

From Vision to Market Entry – India as a Business Place

By

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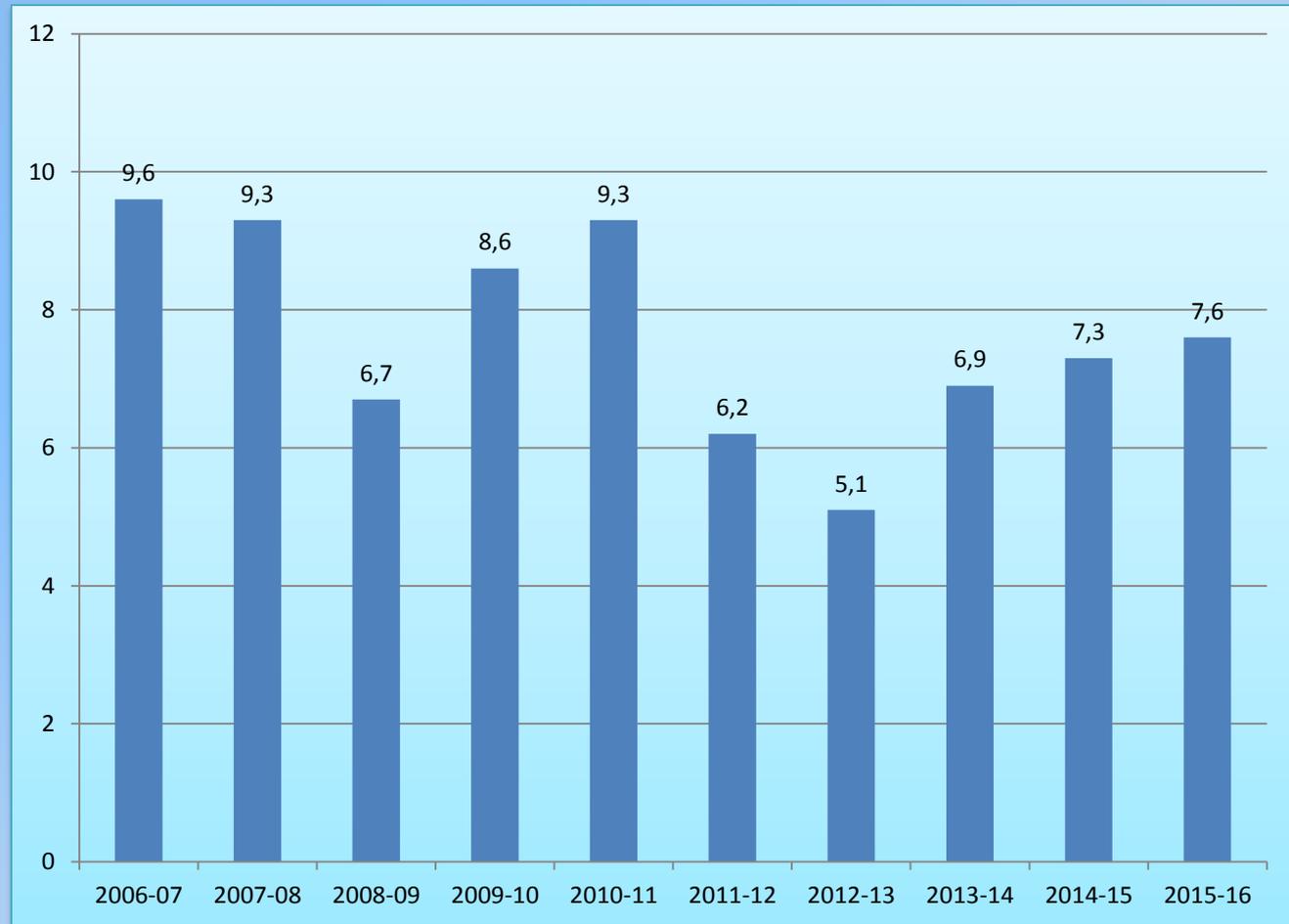
India – a snapshot



- Total No of States – 29
- No of Union Territories - 7
- Government - Federal Republic
- Population – 1.3 Billion
- GDP – US \$ 2.308 Trillion (Nominal)
- Per Capita Income – US \$ 1820 (Nominal)
- Rank in World Bank 'Ease of Doing Business' Index (2017) – 130 / 189

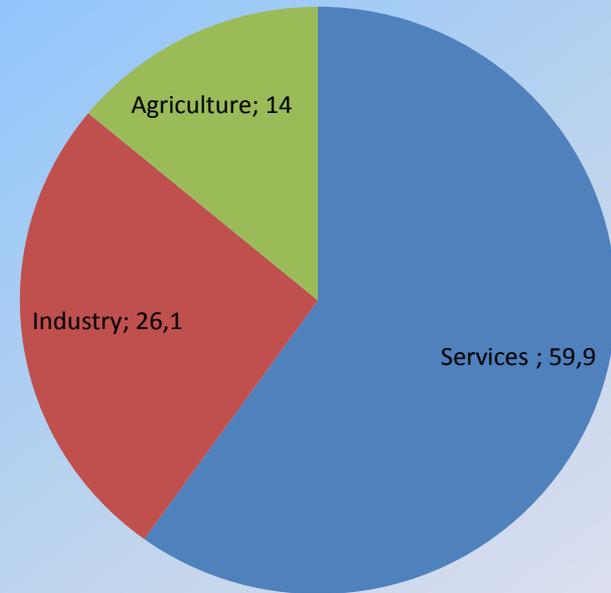
Economic Growth

- India has recorded an average economic rate of growth of 7.6 % over the past 10 years.



Indian Economy

- The services sector accounts for approx. 60 % of India's GDP. This is followed by Industry at approx. 26 % (including construction) and agriculture with 14%. However, agriculture accounts for 49 % of India's labour force. This is because productivity is still very low in agriculture and not sufficient jobs have been created in the manufacturing sector to absorb the excess labour from agriculture. The Information technology sector dominates the services sector. India is a strong exporter of IT services in the world.



Foreign Direct Investment (FDI) in India

- India is a one of the top 3 destinations for FDI in the world.

Year	FDI (US \$ Billions)
2010-11	34.84
2011-12	46.55
2012-13	34.29
2013-14	36.04
2014-15	45.14
2015-16	55.45



Government Initiatives to Invite FDI

“Make in India”

- India's Prime Minister Narendra Modi launched the government's ambitious **“Make in India”** program in Sept 2014. The Indian government has promised to lower barriers to doing business and promote foreign investment. The aim of the government is to transform India's economy (third-largest in Asia) into a manufacturing powerhouse like China.



The economy as a whole performed well in 2016, growing 7.6% with a stable rupee and political stability. However, India's investment climate continues to send mixed signals, as the Bhartiya Janata Party (BJP), led by Prime Minister Narendra Modi, actively courts investment, but implementation of economic reforms to attract investors has been patchy and slow.

Targeted Sectors for FDI under Make in India Initiative

There are 25 prominent sectors within manufacturing to which government is seeking foreign investments by the programme. Automobiles and automobile components, aviation, biotechnology, chemicals, construction, defence manufacturing, electrical machinery and electronic systems, food processing, IT and BPM, leather, media and entertainment, mining, oil and gas, pharmaceuticals, oil and railways, renewable energy, roads and highways, space, textiles and garments, thermal power, tourism hospitality and wellness are the broadly defined sectors.

The Indian Government has raised the FDI caps for most of the above sectors through the 'Automatic Route'. This means that there is no requirement for prior approval of the Government.

Sectoral Caps for FDI Investment

Sector	FDI Limits
Defence	Up to 49% under automatic route and above 49% through Government route
Civil Aviation	100% FDI under automatic route in Greenfield Projects and 74% FDI in Brownfield Projects under automatic route beyond 74% for Brownfield Projects is under government route.
Broadcasting	New sectoral caps and entry routes are as under: <ul style="list-style-type: none"> Broadcasting Carriage Services & down-linking of news channels: 100% FDI Cable Networks: 100% FDI and in News channels: 49% FDI
Banking	FDI up to 74% with 49% under automatic route rest through government route
Railways	100% FDI under automatic route permitted in construction, operation and maintenance of Rail Infrastructure projects
Construction	100% FDI through automatic route and Removal of minimum floor area & minimum capital requirement

Sector	FDI Limits
Pharmaceuticals	The extant FDI policy on pharmaceutical sector provides for 100% FDI under automatic route in Greenfield units and FDI up to 74% under automatic route and 100% under government approval in Brownfield units.
Plantation	Certain plantation activities namely; coffee, rubber, cardamom, palm oil tree and olive oil tree plantations has opened for 100% foreign investment under automatic route.
Telecom	FDI up to 100% with 49% under automatic route
Insurance and Pension	FDI Policy has been reviewed to increase the sectoral cap of foreign investment from 26% to 49% with foreign investment up to 26% to be under automatic route.
Medical Devices	100% FDI under automatic route for manufacturing of medical devices has been permitted.
E-Commerce	100% FDI in B2B e-commerce, Single brand retail trading entity permitted for B2C e-commerce and e-commerce food retailing
Retail	100% FDI and 49% under automatic route is allowed. In case of 'state-of-art' and 'cutting-edge technology' sourcing norms can be relaxed subject to Government approval. 100% FDI is now permitted under automatic route in Duty Free Shops located and operated in the Customs bonded areas.

“Ease of Doing Business” in India

- Despite the good intent and various initiatives of the Indian Govt., India still ranks an abysmal 130 out of 190 countries in the World Bank’s 2017 Ease of Doing Business Index. India held the same position in 2016, indicating that there is no sufficient changes visible in the ground for international investors.

Country	Rank Ease of Business
New Zealand	1
Singapore	2
USA	8
Germany	17
Russia	40
China	78
Brazil	123
India	130

Key Policy Decisions Implemented to Facilitate Business

Passage of Goods & Services Tax (GST)

The GST is a single uniform tax (similar to VAT in Europe) which replaces the multiple central and state-level tax code. It has come into effect from July 1, 2017. The GST overhaul, is expected to result in greater tax registration, compliance and wider use of digital mode of tax reporting and payment.

Passage of the Insolvency & Bankruptcy Code 2015

This law passed in 2016 is aimed at speedy winding up of insolvent companies, lowering NPAs, and redeploying capital productively.

Other Reforms

The Indian government undertook further reforms in 2016 to formalize the large informal economy, and digitize the economy. The government demonetized its INR 500 and INR 1000 notes, worth 86% of the currency in circulation, causing a shock to the economy in November-December 2016. Through **demonetization**, the government aimed to better track undeclared earnings (known as “black money” in India) for tax purposes, and increase the usage of digital payments which lags other major emerging economies.

Challenges in Market Entry

- Infrastructure bottlenecks

India's poor roads, railroads, ports, airports, power grid, and telecommunications pose significant challenges for international companies to do business in India.

Economic losses are incurred because of the long transportation time and high fuel cost caused by traffic jams in urban areas as well as in the highways. Railway accidents are very frequent due to lack of adequate and mandatory safety devices and training. The lack of inter modal transportation networks hampers the smooth flow of cargo between various regions within the country.

Challenges in Market Entry

Inflexible Labour Laws

Under the existing Indian Industrial Labour Laws if any company employing more than 100 employees lays off staff, it must first acquire permission from the state government. As it is extremely difficult to obtain such permission from the state government, not only does this regulation directly affect flexible business plan changes, but it also makes business closure difficult. Some states like Rajasthan and Madhya Pradesh have attempted to bring some changes in the stringent labour laws. But even then, it is not easy to fire employees in India.

Challenges in Market Entry

High Tariff Barriers

Import duty rates have been reduced over the past years, but are still quite high compared to other countries. Additional duty is generally applied to the import tariff, which means the total import duty often adds up to 30 % or more.

Imported food products are subject to various labelling requirements including the maximum retail price before they leave their place of origin. A limited number of products are still not allowed to be imported, or they have to be imported through an official authority or on the basis of specific licenses.

Challenges in Market Entry

Poor Enforcement of Contracts

India has a weak record in enforcing contracts. India ranks 172 out of 190 countries (World Bank Index) even behind Egypt and Zimbabwe.

The Indian State Governments uses the concept of 'public utility' as a renegotiation ploy for projects that concern the price of power or toll of a road.

This has effected many projects especially in the renewable energy, telecom and road development sectors.

Challenges in Market Entry

Inherent Challenges of Entering into Joint Ventures (JV) in India

Many JVs fail in India due to various issues such as:

- Cross Cultural Issues
- Different Ownership Context
- Mismatched Financial Access
- Poor Start-up Culture
- Different Control Expectations

Challenges in Market Entry

Procurement Policies

The Indian government allows a price preference for local suppliers in government contracts and generally discriminates against foreign suppliers. In international purchases and International competitive Bids (ICBs), domestic companies get a preference in government contracts and purchases.

Other Barriers

The Government of India continues to limit or prohibit FDI in some sectors such as multi brand retail trade and agriculture.

For single brand retail, companies opening wholly-owned stores in India are required to comply with the local sourcing norms of 30% within five years of their first store opening.

Other Issues facing Investors

India announced its intention to abrogate all bilateral investment treaties (BITs) negotiated on the basis of its 1993 model BIT. Some BITs have already lapsed and the rest will do so in 2017. India intends to renegotiate them on the basis of its new December 2015 model BIT which requires that foreign investors exhaust all domestic judicial remedies for up to five years, before entering into international arbitration, unless the claim is not judicable by Indian courts. This shift is an attempt to see investment disputes are resolved in domestic courts, as India has lost a number of recent disputes in international arbitration.

Market Entry Strategy

Key Steps to Ensure Market Entry

- Strategic planning, due diligence, consistent follow-up, and perhaps most importantly, patience and commitment are all prerequisites to successful business in India.
- Multiple marketing efforts that address differing regional opportunities, standards, languages, cultural differences, and levels of economic development.
- Careful analysis of consumer preferences, existing sales channels, and changes in distribution and marketing practices, all of which are continually evolving.

Market Entry Strategy

- Infrastructure, Logistics and Renewable Energy are all sectors which hold a lot of promise in India. Any investors entering these sectors need to properly evaluate the risks involved and the legal issues that may arise.
- For example, in road and power sectors, it is important for investors to draft the contract in a way that defines what public interest would be so as to ensure more certainty over the life of a contract.

Market Entry Strategy

Identification of Joint Venture Partner

It is very typical in any JV that both partners want control. The foreign company is insecure about giving its brand and technology while the Indian partner worries about his financial investments.

It is important for an international company to select a partner who has experience in working jointly with people from another company.

Most Indians speak English fluently. However, the reality is that speaking the language is different from understanding each other. In most cases work ethics, value systems, corporate culture and other cultural are different. This need to be understood very clearly before venturing into an JV agreement.

Market Entry Strategy

Identification of Suitable Location to Do Business

Any international company that ventures into India also needs to take into account the location factors which are ideal for its business.

For manufacturing industries, the states of Tamil Nadu, Maharashtra, Gujarat and the National Capital Region (NCR) are considered the best due to availability of skilled manpower, stable power supply, friendly industrial policies and close location to ports/airports offering logistical advantages.

For IT Software, biotechnology, machine tools and aerospace the cities of Bangalore, Hyderabad and Pune are considered the ideal locations.

Market Entry Strategy

What IGEP Consult can do for you

IGEP Consult has been operating in India for 30 years (since 1987).

We have a strong understanding of the Indian market and have helped facilitate the entry of several German companies in India. We offer a portfolio of services to German “Mittelstand” companies.

Market Entry Strategy

What IGEP Consult can do for you

Our portfolio of services

- Market research/analysis of various Indian business sectors
- Commercial / Legal services for establishing your joint venture in India
- Identification of a suitable business partner or agent in India
- Assistance in participation in a trade fair in India
- Office in Office – We can offer you an office within our office – a very cost effective way to have your own office address in India.
- Recruitment of Sales Engineer or any other staff for your service requirement in India

Thank you!