



Global Trade Shifts: The India opportunity

MARCH 2021



Three areas

- Does intent match messaging?
- How does ~\$18T of trade change?
- What imperatives for Indian cos?

The context: Global trade expanded over 2015-2019, with US-China being an exception

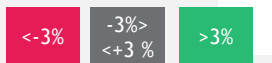
Change in trade of goods
(major corridors¹, 2019 vs 2015, \$B)

~\$18T
Global trade
2019

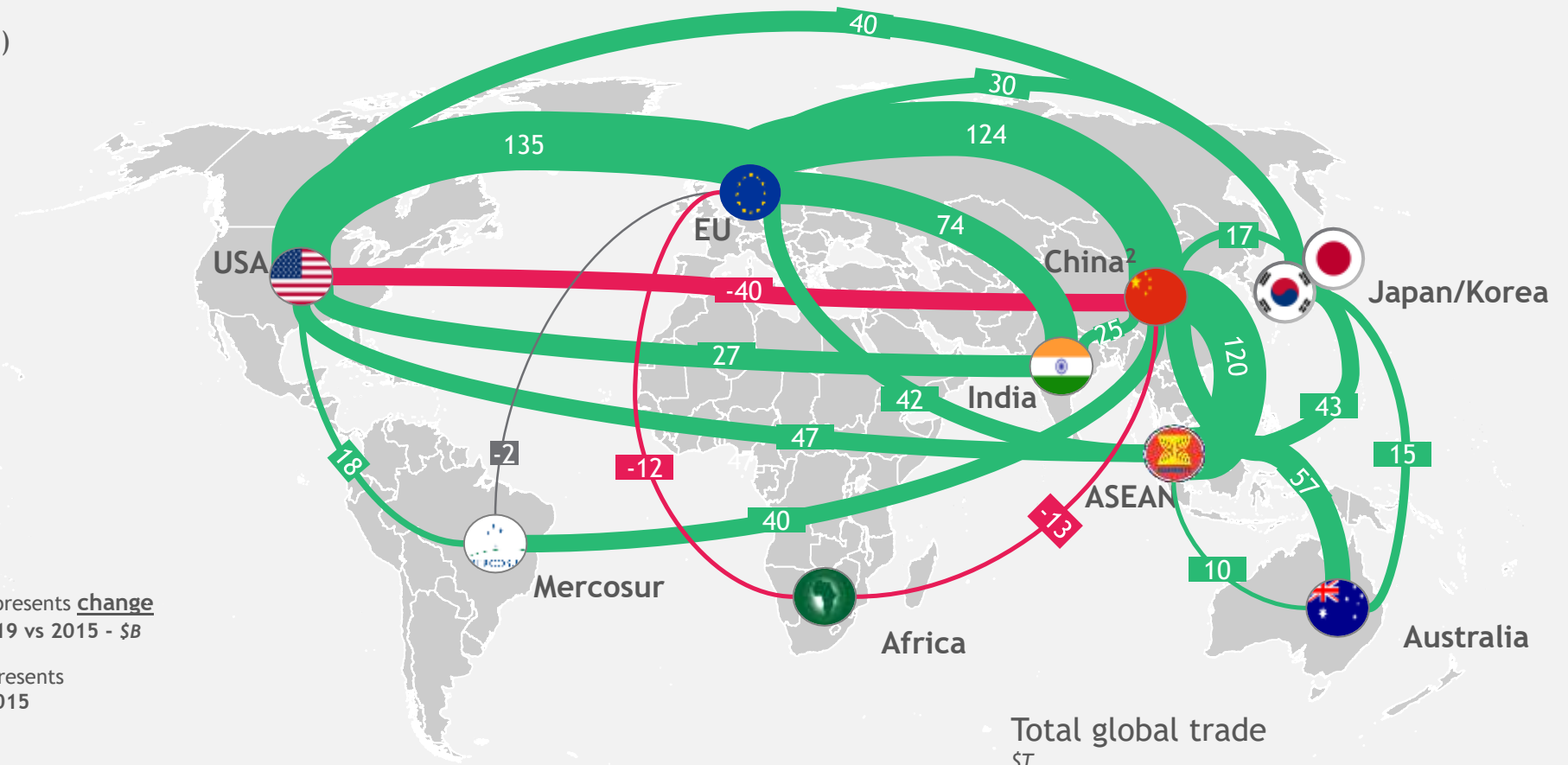
Legend



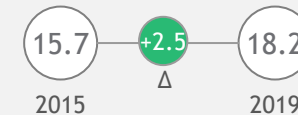
Width of arrow represents **change**
in trade flows 2019 vs 2015 - \$B



Color of arrow represents
change 2019 vs 2015



Total global trade
\$T



1. Corridors in the map above represent ~30% of global trade - missing: Intra EU=~20%, NAFTA=-8%, Mainland China/Hong Kong/Taiwan=4%, ASEAN=3%, RoW=-35%; 2. Mainland China
Source: UN Contrade, OECD, WEF, IHS, TradeAlert, BCG Analysis

Trend visible pre-COVID: 2019 drop in US-China imports

% change in US goods imports ('18-'19)		ASEAN	India	China	JP/KR ¹	EU	Mexico	Brazil	Turkey	RoW ³	World
Health Care	Biopharma	-19%	19%	-14%	10%	17%	-6%	-7%	1%	2%	10%
	MedTech	23%	9%	-2%	-2%	5%	11%	31%	-13%	5%	6%
Consumer Goods	Consumer Durables	33%	10%	-19%	6%	3%	1%	26%	1%	5%	-4%
	Fashion & Luxury	12%	5%	-11%	2%	3%	-6%	-3%	8%	5%	0%
	Packaged Food	6%	15%	-36%	11%	6%	10%	-8%	13%	4%	4%
Tech, Media & Telco	Consumer Electronics	24%	100% ²	-13%	-25%	9%	14%	108% ²	138% ²	15%	-8%
	Equip. & Data Center Solutions	-2%	-12%	-31%	-19%	-2%	-4%	23%	-45%	69%	-13%
	Semiconductor & Materials	14%	36%	-53%	-3%	-7%	-14%	-41%	33%	-3%	0%
Energy	Energy	-40%	18%	-68%	34%	3%	-19%	-2%	10%	-14%	-13%
Industrial Goods	Aerospace	-14%	39%	-9%	3%	18%	21%	31%	21%	12%	13%
	Agribusiness	-8%	0%	-23%	9%	3%	10%	6%	-13%	1%	1%
	Automotive - Components	24%	1%	-17%	1%	-1%	2%	-4%	10%	0%	-2%
	Automotive - Vehicles	12%	4%	-19%	1%	-2%	11%	-36%	-12%	1%	3%
	Chemicals	11%	10%	-16%	4%	-1%	5%	0%	7%	-7%	-4%
	Electrical machinery	10%	21%	-18%	1%	3%	7%	14%	11%	7%	-3%
	Mechanical machinery	13%	6%	-37%	3%	2%	5%	9%	22%	10%	-7%
	Metals	2%	-1%	-15%	-1%	-4%	-2%	-12%	-31%	-8%	-7%
	Mining	-38%	5%	-22%	10%	-27%	30%	16%	-2%	2%	2%
	Non-metal building materials	45%	38%	-29%	6%	0%	6%	3%	21%	0%	-4%

2020 has accelerated this: at company level, "exit China" now top-of-mind ...

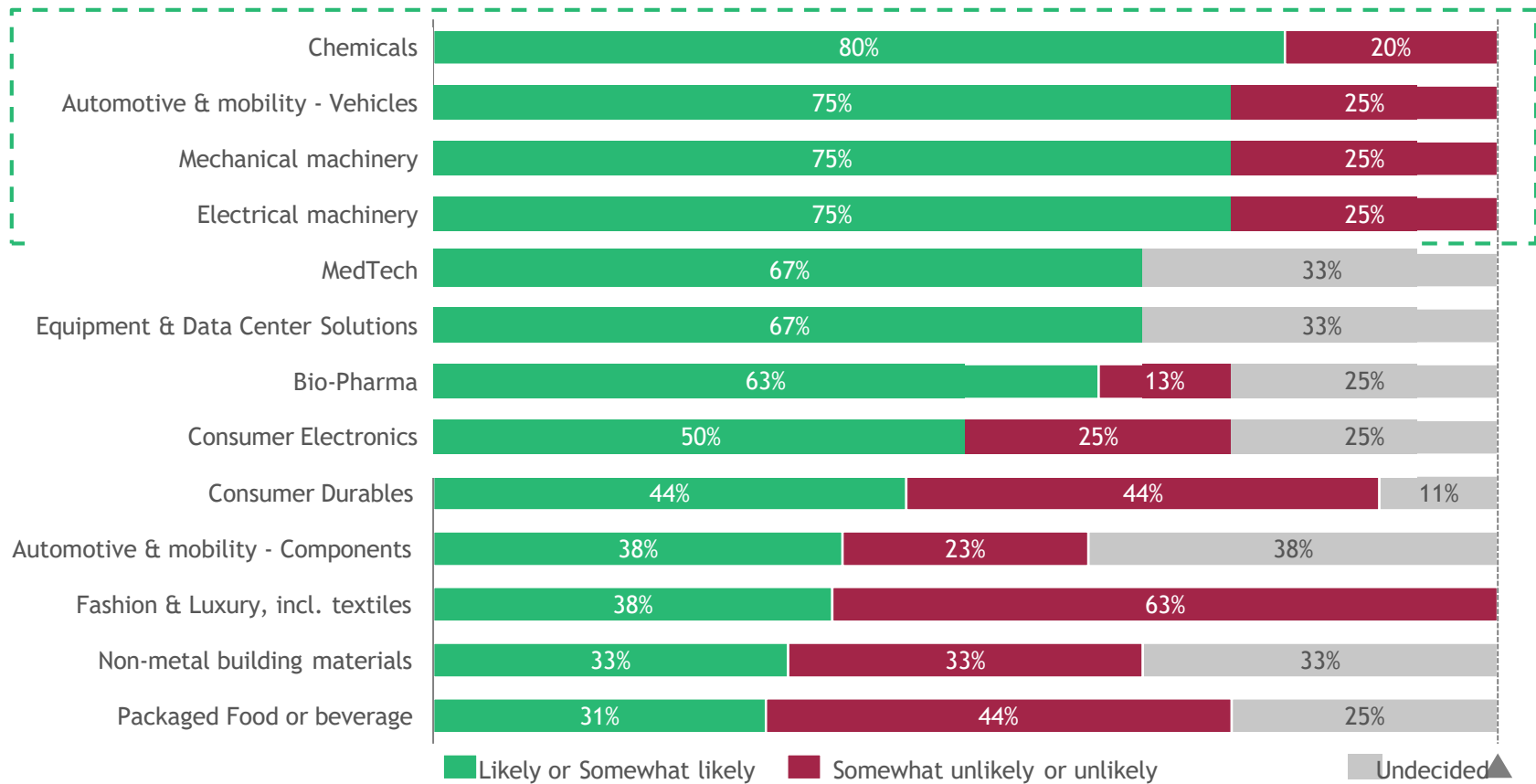
Which of the following statements best describes your strategy of moving production out of China?



1. 450 senior executives surveyed Dec'19-Jan'20. 2. 150 executives from S. Korea, Japan, and Taiwan surveyed in Mar'20. 3. 542 executives surveyed in Mar'20.
Source: UBS Global Research; BCG analysis

... with stated intent highest in the Chemicals sector

Survey question | How likely is your company to shift some or all of the international manufacturing supply chain operations out in the next 3 years?¹

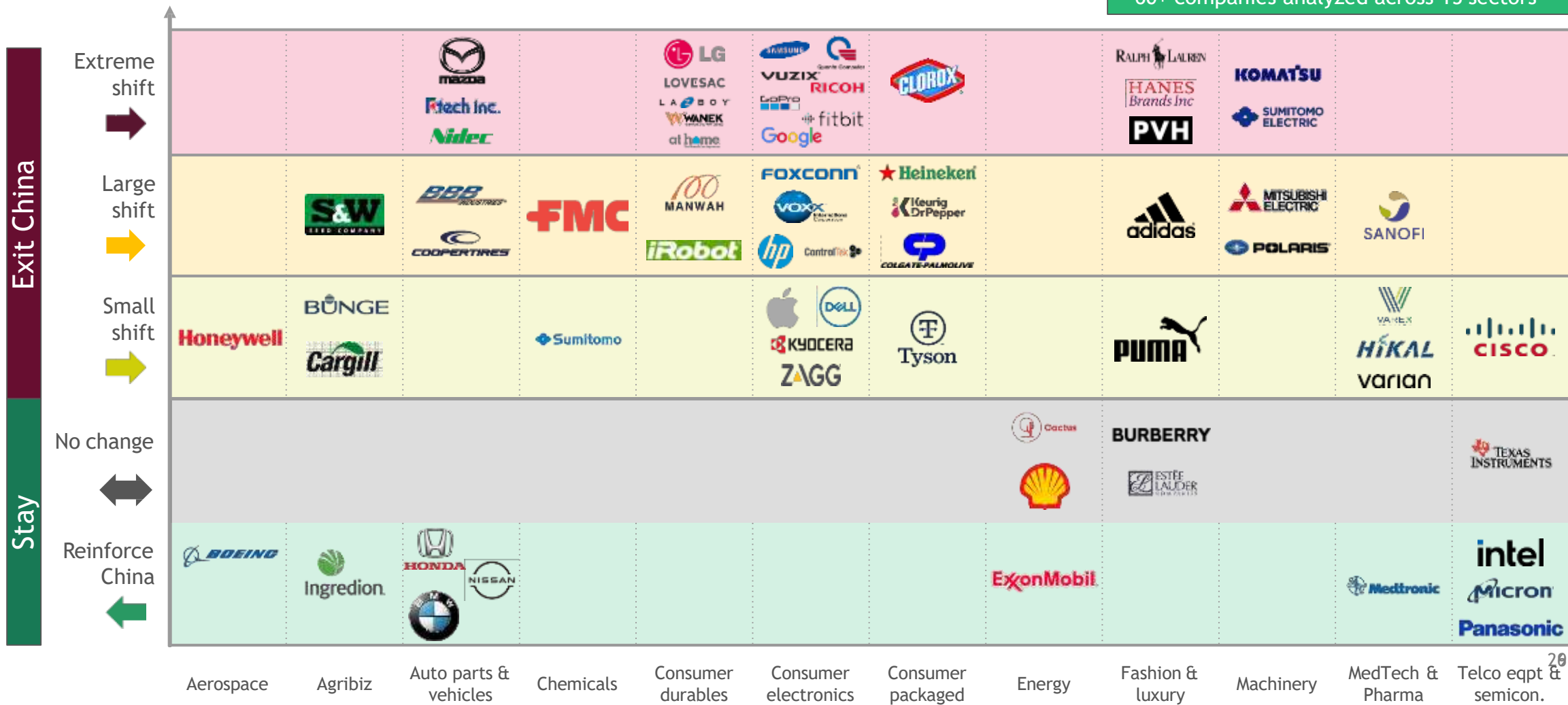


1. Semiconductors, Metals and Aerospace not included due to low N

Source: Manufacturing field survey; N = 100; Due to limitations in sampling, some industry responses include only low N.

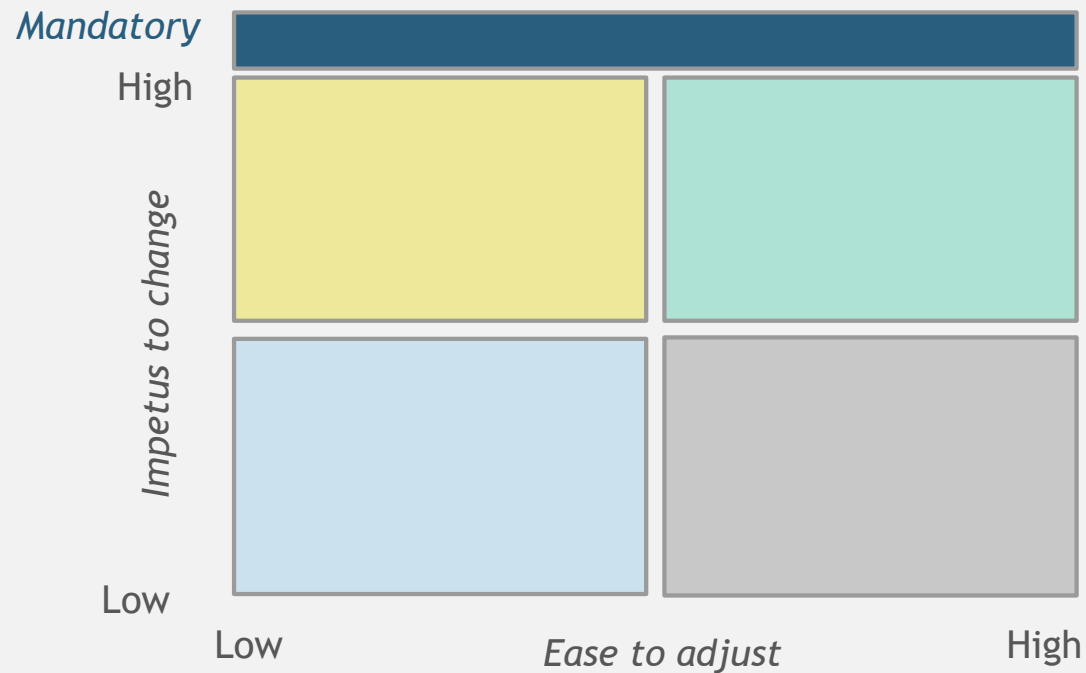
Action is matching intent - China shift is real (across sectors)

60+ companies analyzed across 15 sectors



Assessing future evolution: Sector response driven by two key factors

Impetus to change vs ease to adjust matrix



Impetus to change

Magnitude of SC at risk, leading to greater willingness to adapt supply chain

- Import dependency & partner reliability
- Supply chain structural risk
- Potential increase of protectionist measures



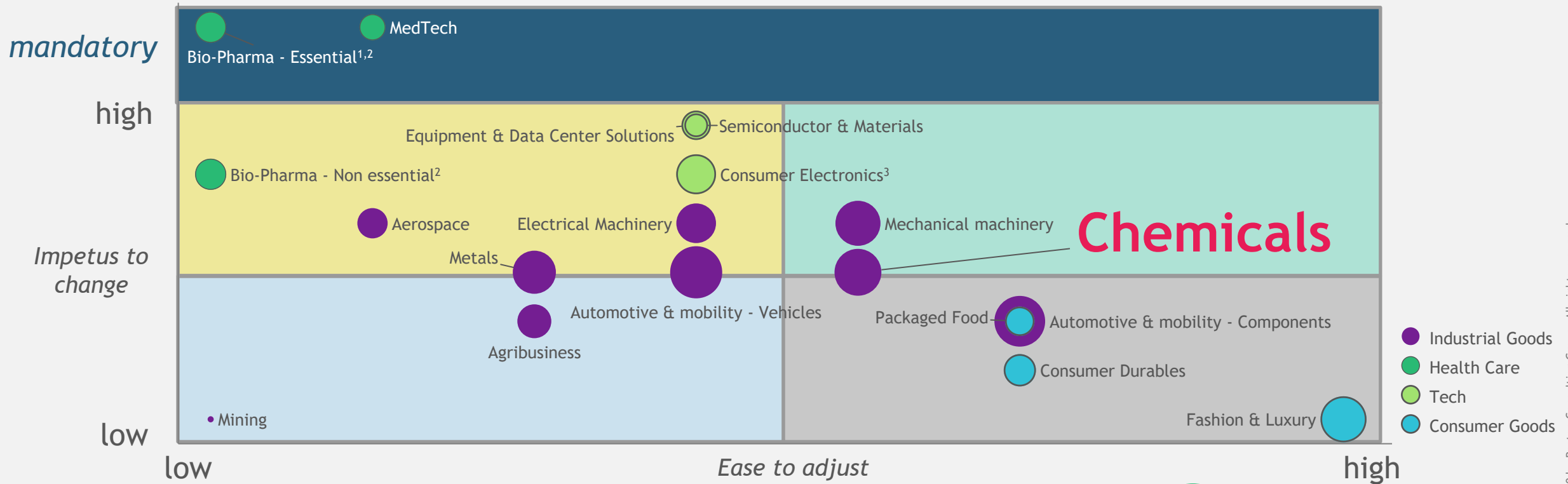
Ease to adjust

Effort to update companies' supply chain

- Cost/capital required
- Ecosystem relevance
- Regulatory requirements

USA view: Chemicals clearly a priority sector for readjustment; similar for EU

Impetus to change vs Ease to adjust - USA example



1. Considers meds for public health (vaccines, antibiotics, antivirals) 2. Total imports distributed 50/50 for essential and non essential Bio-pharma given data limitations 3. Cell phones included Note: Drivers of Impetus to change include imports dependency, supplier country risk, SC structural risk and potential increase of nationalism; Drivers of Ease to adjust include capital intensity, access dependency and regulatory requirements; Source: WTO; OECD; Oxford economics, BCG Analysis



Size of bubble = USA total imports - \$B '19

Overall: Trade expected to bounce back by 2023F, with large trade shift mix

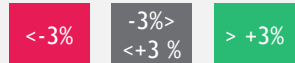
Change in trade of goods
(Major corridors¹, base case, 2023F vs. 2019, \$B)

~\$18T
Global trade
2023F

Legend



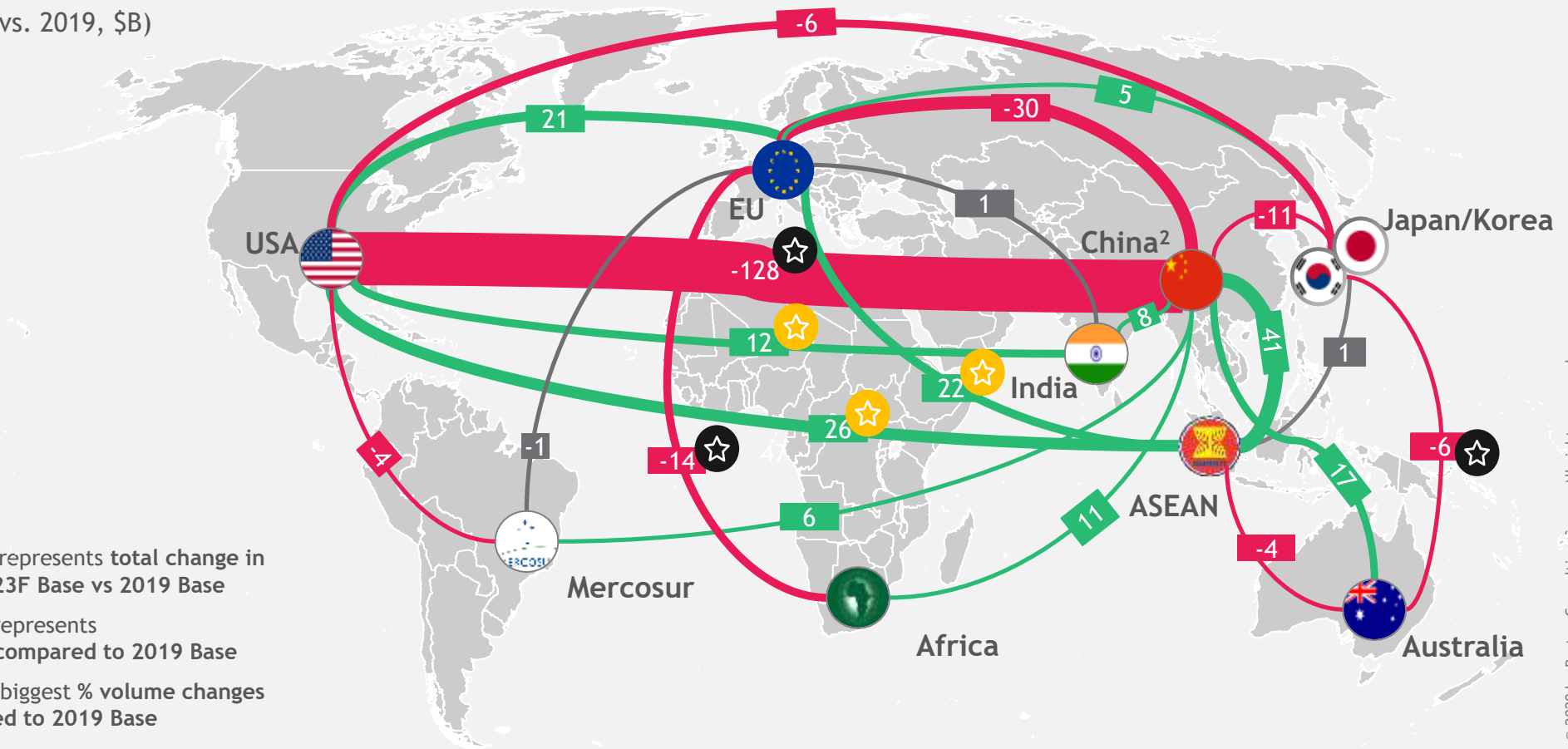
Width of arrow represents total change in trade flows 2023F Base vs 2019 Base



Color of arrow represents change 2023F compared to 2019 Base



Star represents biggest % volume changes 2023F compared to 2019 Base



1. Corridors in the map above represent ~32% of global trade. Intra EU=-20%; NAFTA=-8%; Mainland China/Hong Kong/Taiwan=4%; ASEAN=3%, RoW=-32%

2. Mainland China

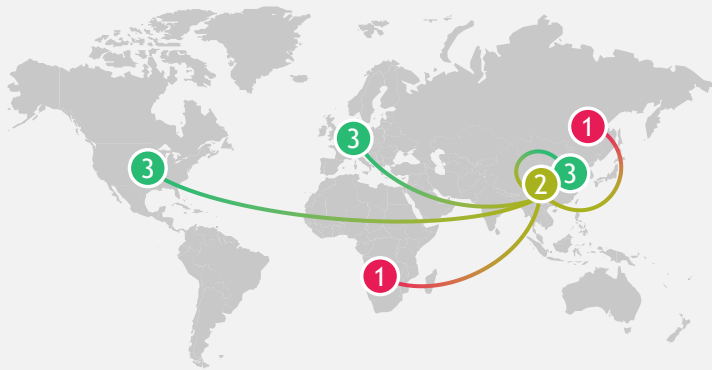
Source: BCG Trade Finance Model 2020, UN Contrade, OECD, WEF, IHS, TradeAlert, BCG Analysis

New supply chain models will emerge | Creating opportunities for India

Illustrative example for a firm traditionally manufacturing in China and selling globally

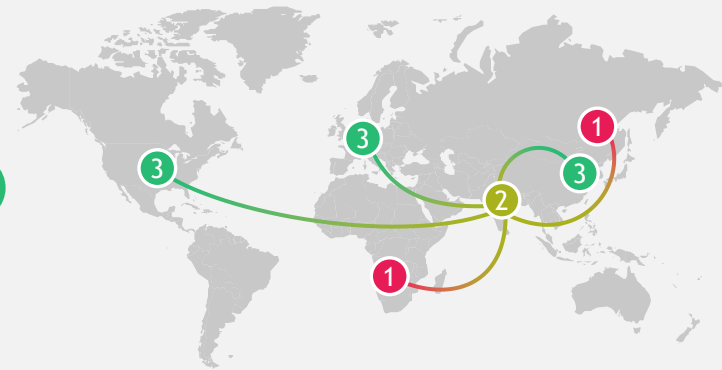
Global supply chains

Global supply chains with added redundancy, but limited footprint changes due to cost & access



Migrated supply chains

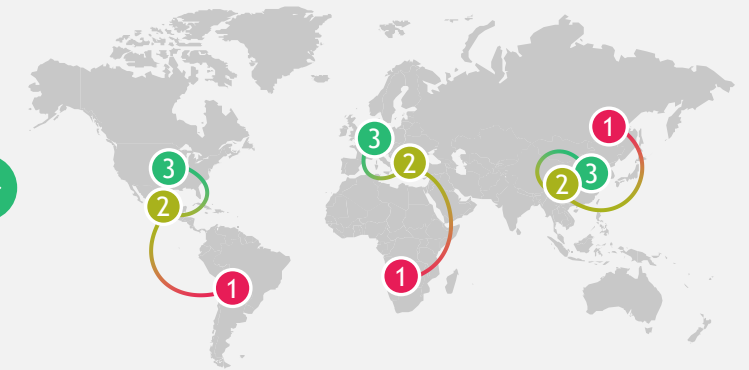
Global supply chains shifting to new geographies to reduce geopolitical risk exposure



1 Sourcing 2 Manufacturing 3 Distribution

Regionalized supply chains

Supply chains moving closer to end-markets, due to gov't incentives and/or risk mitigation



Opportunities for Indian ChemCos

+
Degree of change



Imperatives: The call to action

Trade flow changes are real - intent will match sentiment

Competition for this trade will be intense - Indian companies not necessarily the "automatic" choice

Winning will require proactive outreach in roadshows ; early enough in the process to be "selected"

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