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FORWARD
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SUMMARY

- Amitabh Kant, CEO – National Institution for Transforming India, shares his thoughts on his maiden visit to New Zealand.
- India continues to be the 7th most popular destination for Kiwis and 10th largest source of inward tourism market year ending February 2017. With a forecast of over 195,000 travellers between India and New Zealand by 2021, ITA strongly advocates for a direct flight between Delhi and Auckland.
- India was New Zealand's 7th largest trading partner based on total trade in goods and services, with a two-way total trade valued at \$ 2.6 billion as of December 2016.
- GST in India: A huge step forward or an opportunity missed? Dr. Don Brash shares his insights into the proposed Indian GST framework.

It is indeed my great privilege to write a foreword for the New Zealand India Economic Update on the eve of my first ever visit to New Zealand in May 2017.

India is not just among the world's fastest growing major economies, underpinned by a stable macro economy with declining inflation and improving fiscal and external balances. It is also one of the few economies enacting major structural reforms. The last three years under the leadership of Prime Minister Shri Narendra Modi have been marked by several historic economic policy developments. The most recent highlights being the transformational Goods and Services Tax (GST); creating a common Indian market and demonetisation. This has induced not just greater digitization and formalization of the economy, but has also spurred some of the most advanced technological innovations such as the BHIM Aadhar Aap - unleashing the power of the thumb in authenticating digital payments. Similarly, the JAM – Jan Dhan, Aadhar, Mobile- trifecta is a bold and dramatic step towards financial inclusion.

Recognizing our strong economic trajectory and potential to be a leading power, we seek to collaborate with countries in India's reform agenda. The Act East Policy marks the new-found salience of our engagement with our Eastern neighbourhood and beyond. Though we may be separated by geographical distances, India-New Zealand cooperation in recent years has become increasingly dynamic and multifaceted. We share an extremely close partnership, unique bond of trust and mutual understanding, and shared values and convergence on key issues.

Given the size of our economies and wide convergence of interests, it is evident that the present level of trade and investment needs to be vigorously advanced to realise its substantial potential. New Zealand has made tremendous progress in agriculture, dairy development, food processing, communications and information technology, clean energy and water, disaster management, biotechnology, health care and services, to mention a few. New Zealand's strength and capacity in these sectors can combine with India's vast technology needs to build partnerships that can benefit both our societies. We invite investors and entrepreneurs from New Zealand to join Indian counterparts in the, "Come, Make in India" initiative which is well supplemented by programmes like 'Digital India' and 'Skill India'. Likewise the large number of Indian companies in New Zealand benefit from a business environment that is rated one of the best in the world. The network of industry-specific clusters in New Zealand promotes business growth, ingenuity and innovations. Indian companies particularly in the services sector can further contribute to New Zealand's economic competitiveness.

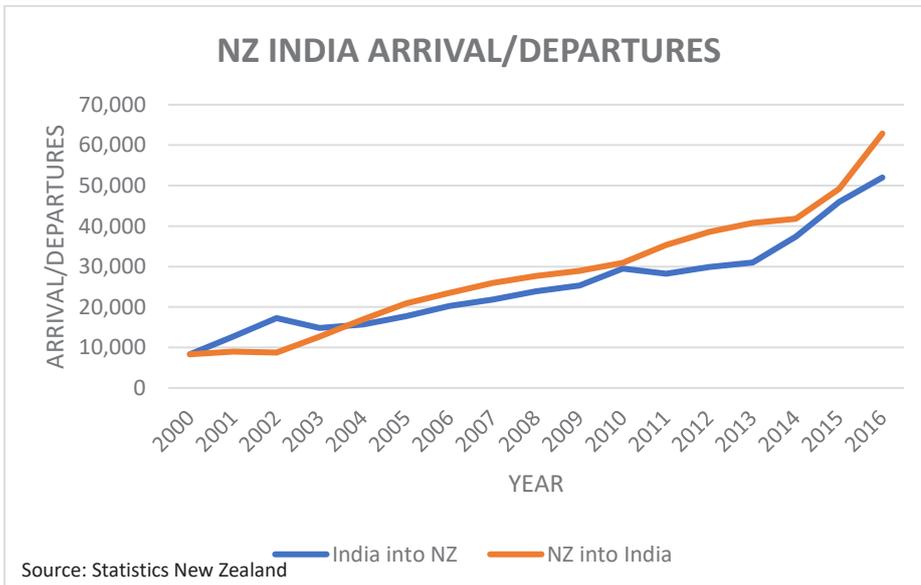
New Zealand is home to more than 170,000 people of Indian origin. Education, sports and tourism are emerging as major growth sectors in our relations. The expanding trade and investments ties, education and cultural linkages and growing people to people exchanges make us natural partners in working with each other and in meeting global challenges.

While we look back with satisfaction at the road traversed this far, I am confident that we can open many more doors for all round expansion of trade and economic relationship between India and New Zealand in the years ahead.

Amitabh Kant

Chief Executive Officer,

National Institution for Transforming India



Short-term and Tourist arrivals from India totalled 52,016 in the past twelve months ending December 2016. **This makes India our tenth largest source of short-term and tourist arrivals, a ranking India has held for nearly two years.** This represents a massive **68 per cent increase** in inbound tourist from India since 2013.

Over 62,900 New Zealanders departed to visit India in the past 12 months. **This represents 2 per cent of all short-term departures from NZ,**

with India ranked as NZ's seventh largest overseas destination. As a proportion of the total, this figure has been steadily lifting and remains elevated over the past two years. Over two thirds (70 per cent) departures were made to visit family/friends in India. This compares to only 37 per cent of the total tourist flow leaving NZ is for the purpose of visiting family/friends. Business, conferences and education accounted for 6 per cent of short-term departures to India to visit family and friends, the proportion of holiday-makers travelling to India remains 22 per cent. **Holiday-makers visiting India have increased from 2,174 people 15 years ago to 13,720 year ending December 2016.**

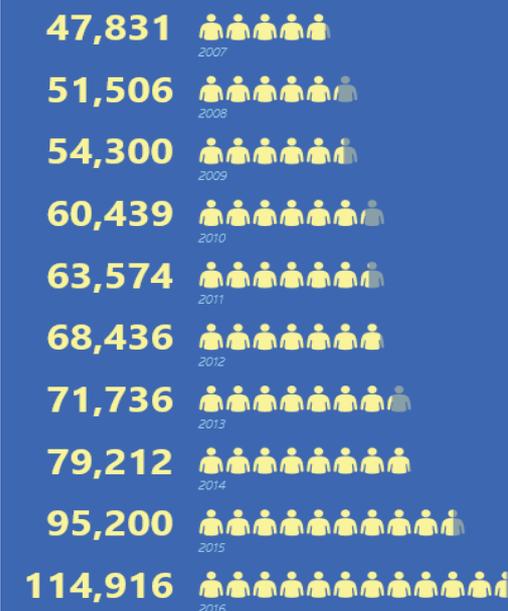
There has been a 60 per cent increase in total people to people movement between India and New Zealand (115,000 passengers) over the four year by December 2016.

The monthly arrival/departure traffic between India and New Zealand now stands at 9576. All the above statistics support the case for a **direct flight between Delhi and Auckland now than ever before.**

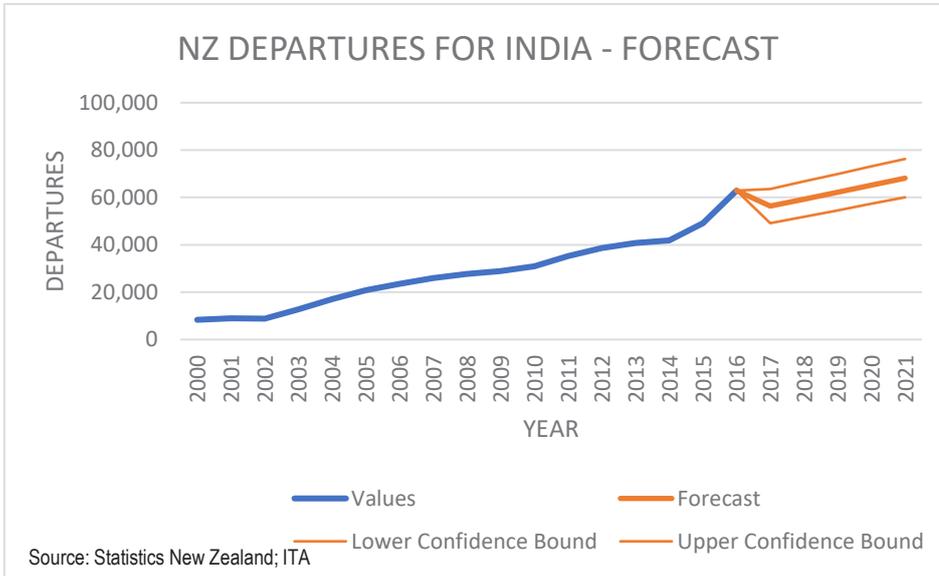
Currently, Air India operates between Delhi/Sydney/Melbourne 10 flights per week. **12,992 (24 per cent) visitors from India to New Zealand transited from Australia in the year ending February 2017.** 30 per cent Indians chose Singapore as a transiting port while Gaungzhou has seen an increase of 205 per cent

passengers transiting to come from India to New Zealand. 24 per cent of visitor's arrivals from India transited via Malaysia in the year ending February 2017.

NZ INDIA PEOPLE TO PEOPLE MOVEMENT



Source: Statistics New Zealand

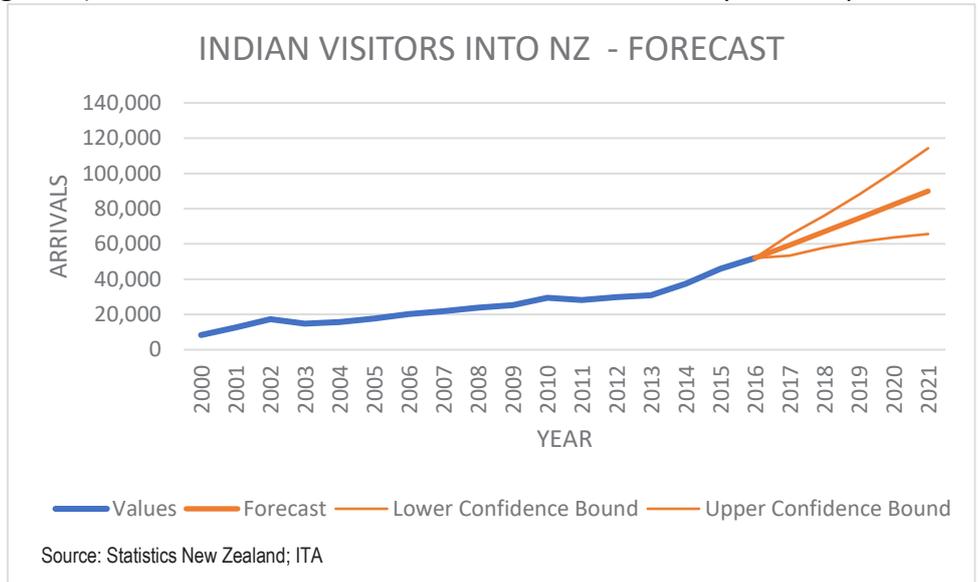


India provides New Zealand with enormous promise and opportunity in the longer term as a valuable source market. India was the market that was identified most strongly by industry surveyed as a market that should be given greater priority.

The confidence of both tourist markets is only going to increase. **By 2021, it is a forecast that New Zealand Residents visiting India will increase to 76,254**

departures. This is a 21 per cent increase over the next five year.

The Indian market has two peaks of visitation to New Zealand. Independent professionals (with honeymooners a subset of this segment) tend to travel from October to March and family arrivals peak from April to June. This makes the India market very attractive to the New Zealand tourism industry as it helps to offset seasonality issues. **In the next five years, the inbound Indian visitors will increase over 120 per cent to 114,304 visitors.**



With a total of over 190,558 inbound/outbound visitors between New Zealand and India forecast by 2021, the businesses and Indian Diaspora in New Zealand really need a

direct flight to commence between Delhi and Auckland. With ten flights between Australia and India operated by Air India, **India Trade Alliance strongly advocates and strongly urges Air India to consider re-routing one of their flights to Auckland to begin with. With a daily passenger flow of 522 both ways, it will not be hard to fill this demand in a very short period of time.** Initially these flights can be twice a week and increase based on capacity.

TOTAL TRADE AND RANKING AMONG NEW ZEALAND'S TRADING PARTNERS

New Zealand's trade relationship with India has been strong and growing rapidly. According to the latest data available at Year ended December 2016¹, India was the 14th largest export destination for New Zealand's merchandise exports, and the 16th largest source for its merchandise imports. However, India was the 7th largest destination for New Zealand's commercial services exports, and 11th largest imports source for its commercial services imports.

Table 1 suggests that as at year end 2016, India was New Zealand's 7th largest trading partner based on total trade in goods and services, with a two-way total trade valued at \$ 2.6 billion, out of which exports were worth \$1.7 billion.

Table 1
New Zealand's total trade in Goods and Services
By top10 trading partners (Year end December 2016)

Trading partner	Total exports	Total imports	Two-way trade	Trade balance
	NZ\$(million)			
Australia	12,849	11,231	24,080	1,618
China, People's Republic of	12,299	10,493	22,792	1,806
European Union	8,349	11,743	20,092	-3,395
United States of America	8,077	8,045	16,122	32
Japan	3,861	3,555	7,416	306
Korea, Republic of	2,086	2,264	4,350	-178
India	1,750	814	2,564	936
Singapore	1,516	2,539	4,055	-1,023
Malaysia	1,048	1,426	2,474	-379
Thailand	1,035	2,438	3,473	-1,404

Source : Compiled from Statistics New Zealand Goods and Services Trade by Country, Year end December 2016

Table 2
New Zealand's Merchandise Trade with India: 2000-2016

Year	NZ Exports to India (NZ \$m)	NZ Imports from India (NZ \$m)	Total trade between NZ/ India (\$ mn)	NZ Trade with India (% of NZ total)	NZ Exports to India (% of NZ total)	NZ Imports from India (% of NZ total)
2000	175	174	349	0.6	0.6	0.6
2001	165	188	353	0.5	0.5	0.6
2002	192	192	385	0.6	0.6	0.6
2003	157	181	338	0.6	0.6	0.6
2004	196	203	399	0.6	0.6	0.6
2005	235	223	459	0.7	0.8	0.6
2006	337	251	589	0.8	1.0	0.6
2007	366	269	635	0.8	1.0	0.6
2008	544	329	873	1.0	1.3	0.7
2009	630	355	985	1.2	1.6	0.9
2010	901	368	1269	1.5	2.1	0.9
2011	938	379	1318	1.4	2.0	0.8
2012	786	419	1205	1.3	1.7	0.9
2013	669	423	1092	1.1	1.4	0.9
2014	618	508	1126	1.1	1.2	1.0
2015	638	601	1239	1.2	1.3	1.1
2016	639	591	1229	1.2	1.3	1.1

Source: Statistics New Zealand Infoshare Database

Over 2000-2016, total merchandise trade between India and New Zealand has been growing, increasing from \$ 349 million to \$ 1.2 billion, doubling its share in New Zealand's total trade over this period. However, the value of total trade has declined from a peak of \$ 1.32 billion in 2011 (Table 2). **As of 2016, the value of New Zealand's merchandise exports to India was \$ 639 million, only \$ 9 million higher than the values achieved in 2009.** This suggests that New Zealand's export potential to India's rapidly growing economy in the recent years have been largely untapped.

New Zealand Imports from India as at end year 2016 was valued at \$ 591 million, decreasing by \$ 10 million over the same period in 2015, which also recorded peak value for imports over the 2000-2016 period. **Since 2005, New Zealand has been persistently running a merchandise trade surplus with India, with its bilateral merchandise export volumes being greater than that of its bilateral merchandise imports (Table 2).**

¹ Although February 2017 data is now available, it is provisional, and hence the latest final available data used for the analysis in this update is as of December 2016.

Table 3
Trends in Top 20 Goods exports of NZ to India by Industry categories (HS-2 digit)

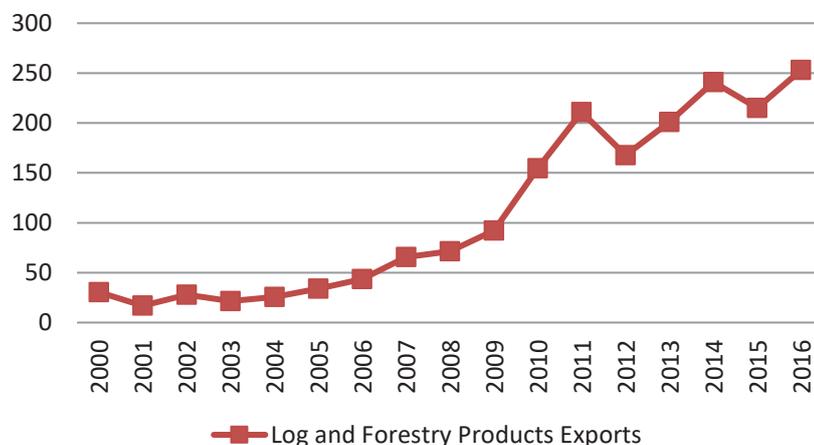
	Value (NZ \$ mn)			Share in India's total (%)			Indian Exports as % of NZ total	
	2014	2015	2016	2014	2015	2016	2015	2016
All Commodity Chapters	618	638	639	100	100	100	1.3	1.3
Logs	241	215	253	39.01	33.71	39.59	6.1	6.1
Confidential items	156	126	108	25.23	19.72	16.9	18	9.7
Wool	44	39	41	7.17	6.12	6.47	4.6	5.9
Edible Fruit & Nuts	26	37	41	4.2	5.74	6.46	1.6	1.5
Wood Pulp	19	31	35	3.1	4.89	5.55	4.2	5.1
Metal Scrap including Iron and Steel ingots	21	37	28	3.42	5.86	4.46	8.5	7.5
Aluminum	18	24	26	2.94	3.79	4.14	2.3	2.7
Hides And Skins	18	19	18	2.94	3.02	2.83	3.7	4.6
Machinery equipment Parts	13	23	13	2.06	3.61	2.03	1.4	0.8
Respirators,Surgical Instruments Etc	7	15	9	1.13	2.42	1.48	1.8	1.1
Paper & Paperboard Articles	8	8	9	1.29	1.18	1.41	1.6	1.9
Electrical Machinery Etc; Sound Equip; Tv Equip; Pts	6	6	9	0.92	0.97	1.39	0.6	0.9
Dairy Produce	1	13	9	0.23	2	1.36	0.1	0.1
Sugars And Sugar Confectionary	6	6	8	0.96	0.97	1.26	3.7	4.7
Albuminoidal Subst; Modified Starch; Glue; Enzymes	11	8	7	1.83	1.22	1.06	0.5	0.6
Edible Vegetables	2	2	3	0.27	0.35	0.49	0.5	0.7
Organic Chemicals	3	6	3	0.45	0.93	0.47	1.1	2.2
Pharmaceutical Products	0	1	2	0.05	0.11	0.32	0.2	0.5
Plastics And Articles Thereof	2	2	2	0.29	0.35	0.27	0.5	0.4
Copper And Articles Thereof	2	1	1	0.3	0.2	0.22	1.2	1.6
Others	13	18	12	2	3	2		

Source : Compiled from Statistics New Zealand Infoshare database

EXPORTS

New Zealand's exports to India have been heavily concentrated in a few product categories. **The top 5 goods exported from New Zealand to India in 2016 constituted nearly three-fourths of New Zealand's total exports to India.** The top commodity item of exports was Logs and Forestry products (\$ 253 million), followed by Confidential items (\$ 108 million), Wool (41 million), Edible Fruit and Nuts (\$ 41 million), and Wood Pulp (\$ 35 million) (Table 3). **In terms of change in value of exports to India in December, the largest increases were noted in Logs (up by \$ 38 million from a year ago); followed by Fruits/Nuts (up by \$ 5 million); Wood Pulp (up by \$ 4 million); Electrical Machinery & Parts (up by \$ 3 million) and Wool (up by \$ 2 million).** The largest decreases in export values during this period were noted in exports of Confidential Items (down by \$ 18 million compared to a year ago); followed by Machinery Equipment and parts (down by \$ 10 million); Metal Scrap (down by \$ 9 million) and Respirators and Medical Equipment (down by \$ 6 million).

Figure 1
New Zealand's Log and Forestry Products Exports to India



In terms of percentage share contributions of New Zealand exports to India, the largest increases in year-end December 2016 compared to 2015 was observed in Logs (current share is 40%, compared to 34% a year ago), followed by Edible Fruit and Nuts (6.5% compared to 5.7% a year ago), and Wood Pulp (5.6% compared to 4.9% a year ago). The largest decreases in percentage contributions to New Zealand exports to India were noted in Confidential Items (down by 3% from 19.7% to 16.9% a year ago), followed by Machinery Equipment & Parts (down by about 2% compared to 3.6% a year ago).

Source: Statistics New Zealand Infoshare database

Logs and Forestry Products (HS-44) was currently the largest individually valued commodity exported to India, with a value of \$ 253 million, constituting a share of 6.3% of total Log and Forestry Exports of New Zealand. India was the 5th largest market for New Zealand's log exports in the year end 2016, behind China (\$ 2 billion (share of 48% of New Zealand's log exports), Korea (\$ 411 million (share of 10%), Japan (\$ 374 million (share of 9%), and Australia (\$ 369 million (share of 9%). Figure 1 suggests that Log Exports have generally shown an increasing trend historically, although prior to 1997 Log exports to India were virtually non-existent.

Confidential items have been the second largest value of exports to India constituting a share of 10% of total Confidential Items Exports of New Zealand. With an export value of \$ 108 million as of year-end 2016, India was the second largest export destination for this category of exports after China (\$ 714 million, worth 64% of the NZ total in this category), and followed by Korea (\$ 106 million, worth 10% of the NZ total). While this item is retrospectively reclassified to a more meaningful category, the respondent does not disclose the type of goods exported for competitive or confidentiality reasons.

Wool has been the third largest valued commodity worth \$ 41 million sent to India in year-end 2016, making it the 4th largest export market for New Zealand Wool after China, Italy and the UK.

Edible Fruits and Nuts has been the fourth largest valued of exports to India as of December 2016, with \$ 18 million worth of Kiwifruit exports and \$ 23 million worth of exports of Apples, Pears and quinces. Notably, **New Zealand's exports of Kiwifruit to India increased by \$ 5 million over the same period in 2015, making it one of the drivers of New Zealand's increased Fruit exports to India in recent years.**

Other notable exports sent to India in the past year, worth more than \$ 10 million of exports, have been Wood Pulp (\$ 35 million), Metal Scrap including Steel ingots (\$ 28 million), Aluminium (\$ 26 million), Hides and Skins (\$ 18 million) and Machinery Equipment (\$ 13 million) respectively. It is also notable that during this period, 87% of New Zealand's Tanned Hides exports², and 67% of Its Paper and Paperboard (including waste and scrap) exports as well as its Metal Waste and Scrap exports went to India³.

IMPORTS

New Zealand's imports from India have not been that concentrated in a few product categories compared to its exports. **The top 5 goods imported by New Zealand from India in 2016 constituted only a third of New Zealand's total imports from India.** The top commodity item of imports was Pharmaceuticals/Medications (\$ 75 million), followed by Precious Metals and Gems (\$ 58 million), Textiles (\$ 33 million), Motor Vehicles (\$ 28 million), and Non-Knitted Apparel and accessories (\$ 27 million) (Table 4). **In terms of change in value of imports from India in December, the largest increases were noted in Pharmaceuticals/Medications (up by \$ 13 million from a year ago); followed by Textiles (up by \$ 4 million); Precious Metals and Gems (up by \$ 3 million); and Non-Knitted Apparel and Coffee/Tea/Spices (up by \$ 2 million each).** The largest decreases in import values during this period were noted in imports of Copper and Articles thereof (down by \$ 22 million compared to a year ago); followed by Motor Vehicles (down by \$ 3 million); and Tanning & Dye extracts and Footwear and Parts thereof (both down by \$ 2 million).

In terms of percentage share contributions of New Zealand imports from India, the largest increases in year-end December 2016 compared to 2015 was observed in Pharmaceuticals/Medications (current share is 13 %, compared to 11% a year ago), followed by Precious Metals and Gems (10.2% compared to 9.5% a year ago), and Textiles (5.9% compared to 5.1% a year ago). The largest decreases in percentage

² This corresponds to HS code 4105 (Tanned or crust skins of sheep and lambs, without wool on, whether or not split, but not further prepared).

³ These correspond to HS codes 470720 (Paper or paperboard; waste and scrap, paper or paperboard made mainly of bleached chemical pulp, not coloured in the mass), and 720421 (Ferrous waste and scrap; of stainless steel) respectively.

contributions to New Zealand imports from India were noted in Copper and Articles thereof (down by about 4% from 6.5% to 2.8% a year ago), while percentage share changes of most of the other top 20 product categories of imports remained unchanged during this period.

Pharmaceuticals/Medicines was currently the largest individually valued commodity imported from India, with a value of \$ 75 million, constituting a share of 5.8% of total Pharmaceuticals/Medicines imports of New Zealand. India was the 4th largest market for New Zealand's Pharmaceuticals/Medicines imports in the year end 2016, behind Australia (\$ 235 million (share of 18% of New Zealand's Pharmaceutical imports), Germany (\$ 192 million (share of 14%), and USA (\$ 159 million (share of 12%).

Precious Metals and Gems has been the second largest value of imports from India constituting a share of 13% of total Imports of this product category into New Zealand. India was the 2nd largest import source for this category of imports after Australia (\$ 123 million, worth 28% of the NZ total in this category). **Out of \$ 58 million worth of imports in this product category, \$ 25 million consisted of Diamonds, while \$ 32 million worth of imports consisted of Jewellery articles and parts thereof, of precious metal or of metal clad with precious metal.**

Textiles has been the third largest valued commodity worth \$ 33 million sent to India in year end 2016, with a value of \$ 33 million, constituting a share of 10% of total Textile imports of New Zealand. **India was the 3rd largest import source for New Zealand Textiles after China (\$ 204 million, worth 58% of New Zealand's total Textile imports, and Pakistan (\$ 38 million, worth 11% of the New Zealand total imports in this category. Bed linen, table linen, toilet linen and kitchen linen constituted the bulk of New Zealand's textile imports from India, worth \$ 22 million being imported under the Textiles product category as of year end 2016.**

Motor Vehicles has been the fourth largest valued imports from India as of December 2016, although its share in New Zealand's imports of Motor Vehicles is less than 0.5%.

Other notable imports sourced from India in the past year, worth more than \$ 10 million of imports, have been Non-Knitted Apparel (\$ 27 million), Electrical Machinery and Parts (\$ 20 million), Plastics and Machinery Equipment (\$ 20 million each), Copper and Articles (\$ 16 million), Knitted Apparel and Articles made of Leather including Handbags etc. (\$ 15 million each), Organic Chemicals (\$ 14 million), Rubber and Articles thereof (\$ 12 million) and Tanning and Dye Extracts, Footwear and Parts, and Iron and Steel (each worth \$ 10 million) respectively. It is also notable that compared to 2015, India's share in New Zealand's Copper and Article imports decreased by 17% in 2016, while that in New Zealand's Leather Articles and Knitted Apparels imports increased by 4% and 5% respectively.

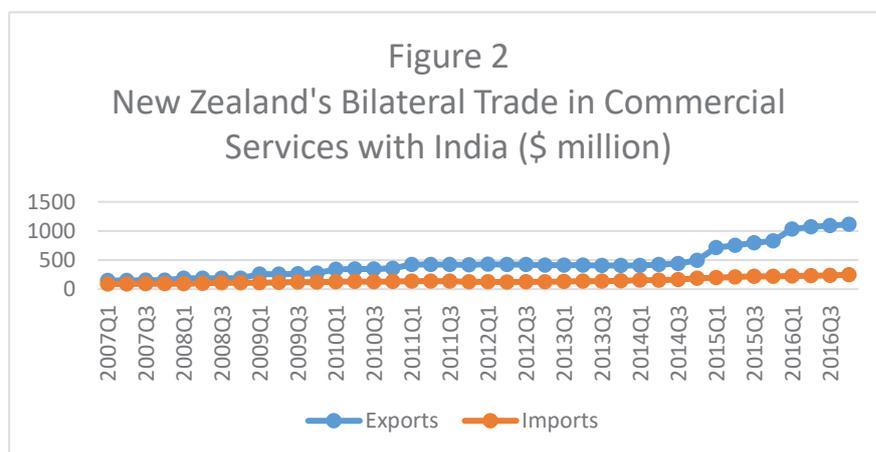
Table 4
Trends in Top 20 Goods imports of NZ from India by industry categories (HS-2 digit)

Description	Value (NZ \$ mn)			Share in India's total (%)			Indian Imports as % of NZ total	
	2014	2015	2016	2014	2015	2016	2015	2016
Total of all goods	483	576	567	100	100	100	1.1	1.1
Pharmaceuticals/Medications	55	62	75	11.44	10.76	13.16	5.2	5.8
Precious Metal and Gems	45	55	58	9.26	9.47	10.24	14.7	13.2
Textiles	28	29	33	5.73	5.1	5.9	9.4	9.9
Motor Vehicles	37	31	28	7.56	5.46	5.02	0.5	0.4
Non-Knitted Apparel And Accessories,	20	25	27	4.2	4.28	4.71	3.4	3.7
Electric Machinery & Parts	15	20	20	3.2	3.51	3.6	0.5	0.5
Plastics	19	18	19	4.01	3.14	3.41	0.9	0.3
Machinery Etc.; Parts	24	19	19	4.93	3.27	3.33	0.3	1
Copper And Articles Thereof	3	37	16	0.56	6.51	2.79	19.1	2
Knitted Apparel And Accessories	11	15	15	2.29	2.52	2.73	1.9	6.7
Leather Articles; Saddlery Handbags Etc;	12	15	15	2.55	2.56	2.66	6.8	10.4
Organic Chemicals	6	12	14	1.34	2.14	2.46	3	3.5
Rubber	11	13	12	2.21	2.24	2.07	2.2	2
Tanning & Dye extracts	12	12	10	2.4	2.08	1.84	3.9	3.3
Footwear, And Parts Thereof	8	12	10	1.64	2.17	1.77	3.1	2.6
Articles Of Iron Or Steel	9	10	10	1.86	1.75	1.73	1.1	1.1
Coffee, Tea, & Spices	6	8	10	1.26	1.37	1.72	5.1	6.7
Carpets And Floor Coverings	7	9	9	1.47	1.63	1.67	7.1	6.4
Furniture	8	9	9	1.59	1.58	1.54	0.9	0.8
Cereals	8	9	8	1.64	1.56	1.5	2.7	3.5
Others	139	155	149	28.9	26.9	26.2		

Source : Compiled from Statistics New Zealand Infoshare database

TRADE IN COMMERCIAL SERVICES

Figure 2 suggests that bilateral trade in commercial services between New Zealand and India have also been growing rapidly over the years, with exports of commercial services increasing at a much faster pace than its imports. Notably, in a period of 3 years from year end December 2013 to 2016, Exports of Commercial Services increased nearly three-fold from \$ 405 million to \$ 1.1 billion. Imports of Commercial Services nearly doubled during the same period from \$ 142 million to \$ 247 million.



Source: Statistics New Zealand

On the Export side, 96% of commercial services exports to India have been Travel related, with 83% of total commercial services exports being accounted for by Education related travel, whose share increased by 7% in year end December 2016 compared to a year ago. While being low in value, Telecommunication and IT related services increased its share from 0.1% to 0.3% during this period. All other service sectors, for which data is available, showed a decrease in the export volumes over this period. This suggests that bilateral service exports expansion between the two countries has been largely led by education related travel services in recent years, and is heavily skewed in favour of it.

Industry	Value of Exports to India (\$ million)		Share in total Services Exports to India (%)	
	2015	2016	2015	2016
Transportation services	13	7	1.6	0.6
Charges for the use of intellectual property	1	1	0.1	0.1
Telecommunications, computer, and information services	1	3	0.1	0.3
Other business services	4	6	0.5	0.5
Personal, cultural, and recreational services	1	C	0.1	NA
Government services	23	16	2.8	1.4
Business travel services	18	11	2.2	1
Education travel services	632	916	76.6	82.7
Other personal travel services	132	148	16	13.4

Source : Compiled from Statistics New Zealand Infoshare database

Table 5
New Zealand-India Exports of Commercial Services by Industry as at December 2016 compared to 2015

Note: Data is confidential for some service sectors and therefore recorded as a C for that period. Shares are calculated on the basis of final data available.

On the Import side, 60% of commercial services imports from India have been Travel related, with 55% of total commercial services imports being accounted for by Other Personal Travel services, whose share increased by 5% in year end December 2016 compared to a year ago. Telecommunication and IT related services constituted 22% of total service imports sourced from India, followed by Other business services. While

being low in value, Business Travel services increased its share from 2.7% to 3.2% during this period. All other service sectors, for which data is available, showed a decrease in the import volumes over this period. This suggests that bilateral service imports between the two countries has been largely led by personal travel services in recent years, and suggests an increased flow of tourism related travel between the two countries over the years.

Industry	Value of Imports from India (\$ million)		Share in total Services Imports from India (%)	
	2015	2016	2015	2016
Insurance and pension services	8	2	3.6	0.8
Charges for the use of intellectual property	2	2	0.9	0.8
Telecommunications, computer, and information services	51	55	23.1	22.3
Other business services	32	32	14.5	13
Government services	7	6	3.2	2.4
Business travel services	6	8	2.7	3.2
Education travel services	2	2	0.9	0.8
Other personal travel services	110	137	49.8	55.5

Source : Compiled from Statistics New Zealand Infoshare database

Table 6
New Zealand-India Imports of Commercial Services by Industry as at December 2016 compared to 2015

Note: Data is confidential for some service sectors and therefore recorded as a C for that period. Shares are calculated on the basis of final data available.

Dr. Rahul Sen is a Senior Lecturer in Economics at AUT School of Economics, Faculty of Business, Economics and Law. was previously a Research Fellow with the Institute of Southeast Asian Studies (ISEAS) in Singapore from 2003-2007, prior to joining AUT in 2008. He is a recognized expert on economic integration in the Asia-Pacific, particularly related to Free Trade Agreements (FTAs), having published papers, articles, books and book chapters on the subject. In recognition of his expertise, his paper on FTAs involving the Association of Southeast Asian Nation (ASEAN) member countries was included at the 2006 IMF-World Bank Annual Program of Seminars in Singapore.

GST: A HUGE STEP FORWARD OR AN OPPORTUNITY MISSED?

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If all goes according to plan, India will introduce a Goods and Services Tax (GST) on 1 July this year. This is a hugely “big deal”, and could have enormous benefits for India, simplifying a wide range of other taxes and greatly assisting in the integration of the still somewhat separate state economies within India.

EY recently suggested that the new tax “will lead to business transformation for all major industries”. They noted that the GST would “replace the current Central taxes and duties such as Excise Duty, Service Tax, Countervailing Duty (CVD), Special Additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, Taxes on lottery, betting and gambling, state cesses and surcharges and Entertainment tax (other than the tax levied by the local bodies).”

That indeed sounds like a giant leap forward in terms of streamlining the Indian tax system, and it would seem churlish to criticize it.

But what could have been a giant leap forward seems likely to be good deal less than it could have been. What has been agreed seems likely to lead to enormous complexity, both for those in government trying to police the tax and for those in the business sector trying to comply with the new law.

Instead of applying a single rate of GST to virtually everything, as we do in New Zealand, there will effectively be five rates of GST – some goods and services will be exempt from GST; “essential supplies” will be taxed at 5%; there will be two different “standard rates”, 12% and 18%; and a rate of 28% for goods currently taxed at more than 30%.

There will, in addition, be another tax levied on specified luxury and “sin goods”. Petroleum products will, at least for the moment, remain outside the GST net, as will alcohol.

Unsurprisingly, there has been intense lobbying by many industries to be included at a low rate of GST, with the jewellery sector, for example, arguing that their sales should be subject to a GST of just 1.25% and the textile sector pushing for a 5% rate.

The new tax will have two components – “Central GST” levied by the federal government and “State GST” levied and collected by the states – and at this stage I at least remain unclear how that will work.

Interestingly, the law provides that input tax credit will only be available on a provisional basis for a period of two months until payment of tax and filing of a valid return by the supplier. It appears that there will be a major effort to match the claims for input tax credit with the payment of tax by suppliers, with input tax credit “reversed” in case of a mis-match. I hope that this “matching” effort occurs on a sample basis – with severe penalties for false claims – and does not apply to every single transaction. If it is envisaged that it will occur for every single claim for input tax credit, even the millions of people already employed in enforcing taxes in India will be insufficient for the task!

Surprisingly, in searching for information about the Indian GST online I was unable to find any reference to a “cash option”, allowing small businesses to file their GST returns on the basis of amounts actually received for sales and amounts actually paid for inputs, rather than doing both sales and purchases on

GST: A HUGE STEP FORWARD OR AN OPPORTUNITY MISSED?

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an accrual basis. For small businesses, which typically do not employ full-time accounting staff, having the option to file their GST returns on a cash basis is extremely important, and results in vastly lower compliance costs (and the only loss of revenue is to the accounting profession!). I hope that that option does exist.

In short, it is not yet clear that the introduction of GST in India will be the enormous benefit it could have been. All of us who want India to succeed must hope that it works well. Whether it can be successfully introduced by 1 July must remain a very open question.

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