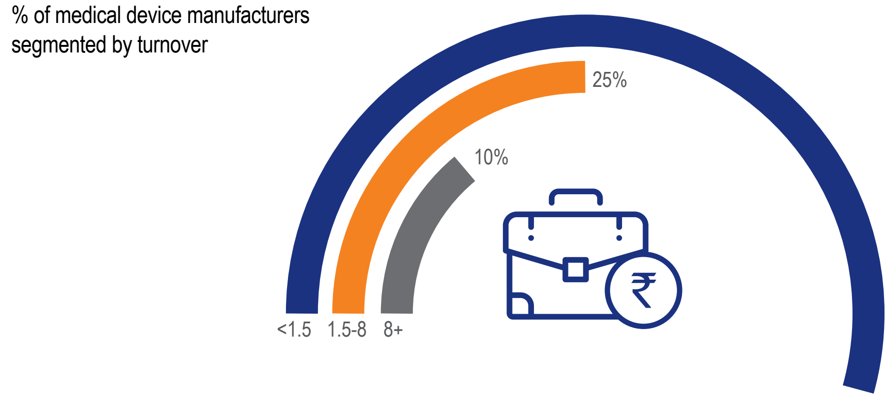


- The Medical Device industry is valued at USD 6 Bn. The Medical Device industry was accorded the status of an independent industry in 2014 when it was included as one of the focus sectors of the 'Make in India' program reflecting the Government's intention to support growth and development in this sector
- The Medical Device sector today is clearly small and indicates low penetration in the country. However, it has the potential to grow at double-digit rates in the years to come, given the growing demand from India's large population

Structure of the industry

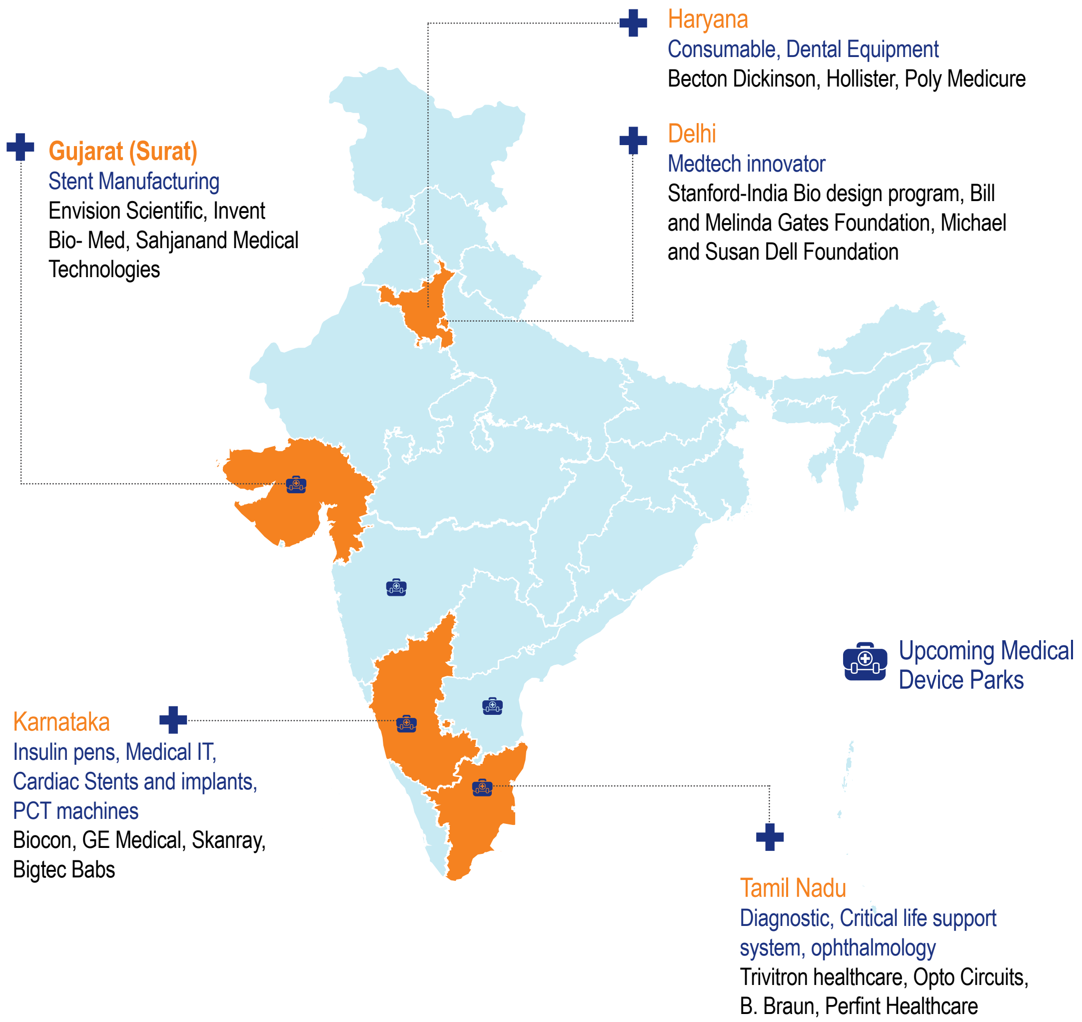
- Expanding base of population, aging of population resulting in higher number of older people, increasing incidence of critical health conditions, and improvement in affordability have all played vital roles in the development of Medical Device industry in India
- Currently, there are approximately 800 medical device manufacturers in India, 10% of which have a turnover of more than USD 8 Mn. Furthermore, domestic manufacturing is spread around seven major Medical Device manufacturing clusters

Fragmentation of Players (Figures in USD Mn)



Source: Recommendations of the Task Force on the medical devices sector in India-2015 Dop, Ministry of Chemicals and Fartilizers

MEDICAL DEVICE INDUSTRY IN INDIA: EXISTING CLUSTERS

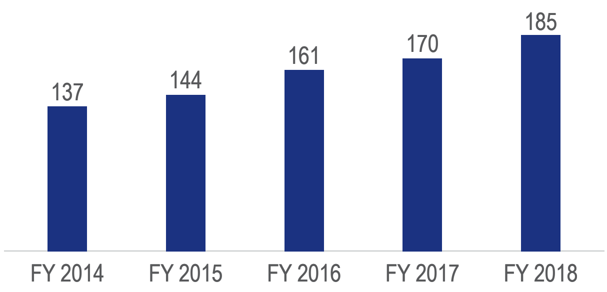


Source: Medical Device Industry in India - The Evolving Landscape, Opportunities and Challenges, SKP Research

Imports

The Indian Medical Device industry is highly fragmented. Currently, this sector is dominated by MNCs with 70–75% of the demand being met through imports. Since FY 2010, the value of medical devices imported to India has increased by an average rate of 13% per annum. US is the largest exporter of medical devices to India. It is estimated that approximately 26 – 27% of medical devices imported to India comes from the US.

Medical Device Import to India (in INR Bn)

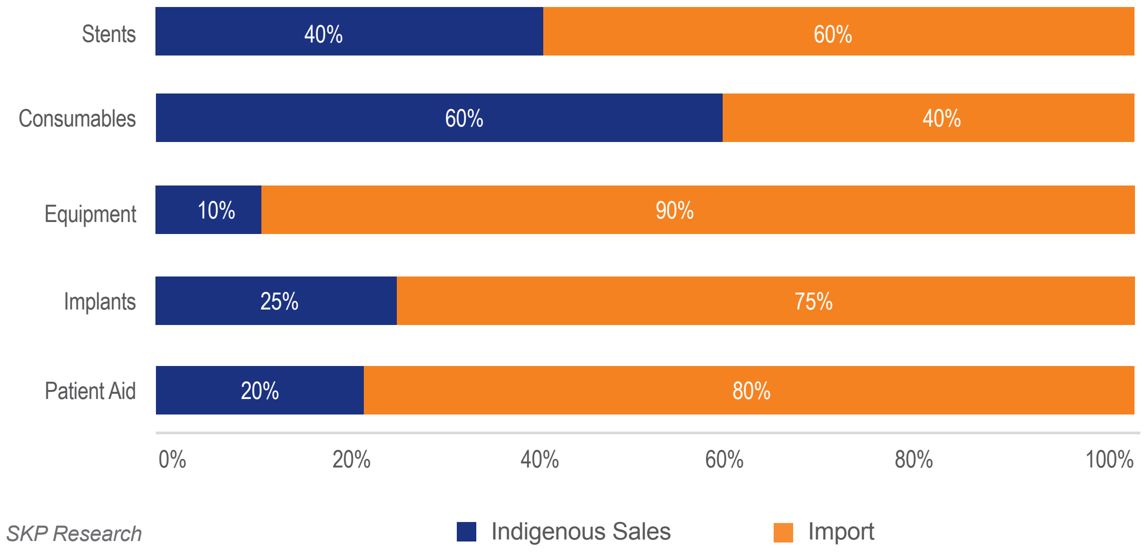


Source: Directorate General of Foreign Trade

Numerous factors underlie the prevalence of higher imports in the country. Some of these are:

- Inadequate favorable policy and regulatory framework
- Medical devices, unlike pharmaceuticals, are dependent on a mix of technologies such as engineering, electronics, material sciences and information technology. Innovation, capital and technology drive the industry. However, India has not been able to bridge the gap between investments, skilled resources and innovation to fully capitalize on these opportunities
- There is no clear comparative cost advantage in comparison to other emerging markets, and policy issues like inverted duty structure do not help in creating a positive environment
- International medical device companies looking to explore the Indian market initially acquire/need a distributor to market their products. Whereas, companies that intend to expand their global footprint and export to other neighboring countries may set up/acquire a manufacturing plant in India

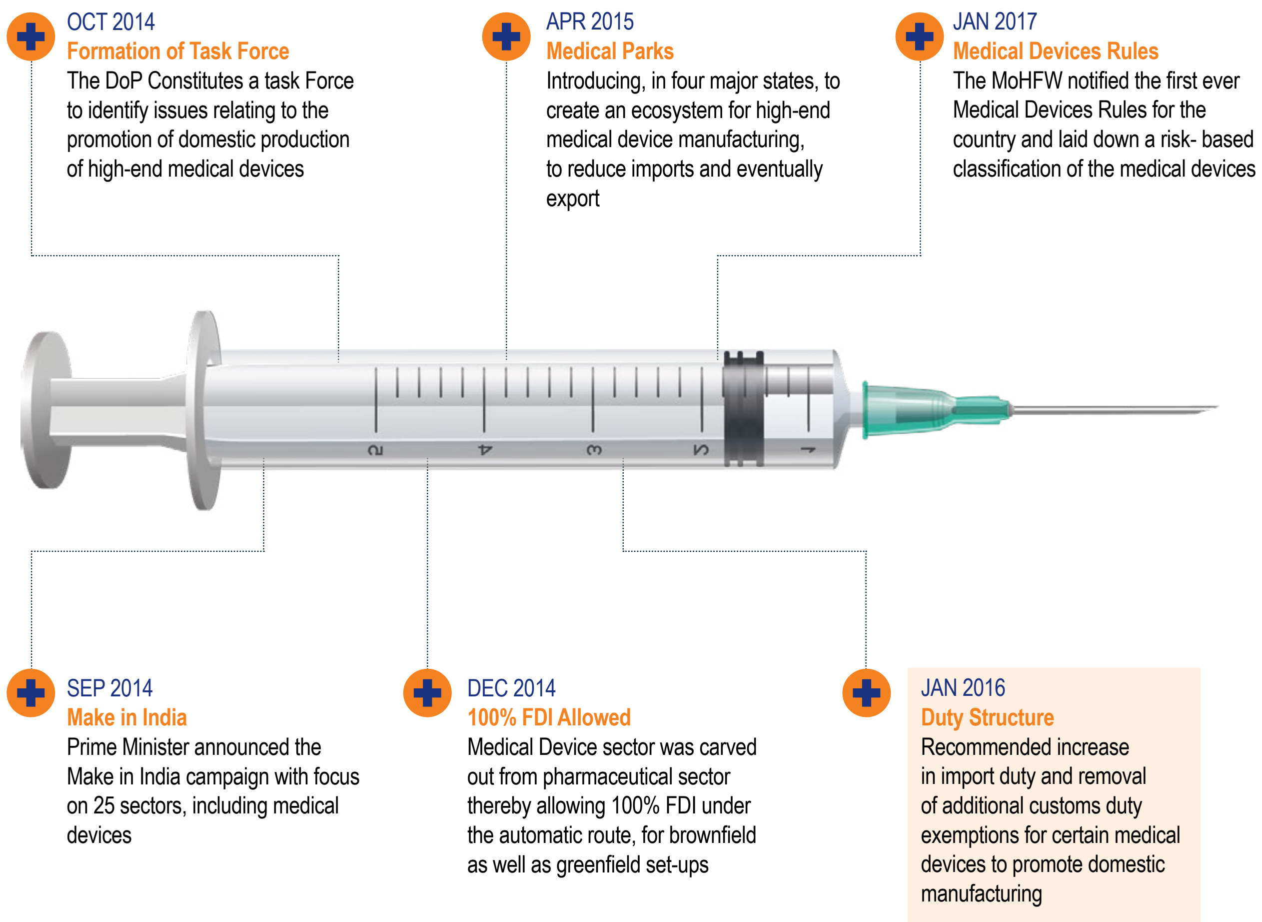
Indigenous Sales vs Import



Source: SKP Research

Regulatory Environment

Medical devices were unregulated in India until recently. In January 2017, the Ministry of Health and Family Welfare (MoHFW) notified the Medical Devices Rules, 2017 and announced that they would be effective from 1 January 2018, thereby giving the industry time to adapt to the new Rules. The Rules clearly separate medical devices as being distinct from drugs, clearing some hurdles for the industry.



POTENTIALITY ANALYSIS - THE OPPORTUNITY

The growing interest between both the nations in negotiating bilateral trade relationship is expected to open up new avenues for trade thereby creating a win-win scenario for both the nations. In this section, we take a look at the priority sectors for both the countries thereby creating opportunities to benefit from greater trade; leading to employment and growth.

Brief note on methodology for potentiality analysis
The objective of our analysis is to identify a list of products that have high potential to boost trade. This has been achieved through trade potentiality analysis and the bilateral trend growth.

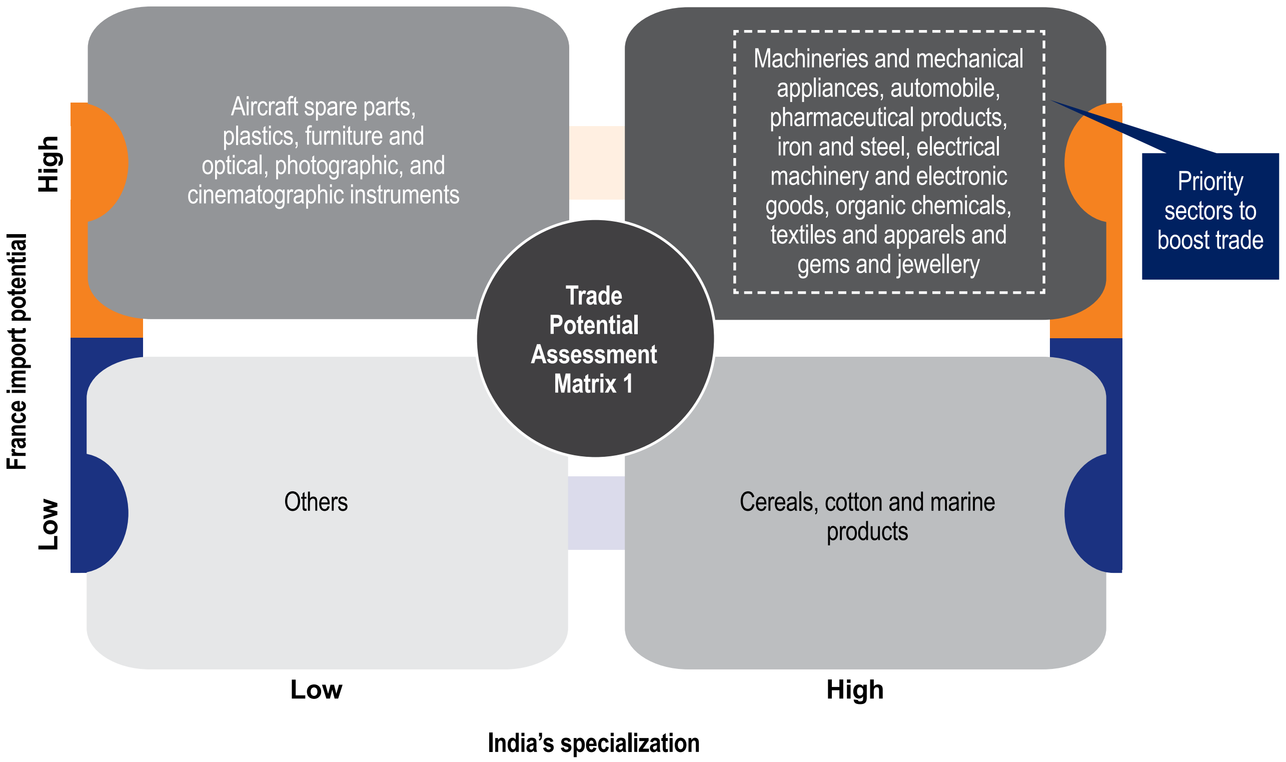
Additionally, goods that France and India are specialized in were considered as goods with untapped potential and added to that list. In other words, **the aim was to cover in this analysis not only goods that could play a pivotal role in achieving the desired increase in the bilateral trade (EUR 5 Bn) but also items that could give a further boost to trade.**

We have extrapolated India's top export and import items, as well as goods with untapped trade potential, and attempted to link those values with the desired increase in the bilateral trade.

This approach was followed as many of the goods identified through the trade potentiality analysis already feature in the top export and import list. Also, it may not be possible to immediately change the composition of India's top exports and imports list.

While doing so, we have excluded aerospace and parts because this item has been highly volatile.

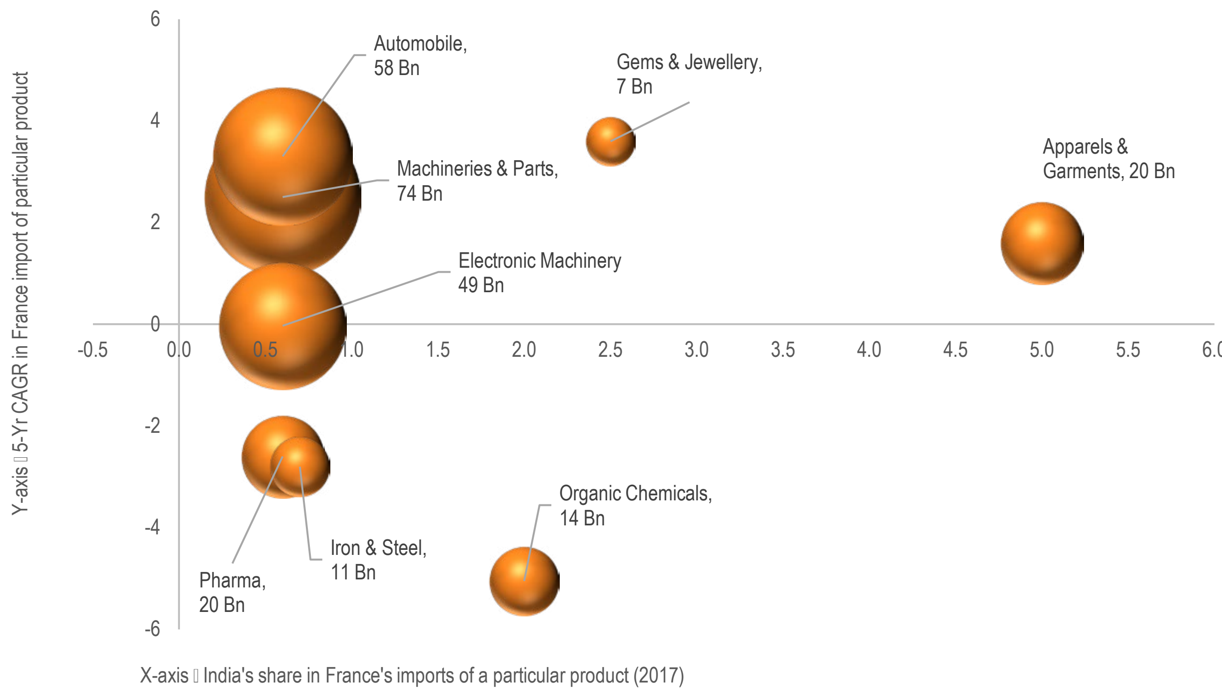
PRIORITY SECTORS FROM INDIA'S TRADE POINT OF VIEW
In order to arrive at the priority sectors for India, we have looked at the top 14 export items of India to the world and top 14 import items to France from the world. The below matrix is a result of this analysis. In cases where there is a match between the two lists, those products are put in the top right of the matrix. Unmatched goods within India's top 14 items are treated as goods that India specializes in but do not find adequate demand in France. Likewise, unmatched goods within France's top 14 list are put in the top left of the matrix. Since our analysis mostly focuses on non-oil imports, we did include HS code 27.



Source: KPMG Analysis

Key Takeaway
Imports of four sectors registered positive growth. Of them, the size of three sectors -- Automobile, Machinery Parts and Electrical Machinery -- is larger, pointing to potential opportunity that remains untapped by Indian exporters.

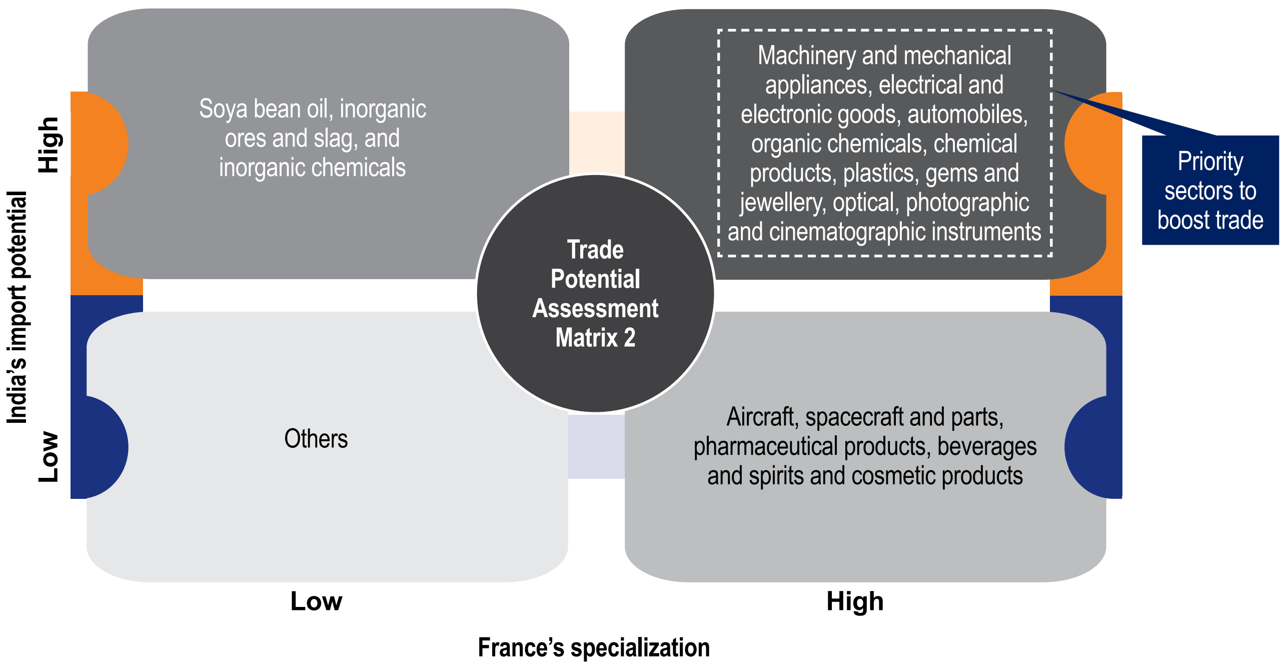
Size of the bubble indicates France's import value in EUR Bn, analysis done based on HS code (2-digit)



Source: UN Comtrade Data, KPMG Analysis

PRIORITY SECTORS FROM FRANCE'S TRADE POINT OF VIEW

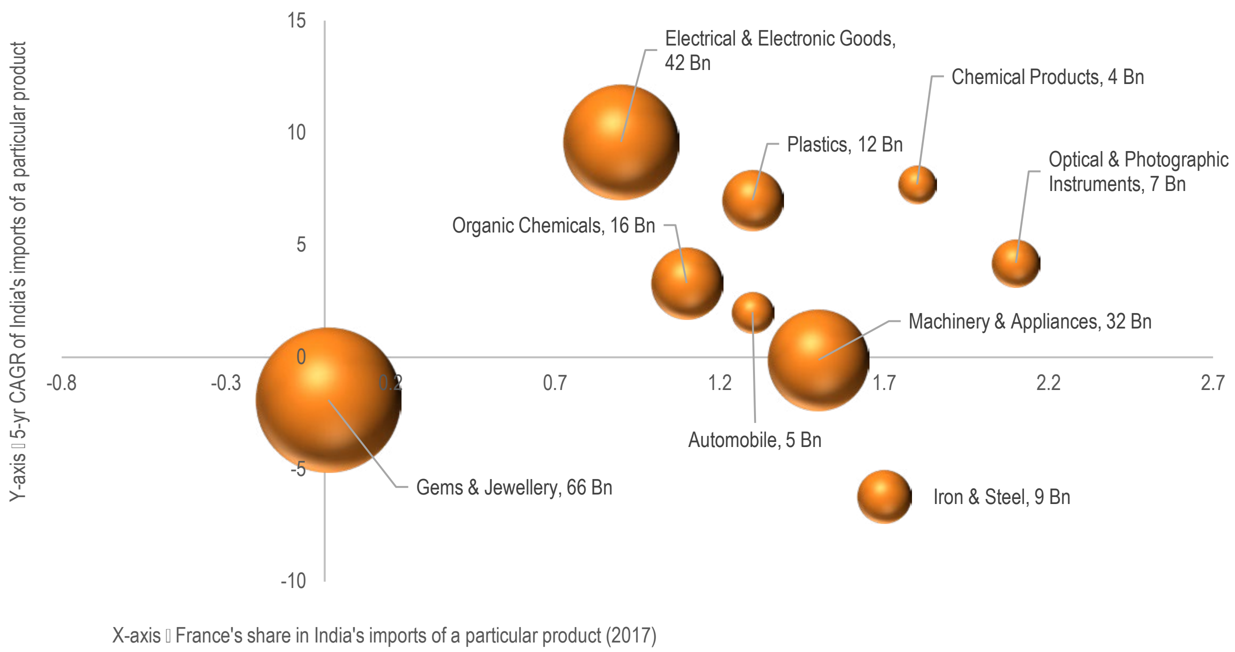
In order to arrive at the priority sectors for France, we have arrived at the top 14 import items of India from the world and top 14 export items from France to the world. The below matrix is a result of this analysis. In cases where there is a match between the two lists, those products are put in the top right of the matrix. Unmatched goods within France's top 14 export items are treated as goods that France specializes in but do not find adequate demand from India. Likewise, unmatched goods within India's top 14 list are put in the top left of the matrix. Since our analysis mostly focuses on non-oil imports, we do include HS code 27.



Source: KPMG Analysis

Key Takeaway
France accounts for just 0.8% of India's total import of Electrical Machinery & Electronic Goods. India's imports of these products registered a solid CAGR in the last five years and the import value is also relatively higher, so this category should be the immediate focus area for exporters from France.

Size of the bubble indicates India's import value in EUR Bn, analysis done based on HS code (2-digit)



Source: UN Comtrade Data, KPMG Analysis

IMPACT SIMULATION

This section aims to simulate the potential benefit that the priority sectors offer by using two key scenarios:

- **Scenario 1 (Conservative)** – Where the priority sectors and products with high export potential maintain their five-year growth trajectory
- **Scenario 2 (Optimistic)** – Where Government policies, flagship programs, and favorable economic conditions coalesce to push growth above the average growth in the past five years

Both these scenarios are applied to India's exports to France and to India's imports to France from 2018 to 2023 to understand the addition in trade contribution across these sectors.

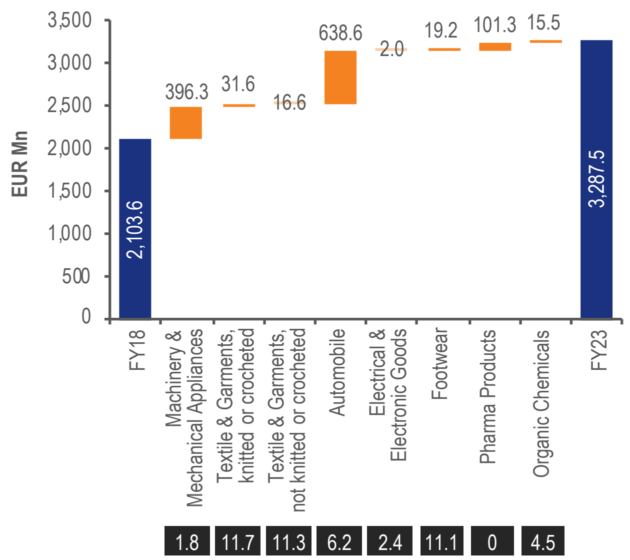
INDIA'S EXPORTS TO FRANCE

Among top merchandise goods that India exported to France, three products (machinery and mechanical appliance, automobile and pharma products) registered solid growth in the past five years.

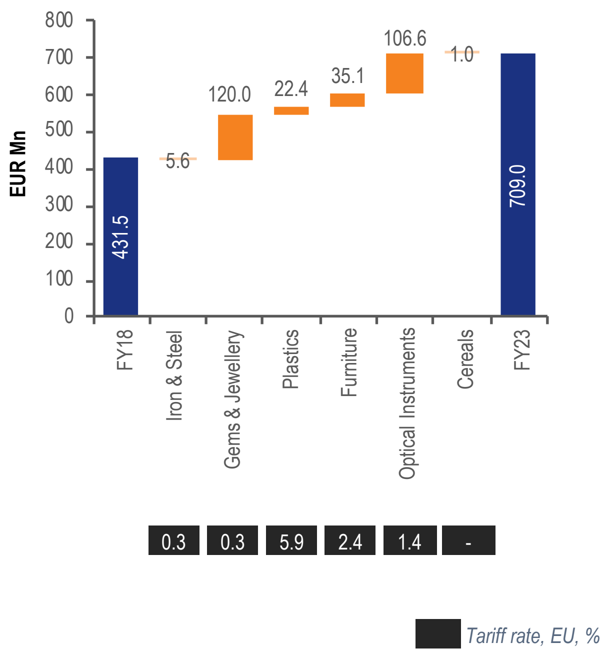
- **Scenario 1** - If they were to maintain the same pace of growth in the next five years, they alone can contribute **more than EUR 1 Bn to India's total exports to France**
- **Scenario 2** - More than EUR 2 Bn contribution is possible in case Government flagship programs and policy support help these sectors register stronger growth (table given below).There are reasons to believe that these three products can grow stronger than the average growth rate seen in the last five years. First, with the Make in India program aiming at facilitating investment and building best in class manufacturing infrastructure in the country, India's exports of high value manufactured goods could register strong growth in the coming years. Second, India's automobile sector is highly competitive and manufacturers keep investing to further strengthen their competitiveness, leaving them better placed to compete with other nations. Third, India's cost advantage in pharmaceuticals and its advantage as a generic producer and exporter makes it an attractive source for France.

India's Exports to France (FY18 - FY23), EUR Mn - Scenario 1* (+ EUR 1.46 Bn)

Top exports from India to France



Products with high export potential



*Scenario 1 - growth in the last five years maintained

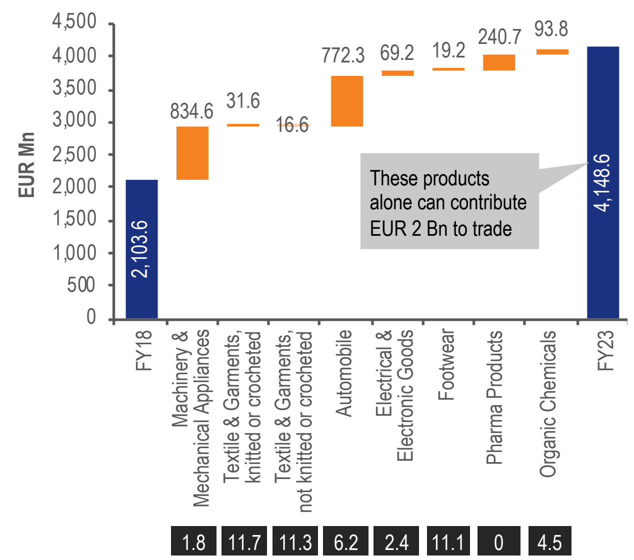
This chart was created based on the trend in India's trade with France. Products with high export potential means products that France imports largely but India doesn't take advantage of. It also includes products that India specializes in but not majorly exporting to France. This can be referenced back to the trade potential assessment matrix 1 (France's import potential - high and India's specialization - high).

Furniture includes bedding, mattresses, mattress supports, cushions and similar stuffed furnishing; lamps and lighting fittings. Our trade potentiality analysis revealed that France's import potentiality of this item is very high.

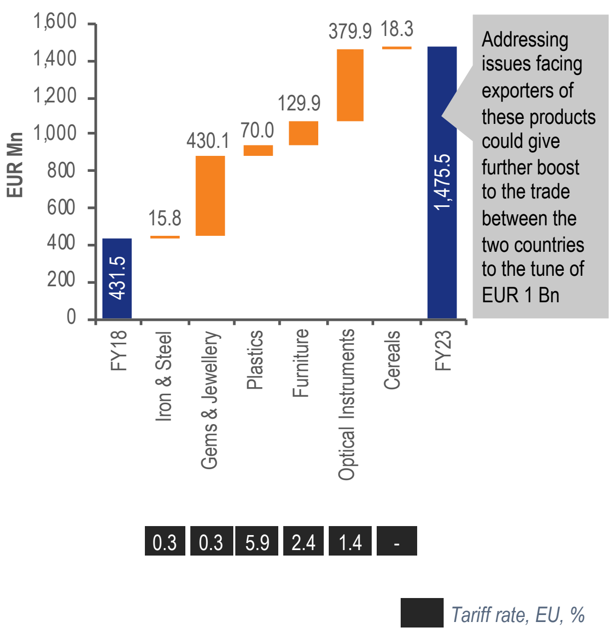
Optical, photographic, and cinematographic instruments include optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories. France's potential of importing this item is also high and thus we viewed it as a sector with high potential to boost trade.

India's Exports to France (FY18 - FY23), EUR Mn - Scenario 2** (+ EUR 3.1 Bn)

Top exports from India to France



Products with high export potential



**Scenario 2 - Government policies, flagship programs, and favourable economic conditions to push growth above the average growth in the past five years

Note

- *Source: Ministry of Commerce, India, World Trade Organization. Aircraft and Spacecraft item is excluded as it shows large aberration*
- *Note: Tariff rates taken here are MFN applied tariff's averages of ad valorem duties. *Standard GSP reduces EU import duties for about 66% of all product tariff lines. http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155838.pdf (current list of graduated products)*

INDIA'S IMPORTS FROM FRANCE

The Internet of Things (IoT) market is on a solid growth path, registering 41% growth currently and is expected to maintain the same growth until 2020. A consistent push given by the Government to digital transactions also creates demand for digital products. So it is reasonable to expect a further pick-up in India's imports of these products from France.

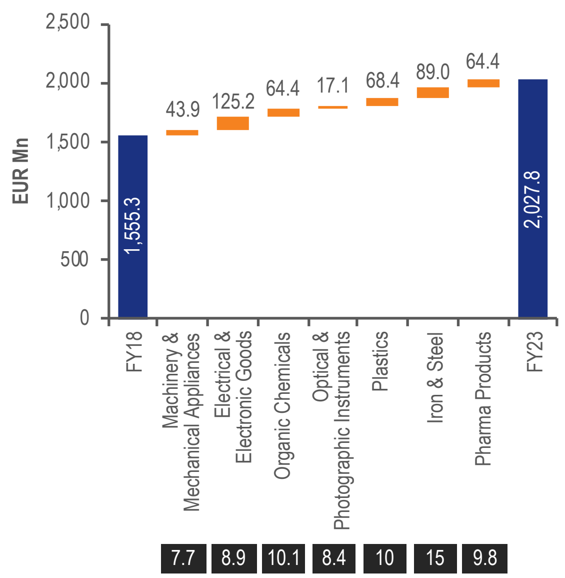
Massive infrastructure development is underway in India, with infrastructure spending projected to accelerate to at least INR 50 trillion between FY18 and FY22. This would create strong demand for steel products. Increasing demand for passenger vehicles on the back of a rising income level will also boost demand. Plastics is another product that is expected to register decent growth in import, supported by the Government's goal of doubling the per capita plastics consumption by 2022.

These three products together could add around EUR 1 Bn to total trade between the two nations. Besides, France has emerged as a leading exporter of aircraft, spacecraft and parts and this segment also could make significant contribution to trade (the magnitude of this impact to be updated based on primary survey). **India's MoU with France to build upon and deepen the mutual cooperation and focus on priority areas of high speed and semi-high speed rail; station renovation and modernisation of current operations and infrastructure; and suburban trains would give a boost to bilateral trade in this segment (total trade in this segment stood at EUR 33 Mn in 2017-18).**

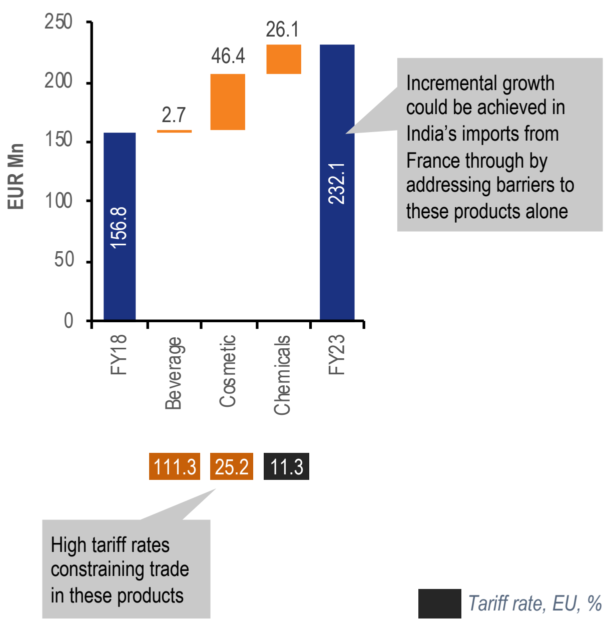
India's Medical Device Industry is expected to register strong growth to reach EUR 46.6 Bn by 2025. The industry is import-dependent with more than 70% of devices being imported. So this sector could act as another key driver of India's imports from France.

India's Imports from France (FY18 - FY23), EUR Mn - Scenario 1* (+ EUR 0.5 Bn)

Top inmports from France to India



Products with high import potential

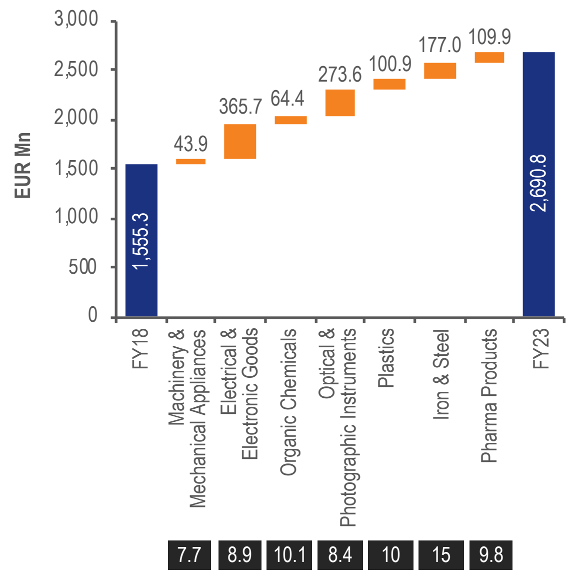


Scenario 1 - growth in the last five years maintained

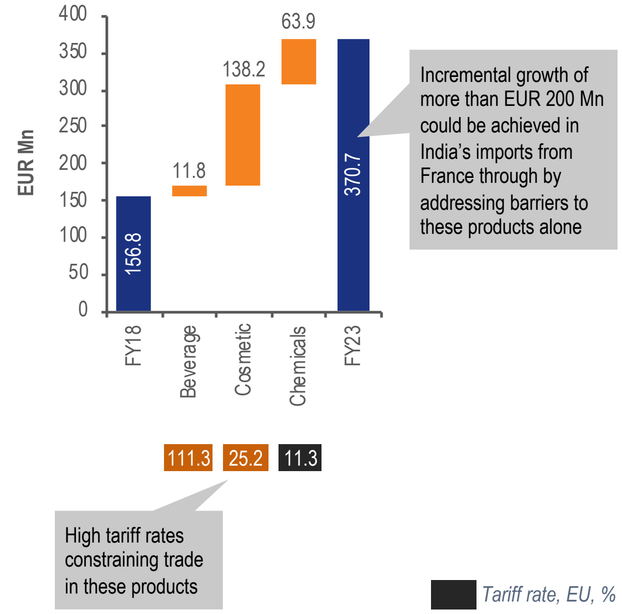
Source: KPMG Analysis, UN Comtrade

India's Imports from France (FY18 - FY23), EUR Mn - Scenario 2 (+ EUR 1.3 Bn)**

Top inmports from France to India



Products with high import potential



***Scenario 2 - Government policies, flagship programs, and favourable economic conditions to push growth above the average growth in the past five years*

This chart was created based on the trend in India's trade with France. Products with high export potential are ones that India largely imports but France doesn't take advantage of. It also includes products that France specializes in. This can be referenced back to the trade potential assessment Matrix 2 – India's import potential - high and France's specialization - high.

Note

- *Source: Ministry of Commerce, India, World Trade Organization. Aircraft and spacecraft and ship and boats items were excluded as they show large aberration*
- *Tariff rates taken here are MFN applied tariff - averages of ad valorem duties. We excluded trade in oil related products and also products that saw aberration in trend of their trade in the past five years*
- *While accessing the EU market, Indian exporters mostly face challenges in terms of stringent sanitary and phytosanitary standards, a complex system of quotas and tariffs and trade remedial actions against Indian products. It is imperative that these barriers are addressed through negotiations*

KEY OBSERVATION

Estimates of total addition to trade

While bilateral trade between India and France will continue to grow with most sectors showing little to modest growth, the sectors identified through the analysis in the previous pages offer the best chance to add target of EUR 5 Bn in trade by 2022. Concrete recommendations identified in the next chapter indicate ways to take these sectors from Scenario 1 to Scenario 2, thereby turbo-charging the bilateral trade growth.

	Estimated Addition in Trade (EUR Bn)	
	Scenario 1	Scenario 2
India's exports to France	1.46	3.1
India's imports from France	0.5	1.3
Total estimated addition in bilateral trade	1.96	4.4

Source: KPMG Analysis

KEY INSIGHT

Trade Break up by Technology Intensity

Trade of France against the World & EU

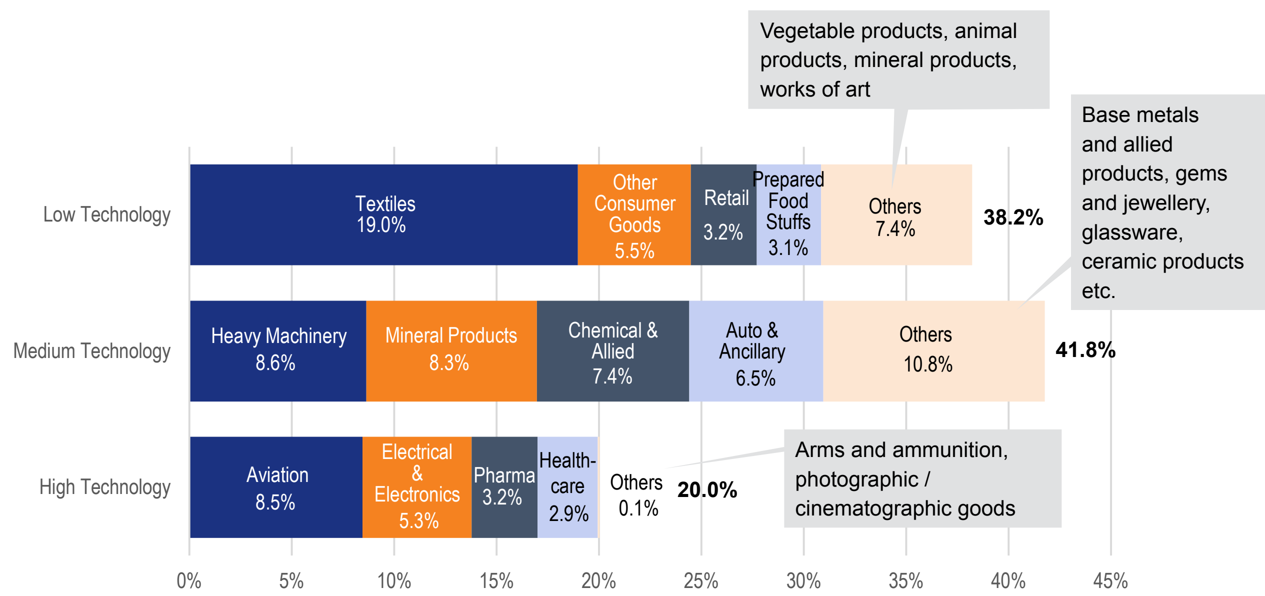
Trade of India against the World & EU

Analysis of Region-Wise Bilateral Trade

TRADE BREAK-UP BY TECHNOLOGY INTENSITY

India's goods exports to France have been classified as low-technology, medium-technology and high-technology. This is based on OECD's Technology Intensity Definition classification. This classification helps us in understanding what the Government needs to get right for meeting two of its goals - creating jobs (low-tech exports are more labour intensive), and becoming a sophisticated export powerhouse (high-tech exports use state-of-art technology). Broadly speaking, it is observed that low-tech and medium-tech categories make up 80% of India's export basket.

India's good exports to France by technology intensity
(% of total, 2017)



The table below provides a summary of the sector specific drivers of exports. Some of the main messages are as follows:

1. **Low technology goods export** - Of the three main export drivers - namely domestic bottlenecks, world growth and rupee, domestic bottlenecks matter the most, followed by exchange rates. World growth matters relatively less, perhaps given the inelastic demand for these products. Additionally, sector-specific factors also play an important role.
   - **Textile exports:** Given that cotton and pulse are grown in similar areas, when the price of pulses is high, farmers tend to produce more of the food crop, leading to a shortage in cotton and therefore **rising price in cotton yarns**. Second, Indian exporters specialize more in cotton while much of the incremental world demand has been coming from man-made fibres. Growth in textile exports is low to the extent the **ratio of cotton yarns to total textile exports is high**. Third, tariffs matter. To the extent India charges a **high import tariff,** it is met by high tariff abroad, resulting in lower growth
   - **Agriculture exports:** Amongst 'other' factors, global commodity prices impact exports positively. For instance, when prices rise, domestic producers are incentivized to divert their produce abroad. Infrastructure bottlenecks matter even more than in other regressions

While overall investment stalling rates are significant, what matters over and above is the **stalling of investment in the irrigation sector**. Finally, **domestic import tariffs** are an important determinant. To the extent India levies higher import tariffs, it is likely that India's exports are also met with higher tariffs abroad.

2. **Medium technology goods exports** - As we move down the technology chain, the rupee begins to matter less, perhaps because imported inputs begin to rise, dumbing down the net impact of the rupee on exports. Domestic bottlenecks and world demand matter in equal measure. And of course, so do sector specific drivers:
    - **Mineral exports:** Beyond world growth and domestic bottlenecks, **FDI** in the sector is also a driver of long term exports
    - **Gems & Jewellery exports:** Of the three main variables, domestic bottlenecks matter most for gems and jewellery. These include (but not limited to) a combination of factors such as positive real interest rates, thrust on financial inclusion and crackdown on black money leading to liquidity crunch. Amongst other factors, FDI in the sector has risen in importance

3. **High technology goods exports** - World growth and domestic bottlenecks matter, as does the exchange rates, though the latter matters least of the three. One of the reasons again, could be the higher imported content of high technology exports.
    - **Engineering goods:** The share of engineering products had been soaring for several years, partly due to the rapid growth in India's automobile sector, but has levelled off recently. Amongst other factors, FDI inflows into the sector matter significantly. Higher import tariffs back home impact engineering exports negatively

Export groups	Driver of exports			
	World growth (impacts exports positively, +)	Domestic bottlenecks (-)	Exchange rate (-)	Other variables (that significantly impact exports)#
Goods exports				
Low technology	**	**	**	(+): International commodity price index
Agriculture	***	***	***	(+): Global commodity price index (-): Domestic stalled irrigation projects (-): Tariffs (average)
Textiles	***	**	***	(-): WPI inflation in pulses (-): Cotton yarn to total textile exports ratio
Medium technology	***		**	(-): Tariffs (+): FDI (overall)
Gems and jewellery	***	***	***	(+): FDI (in the gems and jewellery)
Mineral exports	***	***	*	(+): FDI (in the minerals sector)
High technology	***	***	**	(+): FDI (overall) (+): FDI (especially in manufacturing sector)
Engineering goods	***	***	***	(-): Tariffs (manufactured goods)

*1) *** denotes statistical significance at 1% lev el of significance; ** at 5% * at 10%*
2) Dark Blue, blue and light blue denote, in decreasing order, the contribution of respective variable to the overall explanatory power of the model
3) # '+' implies positively related to exports and '-' implies negatively related to exports. Only statistically significant findings have been mentioned

Source: HSBC estimates

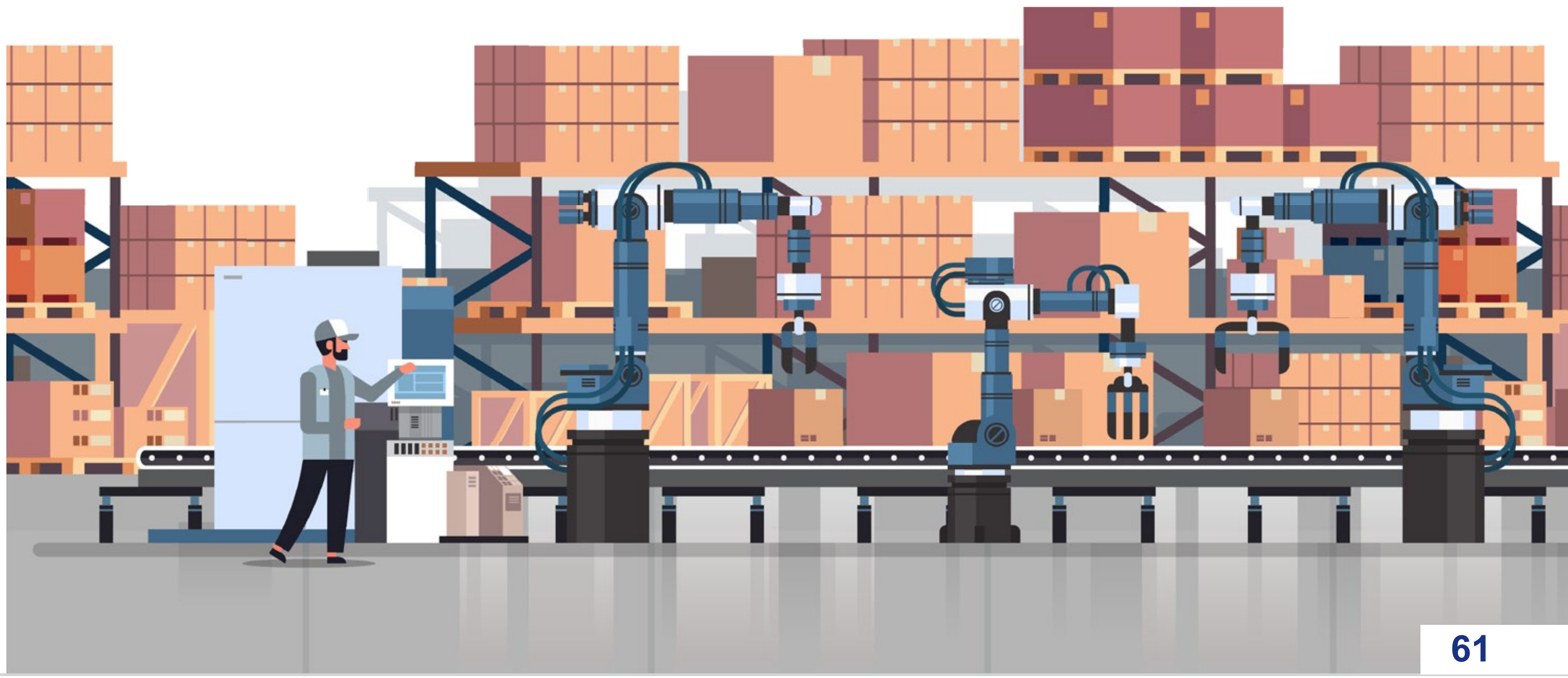
Looking at all of our findings together, we can spot several dos and don'ts for India to boost its exports to France.

First, if domestic bottlenecks are eased, it could reverse half of the exports downturn. Infrastructure investments that alleviate supply side bottlenecks and steps to improve the business environment can go a long way. Focused infrastructure spend in irrigation can increase agricultural exports, (which incidentally tend to create jobs).

Taking domestic bottlenecks further, steps to attract more FDI into the country (by easing bureaucratic hurdles and sector-wise FDI limits) could boost exports over time. It is well known that FDI inflows are amongst the most productivity enhancing form of foreign inflows, given that often they come with some amount of technical assistance. We find that higher FDI inflows in both medium (gems, jewellery and oil products) and high (engineering products) technology sectors can boost exports.

Next, sector specific factors can make a meaningful difference. For instance, India's desire to revive textile exports can be helped by increasing productivity in cotton plantations (by better implementing available technology, for example BT Cotton). Trade negotiations (bilateral, multilateral and plurilateral) to lower tariffs that India's exports face abroad can boost India's exports in textiles and engineering goods.

To summarise, our analysis suggests that removing domestic bottlenecks has a dominant impact on low technology exports (which tend to create more jobs). Improving the business environment to attract FDI inflows while keeping general tariff rates low can be hugely beneficial for high technology exports, (helping India become a sophisticated export power-house).



TRADE OF FRANCE AGAINST THE WORLD & EU

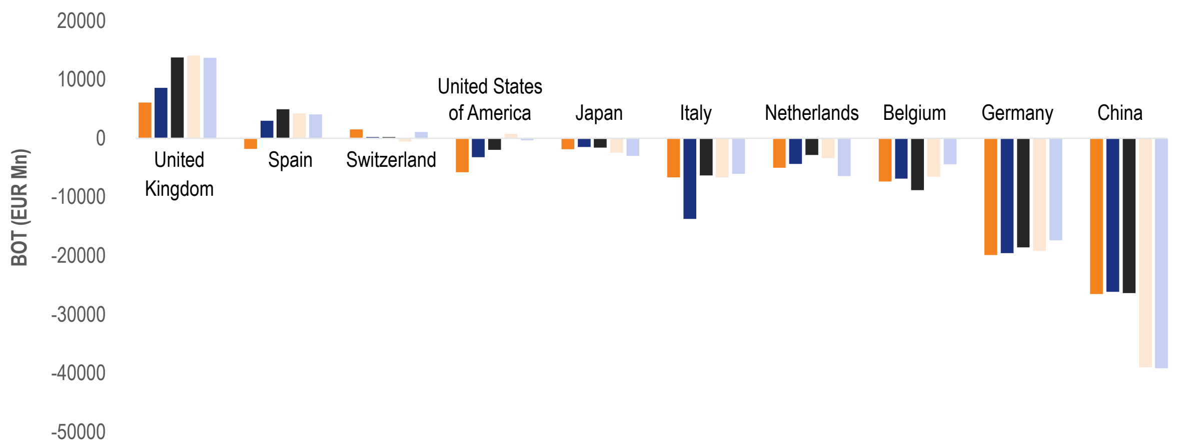
FRENCH IMPORTS

France's top five import partners are Germany, China, USA, Italy and Spain. These countries together imported almost EUR 300 Bn in 2016. Germany was the single largest supplier of goods to France and it accounted for over EUR 100 Bn in 2016. Formerly, Belgium used to rank as the second largest supplier to France, however over the last few years, China has consistently increased its imports to France and is currently competing against Belgium and USA. The top ten importers of France in 2016 were Germany, Belgium, China, USA, Italy, UK, Spain, Netherlands, Switzerland and Japan. These countries together accounted for over EUR 420 Bn worth of imports.

FRENCH EXPORTS

The top five export partners of France are Germany, USA, UK, Spain and Italy. These countries together contributed to EUR 270 Bn of exports in 2016. Germany is the single largest market for French goods and services, Germany imported over EUR 85 Bn worth of goods and services from France in 2016. Along with Germany, over the past five years, USA emerged as the second largest consumer of French goods and services. The top ten countries that import French goods and services are Germany, USA, UK, Spain, Italy, Belgium, Netherlands, China, Switzerland and Japan. All these countries, together imported almost EUR 360 Bn of goods and services in 2016.

France Worldwide Major Trade Partners - Balance of Trade (in EUR Mn)



Source: UN Comtrade, KPMG Analysis

In 2016, France had a trade surplus with Spain, UK, and Switzerland. France had moved from being trade deficit country with USA to a trade surplus country in 2015. However, France slipped back into a trade deficit again in 2016. France had a trade deficit with China, Germany, Belgium, Italy, Netherlands, Japan and USA in 2016. Trade deficit between France and Germany had been consistent unlike China, where the deficit had been growing rapidly. In 2016, China accounted for over EUR 39 Bn trade deficit, highest for France.

Sectors that contribute most to French GDP are Auto, Ancillary and Heavy Machinery, Consumer Goods, Metals and Minerals, Agro and Food Processing, Chemicals and Aviation & Defense. Besides these, Healthcare and Pharmaceuticals also contribute a significant revenue to France.

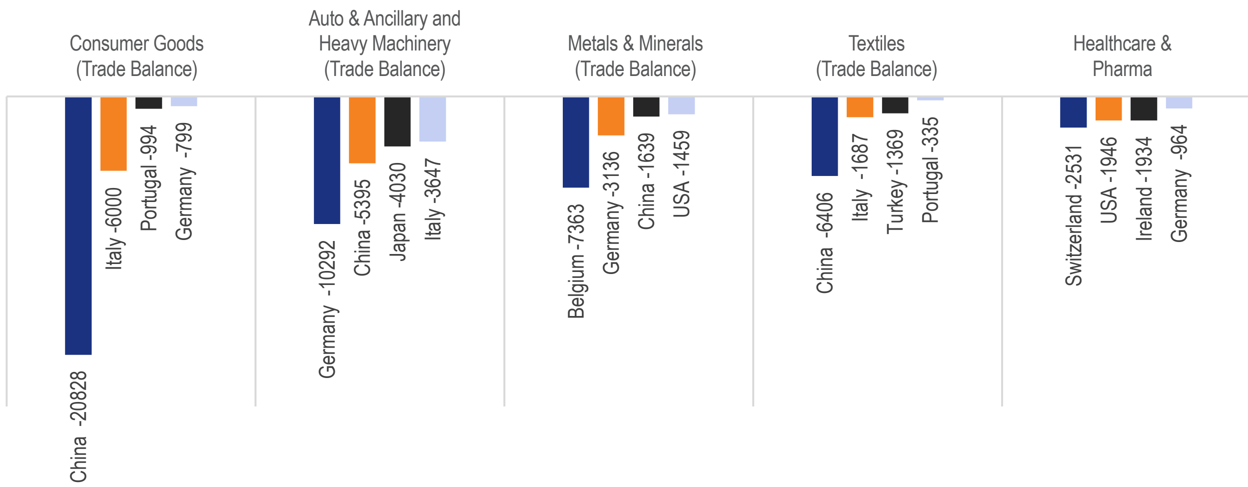
COUNTRIES FILLING FRANCE'S IMPORT NEEDS IN SECTORS WHERE IT IS NET IMPORTER

France had been a net importer in Consumer Goods, Auto, Ancillary and Heavy Machinery, Metals & Minerals, Textiles and Healthcare & Pharma. China, Italy, Portugal, Germany, Belgium and Switzerland are the countries that meet the needs of France in Consumer Goods sector. Of these countries, China had the highest trade deficit against France in Consumer Goods. In 2016, France had a trade deficit of over EUR 20 Bn with China. Other major contributors included Italy, Portugal and Germany with a total trade deficit of over EUR 7.7 Bn.

In Auto, Ancillary and Heavy Machinery, France predominantly imports from Germany, China, Spain, Belgium, Japan, Italy and Netherlands. In 2016, Germany was the largest exporter of heavy machinery to France, followed by China, Japan and Italy. Together, these four countries accounted for a deficit of EUR 23 Bn.

Belgium is a major supplier of metals to France, the trade deficit between France and Belgium accounts for EUR 7.3 Bn in 2016. Germany, China and USA were the next big suppliers of metals and minerals to France and their trade deficits were EUR 3.13 Bn, EUR 1.63 Bn and EUR 1.45 Bn respectively in 2016.

France Sector-wise Top Net Importer Countries, 2016 (in EUR Mn)



Source: KPMG Analysis, UN Comtrade

Textiles is a major import commodity of France. China, Italy, Turkey and Portugal meet majority of France's textile demand. In 2016, China was a major exporter of textiles to France, the trade deficit in textiles with China was over EUR 6 Bn. Italy, together with Turkey and Portugal accounted for EUR 3.3 Bn of textiles trade deficit in 2016.

Switzerland, USA, Ireland and Germany dominate the healthcare and pharma sector imports into France. In 2016, together they accounted for a deficit of EUR 7.3 Bn.

FRANCE'S SIGNIFICANT TRADE PARTNERS AND SECTOR LEADERS IN EU

Germany accounts for the highest bilateral trade against France amongst EU countries totaling EUR 190 Bn in 2016. Other top four countries that account for major bilateral trade with France are Belgium, Italy, Spain and Netherlands and their total trade amounted to EUR 320 Bn in 2016. Manufacturing industry constitutes the highest component of bilateral total trade of France against Belgium, Italy, Germany, Netherlands and Spain. Services constitute the second highest component of bilateral total trade of France against above EU nations.

France Top 5 Bilateral Total Trade EU Partners, 2016 (in EUR Mn)

Source: KPMG Analysis, UN Comtrade

Germany, Italy, Netherlands and Spain are the countries that have a significant bilateral trade with France in Consumer Goods, Metals and Minerals and Services sector. Belgium is the major trade partner of Auto, Ancillary & Heavy Machinery in France, followed by Germany, Italy, Spain and Netherlands. Germany dominates the bilateral trade in Aviation & Defense sector. Italy, Spain and Netherlands are the major partners of France in Food & Agro. Netherlands contributes maximum in the chemicals trade against France.

A LOOK AT THE TRADING SYSTEM OF COMPETITOR COUNTRIES AND SPECIAL BENEFITS THAT ARE AWARDED TO THE COMPETITORS (BY FRANCE OR EU) IN VARIOUS SECTORS

EU's trade and development policies are aimed at benefiting developing countries, particularly the Least Developed Countries (LDCs) and other countries in need. At various points in time, EU has come out with preferential benefit schemes towards these target countries, as listed below.

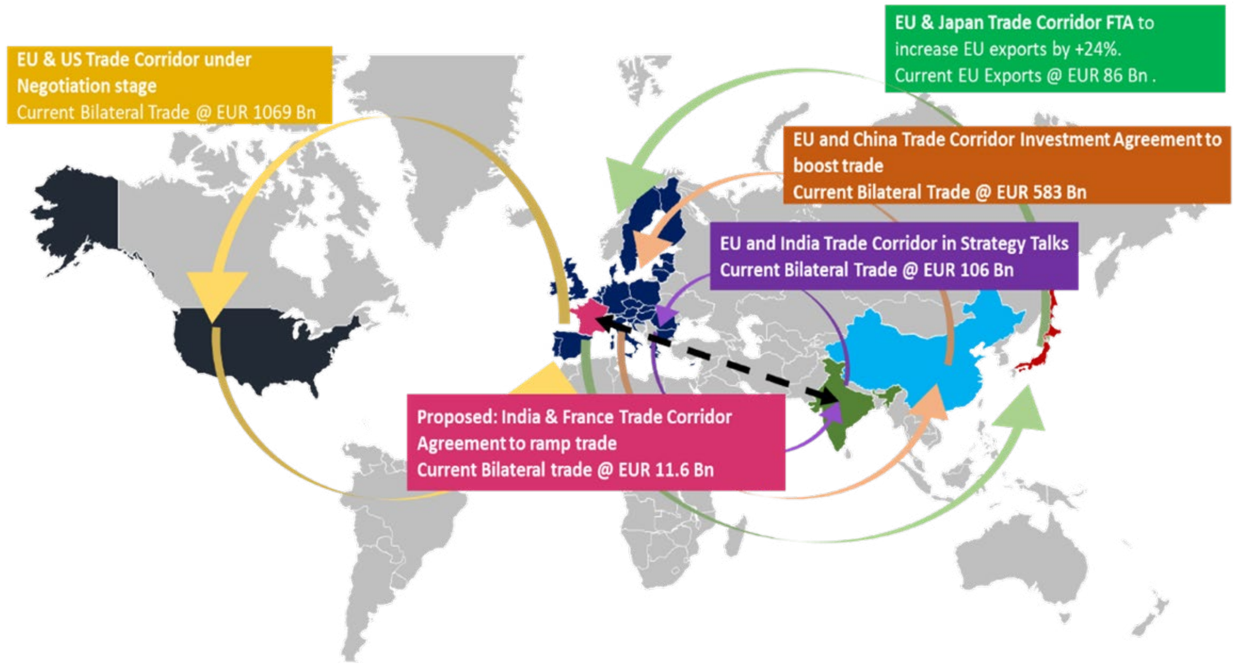
- **The Everything-But-Arms (EBA)** scheme grants full duty free and quota free access to the EU for all products (except arms and armaments) to Least Developed Countries (LDCs) of Africa, Asia (Bangladesh, Nepal etc.), Australia and Caribbean
- **EU's Scheme of Generalized System of Preferences (GSP)** reduces EU's import duties by about 66% for all product tariff lines for following countries Africa (Congo, Cote d'Ivoire, Ghana, Kenya, Nigeria, Swaziland), Asia (India, Vietnam, Indonesia, Tajikistan, Uzbekistan), Australia (Cook Islands, Micronesia, Nauru, Niue, Tonga), and Middle East (Syria)
- The special incentive arrangement for **Sustainable Development and Good Governance (GSP+)** grants full removal of tariffs on almost all product lines from Cape Verde, Armenia, Kyrgyzstan, Mongolia, Pakistan, Philippines, Sri Lanka, Bolivia and Paraguay

In 2013, China and EU started negotiations on Investment Agreement formulation, which aims to provide investors on both sides with predictable, long-term access to the EU and Chinese markets. Post formulation of China-EU investment corridor, bilateral trade between EU and China will increase significantly. Recently, USA and EU entered into negotiation for a US-EU trade deal. It is expected to be completed by the end of 2019, post which there will be a significant boost to trade.

On the other hand, Japan and EU executed Free Trade Agreement (FTA) to lower or eliminate tariffs of European producers, and made it easier for EU producers to export to Japan. Japan's agreement with EU will increase EU's exports of goods and services by at least 24%.

In 2018, EU and India started their trade strategy talks and it is currently under development stage. India and Russia are also in talks to develop a 'Green Corridors' which is expected to increase their bilateral trade from EUR 8.8 Bn to EUR 26.5 Bn by 2025.

Currently, India is benefiting via EU's GSP scheme whereas its competitor countries China, US etc. are not receiving any additional benefits from EU through EU's ongoing schemes. However, building up a trade corridor between India and France should definitely ramp up the bilateral trade between India and France.



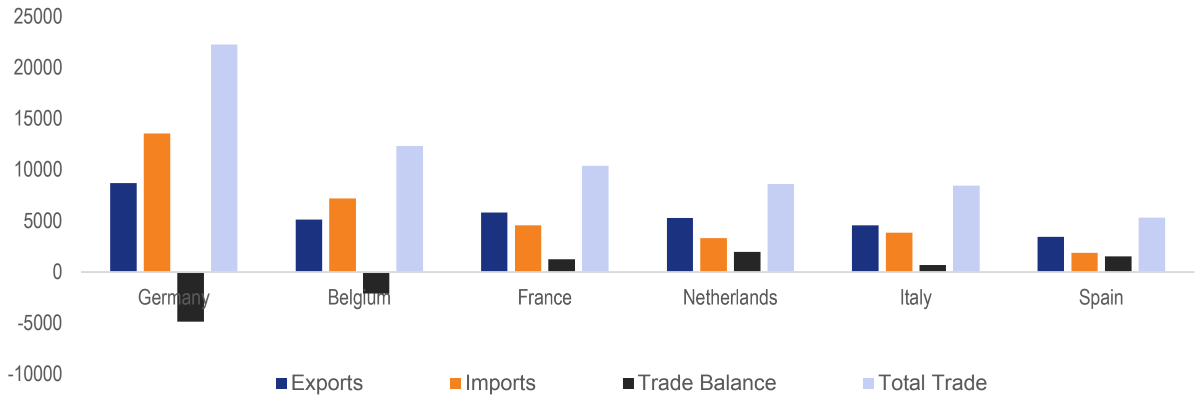
Source: KPMG Analysis

TRADE OF INDIA AGAINST THE WORLD & EU

INDIA'S SIGNIFICANT TRADE PARTNERS AND SECTOR LEADERS IN EU

Germany accounts for the highest bilateral trade against India amongst EU nations and it amounted to EUR 23 Bn in 2016. Other top five EU countries that India has good trade relations with are Belgium, France, Netherlands, Italy and Spain, which together accounted for EUR 45 Bn in 2016. Manufacturing industry constitutes the highest component of bilateral total trade of India against EU nations, and Services is the second largest trade component. Manufacturing and Mining dominate the trade between India and Netherlands.

India's Top 5 EU Partners Bilateral Trade 2016 (in EUR Mn)



Source: UN Comtrade, KPMG Analysis

India's Gems & Jewellery sector's total trade in 2016 was around EUR 7.5 Bn and Belgium was India's largest partner in Gems and Jewellery. Dominant bilateral trade partners of India in Services sector are France, Germany, Italy and Netherlands. Auto & Ancillary and Heavy machinery sector's significant bilateral trade partners are Germany, Italy, and Spain. India's major trade partners in Consumer Goods sector are Germany, Italy, Netherlands and Spain. Germany and Spain form the major partners of India in Textiles. Netherlands, Germany and Italy dominate trade with India in Metals & Minerals sector. Major Chemicals partners of India are Italy and Germany. India's Healthcare and Pharma sector's major trade partner in EU is Germany.

MAJOR COMPETITOR COUNTRIES OF INDIA IN THE TOP 5 BILATERAL (INDIA-FRANCE) TRADING SECTORS

Major sectors that contribute to bilateral trade between France and India are Consumer Goods, Auto & Ancillary and Heavy Machinery, Metals & Minerals and Textiles. Beside these, Aerospace & Defense also plays a significant role for India; however, it is mostly imports from France. China has a significant trade presence in all the competing sectors and is one of the biggest competitors of India.

Sector	Major Competitors of India
Consumer Goods	China, Italy, Portugal, Germany, Belgium and Switzerland
Auto, Ancillary and Heavy Machinery	China, Germany, Spain, Belgium, Japan, Italy and Netherlands
Metals & Minerals	Germany, USA, China and Belgium
Textiles	Turkey, China, Italy, Portugal and Ireland

Source: KPMG Analysis

REVIEW ON WHAT SPECIAL BENEFITS INDIA HAS IN TRADING WITH THE EU/FRANCE, ALONG WITH BENEFITS GIVEN TO CHINA, PAKISTAN, BANGLADESH, PHILIPPINES, SRI LANKA, TURKEY

The EU's Generalized Scheme of Preferences (GSP) offers three types of benefits to developing countries. It is widely recognised as the most progressive in terms of coverage and benefits.

1. **Standard GSP** for low and lower-middle income countries (classified as per World Bank). It offers a partial or full removal of customs duties on two-third (66%) of tariff lines. It covers over 6350 tariff lines out of a total of approximately 7200 tariff lines with non-zero tariffs. Products are split into non-sensitive and sensitive categories:
   - Non-sensitive products enjoy duty-free access, and represent about 2400 lines
   - Sensitive products (a mixture of agricultural, textile, clothing, apparel, carpets and footwear items) benefit from tariff reductions (typically 3.5% points on ad valorem duties) and represent about 3800 lines. List of these products are provided in Appendix

Roughly 2300 tariff lines are not covered by the scheme as standard tariffs are already at 0 for these lines.

Tariffs: The GSP Regulation includes three possible methods of calculating tariff reductions for sensitive products, with limited exceptions for textiles and clothing.

i. A flat rate reduction of 3.5% points in the Most-Favoured-Nation duty (applicable to the ad valorem duties). For products under HS code 50 to 63 i.e. under GSP sections S-11a and S-11b (Textiles and textile articles), this reduction shall be 20%

ii. A 30% reduction in the Most-Favoured-Nation duty where only specific duties apply

iii. A flat rate reduction of 3.5% points applicable to the ad valorem duties only, where duties are composed of both ad valorem and specific duties

2. **GSP+:** The special incentive arrangement for sustainable development and good governance. It does full removal of customs duties on the same two-third (66%) tariff lines to 0% for vulnerable low and lower-middle income countries. To be eligible for GSP+, the country must fulfill the Standard GSP conditions and two additional criteria of vulnerability and sustainable development. Eligible countries are vulnerable in terms of economic diversification and export volumes. To fulfill sustainable development criteria, beneficiary countries must ratify and effectively implement 27 core international conventions, as listed in the GSP Regulation, which cover human and labour rights, environmental protection and good governance

3. **EBA (Everything But Arms):** This scheme is a special arrangement for UN classified Least Developed Countries (LDCs). It provides LDCs with duty-free, quota-free access for all products except arms and ammunition. Other than for Standard GSP and GSP+, countries do not lose EBA status by entering into a Free Trade Agreement (FTA) with EU

Tariffs: The Common Customs Tariff duties on all products that are listed in HS Code 1 to 97, except those in HS Code 93, shall be suspended entirely.

Below table benchmarks the type of benefits received by India, China, Pakistan, Turkey, Philippines, Sri Lanka and Bangladesh.

Benefits	Standard GSP	GSP+	EBA
Country	India	Pakistan Philippines Sri Lanka**	Bangladesh
Beneficiaries	Low or lower-middle income countries	Vulnerable (in terms of export diversification, export and import volumes) Standard GSP beneficiaries that have ratified the 27 GSP+ relevant international conventions	LDCs
Product Coverage	A number of agricultural and fishery products listed in HS chapters 1-24, and almost all processed and semi-processed industrial products, including ferroalloys, that are listed in HS Chapters 25-97, except for Chapter 93 (arms and ammunition)		Duty suspension for all goods with the exception of arms and ammunition
Non-sensitive goods	Duty suspension for around 66% of all EU tariff lines		
Sensitive goods: • With specific duty • With ad valorem duty	Duty reduction: • 30% on specific duty • 3.5% points on ad valorem duty	Duty suspension	

**China (People's Republic of) was removed from the list of GSP beneficiaries from 1 January 2015*
+Turkey didn't qualify for EU's GSP scheme benefits since inception of scheme
***Sri Lanka was moved from the list of GSP beneficiaries to GSP+ beneficiaries from 2017*

Benchmarking suggests that Bangladesh must have highest GSP benefits, followed by Pakistan, Philippines, Sri Lanka and India. But overall GSP benefits depend on the value of imports from a country too.

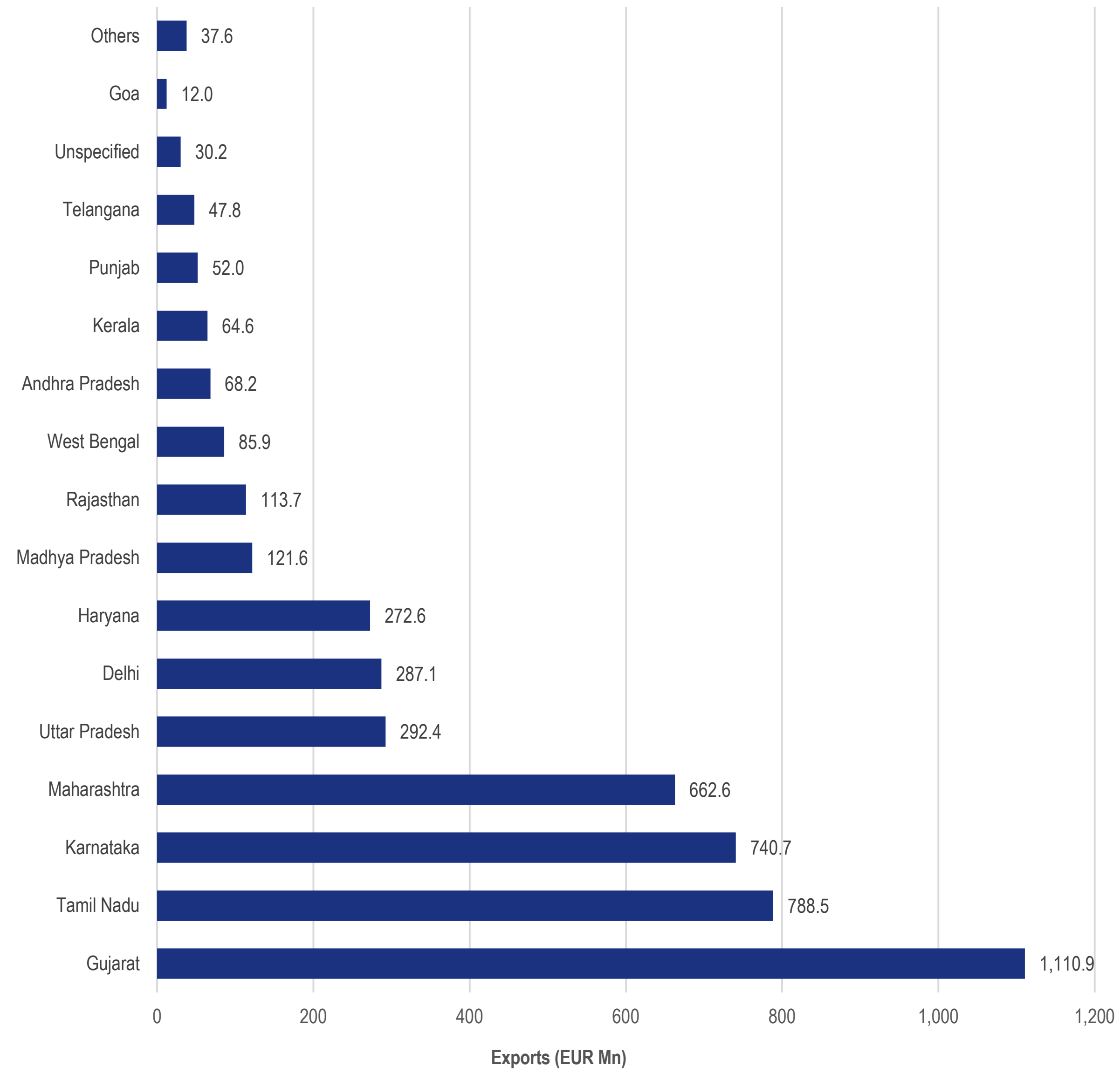
ANALYSIS OF REGION-WISE BILATERAL TRADE

STATE-WISE EXPORTS FOR INDIA

In FY17, five states accounted for 75% of India's total exports to France. Another major trend the data showed was that coastal states made up more than half of all exports (56.6%) from India.

Gujarat (23.2%), Tamil Nadu (16.4%), Karnataka (15.4%), Maharashtra (13.8%) and Uttar Pradesh (6.1%) were the top five states when it came to exports, bringing up the cumulative to 75% of the total exports.

Total state-wise exports from India to France (FY17)



Source: KPMG Analysis, DGCIS

Rank	State	Share of total export to France (%) (FY17)	Cumulative
1	Gujarat	23.20%	23.20%
2	Tamil Nadu	16.47%	39.67%
3	Karnataka	15.47%	55.14%
4	Maharashtra	13.84%	68.97%
5	Uttar Pradesh	6.11%	75.08%
6	Delhi	6.00%	81.08%
7	Haryana	5.69%	86.77%
7	Madhya Pradesh	2.54%	89.31%
8	Rajasthan	2.38%	91.68%
9	West Bengal	1.79%	93.48%
10	Andhra Pradesh	1.42%	94.90%
11	Kerala	1.35%	96.25%
12	Punjab	1.09%	97.33%
13	Telangana	1.00%	98.33%
14	Unspecified	0.63%	98.96%
16	Goa	0.25%	99.21%
17	Others	0.79%	100.00%

Source: DGCIS

The data also revealed that 16 of India's 30 states (29 states + Delhi) account for almost 99% of exports to France.

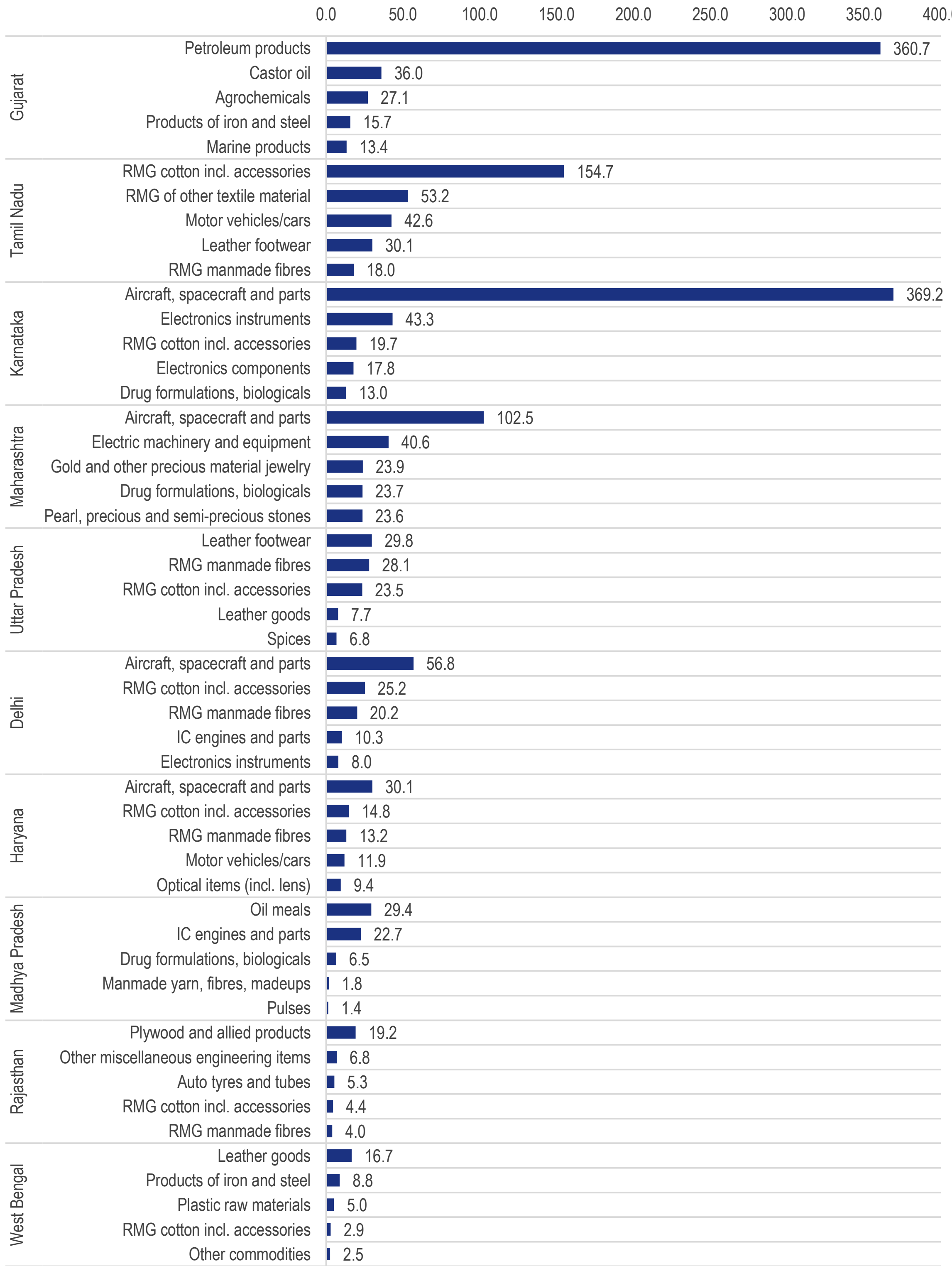
Coastal states vs land-locked states
Among the top five states when it comes to exports, Gujarat, Tamil Nadu, Karnataka and Maharashtra have been major contributors to the numbers.

The coastal states not in the top five are West Bengal (1.8%) at position 10, Andhra Pradesh (1.4%) at position 11, Kerala at (1.4%) at 12, Goa (0.3%) at number 16 and Odisha (0.1%) at 21.

Amongst the top 10 states, there are five land-locked ones that account for 22.7% of the total exports. Of these, Uttar Pradesh (6.1%) leads the land-locked pack, followed by Delhi (6.0%), Haryana (5.7%), Madhya Pradesh (2.5%) and Rajasthan (2.4%).

The following chart shows the top 5 products exported to France from the top 10 exporting states.

Top 5 commodities exported from top 10 exporting states to France (EUR Mn)



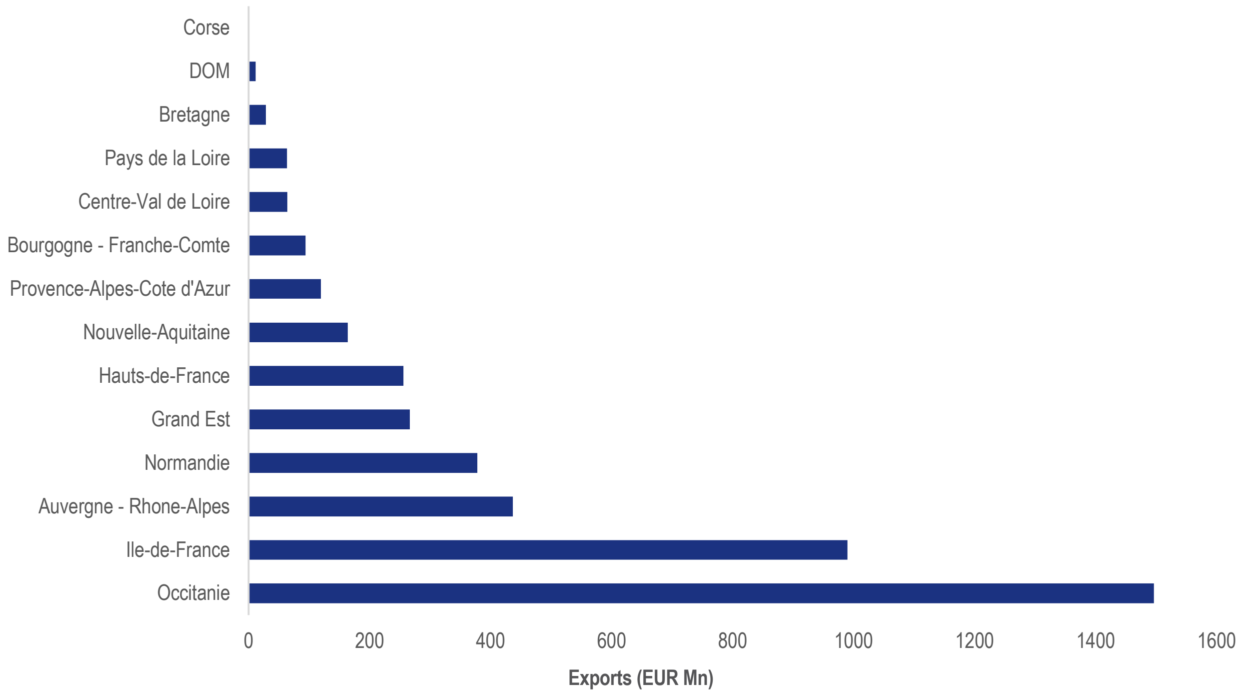
Source: DGCIS

REGION-WISE EXPORTS ANALYSIS FOR FRANCE

Occitanie and Ile-de-France are the major exporters of goods to India. Together they accounted for 56% of total exports of France to India in 2017. The top five regions account for 80% of total French exports to India.

In FY17, Occitanie with 34.26% of the total exports was the leading exporter and it was followed by Ile-de-France (22.6%), Auvergne-Rhone-Alpes (9.99%), Normandy (8.65%) and Grand Est (6.1%). Total goods exported to India from France in FY17 was EUR 4.36 Bn.

France's region-wise exports to India (FY17)



Source: KPMG Analysis, UN Comtrade

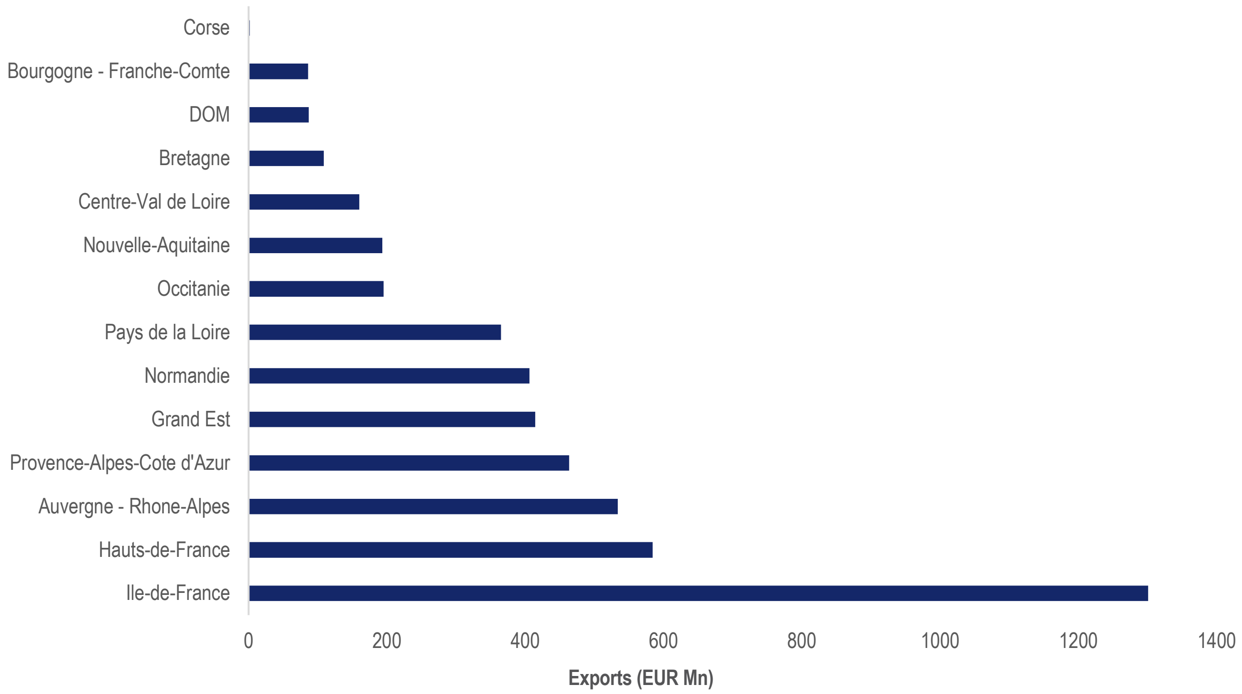
The following table shows the top 5 products exported by the top 5 exporting regions of France

Region	Top 5 Products	EUR Mn
Occitanie	Products of aerospace construction	1,376.74
	Measuring, testing and navigational apparatus; timepieces	16.47
	Pharmaceutical products	14.83
	Various Chemicals	14.16
	Basic Chemicals, Nitrogen Products, Plastics and Synthetic Rubber	13.53
Ile-de-France	Measuring, testing and navigational apparatus; timepieces	296.37
	Products of aerospace construction	212.49
	Electrical equipment	57.08
	Phones and communication equipment	56.53
	General purpose machinery and equipment	39.56
Auvergne - Rhone-Alpes	Electrical equipment	80.97
	Basic Chemicals, Nitrogen Products, Plastics and Synthetic Rubber	58.15
	General purpose machinery and equipment	44.52
	Measuring, testing and navigational apparatus; timepieces	37.08
	Various machines of specific use	32.37
Normandie	Livestock products	61.03
	Pharmaceutical products	48.25
	Electrical equipment	36.16
	General purpose machinery and equipment	34.75
	Basic Chemicals, Nitrogen Products, Plastics and Synthetic Rubber	33.75
Grand Est	General purpose machinery and equipment	50.70
	Pharmaceutical products	41.42
	Basic Chemicals, Nitrogen Products, Plastics and Synthetic Rubber	31.85
	Electrical equipment	19.75
	Various Chemicals	15.89

Ile-de-France and Hauts-de-France are the major importers of goods from India. In FY17, together they imported goods worth EUR 1.88 Bn. The top 6 regions together import 75% of total Indian exports to France.

In FY17, Ile-de-France with 26.55% of the total imports was the leading importer of Indian goods and it was followed by Hauts-de-France (11.93%), Auvergne-Rhone-Alpes (10.9%), Provence-Alpes-Cote d'Azur (9.46%), Grand Est (8.46%) and Normandy (8.29%). The total Indian exports to France in FY17 was EUR 4.89 Bn.

Region-wise Imports from India (FY17)



Source: KPMG Analysis, UN Comtrade

In FY17, in terms of total trade, the leading region was Ile-de-France with EUR 2.29 Bn. It was followed by Occitanie, Auvergne-Rhone-Alpes, Hauts-de-France and Normandy. Together, these five regions accounted for a total trade of EUR 6.57 Bn. The following table shows the top five products imported by the top five importing regions of France.

Region	Top 5 Products	EUR Mn
Ile-de-France	Articles of Clothing	382.19
	Automotive Products	177.84
	Jewellery and musical instruments	129.08
	Leather, luggage and shoes	84.31
	Vegetable and animal oils and fats, oilcakes	67.11
Hauts-de-France	Articles of Clothing	294.86
	Products of the textile industry	48.05
	Various Chemicals	21.03
	Automotive Products	20.65
	Leather, luggage and shoes	19.91
Auvergne - Rhone-Alpes	General Purpose Machinery & Equipment	78.37
	Pharmaceutical Products	77.84
	Basic Chemicals, Nitrogen Products, Plastics and Synthetic Rubber	70.90
	Electrical Equipment	68.60
	Articles of Clothing	55.11
Provence-Alpes-Cote d'Azur	Refined Petroleum products and Coke	138.51
	Articles of Clothing	95.00
	Various Chemicals	31.86
	Prepared or preserved fish and fish products	26.18
	Basic Chemicals, Nitrogen Products, Plastics and Synthetic Rubber	24.58
Grand Est	General Purpose Machinery & Equipment	107.03
	Leather, luggage and shoes	68.19
	Basic Chemicals, Nitrogen Products, Plastics and Synthetic Rubber	40.62
	Articles of Clothing	37.33
	Steel products and primary processing of steel	23.21

Although Occitanie was one of the leading exporters of French goods to India, it was however, one of the smallest importers of Indian goods in France. In FY17, Occitanie had a trade surplus of EUR 1.3 Bn. Along with Occitanie, Bourgogne-Franche-Comte was the only other region to have a trade surplus against India. In FY17, Corse had almost negligible imports and exports. Overseas territories of France (DOM) together contributed EUR 98 Mn to total trade in FY17.

In FY17, France had an overall trade deficit of EUR 531 Mn against India.

POLICY ECOSYSTEM

FACTORS AFFECTING TRADE IN INDIA

FACTORS AFFECTING DEMAND FOR INDIA'S EXPORTS

There is a multitude of factors that are likely to affect the demand for India's exports of goods as seen below:

- **Growth performance of the world economy:** Global growth is expected to register slower growth in 2019 amidst ongoing trade dispute between the world's two largest economies, which could weaken India's exports
- **Anti-dumping regulations:** Anti-dumping regulations imposed by trading partners negatively impact India's exports
- **Special benefits awarded to Least Developed Countries:** EU offers duty-free access to least developed countries, which make products that India specializes in, less competitive vis-à-vis same products exported by least developed countries
- **Withdrawal of special benefits given to India:** Preferential trade agreement supports exports. Withdrawal of such support on the other could exert pressure on exports
- **Regional trade blocs:** Regional trade agreements have gained momentum of late. If such blocs are formed without the inclusion of India, trade will be diverted away from it, especially in labor intensive goods

FACTORS AFFECTING SUPPLY OF INDIA'S EXPORTS

It is widely believed that the major factors constraining India's exports lie not in the lack of demand but more in the supply side constraints. Most of the supply side factors need to be addressed as a part of the policy towards trade. Some of the factors that constrain the volume and composition of India's exports are as follows:

- **Infrastructural bottlenecks:** India formally ratified the WTO's trade facilitation agreements. This together with a solid push given to infrastructure development would go a long way in overcoming delays caused by infrastructure bottlenecks
- **Growth of domestic demand:** Strong growth in domestic demand for a particular product will reduce its availability for exports. The Government's priority in that case would be to ensure that an adequate supply of that product is available in the domestic market
- **Technological upgrading and movement along with the value chain:** Relying on exports of simple and un-differentiated products makes exports highly vulnerable to competition. Moving up the value chain through paying attention to R&D activity, building indigenous brands, and strengthening overseas presence is essential to stay ahead of competitor nations
- **Exchange rate volatility:** Volatile exchange rates would increase pressure on exporters' margin. Carefully-designed hedging strategies could mitigate the negative impact

FACTORS AFFECTING DEMAND OF INDIA'S IMPORTS

The demand for India's imports will be largely determined by the overall growth of the economy, the changing patterns of growth and the ongoing process of trade liberalization.

- **Domestic consumption:** Strong domestic consumption would increase the need for imports
- **Tariff barriers:** Low tariff rates on products widely used in making consumer goods, industrial activity and infrastructure development. Case in point - India increased tariff on solar panels imported from China, which is expected to lower import from it
- **Non-tariff barriers**
  - Standards, testing, labeling & certification (India requires imports of various steel products to be re-tested by BIS-authorized laboratories; the EU has raised objections to it)
  - Anti-dumping and countervailing measures aiming at protecting domestic players
  - Export subsidies and domestic support (India offers various subsidies including, MEIS, duty drawback scheme, etc.)
- **Procurement:** Preferential treatment of domestic manufacturers in the procurement process

DOMESTIC POLICY SUPPORT IN INDIA

DOMESTIC POLICY SUPPORT ON EXPORT FROM INDIA

The Government of India unveiled various incentive schemes to stimulate export activity. In this section, let's discuss about major schemes and how they benefit exporters.

- **EPCG**
  - Export Promotion Capital Goods (EPCG) scheme allows manufacturers to import capital goods at zero customs duty. But it mandates the importer achieves exports equivalent to six times of the duty saved on capital goods within six years from the issuance of EPCG license. Annual average export obligation figure would be estimated and exporters would have to meet them
  - Meeting the average annual export obligation had remained a big challenge for exporters, as global demand depends on a number of factors. So they had long asked for flexibility. Responding to this, the Government relaxed the norm, allowing exporters to offset the shortfall in a particular a year with surplus exports in the previous years or future years
- **MEIS**
  - MEIS was launched as a part of the country's Foreign Trade Policy 2015-2020
  - Under this scheme, incentives are given to exporters at a specified rate, which is in the range of 2% to 5% of total value of exports and varies from product to product and from country to country
  - Exporters are rewarded in terms of duty credit scrips, which are freely transferable and can be used to pay duties on inputs, including customs
  - A new WTO-compliant export incentive scheme is being formulated, which, once introduced, would replace the existing MEIS
- **SEIS**
  - Introduced in 2015, the Service Exports from India Scheme (SEIS) scheme gives service exporters incentives to the tune of 3 to 5%
  - Like MEIS, incentives are given in the form of duty free credit scrip, which can in turn be used to pay taxes and levies on goods and services. Also, it can be freely transferable
- **Duty Drawback Scheme**
  - A duty drawback was provided for the tax paid on inputs for the export of exempted goods
  - Enhanced duty drawback scheme for the textile sector refunding state levies
- **The market access initiative scheme**
  - The market access initiative scheme that provides reimbursement of expenditure incurred by exporters on statutory compliance in the export market was amended, allowing exporters to claim reimbursement up to INR 2 crore, as opposed to the earlier limit of INR 50 lakh
  - Also, the scheme now covers costs incurred at various levels including the inspections fees by the visiting international regulating agencies, fees for product approvals, expenditure for getting quality certification, and incurring costs for data generation, data evaluation and testing charges for exporting products

This scheme ought to benefit all types of pharma companies. For small-scale exporters, heavy inspection charges often act as a hindrance to access export markets. This revised scheme could help them overcome this.

- **Interest equalization for merchant exporters**
  - Merchant exporters are included under the interest rate equalization scheme, allowing them to avail the interest equalization rate of 3% on credit for export of products that are largely in MSME/ labor intensive sectors
  - Benefit: Since MSME manufacturers mostly export their products through merchant exporters, the latter plays an important role in the entire process. High cost of credit posed risk to their competitiveness, and the new supportive measure could help them reduce export costing
- **Trade facilitation agreement:** Reducing clearance time for consignment is essential to bolster India's trade, which is also key to encourage value-added exports. Apart from various incentives, India has tried to give a boost to trade through the rationalization of documentation and border compliance, which have resulted in a reduction in transaction time and cost. The country's decision to formally ratify the WTO's Trade Facilitation Agreement (TFA) has added fresh momentum to these initiatives. TFA not only mandates the launch of reforms to speed up the movement, release and clearance of goods but also promote effective cooperation between the authorities of the trading partners
  - **Online Single Window Interface for Facilitating Trade (e-SANCHIT):** Reducing physical interface between customs and clearing agents
  - **The revamped Authorized Economic Operator (AEO) program:** Full facilitation level for AEO import declarations was 84.6%, significantly higher than 60.2%; the average release time for AEO import declarations cut to 103.06 hours from 144.18 hours
  - **Integrated Risk Management System:** Not all consignments are checked, this process is limited to only 20% of consignments
  - **Direct Port Delivery (DPD) facility:** Export dwell time of cargo was reduced by 30.7% to 63 hours
- **Export-side measures**
  - Direct Port Entry (DPE): Giving direct entry to export containers into the port terminal before granting Let export Order (LEO). This facility is available to all factory stuffed export containers of all manufacturing entities
  - E-Sealing: E-seal procedure replaces the earlier practice of sealing in the supervision of development officers. Self-sealing using RFID tamper proof e-seals reduces time taken for the clearance of export containers. Also, reduces cost as exporters are now not required to bear service charges of customs officers
  - EDPMS: Launched in 2014, EDPMS is an online software enabling banks to bring their transactions with exporters online. Banks get access to all export related documents through EDPMS and can match that with inward remittance of export proceeds. Helps banks to track the status of each consignment of exports and let exporters get their benefits without delay
- **Amended Technology Upgradation Funds Scheme (ATUFS) -** ATUFS replaced the erstwhile Technology Upgradation Fund Scheme (TUFS) in 2016 and it will be effective until March 2022

Highlights:

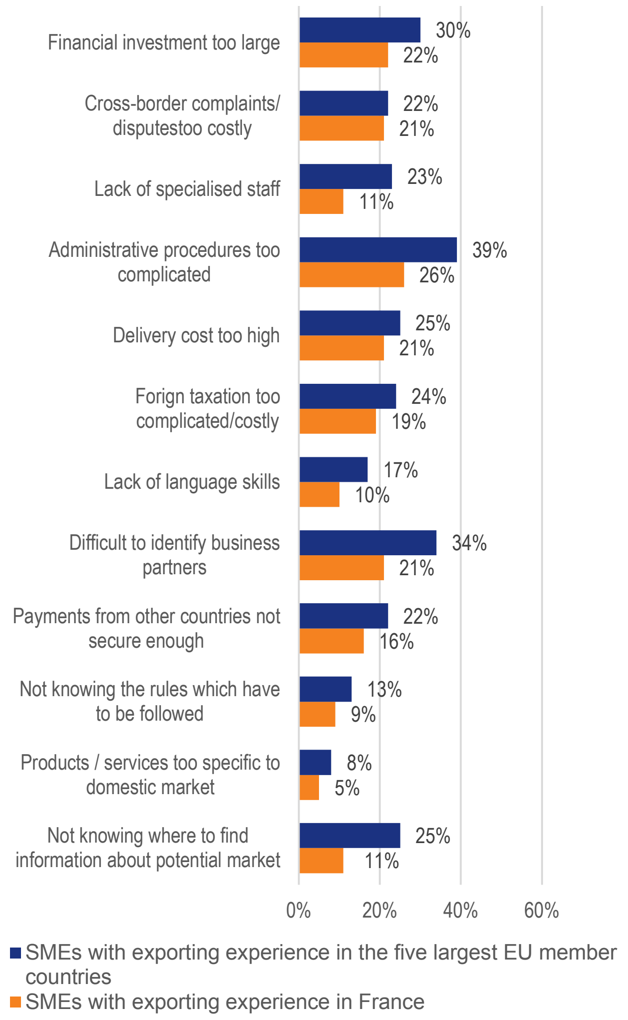
- Limited liability partnerships eligible for capital subsidy
- Cooperative banks are encouraged to lend to textile units for technology upgradation. Subsidy of up to INR 20-30 crore can be availed
- 25% subsidy for the garment sector
- Textile units are allowed to take advantage of this scheme besides other benefits availed from the state Governments

DEVELOPING FACILITATORS

Trade facilitators designed specifically to boost bilateral trade have proven successful both at a state and center level in India as well as across the world. In fact, the ecosystem now leverages a varied mix of players with public sector agencies, non-profit organizations and private think tanks to bring together a cohesive delivery of investments, intelligence and executional finesse.

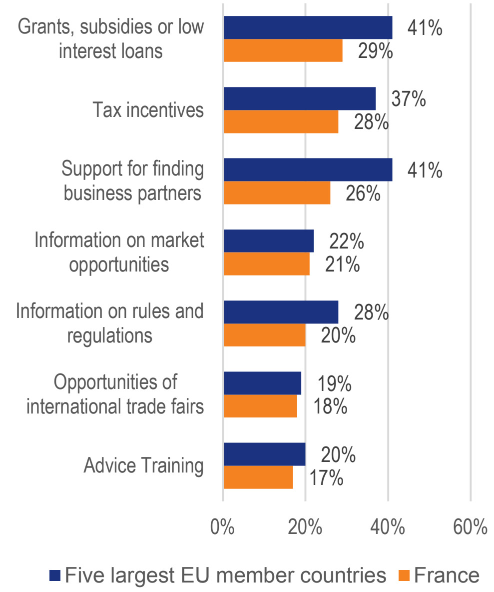
The below chart showcases the major obstacles to exporting for French SMEs with exporting experience and the measures requested by French SMEs to foster internationalization. Identifying business partners abroad features among the top obstacles and requests from French SME exporters.

Major obstacles to exporting for French SMEs with exporting experience



Source: European Comission 2015

Measures requested by French SMEs to foster internationalization

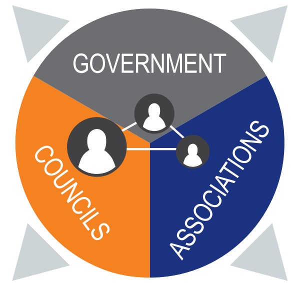


Setting up of a dedicated Trade Facilitation channel to collaborate to promote business and cooperation through joint activities and exchange experiences to strengthen institutional knowledge and identify opportunities between businesses in the French and Indian private sector, creating a dedicated support structure to facilitate SMEs creating forward linkages. The partnership should provide a seamless facilitation channel for existing businesses from India and France to grow in the French and Indian markets. This could rest under as major priority for the Mission and the E&C Wing. A model facilitation set up is been indicated below, however this is of provisional nature and can be iterated.

INSTITUTIONALIZING A TRADE PROMOTION AGENCY

Central line departments

- Ministry of Commerce and Industry
- Department of Commerce
- Directorate General of Foreign Trade
- Directorate General of Commercial Intelligence and Statistics
- India Trade Promotion Organization
- Ministry of External Affairs



State line departments

- State department of industries and export promotion
- Additional Directorate Ggeneral of Foreign Trade
- Regional export promotion councils

Export Promotion

- Export promotion councils - FIEO, CAPEXIL, EEPC, etc.
- Community Boards - Spices board, Tobacco Board, etc.
- Authorities - APEDA, etc.

Trade Associations

- Indian Trade Associations - CII, AIAI, AIMA, IMC, etc.
- International Trade Associations - JETRO, KOTRA, etc.

PROPOSED INSTITUTIONAL SETUP – TRADE PROMOTION AND FACILITATION AGENCY

The proposed trade promotion and facilitation agency focuses on addressing the challenges that are identified as the key trade challenges across sectors such as access to information, nodal body connect, access to markets etc.

STRATEGIC INTERVENTION

Policy Implementation

- Develop market positioning strategy
- **Enable ease of doing business**
- Implementation of Policy and Regulatory Initiatives
- Period consultation and improvisation of **export strategy** and status

Market Access

- Identify partners / multiplies / traders build global export network
- Provide **handholding and assistance** to local companies by providing market access and **export intelligence**
- Monitoring implementation and development support Infrastructure

OPERATIONAL INTERVENTION

Trade Facilitation

- Information dissemination marketing collaterals (regional / sector / product specific), website, mobile application
- **One Desk Helpline** - Connect traders to concerned departments and function as single point of contact for traders

Trade Promotion

- Organize stakeholder workshops
- Organized tradeshows and missions
- Organized **rotating trade week / summit** as a branding activity

SCOPE OF WORK OF THE TRADE PROMOTION AND FACILITATION AGENCY

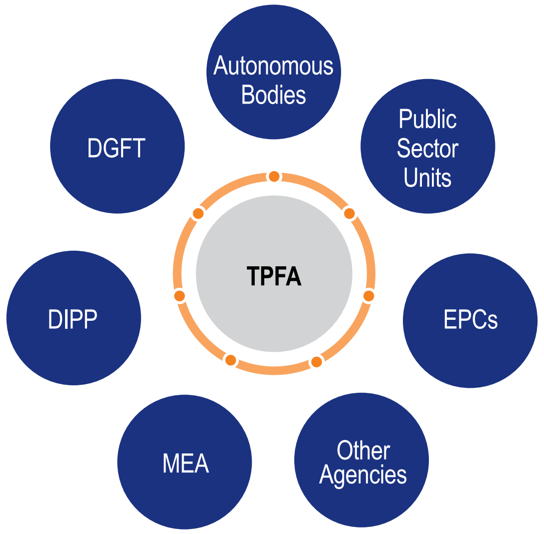
The proposed scope of work of the agency is highlighted below with the key pillars of support that they aim to address. The market positioning of the "Made in India" products, solves a critical branding issue across sectors such as Gems & Jewellery, Automotive Component Manufacturers etc.

I. Policy Implantation Support

- Manage complex trade issues and prepare export strategies
- Map strategies for BoT surplus countries
- Product specific strategy
- Implement strategies with respect to trading across broader to enable ease of doing business

II. Market Access

- Support region-wise DGFT and various line and state department in policy implementation
- Identify partners for global network
- Provide assistance to local companies by providing market access
- Monitoring implementation and development of support in Infrastructure



IV. Trade Promotion

- Develop marketing collateral
- Develop trade facilitation website
- Organized stakeholders workshops
- Organized tradeshows and missions
- Organized trade summit as a branding

III. Facilitation

- Connect traders to the concerned departments and function as single point of contact for traders

Market Positioning Strategy

A – Manage Complex Trade Issues and Prepare Export Strategies

- Mapping India's export and import basket of countries responsible for surplus and deficit respectively in trade balance
- Mapping taxation structure

B – Map strategies of of BoT surplus Countries

- Benchmarking Study of countries with BoT surplus
- Adopting strategies relevant to India

C – Product specific strategies "Made in India"

- Carrying out product specific study of key markets, competing countries, infrastructure network, etc.
- Develop product specific Market positioning strategy for Trade promotion

PROPOSED OFFERINGS OF THE AGENCY

Marketing Collaterals – For Marketing & Branding

Trade Promotion Guide

- Demand of the product/service in the market
- Sector specific focus/target countries
- Sector specific potential global partners
- Support infrastructure across India
- Distance, time and cost calculator
- Sector specific trade regulations
- Procedure for exporting products from India

Country Dossiers

- Product specific strategy for focused countries
- Treat procedures for export
- Compendium on trading house and large/institutional buyers
- Guidelines for doing business with country
- Traders toolkit – Country, Regulations, time, cost, distance, market value

Trade facilitation portal – illustrative

	About Us	Export Overseas	Venture Overseas	Assistance For Local Companies
1. Single point access to trade related information	• About us • Newsletter • Download app	• Export readiness assessment • Export guide • Market access resources	• Venture overseas • Browse by market • Browse by sector	• Market readiness assistance • Global company partnership • Industry partnership
2. Facilitating trade		**Trade** • Trade scenario • Commodities trading • International agreements	**Partner** • Partners • Industry capabilities • Global network	**Event** • Upcoming events • Trade summits / weeks • Seminars / workshops

OTHER INITIATIVES

FIRST OF ITS KIND INDO-FRENCH TRADE AND DEVELOPMENT SUMMIT

First of its kind, Mega Global Trade event will be 'Innovation in Global Trade and Economic Development.' The broader aspect to be covered under this summit is as follows:

- The event will be series of specialized engagement platform/sessions that link innovative and influential leaders across key verticals in the international trade. This includes manufacturers, business, banking, customers, development banks, infrastructure, insurance, logistics and transport companies, etc.
- The event will help in creation of bilateral, regional and multilateral dialogue, as well as increasing the knowledge and capabilities for international trade

- TPS Gala Dinner & VIP Welcome
- Minister & Trade Leaders Opening Plenary
- Customs and Trade Facilitation
- Free Trade & Special Economic Zone
- Trade Finance and Industrial Development
- Caro, Transportation & Logistics
- SME Trade Development
- Country Risk Summit
- TPS Trade Exhibition

KEY SECTORS

Gems & Jewellery

Textiles

Other Sector Recommendations

GEMS & JEWELLERY

Based on primary stakeholder discussions, the following observations are noted:

- Gems & Jewellery industry members have not reported any Non-Tariff Barriers (NTBs) in European market including France; but in general, the Councils (such as GJEPC) would like to highlight that there are **various compliances related to safety, labor conditions, environment etc. that are required to be strictly adhered by Indian exporters.** These stringent compliances might be discouraging our exporters to enhance their access to the European market
- **For instance, as jewellery is usually worn on the skin, the use of certain metals used in jewellery is restricted:**
  - Cadmium and its compounds in bracelets, necklaces, rings, piercing jewellery, wrist watches, wrist-wear, brooches and cufflinks
  - Nickel in earrings, necklaces, bracelets, chains, anklets, finger rings, wrist-watch cases, watch straps and tighteners
  - Lead and its compounds in bracelets, necklaces, rings, piercing jewellery, wrist watches, wrist-wear, brooches, cufflinks and any individual part or component
- **Graduation of Jewellery products from EU GSP Scheme**: This is w.r.t EU Regulation 330/2016 dated 8 March 2016; Gems & Jewellery products have been graduated from the EU GSP Scheme for the period from 1 January 2017 to 31 December 2019 resulting in removal of duty of benefits of around 2 to 2.5% for European importers and making Indian jewellery products relatively expensive
- GJEPC analysis revealed that such withdrawal had an immediate adverse effect on India's exports of G&J products to the EU market which is well reflected in Table 1 showing (-) 10.67% decline from USD 3.6 Bn exports in FY2015 to USD 3.2 Bn in FY2016
- Though, in the recent years exports to EU has registered a growth, yet the exports could not regain the pre-EU GSP withdrawal level of exports for the region

India's Export of G&J products to EU (Chapter-71) FY2013-FY 2018

Year	Total Exports (in USD Mn)	% Growth (Y-O-Y)
2012-2013	3027.77	
2013-2014	3409.08	12.59
2014-2015	3551.21	4.17
2015-2016	3172.39	-10.67
2016-2017	3267.19	2.99
2017-2018	3474.29	6.34

Product-wise Specific duty rate of France

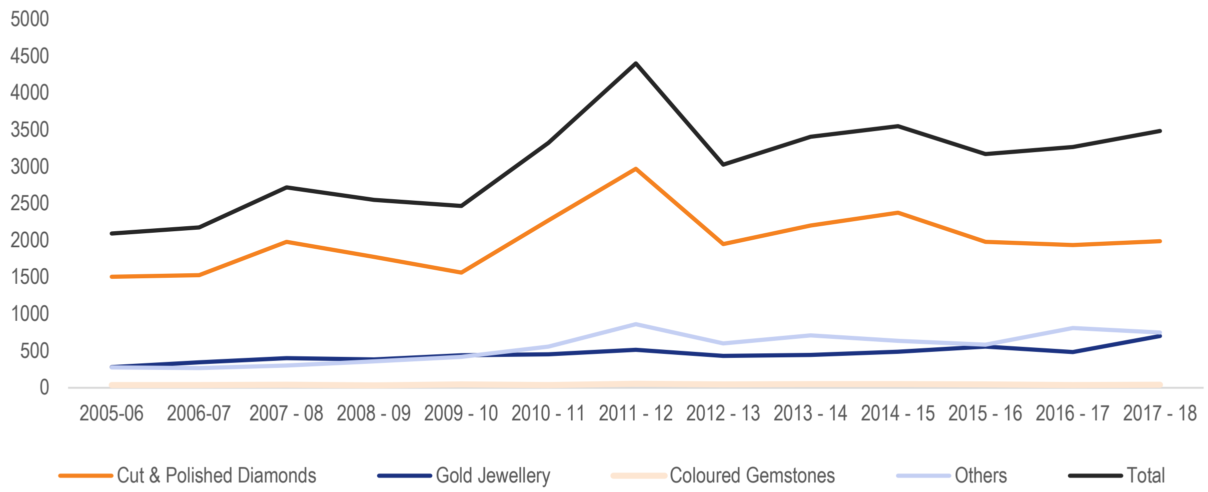
HS Code	Description	Specific Duty rate
7113.19/.20	Precious Metal Jewellery gold	2 to 4%
7113.11	Precious Metal Jewellery Silver	2 to 4%
7117	Imitation Jewellery	4%
7102.39	Cut & Polished Diamonds	Free
7102.31/.21/.10	Rough Diamonds	Free
7103.10	Rough Precious Stone	Free
7103.91/.99	Polished Coloured Gem Stones	Free
7101.10/.21	Raw Pearls	Free
7101.20/.22	Processes Pearls	Free
VAT	20%	

Source: World Tariff, 17th September 2018

The product-wise drill down of Gems & Jewellery export from India to EU is given as below:

Year/ figures in USD Mn	2005 - 06	2006 - 07	2007 - 08	2008 - 09	2009 - 10	2010 - 11	2011 - 12	2012 - 13	2013 - 14	2014 - 15	2015 - 16	2016 - 17	2017 - 18
Cut & Polished Diamonds	1507	1529	1979	1775	1565	2273	2972	1951	2203	2378	1982	1935	1991
Gold Jewellery	279	345	400	385	439	456	517	433	447	487	559	485	704
Coloured Gem-stones	34	35	39	32	46	36	52	44	50	48	44	35	39
Others	274	269	300	360	419	557	862	601	710	638	587	812	750
Total	2095	2178	2719	2552	2470	3323	4403	3028	3409	3551	3172	3267	3484

Gems & Jewellery India exports to EU in USD Mn



Source: GJEPC.
Note: Others include Rough diamonds, Non Gold Jewellery etc.

There was a spike in exports of Gems & Jewellery from 2009 to 2011 and a dip from 2011 onwards. This has been attributed to a dip in demand from EU, as well as increasing returns of consignments. Further Indian Gems & Jewellery products face competition from China. Post the dip in 2012-13 and 2015-16, the sector recovered subsequently.

Primary results indicate that there are five key commodities within this sector which can provide additional export growth and include:

Commodities	Amount in USD Mn
Cut & Polished Diamonds	54.7
Gold Jewellery	61.64
Coloured Gemstones	7.33
Silver Jewellery	5.69
Costume Fashion Jewellery	4.68
Synthetic Diamonds	0.01
Rough Diamonds	4.53
Others	0.26
Total	134.32

- Other basis of selecting the above products are the import demand of these Gems & Jewellery products in France. As it has been observed that these G&J products are otherwise also significantly imported by France from the rest of the world
- To study France exports in the sector to India, the quantum of trade is small and to the tune EUR 4.1 Mn. Major commodities include rough colored gem stones , gold jewellery and CPD (Cut and polished diamonds)

Key Suggestions and Recommendations

Concern	Recommendation
Eventual graduation of Jewellery products from EU GSP Scheme	Indirect benefits for Indian manufactures/exporters should be created by the Government so as to compensate for the loss of duty benefit for European buyers, as a result of graduation of GSP benefit for Indian Jewellery products. These indirect benefits may be generated in way of providing MEIS and Interest Equalization Scheme benefit to the industry
Fierce Competition from the Global Brands such as David Yurman, Tiffany & Co., Alex and Ani etc.	**a. Brand Equity to be Generated:** Aggressive/niche/focused marketing and promotion are essentially required to create brand equity in the European market **b. Emphasize on creating a good mix of online and offline stores:** Brands such as David Yurman, Tiffany & Co, Alex and Ani and Swarovski are highly successful in combining a lot of online visibility with plenty of offline presence in shops, outlets and department stores, at airports, malls and fairs. On a similar pattern, India should also focus upon creating a good mix of online and offline activities **c. Technology Advancement** is utmost required to produce and supply high quality G&J products to cater the French demands. Technology transfer is required
Strict compliances in the European market	Efforts should be made to improvise the capabilities of Indian exporters to meet with the legal and non-legal compliances set by the European Market in way of: • Improvising working conditions for the workers • Providing better and transparent wage structure for the workers • Job Security

TEXTILES

Textiles is the 2nd largest traded sector and contributed 11% to the Indo-French Bilateral Trade in 2018. It is also India's top export to France. France imported EUR 1257 Mn worth of textiles from India which formed 21% of the total Indian exports. The Balance of Trade in Textiles is largely in India's favour.

Top 5 Commodities to boost India's exports to France

HS Code	Commodities	France import, 2017 (USD Mn)	Top 3 import sources	India's share in France's total import	EU's Tariff on India	Observations
610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	1382.5	Bangladesh (31.7%) India (11.6%) Turkey (9.63%)	11.60%	9.60%	1. Bangladesh has GSP and has a tariff of 0% 2. Turkey is part of the European Customs Union and it enjoys preferential treatment, 0% tariff is levied on this product
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles; of cotton, knitted or crocheted	1039.2	China (28.6%) Bangladesh (20.7%) Italy (7.65%)	3.98%		
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles; of man-made fibers, knitted or crocheted	1249.9	China (45.15%) Bangladesh (14.96%) Cambodia (6.5%)	0.52%		
620462	Trousers, bib and brace overalls, breeches and shorts; women's or girls', of cotton (not knitted or crocheted)	1127.3	China (27.27%) Bangladesh (20.86%) Turkey (10.43%)	1.61%		
620342	Trousers, bib and brace overalls, breeches and shorts; men's or boys', of cotton (not knitted or crocheted)	1375.1	Bangladesh (28.49%) China (11.71%) Pakistan (9.98%)	4.33%		
Challenge and / or non-tariff barrier		**India's main competitors in the textile space - Bangladesh, Pakistan and Sri Lanka - enjoy duty free access to France**, and Vietnam is also going to enjoy the same. On the other hand **Indian imports have to bear a duty on various products ranging from 10-14%** (exact range maybe a bit different as different products in the textile segment face different duties). Textiles and apparels are single digit profit industry and hence cannot prosper with such differentials				
Recommendations		Cotton yarn and fabric shipments are struggling because of the duty disadvantage faced by the Indian exporters. **If France wants to increase trade with India, they have to give a level playing field** otherwise it will be very difficult for our exporters. India should pursue for a Free Trade Agreement (FTA) with EU as our competitors like Bangladesh, Sri Lanka and Pakistan enjoy duty free access in EU markets. **India EU FTA can prove to be a game changer to increase India's Textile & Apparel Exports to EU. Further, Indian textile and apparel industry requires WTO compliant export incentives**				

Projected Increase in India's T&C Exports to EU with Different Scenarios of Tariff Reduction

		Scenario 1	Scenario 2	Scenario 3
		(Limited FTA with 90% tariff reduction)	(Broad FTA with 97% tariff reduction)	(Broad Plus FTA with 97% tariff reduction)
Projected Change in Exports (%)	Textiles	14.5	17.1	19.8
	Apparel	30.8	37	43.4
Exports in 2018 (USD Bn)	Textiles	61.65	61.65	61.65
	Apparel	151.58	151.58	151.58
	Total	213.22	213.22	213.22
Projected Change in Exports (USD Bn)	Textiles	8.94	10.54	12.21
	Apparel	46.69	56.08	65.78
Projected Change in Exports total textile and apparel	USD Bn	55.62	66.63	77.99
	%	26.09	31.25	36.58

Source: As per calculations based on Wazir Advisors Report 'Existing and Prospective FTAs and their Impact on Indian Textiles Exports' submitted to Ministry of Textiles in 2016

Top Commodities to boost France's exports to India

HS Code	Commodities	India's import, 2017 (USD Mn)	Top 3 import sources	France's share in India's total import	EU's Tariff on India	Observations
620342	Trousers, bib and brace overalls, breeches and shorts; men's or boys', of cotton (not knitted or crocheted)	80.55	Bangladesh, China, Spain	0.06%	25% or INR 135 per piece, whichever is higher	1. Bangladesh enjoys exemption in Basic Customs duty 2. China re exports textiles to India from Bangladesh 3. Spain is imposed the same tariff as France being a part of the EU
620433	Jackets and blazers; women's or girls', of synthetic fibers (not knitted or crocheted)	7.65		1.33%	25% or INR 390 per piece, whichever is higher	
620462	Trousers, bib and brace overalls, breeches and shorts; women's or girls', of cotton (not knitted or crocheted)	32.31		0.87%	25% or INR 135 per piece, whichever is higher	
610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	30.98		0.36%	25% or INR 45 per piece, whichever is higher	
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles; of man-made fibers, knitted or crocheted	23.85		0.51%	25% or INR 110 per piece, whichever is higher	

OTHER SECTOR RECOMMENDATIONS

IRON & STEEL

Challenge and /or non-tariff barrier	If steel imports into the EU exceeds the import quota, a safeguard duty of 25% will be imposed on imports, which not only affects India's exports of steel products but also engineering goods
Recommendation	Relaxation of this quota would augur well for exports from India

MACHINERY & MECHANICAL APPLIANCES

Challenge and /or non-tariff barrier	Many Indian MSMEs are specialized in making industrial and engineering products but they lack information about potential buyers in France
Recommendation	**Creating a detailed database of French companies** that look for serious suppliers in India would be of great help to Indian MSMEs. Also, **product-focused trade fairs/shows (for each sector) should be organized in France, which should facilitate one-on-one interaction between French companies and Indian suppliers**. This alone has the great potential to boost trade between the two countries. Besides, a **campaign should be organized to create awareness about the quality and durability of Indian products.**

AUTOMOTIVE

Concern	Recommendation
Brand building of local domestic export players	Tier 2 and tier 3 suppliers along with Associations represent majority of the key players that either export or have the capacity to export in the near term. Closer support to create brand awareness and identify with the eventual outcome of conveying a global quality standard is key to building brand recall
Definition of a SME player in the sector	A broader definition of the term SME will enable the key exports to enjoy benefits. In March 2018, a cabinet resolution was floated but was denied a formal ruling. Tier 2 and tier 3 suppliers coming into the fold will greatly boost exports in this sector, once the definition is broadened to include mid-range players
Partnership with local suppliers for technology and quality transfer	Although joint ventures have largely remained an elusive concept to mid and small automotive suppliers, French players have shown interest in partnering with local Indian firms to enter the market and gradually pilot and launch full scale production. A platform to assist these JVs is required to enable partnerships
Fixed Norms	With the emission norms stringent, Indian vehicles have a natural evolution that curtails exports since the EU norms are far more stringent than the existing Indian emission norms. As India moves to Euro 6 by 2020, the exports will see a marked increase
Market Awareness	Most exporters are focused on markets that have fewer entry barriers such as the Latin America or Asian markets. France needs to market the opportunity to Indian exporters with a concerted effort on quality and emission standards to boost bilateral trade

APPENDIX

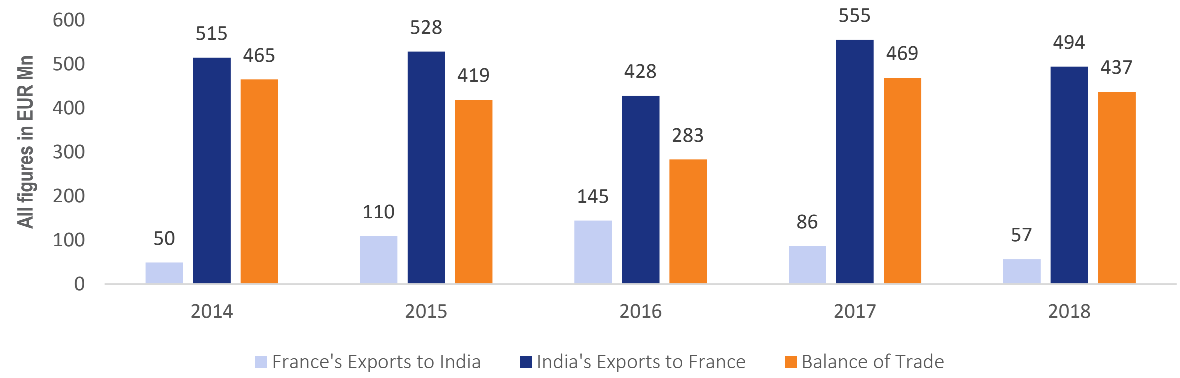
Untapped & Additional Sectors

- Agriculture: Sectoral Analysis
- Agriculture & Food Processing
- MSMEs

AGRICULTURE: SECTORAL ANALYSIS

AGRICULTURE & FOOD PROCESSING
Agriculture & Food Processing is amongst the top 10 traded sectors with a high potential to boost trade and contributed 4.78% of the trade in 2018. It is also the 5th largest export of India to France. About EUR 1300 Mn worth of Agro-commodities were traded between India and France in 2018.

French Exports (5Yr CAGR): 2.81% || Indian Exports (5Yr CAGR): -0.81%



Source: UN Comtrade Data, KPMG Analysis

- Trade in Agriculture & Food processing which is slowly declining year on year, was at a 5 year CAGR of -0.48% from 2014 to 2018
- Bilateral Trade in Agriculture can be increased with special focus on the following:

Top Commodities to boost trade in Agriculture and Food processing sector

Commodities	France import, 2017 (USD Mn)	Top Non EU Import Sources	India's share in France's total import	EU's tariff on India	Key Observations
Natural honey	130.5	Ukraine and China	Nil	17.30%	Ukraine is entitled to GSP benefits but a separate legislation offered it duty-free import quota India is specialised in natural honey. High tariff rate makes its honey more expensive
Wheat	104.2		0.2	Zero	Wheat is a potential focus area since it is not facing tariff barrier. Minimum Support Price (MSP) distorts wheat prices, making it less suitable for exports. Also, the Government wants to have the ability to impose export restrictions on crops like wheat and rice should the local prices rise sharply
Rice	474.3	India, Cambodia, Thailand	6.5	Zero	EU's Everything But Arms scheme grants Cambodia full duty free and quota free access

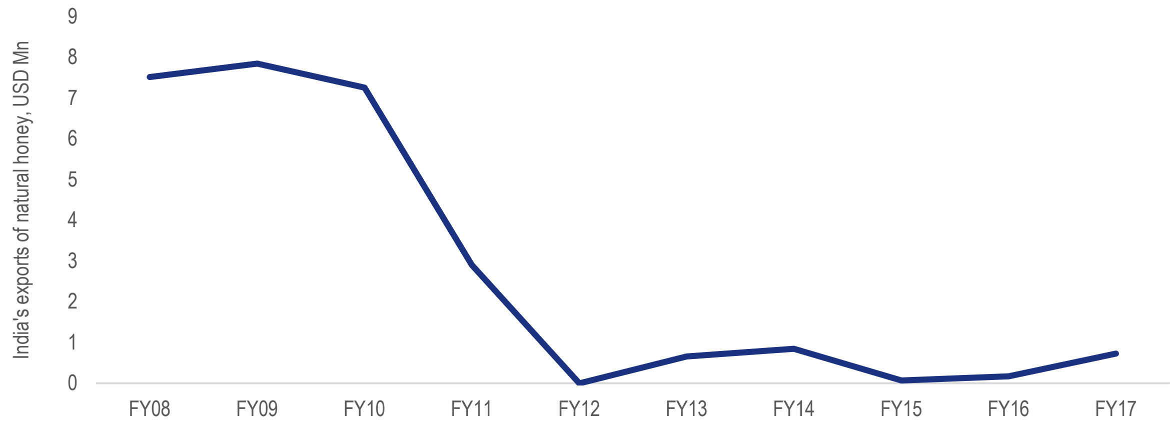
Commodities	France import, 2017 (USD Mn)	Top Non EU Import Sources	India's share in France's total import	EU's tariff on India	Key Observations
Banana	526.4	CÃ´te d'Ivoire, Cameroon, Colombia	Negligible	12.50%	All three countries receive GSP benefit (12.5% vs the original duty of 16%) India is also eligible for the GSP benefit, but its export of bananas to France is very low, suggesting other issues might restrain exports
Fresh grapes	234.1	South Africa and Chile	1.3	8% to 10.9%	India, South Africa and Chile are eligible for preferential tariff rate and distance between Chile and France (11702 km) is higher than that between India and France (7364 km), which implies potential for export from India
Mangoes and guavas	132.9	Peru, Israel, and Brazil	0.5	Zero	Since the EU offers duty-free access to all countries, there is a scope for India to increase its exports of mangoes to the region
Coffee	2753.1		Negligible	2.60%	Coffee is majorly imported within the EU

Source: UN Comtrade Data, KPMG Analysis

AGRICULTURE & FOOD PROCESSING

Trade in Agriculture & Food processing which is slowly declining year-on-year, was at a 5 year CAGR of -0.48% from 2014 to 2018. Bilateral Trade in Agriculture can be increased with special focus on the following:

Commodities	France import, 2017 (USD Mn)	Major non-EU import source	Concessions granted to import sources	India's share in France's total import, %	EU's tariff on India, %
Natural honey (position)	130.5	Ukraine and China	Ukraine is entitled to GSP benefits but a separate legislation offered it duty-free import quota	Nil	17.3
Challenge and /or non-tariff barrier	India is specialized in producing natural honey. Despite it being eligible for GSP benefits, the tariff rate still remains high, making our honey more expensive. The US, Saudi Arabia and UAE are key markets for India's natural honey. While both Saudi Arabia and UAE impose 5% duty (Ad valorem) on natural honey imports, the tariff rate for US is 1.9 cents/kg. India's exports of honey was banned by the EU in 2010, alleging that it was contaminated with antibiotics and heavy metals. Earlier, exporters simply imported cheap honey from countries like China, made some value-addition and re-exported. This was believed to have made Indian honey unfit for Europe. But the Government has now ensured that imported honey is not blended with honey meant for exports. In addition to this, if India was to set standards for antibiotics in honey that is at par with what is required by the EU, then Indian authorities would have strong reason to persuade Europe to lower duty imposed on its natural honey				
Recommendation	India should ask for lowering duty on natural honey or consider incentives to compensate for the high duty				



Commodities	France import, 2017 (USD Mn)	Major non-EU import source	Concessions granted to import sources	India's share in France's total import, %	EU's tariff on India, %
Basmati Rice*	329.8	India, Cambodia, and Thailand	EU's Everything But Arms scheme grants Cambodia full duty free and quota free access	6.5	Zero
Challenge and /or non-tariff barrier	Basmati exports from India have dropped following the introduction by the EU of a tolerance of 0.01 mg/kg (instead of 1 mg/kg previously) on Tricyclazole, a pesticide commonly used by farmers in India. Similarly, this year, the Commission in Brussels, following a recommendation from DG Health (Sanco), has published a regulation lowering the tolerance on Buprofezin from 1 mg/kg to 0.01 mg/kg. This Regulation shall apply from August and may further impact exports from India negatively				
Recommendation	While we stay optimistic about prospects of cooperation in Agriculture and Food processing sector between our two countries, it is important that we tackle various sanitary and phytosanitary measures that hinder the trade of agriculture products. Encouraging Indian farmers to reduce these types of pesticides and fungicides would give further support to export, not only to France but also to the entire region. **The Punjab Government is reaching out to farmers through Gurudwaras, public meetings and social media to dissuade use of Tricyclazole. Other states should also follow suit**				

Fresh grapes	234.1	South Africa and Chile	Two countries receive GSP benefits	1.3	8% (other varieties of table grapes) and 10.9% (other grapes)
Challenge and /or non-tariff barrier	Major issues include the size, sweetness and the pesticide content used while farming the products. One of the recent key issue includes the RMP that is made to ensure low levels to unwanted residue in the product				
Recommendation	As a major non-tariff barrier, this may be reconsidered during bilateral talks in order to increase exports. Varieties such as **2A clone and 'Shweta seedless' are preferred in the EU**. Focus on cultivating these could help trade				

Commodities	France import, 2017 (USD Mn)	Major non-EU import source	Concessions granted to import sources	India's share in France's total import, %	EU's tariff on India, %
Banana	526.4	CÃ´te d'Ivoire, Cameroon, Colombia	All three countries receive GSP benefit (12.5% vs. the original duty of 16%)	Negligible	12.5
Challenge and /or non-tariff barrier	• Japan and EU look to import bananas majorly from countries such as the Philippines. However, quality and transportation issues act as a constraint for India to export bananas to these countries. The EU's Interim Economic Partnership agreement with Cameroon has been provisionally applied since 2014. Also, it signed a trade agreement with Colombia in 2012, which has been provisionally applied since August 2013. **These agreements allow banana exports from Cameroon and Colombia to enjoy duty free access to the EU and, as a result, they have emerged as leading suppliers of bananas to the region** • The European Commission had prohibited import of certain plants and vegetables from India in 2014. However, this ban was lifted in September 2016 and an order to resume India's exports of vegetables such as teasel gourd, bitter gourd, snake gourd and brinjal among others was issued. **India has now made it mandatory for exports of all perishable items to the EU to be routed through pack-houses certified by the Agriculture and Processed Food Products Export Development Authority under the vigilance of plant protection inspectors.** But growers will have to incur transportation costs for moving their produce from farming lands to these pack-houses, which in turn makes them less competitive. This could be one of the major reasons for the lower export performance in the recent years				
Recommendation	• **Grand Naine is a superior breed** of banana grown in Maharashtra and Gujarat. This is also internationally recognized. **Reducing tariff barriers for special varieties** can help boost exports. **Establishing technical export facility center** could be helpful • Improved access to better technology such as ripening chambers etc. could be looked at • **Red bananas** have a good export potential, focus on these could help trade				
Mangoes and guavas	132.9	Peru, Israel, and Brazil			
Challenge and /or non-tariff barrier	• Issues pertaining to quality, variety preferred etc. are faced by Indian exporters. In 2015, the European Union lifted the ban imposed on import of mangoes from India. Following this, the **Government of India intimated that the exports of mangoes to the European Union will be through APEDA approved pack houses.** So if a farmer transports his produce from the farming land to those pack houses, he/she will have to incur transportation cost, which in turn could make his product less competitive				
Recommendation	• Create backward linkage between exporters and farmer producer organization for contract farming of mangoes • **Besides, better quality assurance and a focus on varieties such as Kesar, Banganapally and Alphonso could help trade**				

Commodities	France import, 2017 (USD Mn)	Major non-EU import source	Concessions granted to import sources	India's share in France's total import, %	EU's tariff on India, %
Garlic	69.4	Spain, China, Argentina	China and Argentina	Negligible	
Challenge and /or non-tariff barrier	• Currently the global garlic market is dominated by cheaply grown garlic varieties in China, because of its low cost of production. The two main 'third country' suppliers of garlic to the EU are China (30 000 to 40 000 tonnes per year) and Argentina (around 15 000 tonnes per year). The tariff rate of 9.6% is imposed on both countries • However, Indian garlic varieties such as Agrifound Parvati, Yamuna Safed-3 (G-282), Yamuna Safed- 4 (G-323) etc. are of much superior quality in terms of oil content, dry matter content, pungency, aroma, size and quality of bulbs etc.				
Recommendation	• Export of fresh varieties, peeled varieties and different derivative products such as dehydrated garlic powder, flakes etc. must be improved as it can fetch higher margins due to premium quality of Indian garlic • Market access and knowledge of such strengths and information on key exporters and key garlic growing regions such as Madhya Pradesh, Maharashtra, Rajasthan and Gujarat etc.				
Onion	85.4	Spain, Netherlands, Italy			
Challenge and /or non-tariff barrier	• Heavy onion exports might cause shortages in India. Indian variety is different from that required in EU which prefers white and yellow onions with mild pungency and large size. Moreover, onion exports to certain countries might require Global Good Agricultural Practices (GAP)/ Good Handling Practices (GHP) certification				
Recommendation	• Indian onion has been made more competitive by the presence of Merchandise Exports from India Scheme (MEIS), which should be capitalized on to increase exports to France • Some farmers in Nashik have sourced the EU-preferred varieties and started cultivating. A pilot cluster program in Madhya Pradesh and Maharashtra could be explored for these varieties • Setting up of pack houses for onion as a cluster could also be explored • Export of Arad (H) variety of onion to Europe may be explored in off-seasons when the supply in Europe is low-moderate. (Feb-May specifically) • A technology intervention, for may be, electrically ventilated containers that could be used for long distance exports • Quality standards prescribed by the EU regulatory authorities and/or GAP/GHP certification need to be adopted and maintained				
Meat products	4819.8	Spain, Netherlands, Germany		Negligible	12.80% + 303.40 EUR / 100 kg
Challenge and /or non-tariff barrier	• Meat products are majorly imported from EU countries such as Germany, Netherlands, Belgium and Poland. High tariff barriers appear to be making imports from other countries less competitive. For meat products, **tariffs for non-European countries range from EUR 60.16/100 kg to EUR 102.4/100 kg** • Even a slight variation in the permissible limits of **Aflatoxin in meat products** results in the rejection of the consignment				
Recommendation	• **Aflatoxin levels can vary due to transportation.** Thus, although our products meet European standards when tested before shipment, the level will tend to increase when the shipment reaches the importing nation. This fact should be taken into account and slight variations from the permissible limits allowed				

SECTOR-LEVEL CHALLENGES AND RECOMMENDATIONS

Sector-level challenges and recommendations

1. **Standards and certification as per European requirements:** Several certifications both related to site of processing (factory floor or pack houses) require certain key certifications to ensure food safety as per internationally recognized 'Codex Alimentarius' in tandem with EU regulations. Certifications include for example:
   a. *BRC (British Retail Consortium)*: A certification for pack house sites for horticulture products to ensure safety and hygiene during the primary processing and packaging
   b. *Global GAP/GHP certification*: A best practices certification for adoption of best farming practices

   Other certifications include HACCP, EU Organic certification, India Organic certification etc. While some certifications may be necessary (such as ones by Export Council of India), some help in getting additional assurance for the consumers abroad and strengthening the market (such as BRC). These are largely quality issues that need to be addressed in India.

   Recommendation:
   - Increase the awareness among exporters on such standards and certifications
   - Increase awareness on consumable qualities and varieties of each as per the target market (production specifications, farming methods, size, weight, texture, taste, colour, acidity etc.)
   - Increase awareness on global food safety and regulations to ensure higher competitiveness in a highly saturated market
   - Incentivizing higher standards of quality may enable exporters to become more competitive in the EU markets
   - Enable information awareness of customs laws, duties and forums between India and France including speedy access to forms, applications and international export bills

2. **Specific crop related issues in exports and market linkages creation to EU**
   Organic products
   Countries like Netherlands, Germany, France and UK in EU have special interest in import of organic products and as a result there is good demand. Therefore, organic cultivation of following crops needs to be encouraged. Food products such as pineapple, okra, green chillies, ginger and sesame have great potential for export as sufficient attention has not been paid towards its export.

   Most products that are organically grown in India come from either tribal heartlands of MP, Maharashtra etc. or states from the North East. However, due to rising use of pesticides, some products may not clear certifications. Several of the exporters have started to go organic in order to meet global standards. Increasing market awareness among exporters and horticulture growers from these regions can help boost exports. Additionally, timely dissemination of information on various requirements as per the target market may help exporters become aware of premium fresh fruits which offer higher margins and greater profits.

Total exports from India (quantity) (2017-18)	458339.017 Tons
Total exports value (INR)	3453.48 crore
Total exports value (USD)	515.44 Mn

Country-wise exports (2017-18, Top 10)

Sl. No.	Country Name	Exported Qty (In MT)	Total Value In INR lakh	Total Value (In USD Mn)
1	U.S.	223853.602	157173.54	234.587
2	EU	129546.233	131852.79	196.795
3	Canada	82132.724	34710.32	51.806
4	Switzerland	8925.166	7485.58	11.172
5	Australia	2690.152	4154.49	6.200
6	Israel	1974.249	1418.32	2.116
7	Korea	1611.760	704.32	1.051
8	Vietnam	1446.909	730.56	1.090
9	New Zealand	1282.187	995.80	1.486
10	Japan	1073.320	1590.90	2.374

SPICES

The exports of spices from India is one of the largest contributors to agri export economy of India. Within EU, whole spice import from India has been stable, however, there has been an increase in trade of ground and blended spices. India may target increased exports of spices like pepper, cardamoms, turmeric, cumin, celery etc. India's largest export markets currently include the US, Vietnam, Germany, Middle East, Netherlands, etc.

Product	Production (2017-18)	Export (2017-18) (USD)	Export (2017-18) (INR lakh)	% share of India's total exports of organic products
Spices & Condiments	45,641.14	40.002	26801.99	7.76%

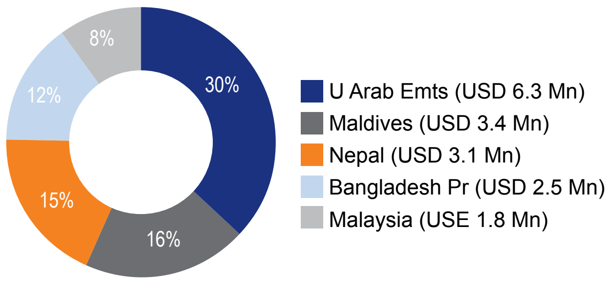
Export to EU	Quantity (Tons)	Total value in INR lakh	% share of India's total exports of organic products to EU
Spices & Condiments	**2009.659**	**11199.26**	**8.50%**
Turmeric	1138.200	6583.79	
Ginger	198.701	742.27	
Fenugreek	88.743	82.56	
Other miscellaneous	584.015	3790.64	

BETEL LEAVES

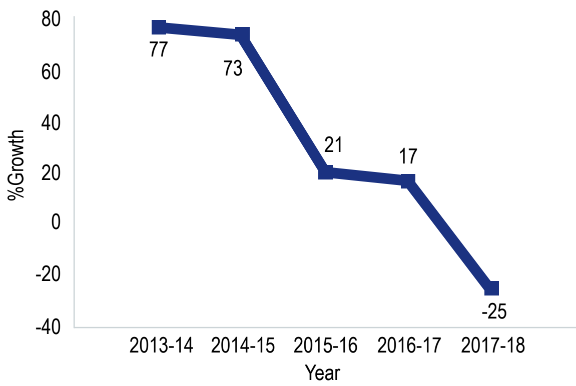
Major betel leaves growing countries are Sri Lanka, India, Thailand and Bangladesh.

India's exports to France amounts to USD 0.05 Mn.

Top 5 India's Export Destinations Year: 2017-18



India's export growth trend in last 5 years



European Union vide Regulation (EU) No. 2017/186 dated 2nd February 2017 laid down specific conditions applicable to the introduction into the Union of consignments from third countries due to microbiological contamination and amending Regulation (EC) No. 669/2009 requirement of Health Certificate with 10% frequency of physical check on incoming consignments of Betel Leaves from India. Good Agricultural Practices (GAPs) and Good Hygiene Practices (GHPs) that will help control microbial, chemical and physical hazards associated with betel leaves from primary production to packing have to be followed. Particular attention needs to be given to minimize microbial hazards.

3. **Technology upgradation and access to technology:** Several exporters and export houses face challenges in terms of access to suitable technologies such as cold chain, dehydration tech, post-harvest management (PHM) tech etc. which may lead to loss of quality, weight and post-harvest losses, eventually leading to business losses. Furthermore, certain technologies in related sectors such as Cold chain and logistics, packaging and labeling, storage etc., pose a challenge to exporters.

   If Inland transportation or access to cold chain and related technologies can be improved, international export from different parts of the country can be made financially viable. Improving the ICD and logistics hub connectivity can help improve exports.

4. **Access to credit and risk coverage finance:** While direct coverage and risk coverage to exporters is offered by various financial institutions, it is usually at very high rates. Improving the access to export loans, access to credit on consignments and customs payments may help exporters increase frequency of exports.

   - **A Global Export Passport Initiative** could be undertaken to support buyer and seller which will help in boosting export. This will be based on the performance rating of the Exporter referring to which supplier / producer can assess the credibility of the exporter. This will also help in improving trust level between buyer and seller
   - **An Export Help Desk** can be established to provide Indian firms - small, medium and large enterprises, Farmers / Farmer Groups / Farmer Producer Organizations - with export information and advice. The objective of the help desk shall be to respond to client enquiries within 24 hours

5. **Center of Excellence (CoE) on agri-trade between India and France:**
   - The CoE on Agri- and Horti- trade could focus on enabling better practice adoption in agriculture, horticulture and food processing, thus boosting trade
   - The CoE can also mentor exporters, sellers, farmers, institutions on the actual export opportunities and demands by consumers in EU and can facilitate implementation of required best practices on ground. This would further make the exporters more consumer driven and better positioned to deliver the right quality of products in an already highly competitive market

6. **Access to markets, market intelligence and linkage creation:** A platform to disseminate all-encompassing information on various products including requirements and market knowledge, mapping the supply and demand between the two countries may enable exporters and importers to react and adjust to market forces of demand and supply with much accuracy as needed. *(Case in point (see below): Greek Food Corridors (New e-Auction platform for EU markets) and Netherlands Flower Auction Markets (Global e-Auction of Floriculture Products))*

Setting up a similar dedicated marketplace model between India and France for Agro-Commodities in two phases:

1. **Phase I**
   Emphasis would be on setting up a unified platform which will act as a link in bringing multiple buyers and sellers. The first phase will also foster to bring all the service providers (technology, banking, processing, warehousing, logistics and human resource)

2. **Phase II**
   After the operationalization of the online marketplace, futures based trading of the online marketplace can be implemented which will help buyers lock their future prices and supply

Value proposition
The buyer-seller platform can act as a single window for regulatory authorities of both countries to disseminate information. It will enable increased market linkage creation and foster growth over time.

For buyers	For producers	For Indo-French Trade
Setting up an online marketplace is particularly important: • for improving competitiveness in actual market for both the Indian and French economies • for rationalizing the value chain of agricultural products • enhancing transparency in trade • bringing the producer closer to the final buyer • offering the buyer equal power • providing liquidity of product flow • ensuring product homogeneity and • consolidating and improving product prices across the supply chain	The online marketplace will • allow the GPs (Group of Producers) to create economies of scale, make better use of marketing channels, and increase their turnover and profit without the risk of capital • allow growers to focus exclusively on their production and invest in new opportunities in the fields of cultivation, sustainability and quality	• The technology, knowledge and collaboration in the supply chain is expected to ensure customer and stakeholder satisfaction • The growth of the institution in targeted products will make a decisive contribution to the promotion of the country's specific exports and, as a result, to the improvement of the trade balance with positive effects on the country's current account balance and GDP

Case study: Marketplace for Agro-Commodities in India
Brief about Greek Food Corridors (http://www.greekfoodcorridors.com/)

Greek food corridors is an online marketplace which provides an e-auction platform for fruit, vegetables and olive oil, and networking it with the production and consumption sites to enable farmers and growers to sell their produce in a coordinated and fair manner.

The basic objective of this marketplace is to bring all the buyers and sellers on one platform and standardize the service offerings which leads to the commodities being sold to the highest bidder, using a web clock auction system.

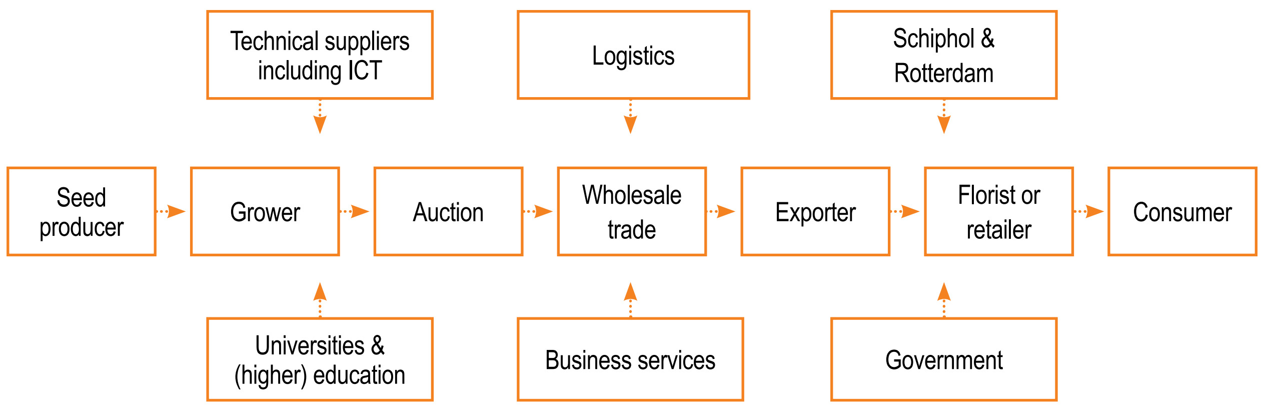
Netherlands Flower Auction Markets (Global e-Auction of Floriculture Products)

- **Royal FloraHolland** in Aalsmeer manages the largest floriculture auction in the world. FloraMando is the largest online platform for global buyers and suppliers of flowers
- The Dutch marketplaces say that their main services are pricing (using the auction clock), internal logistics (cross docking) including services like auctions, cars etc.
- The unique Dutch competencies of matching demand and supply in the chains for flowers and pot plants, and the quality of the Dutch cluster, a network of logistical hubs are being made available in Europe and even worldwide
- The position of the Dutch marketplaces is traditional, based on pricing and financial guarantees for growers and expending into other services

Key activities undertaken:

- Procurement and Auctions
- ICT systems and flower database management
- Cooperative model based collaboration
- Market information and intelligence & development
- Offline Aalsmeer auction
- Auction pre sales
- Direct sales
- Webshop

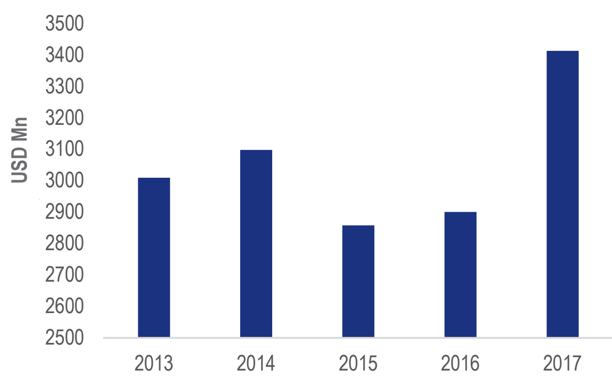
Conceptual cluster diagram of the Dutch Flower Industry



COFFEE

India's busiest container gateway Jawaharlal Nehru Port Trust (JNPT) entered into strategic pact with top European ports. Key feature of these pacts is fostering the exchange of information and expertise on port operations, port management and hinterland connections. Similar agreement between Cochin's port and France of Port of Le Havre should be considered. This is because, despite France being the major importer of coffee, imports from India account for a small portion of its coffee import.

India's coffee exports to France and European Union (EUR Mn)



Source: KPMG Analysis, UN Comtrade

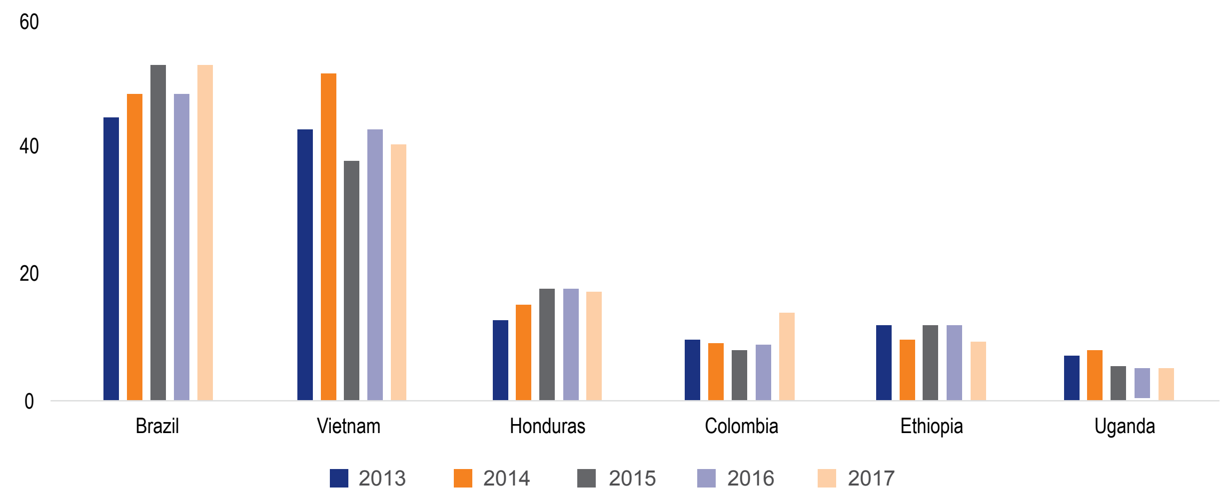
Since Kerala is a leading coffee producing state in the country, **forging an agreement between French port and a port in Kerala might give a boost to the coffee trade.**

France is a large and mature coffee market and total coffee consumption is declining. This reduces opportunities for suppliers. Especially new suppliers will find it difficult to gain entry to the French market. Most large roasters have a list of preferred suppliers. They are only interested in buying from new suppliers when their existing suppliers cannot deliver on their request.

The larger companies in the sector are mainly focusing on convenient single-serving packaging to maintain French consumer interest in the mainstream market. Meanwhile, smaller companies are developing the specialty coffee market. This offers opportunities to suppliers of green coffee beans who can provide high-quality coffee not requiring blending with coffees from other origins.

Brazil, Vietnam, Honduras, Colombia, Ethiopia and Uganda are the main suppliers to France. Between 2013 and 2017, these suppliers increased their share in imports from 50% to 68%.

Main Developing Country Suppliers of Green Coffee to France



Source: Eurostat 2019

Overall, the value of French coffee imports expanded by an average 6.6% from all supplying countries since 2014, when coffee purchases were valued at USD 2.7 Bn.

In sum, coffee and tea are products where re-exports and re-imports play a crucial role. Given that scenario, major EU importers import coffee in raw forms to semi, and reprocess to sell as value-added products within the EU and to rest of the world. Hence, EU doesn't apply import tariff on raw coffee from several countries. However, not all coffee-exporting countries receive preferential access. India is one of the countries among those that incurs those tariffs. Hence there are tariff barriers that must be addressed for export of coffee from India. It should be noted that re-exports of coffee to India from EU have also increased. The specialty coffee market is growing in France and India has specialty varieties like Monsoon Malabaar and Robusta Kaapi Royale that can be linked to French markets.

India exports both Robusta and Arabica varieties, besides instant coffee. Top three importers of Indian coffee during 2017-18 were Italy (19.3%), Germany (10.9%) and Russia (6.8%).

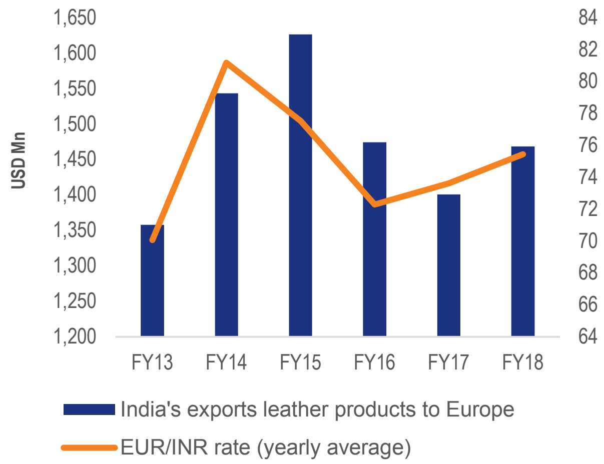
Similar to how German and Italian importers prefer India, French importers prefer Brazil and Indonesia. However, Brazil's exports have declined due to France importing from Germany, Italy and Switzerland. This needs to be looked at as a time trend.

Furthermore, French consumers are very sensitive to coffee quality certifications. Sustainability labels such as Fairtrade, UTZ Certified / Rainforest Alliance and organic labels are gaining importance in France.

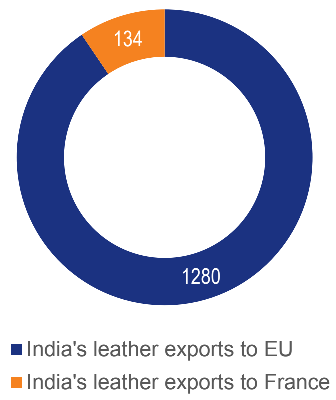
LEATHER PRODUCTS

India's exports to France stood at EUR 129 Mn in 2017-18, which was around 11% of the EU's total import from India. Although France is a leading market for Indian leather exporters, the average growth in exports of leather products to France registered negative growth in the last five years. Rupee appreciation, along with a slowdown in demand, can be attributed to a decline in India's leather exports to Europe as well as France. **Italy, China and Spain are the leading suppliers of leather products to France; India does figure in the list of top five exporters of leather products to France.** Being eligible for GSP benefits, exports from both India and China face the zero percent tariff rate.

Giving an impetus to this segment would help trade between the two nations, especially as both are leading exporters of leather products. The French leather industry is specialized in luxury leather products, and is expected to do well, with overseas demand for such products continuing to be high. Indian exporters should aim to benefit from this by getting themselves integrated into the value chains of French leather makers. **Considering incentives to promote shipments of value-added branded products could be another option to boost exports.**



India's leather exports to France and European Union (EUR Mn)



Source: KPMG Analysis, UN Comtrade

MSMEs

FRENCH MSME'S

French SME's Trade in the year 2015

Approx. 84,000 of the French SME's contributed to EUR 77 Bn of exports in the year 2015.

France	Trading Volumes		Number of Trading Firms		Avg. Trading Volume
	EUR Bn	% of Total	Thousands	% of Total	EUR Mn
Intra-EU Export of Goods for SME's	48.3	17.9	44.8	75.5	1.1
Extra-EU Export of Goods for SME's	28.9	15.4	66.9	79.8	0.4
Intra-EU Import of Goods for SME's	93.7	26.6	58.4	80.8	1.6
Extra-EU Import of Goods for SME's	33.9	20.5	79.8	81.1	0.4

Source: British Business Bank, UK.Gov, KPMG Analysis

Challenges faced by French SME's

- Over the last fifteen years, French exporters have suffered from a lack of competitiveness, both in terms of costs and in terms of non-price factors (innovation, quality)
- Secondary analysis & survey reveals 12 major challenges faced by SME's exporting to France which are captured as: **% of SME's with exporting experience in France / % of SME's with exporting experience in top five EU countries**

- 12 major challenges faced by the SME's with exporting experience are:
  1. Large financial investment (30/22)
  2. Costly cross-border complaints / disputes **(22/21)**
  3. Lack of specialized staff **(21/11)**
  4. Complicated administrative procedures. **(39/26)**
  5. High delivery costs. **(25/21)**
  6. Complex and expensive foreign taxation **(24/19)**
  7. Lack of language skills **(17/10)**
  8. Difficulty to identify business partners **(34/21)**
  9. Payments from other countries not secure enough **(22/16)**
  10. Not knowing the rules which have to be followed **(13/9)**
  11. Domestic market specific products / services. **(8/5)**
  12. Lack of information about potential market. **(25/11)**

Competitive barriers of French SME's

- Lack of cost-efficiency
- Lack of non-price competitiveness (e.g. innovation, product quality)

Policies which could foster internationalization of French SME's (Similarly captured ratios used as above)

- Grant of subsidies/ low interest loans **(41/29)**
- Tax incentives **(37/28)**
- Support for finding businesses **(41/26)**
- Information about market opportunities **(22/21)**
- Information on rules and regulations **(28/20)**
- Opportunities of International trade fairs **(19/18)**
- Advice or Training **(20/17)**

INDIAN MSME'S

Share in Economy

There are approximately 46 million Micro, Small and Medium Enterprise sector enterprises across various industries, employing 106 million people

- MSME sector accounts for 45% of Indian industrial output and 40% of exports
- The contribution of the MSME sector to India's GDP currently stands at ~8% for 2011-12, and is growing at a rate higher than the projected GDP growth rate
- The contribution of MSME segment to the GDP in some of the global economies is in the 25-60% range
- MSME in India has the potential to increase the share of contribution to GDP from the current 8% to about 15% by the year 2020
- The share of MSMEs in India's total exports was estimated to be around 40% in 2011-12

Mutual beneficial collaboration between French small enterprises and their Indian counterparts can open up ample opportunities

- India's increased integration with the global economy has brought in ample opportunities to MSMEs. To capitalize on it, MSMEs need to diversify its export portfolio, alongside expanding its regional coverage
- SMEs in France are more R&D and innovation-oriented, accounting for around 25% of in-house R&D expenditure in France. More than 8500 companies are now part of the country's competitive cluster system
- To stay resilient to domestic as well as global economic cycles, French SMEs need to expand into high growth markets. Indian small enterprises on the other hand aim to become globally competitive. For that, access to cutting-edge technology and good practices are key, which France SMEs could offer. That would also help Indian MSMEs move up the value chain, and the cost advantage of domestic production in India is clearly a distinct advantage that Indian enterprises can offer. In sum, there is a plenty of scope for them to work together
- **Digital connectivity plays an important role in facilitating the participation of SMEs in Global Value Chains (GVCs).** Besides, investing in ICT infrastructure and imparting digital skills to employees in order to enable them to use ICT technologies efficiently are necessary measures to help Indian small enterprise join value chains of French enterprises
- Advanced engineering and manufacturing sector offers huge opportunities and the ideal area for collaboration between Indian and France SMEs. Automotive and low carbon technologies is another area for collaboration

Apart from strengthening existing MSME clusters in high-tech sectors, new ones specializing in lead manufacturing concepts should be developed. The necessary skills and competencies required to move to a new value chain and greater integration must be imparted to enterprises, especially the SMEs. Besides, setting up a **dedicated coastal economic zone for high-tech products to cater to the need of the European Union could bolster the trade.**

ACKNOWLEDGEMENT

We acknowledge the efforts put in by KPMG India in preparing this report.