



UNLEASHING THE POWER OF INDIA

Executive Global Insight, October 2023

WHY INDIA IS THE NEXT STOP FOR GLOBAL SOURCING

India has emerged as a compelling alternative for international companies looking to de-risk supply chains and future-proof their sourcing and procurement in Asia. Here's a deep dive into key trends and opportunities that lie ahead.

In a new and complex era of global trade where geopolitical uncertainties and supply chain disruptions loom large, the pursuit of effective strategies has become paramount. The imperative to have a plan B in place to de-risk and diversify supply chains is clear – and India is emerging as an attractive alternative for Swedish companies now seeking sourcing alternatives. By embracing emerging opportunities in India, Swedish companies can ensure supply chain resilience while tapping into a thriving market poised for growth.

GROWING FOCUS ON MANUFACTURING

A notable shift is already underway as India's top trading partners explore the country's new sourcing opportunities. India's manufacturing ecosystem, backed by policies such as Make in India and Production Linked Incentives (PLI), has attracted foreign investment and spurred domestic manufacturing capabilities supported by infrastructure development, logistics improvements, digital transformation, and a growing availability of skilled talent.

SPOTLIGHT ON SIX RISING OPPORTUNITIES

This report provides an overview of the sourcing models adopted by various countries and emphasises the role of new sourcing models such as friendshoring and regionalisation. In addition, we outline emerging opportunities for Swedish companies in six sourcing categories: *electronics, auto components, specialty chemicals, packaging, home décor, and new materials.*

FINDING THE RIGHT PARTNERS

Through various platforms and initiatives, Business Sweden is actively engaging in Government-to-Government dialogues and helping Swedish companies find the right sourcing partners. An increasing number of enquiries for sourcing support is testament to the direction in which business leaders are moving.

The conclusions presented here should serve as a call to action – now is the time to strengthen relationships between India and Sweden and explore a new horizon for trade and investments.



OVERVIEW: INDIA'S ECONOMIC BOOM

India is forecasted to become the third largest economy by 2030 and GDP growth hit 7.2% in the financial year 2022–2023¹, making it one of the world's fastest growing economies.

Underlying India's robust economic performance is a combination of domestic demand and exports, supported by infrastructure investments, a strong focus on manufacturing and availability of skilled talent:

- USD 1.4 trillion committed investments in line with Prime Minister's Gati Shakti Infrastructure Plan
- USD 455 billion gross value-added in manufacturing output in 2023²
- USD 447 billion worth of exports in 2023³

India is expected to maintain a growth rate of 6–7% in FY 2023–2024 and is forecasted to become a USD 7–8 trillion economy by 2030, soaring from current USD 3.2 trillion, thereby emerging as one of the major economic centres in the world.

There are around 260 Swedish companies in India as of 2023 which have offices and

manufacturing facilities. Many more Swedish companies are exporting products to India and collaborate with partners and distributors. This trend has only grown in the last few years against the backdrop of India's sharp growth.

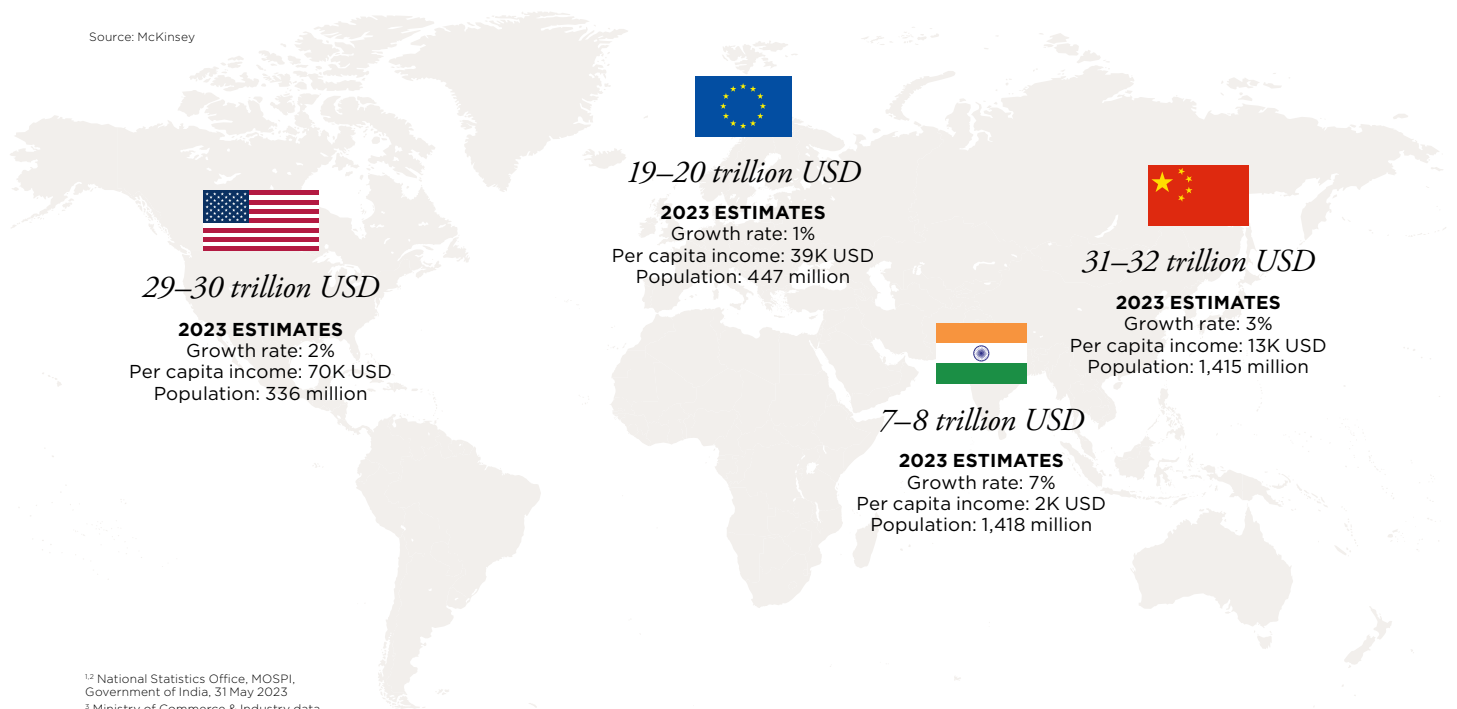
The number of Swedish companies sourcing from India is smaller in comparison. While some have had supply chains in India for decades, these have mainly been limited to sectors such as textiles and apparel, ICT and pharmaceuticals. Today, we are observing a major shift as more and more Swedish companies express a keen interest to explore sourcing opportunities in India.

“India deserves to be called a bright spot on this otherwise dark horizon because it has been a fast-growing economy, even during these difficult times.”

KRISTALINA GEORGIEVA, IMF MANAGING DIRECTOR

NOMINAL GDP PROJECTIONS Trillion USD, 2023

Source: McKinsey



¹ National Statistics Office, MOSPI, Government of India, 31 May 2023
² Ministry of Commerce & Industry data, Government of India, April 2023

A RISING STAR IN GLOBAL SOURCING

India offers a wide spectrum of sourcing opportunities driven by committed investments across the manufacturing and infrastructure sectors.

India has a diverse manufacturing ecosystem which has made significant progress in recent years, positioning itself as a major centre in global manufacturing.

KEY ASPECTS OF INDIA'S MANUFACTURING:

1. Sector size and policy initiatives:

With a Gross value add (GVA) of USD 455 bn of manufacturing output in 2023, the sector has grown at a steady pace. Through incentives presented in initiatives such as Make in India, Production Linked Incentives (PLI) and the National Manufacturing Policy, India has managed to attract foreign investment and encourage domestic private organisations to set up and expand manufacturing capabilities. Accounting for 17% of the nation's GDP and over 27.3 million workers, the sector plays a significant role in the Indian economy. The government of India aims to ensure that manufacturing accounts for 25% of the economy's output going forward.

2. Infrastructure and logistics:

Under Prime Minister's Gati Shakti programme, multi-modal infrastructure projects are being launched to connect special economic zones (SEZ) with logistics hubs through networks of dedicated freight corridors across the country, enabling faster transport to ports and cargo terminals. In 2022, a National Logistics Policy was launched to bring down overall costs of logistics to 10% from the current 14% level.

3. Skilled talent:

With over 27.3 million workers and over two million STEM graduates expected per year by 2030, India offers a large available pool of skilled and semi-skilled talent to support growth in manufacturing.

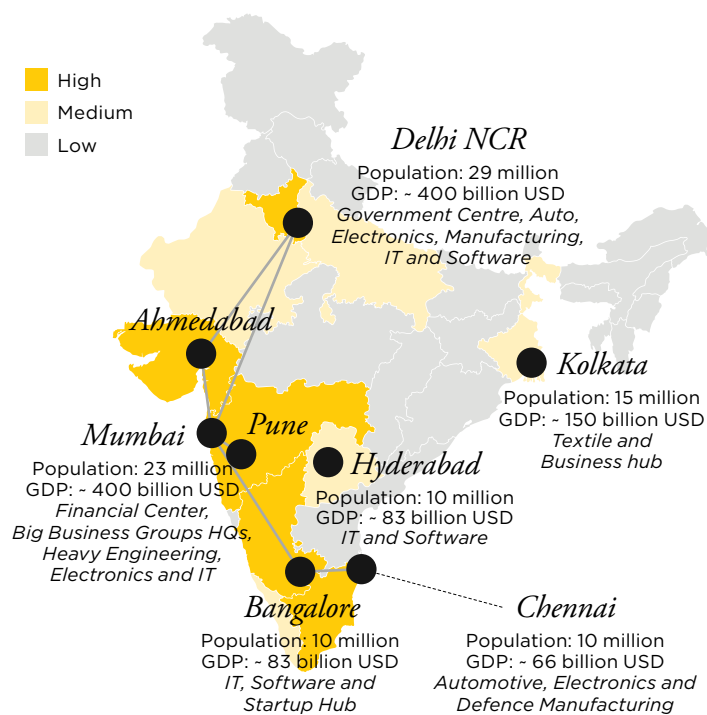
4. Digital transformation:

The manufacturing sector in India is embracing digital technologies and automation. Industry 4.0 tools ranging from Internet of Things (IoT), artificial intelligence (AI), robotics, and data analytics are being adopted to improve efficiency, productivity, and quality in manufacturing processes.

- ### 5. Exports and trade agreements:
- To position India as an export hub and support companies sourcing from India, the government has prioritised economic co-operation and trade agreements. In 2022, India completed trade co-operation agreements with Australia and UAE and it already has an FTA with ASEAN countries since 2010, as well as a Comprehensive Economic Partnership Agreement (CEPA) with Japan, South Korea, Malaysia, and Singapore. Discussions are currently being held with the EU and UK with final agreements expected to be reached in 2024.

The combination of India's strategic location and its growing focus on manufacturing and exports has created a compelling proposition for international companies, and prompted a significant shift towards sourcing and investment in the country in recent years.

MANUFACTURING ECOSYSTEM READINESS



KEY SOURCING TRENDS IN INDIA

India and its neighbours in South and Southeast Asia have emerged as new economic centres in the wake of the pandemic, ongoing trade wars and disruptions in global supply chains.

During the pandemic, supply chain disruptions led to a 7.2% decrease⁴ in global trade in 2020 compared to 2019. While global trade is recovering, supply chains are still being impacted by ongoing trade wars and geopolitical conflicts. This has prompted more and more decision-makers at global companies to search for alternative solutions.

In this new reality, developing countries have emerged as strong contenders for sourcing while also supplementing growing domestic markets. The shifting focus to new countries is also driven by fast-paced development in specific sectors. Consumer products in Vietnam, telecom in Malaysia, mobile manufacturing in India, battery manufacturing in Thailand and Indonesia – these are just a few examples.

India has also witnessed an influx of global companies with notable examples in sectors such as mobile manufacturing, semiconductors, defence and aerospace, consumer products, ICT, and specialty chemicals. Companies in these

sectors are strategically expanding their presence in India to capitalise on the sourcing opportunities and to cater to the local market.

SOURCING TREND CATCHING ON AMONG INDIA'S TOP TRADING PARTNERS

We analysed the sourcing models adopted globally and observed that in addition to traditional models such as reshoring, nearshoring, and offshoring, companies are increasingly turning to friendshoring and regionalisation as effective strategies to de-risk their supply chains and leverage the strengths of different markets.

While traditional models have their advantages, the evolving landscape calls for exploring these alternative strategies, especially in a world fraught with geopolitical uncertainties. The emerging models have shown potential as effective tools for building resilience and navigating the complexities of an unpredictable environment for global business.

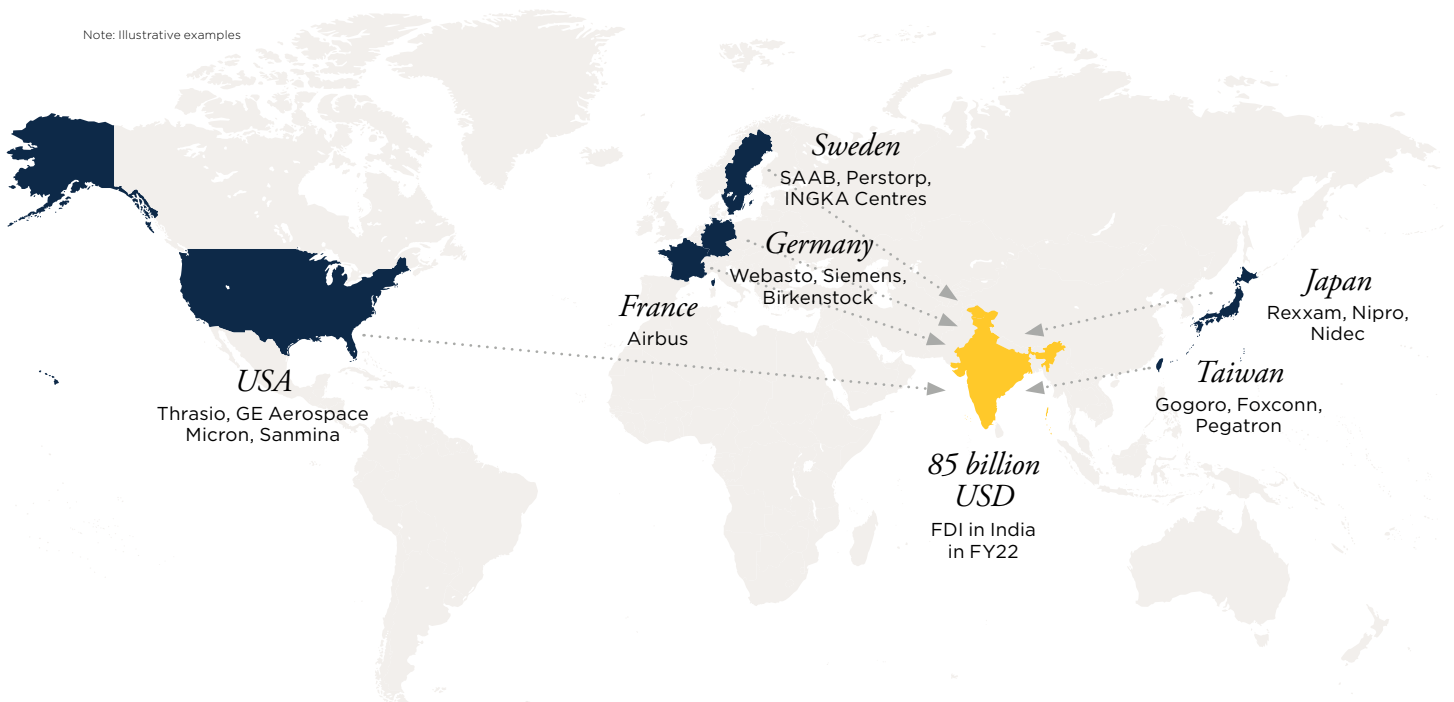
“A far less global and less deeply interconnected model is emerging, one more focused on trade among regional players and allies, and characterized by a shift from a few global economic powers toward multiple political and economic centres.”

MORGAN STANLEY RESEARCH, 2022

INDIA IS FAST BECOMING A PREFERRED SOURCING DESTINATION

Examples of international companies sourcing in India

Note: Illustrative examples



⁴ UNCTAD Statistics

“Every Swedish company should have a plan B in place, to de-risk and diversify from existing supply chains.”

CEO OF SWEDISH RETAIL FIRM

India’s top trading partners have adopted diverse strategies and a mix of traditional and emerging models to source from India and invest locally. The key considerations of companies from these countries when sourcing from India are:

- Government to Government relations
- Availability of manufacturing clusters
- Supplier ecosystems
- Production-linked incentives
- Support from Central and State Government in India related to tax exemptions, incentives, grants etc.

THE SWEDISH IMPERATIVE: FROM OFFSHORING TO FRIENDSHORING

Swedish companies have been operating in India for more than 120 years. The first wave of companies entered the market at the start of the 20th century spearheaded by Ericsson, SKF, ABB and others. During the 1960s and 70s, a second wave began as companies such as Alfa Laval, Tetra Pak, Sandvik and Atlas Copco established their presence in Pune.

Later, a third wave of companies would join them including Volvo Trucks and Volvo Buses, along with small and medium sized companies such as Systemair and Roxtec to name few. Also in last 10 years, major retail brands such as H&M and IKEA have set up bases in India and increased their sourcing and investments. The larger Swedish companies have so far mainly used offshoring as their preferred approach, however, the number

of companies sourcing from India is relatively small in comparison.

A few reasons why companies may not have considered India for sourcing in the past include:







1. Established supply chains in other countries
2. Demand centres present in the same country where products are being sourced or manufactured
3. Friendly Government-to-Government relations between country of sourcing and Europe
4. Advantage of manufacturing cost, manpower or logistics etc.

While the above factors may still come into play in today’s sourcing decisions, the changing geopolitical landscape means that Swedish companies must have a plan B in place. Going forward, India is well placed to become a key alternative destination – but the approach taken may differ depending on the sector.

For companies in retail, textile & apparel, packaging, forestry, home décor and automotive components, completing an evaluation and due diligence may be all that is required to find the right sourcing partners in India. However, in sectors such as defence, aerospace, aviation, telecom, mining and semiconductors – which involve government stakeholders and regulatory oversight due to the strategic nature of the sectors – companies need to continuously engage in Government-to-Government dialogue and build trust towards friendshoring.

VARYING SOURCING MODELS IN DIFFERENT SECTORS

Examples of companies and adopted sourcing models

	 USA	 GERMANY/  FRANCE	 JAPAN	 TAIWAN	 SWEDEN
FOCUS INDUSTRIES IN RECENT YEARS	Aerospace & defence, Automotive, Consumer products and Fintech	Industrial machinery, Automotive, Aerospace & Defence and Consumer products	ICT, Medical devices and Consumer products	ICT and Automotive	Retail, Automotive, Telecom
KEY COMPANIES	<ul style="list-style-type: none"> ■ Apple ■ GE Aerospace 	<ul style="list-style-type: none"> ■ Airbus ■ Siemens ■ Alstom 	<ul style="list-style-type: none"> ■ Rexxcam ■ Nipro ■ Nidec 	<ul style="list-style-type: none"> ■ Foxconn ■ Gogoro ■ PSMC 	<ul style="list-style-type: none"> ■ Volvo ■ SAAB ■ IKEA + 250 companies
SOURCING MODEL	<ul style="list-style-type: none"> ■ Off-shoring ■ Regionalisation ■ Friend-shoring 	<ul style="list-style-type: none"> ■ Regionalisation ■ Friend-shoring 	<ul style="list-style-type: none"> ■ Off-shoring ■ Regionalisation ■ Friend-shoring 	<ul style="list-style-type: none"> ■ Off-shoring ■ Friend-shoring 	<ul style="list-style-type: none"> ■ Off-shoring
KEY CONSIDERATIONS FOR COMPANIES WHILE SETTING UP	<ul style="list-style-type: none"> ■ New manufacturing cluster ■ Production Linked incentives (PLI) 	<ul style="list-style-type: none"> ■ New A&D ecosystem ■ Dedicated facilities for setup 	<ul style="list-style-type: none"> ■ Setup in existing clusters ■ Matured supplier ecosystem 	<ul style="list-style-type: none"> ■ New clusters setup for mobile and semiconductors ■ PLI incentives 	<ul style="list-style-type: none"> ■ Strong sourcing base in retail, telecom, textile, IT etc ■ Reliable partner

Note: Business Sweden analysis

SIX EMERGING SOURCING CATEGORIES IN THE SPOTLIGHT

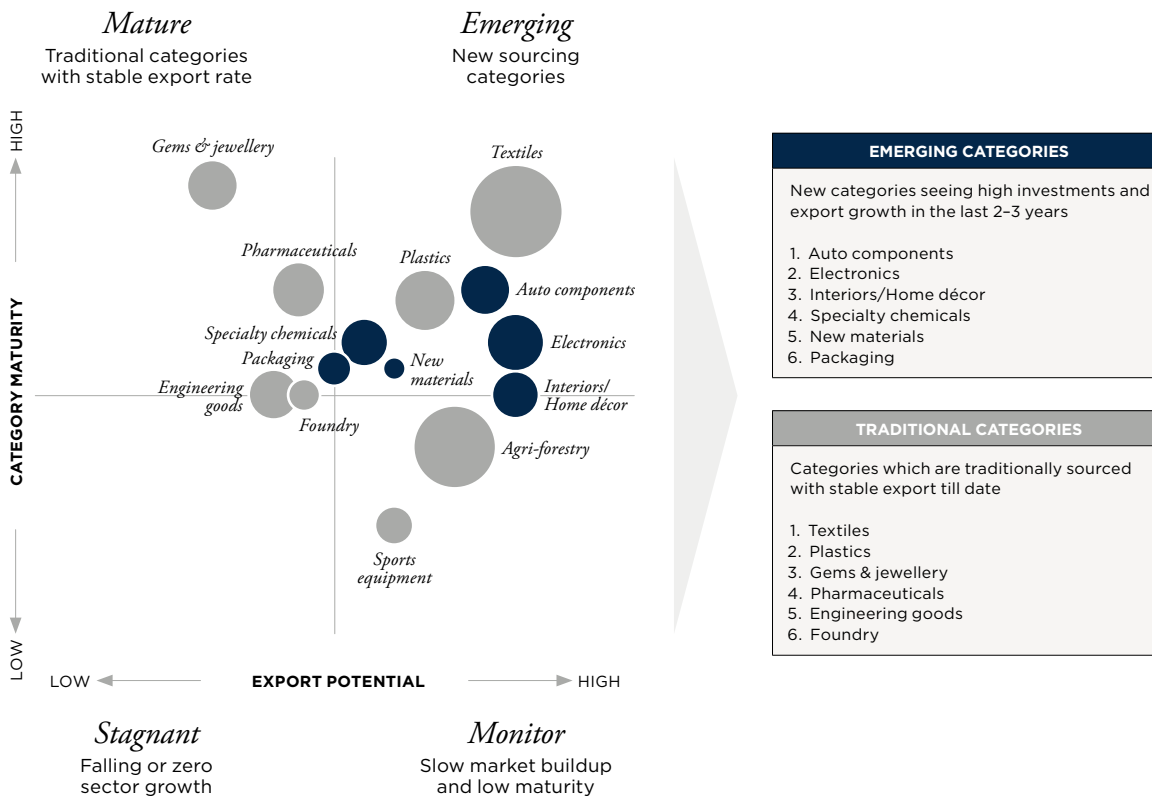
India's local supply chains and industries are developing rapidly. In this study, we have identified six emerging categories that are expected to trigger a major uptick in sourcing from India - which is set to become the world's third largest economy by 2030.

More and more Swedish companies are exploring sourcing opportunities in India, and not only in traditional sectors such as textiles and plastics. As shown in this study, new suppliers in a range of emerging fields are becoming increasingly relevant.

The sourcing categories that are expected to attract more attention have been identified based on the current market size and projected growth rate of the local sectors, total exports in value terms and export growth potential, coupled with the PLI (Production Linked Incentive) schemes introduced by the government of India⁵.

STRONG POTENTIAL FOR INDIA'S NEW SUPPLIERS

Overview of main sourcing categories

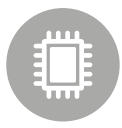


⁵ Government of India scheme to promote local manufacturing and exports from 13 core sectors



HYDERABAD, INDIA

THE SIX EMERGING CATEGORIES ARE:



ELECTRONICS

The electronics sector is expected to reach USD 470 billion⁶ by 2030, growing at 22% CAGR. India offers approximately USD 12 billion worth of incentives for local manufacturing and exports. Additionally, 100% FDI is permitted in the sector. India is also planning to reach USD 120 billion⁶ worth of exports by 2026 and has rolled out 4 PLI schemes that directly or indirectly support the sector. There are more than 500 suppliers in the country.

Swedish firms sourcing from India's suppliers in this sector include Ericsson, ABB, OSM Group, Volvo, Husqvarna and FLIR Systems to mention a few.



AUTOMOTIVE COMPONENTS

India is expected to become the third largest automotive market by 2030 valued at \$200 billion⁷. 100% FDI is permitted in the sector. Around USD 80 billion⁷ worth of exports are being planned for by 2026, and the country is now rolled out its automotive mission plan aimed at boosting the local manufacturing ecosystem. There are more than 1,000 automotive component suppliers in the country.

Swedish companies sourcing from India's suppliers in this sector include Volvo, SKF, Autoliv, Arc Core, Movomech, Transvahan, Trelleborg and Addnode.



SPECIALTY CHEMICALS

India is currently the sixth largest chemicals producer in the world. The sector is expected to reach USD 50 billion by 2025 and is growing at a CAGR of 12.4%⁸. India exports 50% of its total chemicals production annually and has also introduced a 2034 vision to improve domestic production. There are more than 300 to 400 chemicals suppliers in the country.

Swedish companies sourcing from India's suppliers in this sector include Perstorp, Berger-Becker Coatings, CellMark and Elof Hansson.



PACKAGING

India's packaging market is expected to reach USD 205 billion value by 2025 growing at a CAGR of 26.7%. 100% FDI is permitted in the sector. India currently exports USD 1.2 billion⁹ worth of exports from its 900+ paper units⁷, and the country is exploring ways of rolling out new standards for sustainable packing products and solutions.

Swedish companies sourcing from India's suppliers include Tetra Pak, NEFAB, Nilorn and Stora Enso.



HOME DÉCOR

India ranks among top 10 countries for timber production and is third largest rubber producer globally.

This sector is expected to reach USD 40 billion by 2028¹⁰ and is growing at a CAGR of 4.14%. 100% FDI is permitted in retail through the automatic route for single brand retailers and manufacturers. India currently exports USD 7 billion worth of handicraft and furniture¹¹. There are at least 1,000 to 2,000 suppliers in this sector in India.

Swedish companies sourcing from India's suppliers include IKEA, Rusta AB, Axstores and New Wave Group.



NEW MATERIALS

India is the fourth largest iron ore producer and second largest producer of crude steel globally. The new materials sector is expected to be valued USD 10 billion by 2028¹² growing at a CAGR of 12%. India rolled out a PLI scheme for specialty steels, offering up to USD 750 million¹³ worth of incentives for local manufacturing and exports.

Swedish companies sourcing from India's suppliers include Partex, Sandvik, Alleima, Stora Enso and NEFAB.

⁶ Invest India, Press Information Bureau India

⁷ Invest India

⁸ Mint, KPMG

⁹ IBEF

¹⁰ Business Wire

¹¹ Trading Economics, IBEF

¹² E&Y

¹³ Press Information Bureau India

KEY TAKEAWAYS

- India and its neighbouring countries in South and South-East Asia have emerged as new economic centres in the wake of the pandemic, ongoing trade wars and global supply chain disruptions.
- India's increased focus on manufacturing and exports unlocks new sourcing opportunities and lays a strong foundation for considering India as a preferred sourcing destination.
- Emerging sourcing models such as friendshoring and regionalisation are increasingly being adopted by India's top trading partners, especially the US, France, Germany, Japan, and Taiwan.
- The fast-changing geopolitical landscape and supply chain uncertainties make it more important than ever that Swedish companies have a Plan B in place for sourcing. Going forward, India is well positioned to be one of the alternatives.
- Six emerging sourcing categories are gaining attention: automotive components, electronics, home décor, specialty chemicals, new materials and packaging. New opportunities in these fields will drive increased sourcing from India.
- Swedish companies should evaluate the potential benefits of adopting emerging sourcing models such as friendshoring for sectors such as defence, aviation, aerospace, telecom and semiconductors, while opting for a regionalisation strategy for sectors in the retail, home décor, textile and apparel, forestry, packaging, consumer products and ICT sectors.

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The reports help decision-makers break down risks and opportunities and provide actionable insights, drawn from the knowledge and expertise of Business Sweden's global advisors based in more than 40 markets worldwide.

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MUMBAI, INDIA

BUSINESS SWEDEN CAN SUPPORT YOU

2023 is a landmark year for Sweden and India as both countries celebrate 75 years of bilateral relations. As the governments of both nations focus on increasing trade and strengthening relations, this provides an opportune moment for Swedish companies to explore sourcing options in India and diversify supply chains.

Business Sweden offers comprehensive support to Swedish companies looking to establish a footprint or build up sourcing and procurement in India. Contact our local team and tell us about your sourcing needs to get a full overview of India's opportunities in your sector.



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