U.S. Department of State
FY 2000 Country Commercial Guide: India

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CHAPTER I. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at India's commercial environment using economic, political and market analysis. The CCG's were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

The Indian economy grew at a moderate 5.5 percent in the Indian fiscal year (IFY) to March, 1999. In IFY 1999-2000, the government projects real GDP growth will be 6 to 7 percent. Despite this optimism, India faces difficult months during the run up to parliamentary elections in September/October 1999 due to political uncertainty and a slowdown in economic reforms. In 1998, industrial growth slowed, exports were sluggish, and monetary growth was worrisome. While long-term economic prospects are good, serious concerns remain about inadequate infrastructure, high budget deficits and barriers to trade.

A fall in agricultural production in Indian Fiscal Year (IFY) 1997-98 affected rural demand, while volatile financial markets reduced consumer spending. Export growth has been slow in the past two years due to a stronger rupee and a global slowdown in trade. However, India has weathered global financial turmoil fairly well, because its manageable current account deficit and low levels of short-term foreign debt have ameliorated any severe impact.

Capital markets were subdued in IFY 1998-99. Portfolio inflows until March, 1999 were USD 1.4 billion, and total foreign investment at USD 3.3 billion was USD 1.7 billion lower than in the previous year. USD 1.5 billion was raised from the government's disinvestment program during the year, and a target of USD 2.4 billion for the year was set in the 1999 budget.

Inflation is currently less than 4 percent, and is projected to range from 6.5-7 percent in 1999. Foreign currency reserves stood at USD 29.5 billion in April 1999, sufficient to cover 8.8 months of imports.

The Indian Rupee stabilized at Rs. 42.25-42.75/dollar over the last six months. Analysts expect the rupee to weaken by 5-7 percent vis-à-vis the dollar in IFY 1999-2000, given the growing trade deficit. The budget for IFY 1999-2000 simplified excise taxes and custom duties, raised taxation levels, increased the price of diesel fuel and enlarged the scope of areas qualifying for automatic investment approval. It also announced incentives to boost the capital market, rural development and the housing sector. In India's adherence to its WTO commitments, the Export-Import policy announced in April, 1999 liberalized the import of more than 800 items.

Political uncertainty has dashed hopes of accelerated economic reforms in the current year. The Bhartiya Janta Party (BJP) coalition government lost a no confidence motion in April, 1999. New elections, scheduled for September/October 1999, are unlikely to produce a radically different mix of party strengths. Several major legislative bills were pending when parliament dissolved, including insurance, foreign exchange management, securities and amendments to the Companies Act.

While Standard and Poor (S&P) lowered India's sovereign credit rating from BB-plus to BB in October 1998, both Moody and S&P reaffirmed the stable outlook for India's sovereign rating despite the fall of the government, noting that the political situation was already factored into the rating.

The sanctions imposed by the U.S. after India's nuclear tests of May, 1998 were eased last October for twelve months. Operations of the U.S. Ex-Im Bank, Trade & Development Agency and Overseas Private Investment Corporation in India were allowed to re-start in October 1998, and sanctions affecting commercial bank lending to India were waived. On June 8, 1999 the full U.S. Senate approved major India-Pakistan sanctions reform legislation. However, the House has yet to approve the proposed legislation.

Ongoing tensions between India and Pakistan have resulted in three wars in the past. The most recent development was the start of a conflict on the Kashmir border in May, 1999. The U.S. has called for restraint by both sides to prevent the situation from escalating. India's stock market has already been impacted negatively by the conflict, and its effect on the economy will filter through in the months ahead. By some estimates, India is spending at least Rs. 3 million per day in military and other measures related to the conflict.

The following are 15 best prospect industry sectors in India for U.S. firms: computer software; telecommunications; pollution control equipment; power; mining Equipment; architecture, construction & engineering; metal working machinery; sporting goods; laboratory equipment; education services; airport equipment; medical equipment; water resource equipment; food processing & packaging equipment; cosmetics. In addition, substantial opportunities exist for U.S. firms in the oil and gas sector.

Politicians and many local businesses continue to call for India to be built by Indians. We believe that these leaders can embrace nationalism without antagonizing foreigners, by establishing policies that are fair and consistent, and that address India's economic needs. On balance, India continues to develop an attractive business environment for foreign investment.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at http://www.stat-usa.gov, http://www.state.gov/, and http//www.mac.doc.gov. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRAD(E) or by fax at (202) 482-4473.

CHAPTER II. ECONOMIC TRENDS AND OUTLOOK

-- Major trends and outlook

-- **Principal growth sectors (e.g., manufacturing, agriculture, services from an Indian macro perspective)**
-- **Government role in the economy (India's budget priorities, privatization of state enterprises)**
-- **Balance of payments situation**
-- **Infrastructure (overview of infrastructure systems, India's efforts to address the Year 2000 problem)**

SUMMARY OF THE CURRENT MACROECONOMIC SITUATION

Economic reforms since 1991 have led to stronger economic growth, higher investment flows, and growth in trade. Indian and foreign business increased their investments in response to economic reforms. Inflation has been moderate, foreign exchange reserves have increased and the balance of payments deficit is lower. However, political uncertainty, high interest rates, a large government fiscal deficit and inadequate infrastructure have hampered economic growth. In 1998, industrial growth slowed, exports were sluggish, and monetary growth was worryingly high. India's modest current account deficit and low levels of short-term foreign debt enabled the country to weather the Asian financial crisis, despite lower foreign investment flows.

The economy continues to grow at a moderate pace of 5.5 percent. Real gross domestic product (GDP) growth was 5.8 percent in Indian fiscal year (IFY) 1998-99, up from 5.1 percent in IFY 1997-98. Growth slowed for services and fell sharply for industry. Key industrial sectors such as machinery and equipment, basic metals and alloys, textiles and cotton witnessed negative growth rates. This year the government projects real GDP growth will be 6 to 7 percent. Despite this optimism, India faces difficult months during the run up to parliamentary elections in September 1999 due to political uncertainty and a slowdown in reforms.

The trade deficit in IFY 1998-99 increased to USD 8.25 billion from USD 6.4 billion the previous year. Exports grew by 3.7 percent, compared to 3 percent in IFY 1997-98 and 5 percent in 1996-97. Total foreign investment (direct and portfolio) was estimated at USD 3.3 billion for 1998-99, down from USD 5 billion in IFY 1997-98. Foreign exchange reserves, at USD 29.6 billion in April 1999, are enough to cover 8.8 months of imports. External debt was USD 98.9 in March 1999, versus USD 93.9 billion in March 1998. The rupee depreciated 11.7 percent between April 1, 1998, and March 31, 1999, but has been stable since September 1998 at Rs 42.3 - Rs 42.8/dollar. The government successfully raised USD 4.3 billion in international bond markets.

The gross fiscal deficit of the central government for IFY 1998-99 rose to 6.5 percent of GDP, well above the target of 5.6 percent or the previous year's deficit of 5.7 percent. A fiscal deficit of about 5.8 percent is projected for IFY 1999-2000. Inflation measured by the wholesale price index has eased to less than 4 percent from a high of 9 percent in November 1998. Stock markets were subdued through most of the fiscal year.

The Bhartiya Janta Party (BJP) coalition government lost a no confidence motion by one vote in April 1999. Attempts to form an alternative government under the Congress Party or a "third front" failed. The President dissolved parliament and called for fresh elections to take place in September/October 1999. New elections are unlikely to produce a radically different mix of party strengths. Reforms will slow until a new parliament is in place and many investment decisions will remain on hold. Legislation pending when parliament was dissolved includes the Insurance Regulatory Authority Bill, Prevention of Money Laundering, Foreign Exchange Management, Securities Contract (Regulation) Bill, the new center-state tax sharing formula, and amendments to the Companies Act. The Cabinet Secretary has barred all government bodies from taking major policy decisions. Prime Minister Vajpayee has called for a second generation of reforms to include: improving the investment climate, cutting red tape, a comprehensive WTO strategy, reform in agriculture and small scale industry, and better corporate governance.

The budget for 1999-2000 was presented on February 27, 1999 and was received well. It simplified excise taxes and custom duties by reducing the number of rates and raised income taxes, corporate taxes and duty rates for diesel. The scope of areas that will qualify for automatic investment approval was increased. The budget announced incentives to boost the capital market, rural development and the housing sector. It was passed without amendments before parliament was dissolved, providing some economic cheer.

Standard & Poor (S&P) lowered India's sovereign credit rating from BB-plus to BB in October 1998, citing the fiscal deficit and the weak current account, and upgraded the outlook from negative to stable. Moody and S&P reaffirmed the stable outlook for India's sovereign rating despite the fall of the government, noting that the political situation was already factored into the rating.

Sanctions imposed on India after its nuclear tests in May 1998 were eased by Presidential waiver until October , 1999. The U.S. restored operations of the U.S. Ex-Im Bank, TDA and OPIC, and sanctions affecting commercial bank lending and military training were waived. A World Bank loan to Andhra Pradesh for power reform was approved. On April 11, 1999, India tested an improved version of an intermediate range ballistic missile. The U.S. Commerce Department, which had been rejecting 90-95 percent of applications for dual use items from India, further tightened the controls after this test. These restrictions cover both high-tech and low-tech products.

MAJOR TRENDS AND OUTLOOK

Macroeconomic Overview: Economic reforms since 1991, including liberalization of trade, investment and the financial sectors, have helped India boost its economic growth rate. Overall, the Indian economy continues to perform relatively well and long-term prospects are good. However, serious concerns remain about inadequate infrastructure, high budget deficits and barriers to trade. Growth has slowed in the last two years due to weaker demand, high real interest rates, political uncertainty and weak global markets. The fall in agricultural production in 1997-98 affected rural demand, while volatile financial markets have reduced consumer spending. Political uncertainty has dashed hopes of accelerated reform in the current fiscal year. Standard and Poor lowered India’s sovereign credit rating from BB-plus to BB in October 1998. According to the World Competitiveness Yearbook 1999, India’s international competitiveness ranking improved from 41 in 1997 to 39 in 1998.

Growth in GDP: GDP growth increased to 5.8 percent in 1998-99, compared to a growth of 5 percent in 1997-98 and about 7 percent recorded in the preceding three years. (The government revised national income statistics by shifting the base year from 1980-81 to 1993-94 and incorporated manufacturing in the unorganized sector for the first time.) The increase in GDP growth was led by a sharp increase of 6.8 percent in agricultural production, which accounts for 27 percent of India’s GDP. Growth in the service sector, including trade, hotels, transport and communications, slowed but remained an engine of growth at 6.7 percent. Industrial growth fell sharply. This year the Reserve Bank of India projects growth will be between 6 and 7 percent.

India continued to weather global financial turmoil well. Exports and foreign investment were down in part because of the East Asian crisis, but India's manageable current account deficit and low levels of short-term foreign debt ameliorated any severe impact.

Inflation: The annual average rate of inflation based on the Wholesale Price Index was 6.8 percent for fiscal year 1998-99, compared to 4.8 percent the previous year. A severe seasonal shortage of vegetables along with increases in the administered prices of sugar, food grains and petroleum products were responsible for the increase. Average annual inflation measured by the Consumer Price Index for Industrial Workers (retail prices) rose much faster than the wholesale price index at 13.5 percent, compared to 6.8 percent in 1997-98. Currently, inflation is less than 4 percent. We project average inflation will be in the range of 6.5-7 percent this year.

Fiscal Deficit: The fiscal deficit for 1998-1999 rose to 6.7 percent of GDP, compared to the 98-99 target of 5.6 percent and 5.7 percent achieved in 1997-98. Lower-than-expected customs and excise revenue and larger transfers to state governments led to the increase in the deficit. The fiscal deficit for 1999-2000 is expected to be about 5.8 percent of GDP. Using a new calculation that shifts some liabilities to the states, the government's target for this year is 4 percent of GDP. Using the old calculation, this year's deficit target is 5.3 percent of GDP, based on an optimistic assumption of 12.5 nominal GDP growth. Shifting "small savings" liabilities to the states lowers the central deficit but raises the states' deficits, leaving the consolidated deficit unchanged at 8-9 percent. The government reduced the interest rate on small and post office savings by 0.5-1.0 percent to reduce its interest costs and discourage deposits in small savings, which are government liabilities and increase the fiscal deficit. The Eleventh Finance Commission has been asked to recommend measures to restructure public finances, restore budgetary balance and maintain macroeconomic stability.

PRINCIPAL GROWTH SECTORS

Agriculture: Agriculture accounts for 27.5 percent of India's GDP and employs 62 percent of the work force. Agricultural exports declined 4.5 percent in 1998-99. Agricultural output increased by 6.8 percent in fiscal year 1998-99, compared to a fall of 5.4 percent in 1997-98. Food grain production is expected to be up 4.4 percent with bumper crops of wheat and pulses, compared to a fall of 3.5 percent in 1997-98. The wheat crop is expected to touch 70.63 million tons in 1998-99, up from 65.90 million tons in 1997-98, allowing the Ministry of Food to authorize some exports of wheat. The food-processing sector, with an annual turnover of USD 20 billion, was designated a priority lending sector, entitled to concessions on interest rates. The government has promised to undertake land reforms, increase public investment in agriculture, promote free movement of goods, revamp the agricultural credit structure and empower village councils.

Services: The services sector, which includes trade, hotels, transport and communications, remains an engine of growth despite some slowdown. Service sector growth was 6.7 percent versus 8-9 percent in the last two years.

Industry: The industrial slowdown intensified during IFY 1998-99. Industrial production grew only 3.9 percent, compared to 6.6 percent in IFY 1997-98. The manufacturing sector registered modest growth of 4.3 percent, compared to 8.6 percent last year. Growth in the capital goods sector was up to 10.4 percent from 6.3 percent last year. The industry sectors which witnessed growth were food products, paper and paper products, rubber and plastics, leather and fur, coal, petroleum and metal products. Other major industry groups like machinery, basic metals, textiles, and cotton production registered negative growth rates. Lower new investment, infrastructure bottlenecks, inventory build-ups and reduced funding from sluggish capital markets contributed to the slowdown. The slump in world trade reduced demand for exports and the poor performance of agriculture in 1997-98 reduced rural demand. Intense price competition reduced profits.

Banking and Finance: Further reforms in the banking sector are aimed at improving the efficiency and financial strength of commercial banks. Aggregate deposits of commercial banks stood at USD 1.48 billion in IFY 1997-98, a 20 percent increase. Net profits of commercial banks rose sharply from USD 88 million in 1996-97 to USD 1.2 billion in 1997-98. Most of the increase was due to marking government securities to market prices after significant declines in interest rates. The government invested Rs 4 billion in public sector banks to strengthen their capital base. Moody's annual report on India’s banks gives the average financial strength rating of India’s rated banks as a barely adequate ‘D’. The low rating reflects high levels of non-performing assets and slow reforms.

The Department of Revenue added the Euro as a currency for the valuation of imports and exports so traders may invoice in Euros. The Euro rate is Rs 50.76 for imports and Rs 50.04 for exports.

There were no new license applications from foreign banks to enter the market or expand existing branch networks in IFY 1998-99. Most foreign banks have been running losses in the initial years of operations. Bank of America and Citibank are focusing their business and consolidating existing operations. The RBI told the nine new private banks that they must consolidate their domestic operations before setting up subsidiary companies or opening foreign offices. Foreign banks may now remit their profits/surplus to their head offices without RBI approval, allowing them to protect profits from currency depreciation.

The RBI relaxed the rules for non-banking finance companies (NBFCs) taking deposits from the public, but raised the minimum capital for new NBFCs to Rs 20 million from Rs 2.5 million. NBFCs may place public deposits in an escrow account to avoid RBI regulation.

Capital markets: Capital markets were subdued in IFY 1998-99. The primary markets were affected by the lack of interest by small investors in new issues and sluggish secondary markets. The bulk of the capital was raised in the form of bonds with very few equity issues. The Securities and Exchange Board of India (SEBI) moved to strengthen primary capital markets by letting companies set the par value of shares they issue, easing rules for initial public offers, encouraging employee stock options, allowing mutual funds to trade derivatives and approving rules for credit ratings agencies. SEBI directed stock exchanges to set up mechanisms to track down companies, which vanish after raising capital from the market. Foreign Institutional Investors (FII’s) may now buy or sell treasury bills and government securities in primary and secondary markets within approved debt ceilings.

The Bangalore-based software firm, Infosys Technologies, became the first Indian company to list on the NASDAQ. The firm raised USD 70.38 million, securing a 22 percent premium on its offer price.
Following the success of the Infosys launch, other companies are seeking to list on the NASDAQ. The National Stock Exchange (NSE) plans to sign a series of MOUs with international bourses such as London Stock Exchange, NYSE and NASDAQ.

Mergers and acquisitions have become the name of the game in Corporate India with about 500 mergers taking place in 1998. SEBI's takeover code, which spells out procedures for large share acquisitions and the rights of minority shareholders, increased the limit for creeping acquisitions from 2 to 5 percent for persons holding between 15 and 75 percent equity. Legal changes now permit companies to buy back their shares in the market, make inter-corporate investments, issue sweat equity and provide nomination facilities to share and debenture holders. Beginning in 1999, investors with a net delivery obligation of 5,000 plus shares in the Bombay Stock Exchange must settle in dematerialized form a move to bring paperless trading to the Indian markets.

India's largest mutual fund, Unit Trust of India's (UTI) US-64 scheme, ran into trouble in 1998-99 when UTI announced that the net asset value had eroded below the face value. Investors redeemed their shares in large numbers. The government appointed an expert committee to devise measures to address the fund's problems. Despite the rescue plan, US-64 remains in trouble. UTI is asking for an urgent infusion of Rs 5 billion of capital.

Insurance: The BJP government moved forward on the Insurance Regulatory (IRA) Bill (renamed Insurance Regulatory Development Bill), but did not get it approved by parliament. The Cabinet approved changes in the bill recommended by the Standing Committee on Finance. The controversial bill proposes to remove the government monopoly on insurance and establish an independent regulator. The new version limits foreign equity participation to 26 percent. Individual Indian companies will be required to bring down their equity holding to 26 percent through sales of shares to the public within 10 years.

Oil: Indian production of crude oil fell by 2.8 percent to 33 million tons in 1998-99, compared to a growth of 2.9 percent in the previous year. The production decline is attributed to aging oil fields, inadequate power supply, and water cuts. Production of petroleum products was about 67 million tons in IFY 1998-99, compared to 65 million tons in the previous year. Demand for petroleum products increased by 6.5 percent to 93 million tons.

The government implemented the New Exploration and Licensing Policy (NELP) in January 1999, offering 48 blocks for petroleum exploration to Indian and foreign companies. The new policy does not require state participation and offers the freedom to market crude oil and gas in the domestic market. Incentives include duty free import of capital goods, a three-tier royalty system, tax holidays, and world prices for oil and gas. The government finalized the petroleum tax code for the NELP. The Oil and Natural Gas Corporation was granted more corporate independence, especially in investment decisions. To boost refining capacity, a tax holiday for new refineries has been extended to 2003, but the Petroleum and Natural Gas Ministry has recommended an embargo on new refineries from 2002 to 2005.

The first phase of dismantling the administered pricing mechanism in the petroleum sector and replacing it with market-determined prices began in April 1998. Prices of controlled products--petrol, diesel, kerosene, liquefied petroleum gas and aviation fuel will continue to be regulated. In April 1999, the government raised the retail price of diesel by 3.4 percent due to firmer international fuel prices. The prices of controlled petroleum products were raised to reflect increased freight rates.

Coal: Coal accounts for about 60 percent of commercial energy consumption in India. Indian coal has a high ash content of 20-40 percent. Coal production in IFY 1998-99 was 292 million tons, down 2 percent from the previous year. Coal imports fell nearly 20 percent to 12 million ton from 16 million tons last year. Consumption declined 5 percent versus annual growth of 5 percent of the two preceding years. Coal-based power plants increased consumption but steel plants decreased their intake. The 1999-2000 production target is 300 million tons and projected demand is 331 million tons. Thermal power stations located far from coal mines are being encouraged to use washed coal. The public sector Coal India Limited plans to establish 4 washeries with an annual capacity of 21 million tons and to seek foreign partners for long-wall mining, mechanized board and pillar mining projects. The Government is amending the Coal Act to allow private sector activity in coal and lignite projects.

India faces an increasing gap between the supply and demand for domestic coal. To meet requirements, India needs to invest about USD 18 billion in the next 10-15 years. Given the lack of interest in this sector under current regulations, further reforms will be necessary to attract needed investment.

Broadcasting: The interim government's failure to get the Broadcast Bill through Parliament has halted plans to allow direct-to-home TV services and to introduce a uniform programming and advertising code. The Bill on direct-to-home services would restrict foreign equity holdings in private television broadcasting to 20 percent (earlier drafts of the Bill allowed up to 49 percent), but treats non-resident Indian (NRI) equity as Indian. The Information and Broadcasting Ministry seeks a minimum license fee of Rs 1 million and mandatory up-linking from India. There are no curbs on proprietary technology. The government will approve earth stations with not more than 20 percent foreign equity.

GOVERNMENT ROLE IN THE ECONOMY

The interim government plans a program of "second generation" reforms. The Prime Minister outlined a five point agenda which includes improving the investment climate, developing a comprehensive WTO strategy, reforms in agriculture, food processing and small scale industry, eliminating red tape, and better corporate governance. Elaborating further, the Finance Minister said second generation reforms would include fiscal reforms at the center and the states, bank privatization, lowering tariffs to Asian levels, increasing automatic approval for foreign investment, cost-based pricing in infrastructure, a new competition policy and legal reforms.

Budget: On February 27, 1999, Finance Minister Sinha presented the Indian government's budget for fiscal year 1999-2000, targeting a fiscal deficit of 4 percent of GDP. The budget was well received by the business community. Sinha's major achievement was to hold the line on expenditures, keeping new programs and handouts to a minimum. Though he refrained from new spending initiatives, the Minister was generous with tax breaks for investors in mutual funds and a reduction in the capital gains tax. Sinha offered no new incentives for foreign investors but increased the number of areas that qualify for automatic approval on investment. He offered subsidized credit for food and agro-processing, the textile sector, small-scale industries and public sector units. The defense budget was increased by 11 percent, or about 4 percent after inflation in rupee terms. Controversial cuts in fertilizer and food subsidies were made, then partially rolled back before the budget was passed by parliament. The cuts will hold spending increases on subsidies to one percent. Industry sectors that benefited from the budget include housing, pharmaceuticals, information technology, entertainment, R&D and small-scale industry. Banks received a tax break to cope with non-performing assets, which could cost the government up to USD 330 million. The budget was followed by cuts in bank rate, the repo rate and the banks' cash reserve requirements.

The budget did not broaden the tax base, but temporarily raised existing taxes. An increase of one rupee per liter of diesel fuel and a temporary 10 percent surcharge on corporate and personal taxes and on most tariffs was also announced. The number of excise tax bands was reduced from eleven to three, which was a revenue-neutral move overall, but raised or lowered duties on specific items. Tariffs rates were simplified by reducing their number from seven to five. The new structure will, overall, raise the average level of tariffs slightly. Items which carried zero duty and which are not GATT-bound at zero duty were subject to a minimum tariff of 5 percent. To raise additional revenue, a 10 percent surcharge was imposed on tariffs for one year on all commodities, except crude oil and petroleum products; items attracting the peak 40 percent rate of basic duty; certain WTO bound items, and gold and silver. To reduce corrupt practices, the government's power to grant ad hoc excise exemptions was abolished

Trade Policy: The government's Export-Import (EXIM) policy for 1999-2000 marked a shift towards a more liberal trade regime. The policy moved 849 items from the restricted import list to the freely importable category (Open General License), signaling the government's intention to speed up its adherence to WTO commitments. These items include a variety of consumer electronics, home appliances, personal computers and agricultural products. An additional 414 items were shifted to the special import license list, leaving 667 items on the restricted list.

The policy also sought to convert existing export processing zones into free trade zones (FTZ's) beginning July 1, 1999. Other announcements included sector-specific incentives for exporters, simplified licensing, and the treatment of service exports on par with merchandise exports.

Investment Policy: Although investment rules are being liberalized, the government still maintains an extensive regime of complex rules controlling foreign investment and hindering domestic investment. For detailed information, see the Investment Climate Statement.

Gold Imports: The Indian government allows designated banks and trade agencies to import gold and silver without restriction. On January 5, 1999, the government increased the duty on gold by 60 percent to curb imports and to raise revenue. This move is expected to divert a portion of gold imports back to smugglers. In 1998-99, USD 5.4 billion of gold was imported legally.

Monetary Policy: Broad money (M3) in 1998-99 grew at 17.9 percent, higher than the RBI's target of 15.5 percent, due to an expansion of domestic credit to the government and inflows of USD 4.2 from an international bond floatation. Bank credit to business increased by 11.7 percent, compared to 14.9 percent in the previous year. Net RBI credit to the government increased 11 percent in 1998-99 versus only 4.3 percent growth in the previous year. Despite the high money supply and lower interest rates, credit growth has been sluggish. Bank investment in government securities increased by 17.7 percent in 1998-99 and non-food credit to business increased by 12.1 percent.

Credit Policy and Bank Regulation: The credit policy for April-October 1999, announced on April 20, aimed at moving financial sector reforms forward and improving short-term liquidity. The Cash Reserve Ratio was reduced by 50 basis points to 10 percent, releasing USD 765 million for lending. Foreign Institutional Investors (FII's) were allowed 100 percent forward cover on investments made after March 31, 1999. The Reserve Bank of India (RBI, the central bank), left interest rates untouched and permitted differential prime lending rates and fixed interest rate loans. To strengthen the repo market, the RBI allowed repos of any maturity. Interest rate derivatives, dematerialized trading of corporate bonds and 182-day T-bills were introduced. In October 1998, the RBI raised the capital adequacy ratio requirement from 8 percent to 9 percent by March 2000. Also, the RBI assigned risk weights to government securities, government guaranteed loans and banks' open position in foreign exchange. Furthermore, the RBI tightened asset classification and loss provision norms for doubtful assets.

Public Sector Disinvestment: There are 247 public sector companies (PSU's) owned by the central government, and many more owned by state governments. These companies cover a broad range of sectors, from heavy industry to financial services. They are generally over-staffed, inefficient and offer a poor return on invested funds. Reform of public sector companies has been stymied by political sensitivities about the role of the public sector and the fate of their employees. The United Front Government in 1996 created a Disinvestment Commission, which has recommended privatization of 43 PSU's. The BJP-led coalition government promised to accelerate public sector reform and privatization. The cabinet approved this recommendation, allowing 74 percent disinvestment in all PSU's, except railways and those involved in defense and nuclear energy production. In 1998-99, the government raised USD 1.5 billion from disinvestment. Less than 20 percent was raised through actual sales; the balance was secured by getting cash rich oil units to swap shares. The 1999-2000 budget set a revenue target for disinvestment of USD 2.4 billion from strategic sales and share offerings. The government has ruled out empowering the Disinvestment Commission to carry out disinvestment.

BALANCE OF PAYMENTS SITUATION/EXTERNAL SECTOR

Foreign Trade: Export growth has been slow in the past two years, 3.7 percent in IFY 1998-99 and 3 percent in IFY 1997-98. The slower growth is due to a stronger rupee, a global slowdown in trade, inadequate infrastructure, increased price competition from Asia and a credit shortage. Total exports were USD 33.6 billion in 1998-99 and the trade deficit was USD 8.25 billion, up from USD 6.4 billion in the previous year. The deficit would have been higher were it not for low oil prices. Major exports were rice, fruits and vegetables, oil meal, cotton yarn, iron ore, other ores and minerals, leather, auto components, electronic goods, jute goods, textiles, iron and steel, transport equipment, carpets, and petroleum products. Imports grew 8 percent in IFY 1998-99, compared to 6 percent in 1997-98. Oil imports by value fell by 23 percent, while non-oil imports, led by gold, increased by 16 percent. Major non-oil imports, which registered growth, were wheat, edible oils, gold and silver, machinery and equipment, chemicals, electronic goods, metals, iron and steel, and sugar.

Foreign investment: Total foreign investment in IFY 1998-99 was estimated at USD 3.3 billion in 1998-99, down from USD 5 billion in 1997-98. Foreign direct investment (FDI) in 1998-99 (April–February) was an estimated USD 2.7 billion, lower than USD 2.9 billion during the same period in 1997-98. Total portfolio inflows up to March 1999 were USD 1.4 billion, one-third of which came through the mergers and acquisitions route. Between April 1998 and February 1999, there was a modest USD 442 million outflow of portfolio investment by FII's, compared to an inflow of USD 1.5 billion in the corresponding period in 1997-98. This outflow was mainly in response to the crisis in South East Asia and to India's nuclear tests. Recent months have seen a reversal, with new inflows from FII's returning to Asia.

Foreign Exchange Reserves: Foreign currency reserves (excluding gold and Special Drawing Rights) were USD 29.5 billion at the end of April 1999, sufficient to cover 8.8 months of imports. This compares favorably with reserves of USD 26 billion in March 1998.

External Debt: Total external debt was USD 95.2 billion at the end of March 1999, compared to USD 93.9 billion in March 1998. The external debt-GDP ratio was approximately 25 percent at the end of September 1998, down from 38 percent in 1991-92. The debt service ratio of debt payments to export earnings has also declined over the past several years, falling from 30 percent in 1991-92 to 25 percent in IFY 1998-99. India's external debt position is manageable, with short-term debt accounting for only about 3.7 percent of total external debt. Further, nearly 40 percent of India's longer-term debt is concessional.

Real Exchange rate: The value of the rupee vis-a-vis the dollar fell approximately 11.7 percent in the past year. The weaker dollar and high foreign exchange reserves contributed to the rupee's stability in the range of Rs 42.25-42.75/dollar in the last six months. Currency analysts expect the rupee to weaken by 5-7 percent vis-à-vis the dollar in fiscal 1999-2000, given the growing trade deficit. The appreciation of the rupee was more pronounced vis-à-vis the Euro, the pound and the yen.

Balance of Payments: India ended IFY 1998-99 with an estimated current account deficit of USD 4 billion, approximately 1 percent of GDP lower than a deficit of 6.5 billion in IFY 1997-98. In IFY 1999-2000, it is expected to grow to about 1.5 percent of GDP-still within reasonable limits. The improvement was due to strong receipts under invisibles; i.e., net non-merchandise exports, led by software. The government controls external commercial borrowing (ECB), but allows Indian firms to use ECB's to finance foreign currency capital expenditures within limits set annually by the Ministry of Finance. These borrowings are monitored to maintain the balance of payments and total external debt within prudent limits. During IFY 1998-99, Indian companies raised about USD 4.6 billion, well below the approved limit of the USD 8.5 billion.

INFRASTRUCTURE

Outlook: Infrastructure development that is needed in the energy, telecommunications and transportation sectors has been hampered by the lack of a clear policy framework for private sector participation. Private financing of infrastructure projects needs to come from domestic sources because the revenue streams of most infrastructure projects will not support exchange risk. The public sector, which formerly had the lead in infrastructure development, has reduced infrastructure investment due to fiscal constraints. The Finance Ministry reviewed government investment plans and axed 48 uneconomic core sector projects in coal, mining, railways, surface transport, power, petroleum, and telecommunications, budgeted at over USD 1 billion. To attract venture capital, the government has broadened the definition of infrastructure and improved on the tax breaks it offers. Measures were taken to stimulate the housing construction including the repeal of the Urban Land Ceiling Act and tax rebates offered in the budget.

The Infrastructure Development Finance Corporation (IDFC) was established in 1997 to improve credit to infrastructure projects by extending long-term loans and guarantees that existing institutions do not provide. The Asian Development Bank and the International Finance Corporation are shareholders in the IDFC. The RBI eased the rules for infrastructure by banks, which can now issue guarantees to loans provided by other lending institutions if they fund part of the project. The RBI raised the exposure limit of banks to infrastructure projects in roads, power, telecommunications and ports from 50 to 60 percent of capital funds.

Power: As of March 1998, India's installed power generation capacity was 89,090 MW. Total power generation during IFY 1998-99 was 449.8 billion kWh, up 6.7 percent from the 420 billion kWh generated in the previous year. The power generation target for 1999-2000 is 469 billion kWh. State electricity boards (SEB's) continued their poor financial performance in 1998-99, with an average rate of return on assets at a negative 21.2 percent. This was largely due to massive subsidies to agricultural and domestic users, which are not adequately reimbursed by state governments.

Power shortages increased during IFY 1998-99, with a 5.6 percent overall shortage and 11.3 percent peaking shortage. It is estimated that India needs to double its current generation capacity in the next 10 years, requiring more than USD 140 billion in new investment. The demand projections are not very accurate, however, and growth may not be as strong as anticipated. A similar amount of investment is required in the transmission and distribution sectors. It is now acknowledged that by emphasizing generation at the expense of distribution, the government has contributed to the current difficulty in finding financing for private power projects.

During the past year, the Ministry of Power initiated a number of reforms. A Central Electricity Regulatory Authority (CERC) was established in August 1998 to regulate inter-state tariffs and transmission issues. Legislation making the setting up of State Electricity Regulatory Commissions (SERC’s) mandatory, and prescribing a minimum level for agricultural tariffs was defeated in Parliament due to political sensitivities. Nonetheless, states have been encouraged through various incentives to set up SERC's to establish intra-state power tariffs. Legislation allowing private sector participation in transmission networks was passed in June 1998. This legislation has facilitated the reform of SEB's. Several SEB’s unbundling their operations into separate generation, transmission and distribution companies. Orissa and Haryana have progressed in reforming their electricity sectors, while Andhra Pradesh and Uttar Pradesh have passed reform legislation, but made little progress otherwise.

Under Union Power Minister Kumaramangalam, the government has pursued a policy of promoting “mega” power projects that have a capacity of over 1,000 MW and provide power to more than one state. To facilitate the purchase of the power from these projects, the government set up the Power Trading Corporation (PTC), guaranteed by money from the central devolution fund, to buy power and resell it to SEB’s. This corporation is unlikely to get off the ground soon, however, because most states are unwilling to sign over their central fund devolutions. Because of economies of scale and exemptions from customs duties for capital imports, mega project tariffs are expected to be significantly lower than those of private power plants which are now under development are. The private power promoters have protested, arguing this will make it more difficult for them to raise funds. While the Ministry of Power supports extending these customs exemption to them, the Finance Ministry is reluctant to give up this significant source of revenue.

Although the Power Ministry has taken measures to streamline the approval process, most private power projects have yet to reach financial closure. This is due to the inherent risk of selling power to insolvent SEB's. Several "fast-track" projects are still negotiating project costs, years after the projects were initially approved. Sovereign counter-guarantees, promised by the government to these power projects, were scaled back in May 1998 to cover only the foreign debt component of the projects. Two such counter guarantees were issued in August 1998, one of which was for the U.S.-promoted Neyveli Lignite project. The Ib Valley project of AES Corp. is still awaiting its counter-guarantee, while and the Mangalore project of Congentrix has been stalled for over a year, pending resolution of a court case.

Many of the large power projects that U.S. companies have under development were affected by the sanctions, as most involved substantial U.S. Export-Import Bank or OPIC financing. The cost of borrowing for these projects has either increased, or project promoters have sourced their equipment requirements from outside the United States. By doing this, they have obtained concessional financing from the export credit agencies of other countries.

Roads: India has a road network of 2.9 million kilometers, the third largest in the world. Half of the roads are unsurfaced, with only 49,600 km of national highways suitable for high-speed traffic. The government estimates that by 2000, road traffic will account for 85 of passenger traffic and 65 percent of goods traffic. The National Highways Authority of India, with a budget of USD 38 million in IFY 1998-99, has undertaken several projects. It is seeking private investment and external assistance to build more roads. To make more funds available for the roads sector, the 1999 budget imposed a tax of one rupee per liter on diesel fuel. A regulatory agency has been proposed to set toll rates in newly upgraded sections of national highways.

A model concession agreement for build-operate-transfer projects is being finalized. A National Integrated Highway Project connecting Delhi, Mumbai, Chennai, and Calcutta with East-West and North-South corridors has been proposed.

Railways: Indian Railways operates a network of 62,495 kilometers, 22.3 percent of which is electrified. Freight traffic in the first seven months of IFY 1998-99 (April-November) was 270 million tons, 2.2 percent lower than the previous year. The industrial slowdown affected freight traffic. This year's target is 450 million tons and an optimistic annual growth rate of 7.4 percent is projected for the next five years. The 1999 Railway budget focused on improving passenger facilities and safety. Indian Railways are negotiating a USD 300 million sector loan from the Asian Development Bank and a USD 58 million World Bank loan for partial funding of ongoing projects. The government has granted infrastructure status to railway projects that provide tax incentives to financiers. The railways have introduced "Build-Own-Lease-Transfer" (BOLT) and "Own-Your-Wagon" schemes to encourage private participation.

Ports: About 90 percent of Indian imports and exports are transported by sea, but the country's port capacity is inadequate to handle the flows. India's eleven major ports, which account for over 90 percent of the country's port traffic, handled 251.42 million tons of cargo in IFY 1998-99. Falling iron ore exports and declining imports of urea and fertilizer dampened traffic movement somewhat. The Jawaharlal Nehru Port Trust(JNPT) near Mumbai exceeded its traffic target by 17 percent and the previous year's figure by 32 percent. Port traffic has been growing 9-10 percent annually and is projected to reach 424 million tons by 2002. Apart from being stretched beyond their optimal capacity, India's ports are very inefficient by world standards, with ship turnaround times averaging 4-8 days. This stems from highly unionized labor, low productivity and a lack of autonomy for the Port Trusts, which manage the ports under the Ministry of Surface Transport (MOST). To meet the huge gap between demand and availability of port capacity, the government has allowed foreign, publicly owned and private firms to set up joint ventures with major ports. Automatic approval of foreign equity up to 100 percent has been granted for the construction of ports and harbors. MOST is also planning to corporatize the eleven major ports. A private Australian company is completing a Rs. 7 billion container terminal at JNTP on a build-operate-transfer (BOT) basis. BOT project operators can levy tariffs higher than those being charged by the government port trusts to allow BOT operators to recover costs within the concession period.

India's 139 minor ports are under the jurisdiction of their respective states. Minor ports handle about 10 per cent of the total traffic. Gujarat, Maharashtra and Andhra Pradesh have progressive privatization policies and have been successful in attracting private investment for port development at existing ports and greenfield sites. Development of the minor ports is hindered by lack of rail and road links, but state governments competing to attract investment have reduced red tape significantly. For example, a private port currently under development in Gujarat will employ 200 workers when finished, in contrast to the 20,000 employed by JNTP.

Telecommunications: India operates one of the largest telecommunication networks in Asia. As of November 1998, this network comprised more than 23,527 exchanges with a capacity of nearly 23 million lines and 19 million working connections. The government's new telecommunications policy of March 1999 aims to achieve a modern, world-class telecommunications infrastructure, and to increase competition. The policy replaces the license fee with revenue sharing for new licensees, while existing basic and cellular licensees will continue operations under their existing licenses. New licenses will be granted for vacant circles (districts) with firms paying a one-time entry fee and a revenue-sharing arrangement determined by the Telecommunications Regulatory Authority of India (TRAI). The Attorney General is reviewing ways to revise the existing licenses. TRAI will arbitrate between the government's Department of Telecommunications (DOT) and license holders. The GOI will retain the power to grant licenses and make policy. National long distance service will be opened to private operators on January 1, 2000. International long distance will be reviewed in 2004. The state-owned telephone monopoly (DOT) will be corporatized by 2001. All operators will pay a universal access levy and spectrum usage fee. The DOT plans to provide 18.5 million new telephone lines by 2002, while private operators are expected to provide 5.2 million lines.

In November 1998, the Indian government announced measures to boost the information technology sector and provide quality internet service nationwide at an affordable price. These measures included an unlimited number of 15-year licenses for private internet service providers (ISP's) with a nominal license fee; foreign equity investment up to 49 percent; use of Government-owned satellite capacity by ISP's and privately-owned satellites; international connections through government-owned gateways; and establishment of gateways by private ISP's subject to security clearance. By March 1999, 77 licenses had been issued for providing internet services.

INDIA’S EFFORTS TO ADDRESS THE YEAR 2000 PROBLEM

The Indian government and Indian companies have not been seized with a sense of urgency to address the Y2K problem. The general view is that most systems either are not computerized, or have been computerized so recently that they are Y2K compliant. The government allocated Rs. 7 billion towards addressing the Y2K issue in government agencies. It also appointed a task force in the Planning Commission to monitor and recommend measures to check the millennium bug. For the private sector, the government has offered a tax break with 100 percent depreciation for all Y2K-compliant information technology purchases. The Reserve Bank is overseeing compliance by banks. The Securities & Exchange Board of India (SEBI) has made it mandatory for all listed companies to publish a brief status report on their level of Y2K preparedness in their quarterly and annual reports.

At present, widespread disruptions of banking and finance, energy, telecommunications, and other public services in India appear unlikely, but temporary and limited failures here and there throughout the economy are a fact of life and can take place at any time. For example, Y2K or other failures could affect the availability of electric power and the use of ATM machines and credit cards.

India's computer and software industry expects to play a strategic role in helping companies worldwide tackle the Y2K problem. Estimates are that the Y2K problem will result in a global commercial opportunity worth at least USD 60 billion, and that India can obtain USD 2-5 billion of this business. The National Association of Software and Service Companies (NASSCOM) is educating information technology customers in India, both in government and in the private sector, about the Y2K challenge and the steps needed to address it. NASSCOM is conducting a series of government and business seminars in major Indian cities and abroad for IT professionals. It has established a task force to promote India’s solution for the Y2K problem. NASSCOM has prepared a paper on Y2K software conversion and a home page with links to individual companies that offer Y2K solutions. For more information on how India is addressing the Y2K problem, U.S. companies are encouraged to contact Mr. Dewang Mehta, Executive Director, the National Association of Software and Service Companies, Ashok Hotel, #109, Chanakyapuri, New Delhi 110021, India. Tel: 91-11-688-5474/ 6114791/ 6110-101 Ext-2109, Fax:91-11-688-5475, E-mail: dewang@nasscom.ernet.in

CHAPTER III. POLITICAL ENVIRONMENT

-- Nature of political relationship with the United States
-- Major political issues affecting the business climate Synopsis of political system, schedule for elections, orientation of major political parties

NATURE OF POLITICAL RELATIONSHIP WITH THE UNITED STATES

India and the United States share a common agenda that extends beyond trade and commerce. President Clinton has described this relationship as a partnership for the 21st century.

The two countries enjoy improving relations in the post-Cold War era. Increased trade, investment and commercial ties between the world's two largest democracies have spurred the two governments to work for greater cooperation on difficult bilateral and global issues. A meeting at the White House between the former Prime Minister Rao and President Clinton in May 1994 marked a new beginning in these relations. Improved relations were reflected over the succeeding four years in a series of high-level exchanges between the two governments, including visits to India by the Secretaries of Commerce, State, Defense, Treasury, Energy and Agriculture and First Lady Hillary Rodham Clinton. In March 1998, President Clinton telephoned then new Prime Minister Vajpayee to congratulate him, pledged to visit India in the fall of 1998, and dispatched U.N. Ambassador Bill Richardson to New Delhi in April to establish relations with the new government. Indian Finance Minister Yashwant Sinha traveled to Washington and held meetings with Treasury Secretary Rubin and Federal Reserve Bank Chairman Greenspan in April 1998.

An obstacle in this relationship was India’s nuclear tests in May 1998. As a result of the tests and the ensuing economic sanctions, diplomacy and implementation of this common agenda with India has become more difficult. For India, the tests have set the pace for increased spending on atomic energy and defense. India’s credit rating has dropped and borrowing costs for the business community have increased.

The Bharatiya Janata Party (BJP) came to power in March 1998, on promises of better governance and business-friendly policies. It also sought a good, productive relationship with the United States. The BJP government cleared selected pending projects, including several proposals from the United States, in record time after the nuclear tests, to convey that it was business as usual.

The BJP government has since fallen (although it remains a "caretaker" government until new national elections take place in Spetember/October 1999).

MAJOR POLITICAL ISSUES AFFECTING THE BUSINESS CLIMATE

National elections were held in March 1998 and a 13 party coalition government led by the Bharatiya Janata Party (BJP) was elected with a slim majority. The BJP continued the economic reform program initiated in 1991 by the Congress Party's Rao government. The direction of these reforms, which move India from a planned to a market economy, is likely to remain unchanged for the foreseeable future. BJP leaders have said they will pursue economic reforms through national consensus and have encouraged foreign investment in core (infrastructure) sectors. They have agreed to honor all WTO obligations made by previous governments and said they will not abrogate any treaties. BJP leaders have quietly distanced themselves from their campaign rhetoric which advocated "computer chips and not potato chips" in foreign investment and a "swadeshi" (made in India) economy.

Opposition by leftist components to reductions in subsidies, additional privatization and labor law reforms remain an important source of tension. Other factors that mitigate an otherwise "business-friendly" environment include India's stultifying and still largely unreformed bureaucracy; and various forms of social tensions (some manifested violently), in an enormous, astoundingly diverse population, much of which suffers extreme poverty and the burdens of underdevelopment.

India's nuclear tests in May 1998 left the United States deeply disappointed. As a result of these tests and the ensuing economic sanctions, the task of carrying out the U.S. common agenda with India was affected. Diplomacy, including commercial diplomacy, was more difficult to carry out. The sanctions eliminated "tools" for the U.S. Government trade and investment promotion and U.S. financing for U.S. companies. Projects that had U.S. promoters or involved new U.S. Government-assisted financing sought alternative financing, and many ended up costing more to implement. U.S. exports of dual-use technology and products was severely affected, as licensing became a limiting factor in this scenario. U.S. firms and lobbies representing their cause met with the U.S. government both in Washington and India to interpret the sanctions and push for implementing them favorably so that business did not suffer.

The Government of India tried to play down the potential negative effects of the sanctions. The tests set the pace for increased spending on atomic energy and defense at the cost of, among other sectors, badly-needed infrastructure. Various other governments also instituted sanctions of some kind, and support for multilateral agency loans to India waned. As a result, India's credit rating suffered and the cost of borrowing for the business community went up. India may have over-valued its market potential in this situation, because other attractive and less-risky opportunities for foreign investors exist. These developments meant that the Indian economy was not able to achieve the targeted rate of growth for 1998-99.

Ongoing tensions between India and Pakistan have resulted in three wars in the past. The most recent development is the start of a conflict on the Kashmir border in May, 1999. The U.S. has called for restraint by both sides to prevent the situation from escalating. India's stock market has already been impacted negatively by the conflict, and its effect on the economy will filter through in the months ahead. By some estimates, India is spending at least Rs. 3 million per day in military and other measures related to the conflict.

In India, pluralist politics and democracy give rise to many voices of dissent. Many major decisions evolve through ongoing dialog between caste, religion, village, leftists, socialists and capitalists. Disagreements and hard bargaining between the federal and state governments are common, and changes in government often lead to changes in rules. The BJP Government may not move forward at a desirable pace, because it is faced with several politically-difficult decisions and legislative actions in its “caretaker” status. U.S. firms are advised to be patient and take a long-term view in this market.

Environmental clearance is necessary in the case of 29 categories of project proposals, including those in the power, ports, roads and petrochemicals sectors. Where such proposed projects will have a major impact on the environment, local NGO’s and political pressure groups often turn the projects into political “footballs”, citing rehabilitation, re-afforestation and emission norms as reasons for withholding clearance. Several large projects with U.S. investment have seen delays in implementation on this account.

India’s dynamic, influential and confident private sector will also not yield the gains they have made without a fight. To deal with this, BJP leaders have had projected a “swadeshi” or nationalist image, and called for India to be built by Indians. We believe that these leaders can embrace nationalism without antagonizing foreigners, by establishing policies that are fair and consistent, and that address India’s economic needs.
On balance, India continues to develop an attractive business environment, and most industrialized nations are expanding their commercial presence in the country.

BRIEF SYNOPSIS OF THE POLITICAL SYSTEM

India is a multi-ethnic, multi-religious, federal republic of 26 states and 7 union territories. The country has a bicameral parliament, including the indirectly-elected Upper House, the Rajya Sabha (government assembly), and the directly-elected Lower House, the Lok Sabha (people's assembly). The judiciary is independent and the legal system is based on English common law.

National and state legislatures are elected for five-year terms, although terms may be extended in an emergency and elections may be held early if a government is unable to maintain parliamentary confidence. In Lok Sabha elections in the spring of 1998, no party or block of parties won a majority. The BJP emerged as the single largest party. The United Front government led by former Prime Minister I.K. Gujral was replaced by the BJP's 13 party coalition of center-right and regional parties. In April 1999, the BJP-led government of Prime Minister A. B. Vajpayee lost a parliamentary vote of confidence by one vote. The main opposition Congress Party’s attempts to form an alternative government failed and President K. R. Narayanan ordered new national elections. Prime Minister Vajpayee and his cabinet will remain on as the interim government until a new government is installed following elections in September/October 1999.

CHAPTER IV. MARKETING U.S. PRODUCTS AND SERVICES

- **Distribution and sales channels**
- **Information on typical product pricing structures**
- **Use of agents and distributors; finding a partner**
- **Franchising**
- **Direct marketing**
- **Joint ventures/licensing**
- **Steps to establishing an office**
- **Selling factors, techniques**
- **Advertising and trade promotion**
- **Pricing product**
- **Sales service and customer support**
- **Selling to the Government**
- **Protecting your product from IPR infringement**
- **Need for a local attorney**
- **Performing due diligence/checking bona fides of banks/agents/customers**

Following the 1991 economic reforms, India's international trade environment has been liberalized. Gaining access to India's markets requires careful analysis of consumer preferences, existing sales channels, and changes in distribution and marketing practices that are continually taking place.

DISTRIBUTION AND SALES CHANNELS

India is a subcontinent, nearly 2,000 miles from north to south and 1,800 miles from east to west. Its coastline is 3,800 miles long and its area is 1.3 million square miles. Vast distances separate the most populous cities. The urban population is, therefore, widely dispersed and nationwide distribution is imperative for many classes of consumer products. For instance, a leading manufacturer of cosmetics and personal care products sells to 250 million

Indians through a network of 100,000 retail outlets across the country.

Rural India constitutes 70 percent of the country's population. Although in terms of buying power urban India would rate higher for most products, the rural market has been showing a rapid growth in recent years. The main reason for such growth, apart from awareness created by various media, has been the availability of products in rural areas. The adaption of distribution channels to the needs of the rural market has been the major factor contributing to the growth of the rural market. A good example of innovative distribution has been the availability of products in the weekly market, which often caters to multiple villages.

India. Population of major cities, 1991.

City	Population
Mumbai	12,572,000
Calcutta	10,916,000
Delhi	8,375,000
Chennai	5,361,000
Hyderabad	4,280,000
Bangalore	4,087,000
Ahmedabad	3,298,000
Pune	2,485,000

Source: India. 1991 Census.

Notes: India's total population exceeds 975 million. Per 1996 projections, the urban population is approximately 275 million, and rural population, close to 700 million.

Most Indian manufacturers use a three-tier selling and distribution structure that has evolved over the years: distributor, wholesaler and retailer. A company operating on an all-India basis could have between 400-2,300 distributors. The retailers served directly by a company's distributors may similarly be between 250,000-750,000. Depending on how a company chooses to manage and supervise these relationships, its sales staff could vary between 75 to 500 in number. Typical gross percentage margins for a distributor, wholesaler and retailer, are 4-5, 3-4 and 10-15 respectively. Wholesaling is profitable by maintaining low costs and turnover high. Many wholesalers operate out of wholesale markets. India has over 2.5 million retailers, mostly family-owned or family-run businesses. In urban areas, the more enterprising retailers provide credit and home-delivery.

In recent years, there has been increased interest by companies in improving their distribution logistics in their effort to address a fiercely competitive market. This in turn has led to the emergence of independent distribution and logistics agencies to handle this important function. Marketers are increasingly out-sourcing some of the key functions in the distribution and logistics areas, and looking for more reasons to reach the consumer better. Most fast moving consumer goods (FMCG) and pharmaceutical companies use Clearing and Forwarding (C & F) agents for their distribution and each C & F agent services stockists in an area, typically a state. It is also important to note that duty structures vary across different states for the same product, thus creating disparate. With the cost of establishing warehouses becoming extremely high, C&F agents are fast becoming the norm for the future. Recent years have also seen innovative trends by companies in utilizing distribution channels for products with synergy.

While there are no major national store chains, departmental stores and supermarkets are mushrooming in many of the cities listed above, as well as in other towns all over India. Most cities have well-known market districts and retail sales outlets are almost always locally owned. Buying and selling is often a process of bargaining and negotiation. Outside the major metropolitan areas, India is an intricate network of rural villages. Poor roads make many rural districts inaccessible. Although villages may have satellite TV, moving goods is still fairly more difficult than broadcasting information in India.

India has both organized and unorganized channels for selling goods. Smuggled goods such as computer parts, cellular telephones, gold and a vast range of imported consumer goods are routinely sold through the thriving "unorganized" sector or black market of the economy. By avoiding taxes and customs duties and using cash transactions, unorganized merchants offer better prices than those offered by the organized sector. However, with liberalization and more and more foreign companies coming to India, the volume of business in smuggled goods has fallen significantly. Most products being sold through the smuggled channel are now sold in India through direct channels.

India, in recent times, has also seen the emergence of matured channels of distribution and support for products such as computer hardware, software, and peripherals ranging from commodity products to high-end IT equipment. The typical distribution structure has been two-tiered with a distributor (for the entire country) servicing dealers and retailers.

Improvements in packaging technology has also had a significant influence on the models of distribution adopted by companies in India for marketing perishable and processed food items.

INFORMATION ON TYPICAL PRODUCT PRICING STRUCTURES

Imports are subject to customs duty on their CIF value. This duty is levied in three parts, consisting of basic customs duty, countervailing duty, additional duty and special duty. The countervailing duty is equal to the local excise tax that applies to the product when it is manufactured locally. The additional duty of 2 percent was discontinued with effect from February 28, 1999. The June 1998 budget imposed a special additional duty on the aggregate of the basic, countervailing and additional duties, and is currently levied at 4 percent. The 1999 budget imposed a uniform surcharge of 10 percent of basic duty on all commodities, except specified ones, up to March 31, 2000. The CIF price plus the duties are used to arrive at the landed cost of a product. To this is added the mark-up, which includes a distributor/retailer margin and discount, if any. All products in India carry a maximum retail price (MRP), which is inclusive of sales tax. The rate of sales tax varies from state to state.

The following is a comparative cost analysis between imported and locally manufactured goods. In this example, an import duty of 40 percent and an excise tariff of 18 percent is assumed. The CIF and local base price are assumed to be the same for comparative purposes only.

	Imported	Local
CIF OR BASE PRICE	100.00	100.00
LANDING PRICE/WHARFAGE (1%)	1.00	NIL
SUB TOTAL	101.00	100.00
(1) EFFECTIVE DUTY FOR IMPORTS (40 PERCENT OF CIF)	40.40	NIL
(2) SPECIAL DUTY (5 PERCENT)	5.05	NIL
SUB TOTAL	146.45	100.00
(3) COUNTERVAILING DUTY ON IMPORTS(18 PERCENT)	26.36	NIL
SUB TOTAL	172.81	100.00
(4) SPECIAL ADDITIONAL DUTY (4 PERCENT)	6.91	NIL
LANDED COST	179.72	100.00
(5) EXCISE DUTY FOR LOCAL PRODUCTS (18 PERCENT)	NIL	18.00
SUB TOTAL	179.72	118.00
(6) OCTROI (4 PERCENT) (ENTRY TAX)	7.19	4.72
SUB TOTAL	189.07	124.80
(7) SALES TAX (10 PERCENT)	18.69	12.27
TOTAL COST	205.60	134.99

NOTES:

1. Effective duty is basic customs duty which is subject to change from time to time by notifications issued by the Ministry of Finance, Government of India. When a notification is in use, the number and date of the notification follows.

2. Special duty of 5 percent (in addition to basic duty) was introduced in FY-98 and is calculated on CIF + Landing Commission/Wharfage only.

3. Countervailing duty (also known as CVD) is applicable only on certain products and is equal to excise duty for similar products manufactured locally.

4. Special Additional duty of 4 percent is introduced in FY-99 in order to provide local manufacturers some protection against imports. Traders are exempted from paying this additional duty.

5. Excise duty is 18 percent, charged only on locally manufactured goods.

6. Octroi is an entry tax charged by the municipality of final destination. 4 percent is the average tax.

7. If the end-user imports directly from the overseas vendor, sales tax is not applicable. When imported goods are resold by an agent or distributor, sales tax is applicable. Central Sales tax ranges from 8-10 percent. Inter-state tax is 4 percent.

USE OF AGENTS AND DISTRIBUTORS; FINDING A PARTNER

For companies wishing to sell their products or services in India without establishing a local presence by way of a subsidiary, joint venture or branch office, it will be necessary to carefully choose and appoint an agent. Given the specifics of the product segment and the vastness of the Indian market, in some cases, it may make sense to select several regional agents.

U.S. exporters with products that have promising sales potential in India often find no shortage of Indian firms that want to distribute their products and services. Advertisements seeking potential candidates will always generate an overabundance of volunteers. But finding a distributor with the right experience, financial strength and track record will require careful research and painstaking effort. While developing an agency/distributor relationship, it will be necessary to:

- Find a partner who meets your objectives;
- Find a partner with the requisite skills;
- Perform a credit check of the proposed partner;
- Negotiate the details of the contract;

- Arrive at a Memorandum of Understanding (MOU); and
- Finalize the agency agreement

U.S. firms that are serious about pursuing opportunities in the Indian market need to be alert to the following considerations while choosing an agent or distributor in India.

At first glance, many agents appear to have excellent industry and customer contacts. They will have typically developed and nurtured these contacts over time, and their primary interest in a distributorship is to sell to these contacts. These agents may have little motivation to develop new markets or new customers. It is important to gauge your prospective agents' aggressiveness in developing new networks and contacts.

Some potential agents will provide long lists of foreign principals, covering dozens of products. Although such lists may seem impressive at first sight, some of them may be outdated, and some of the relationships may no longer exist. An agent with many principals and product mandates could find it difficult to devote management and resources to every additional relationship that he takes on. Do your follow-up homework to make sure that "what you see is what you get". Be sure that your product will be strongly represented among the agent's product mix.

Many agents will also highlight their widespread distribution network and countrywide presence. They will project a professional image, backed by well-qualified staff. Very often such agents will leave the distribution of a new product or service to this network, without making any extra effort, because this approach has worked in the past. Make sure your prospective distributor is committed to actively promoting your product. U.S. firms should avoid the temptation to establish a relationship with an agent or distributor merely because this individual appears to be the most persistent or the most enthusiastic out of several candidates.

These attributes will not necessarily make the best agent or distributor, because additional factors need to be considered before making a final choice of agent or distributor. First, determine who the customers are and where in India these customers will make their buying decisions. A potential distributor who handles products similar or related to those of a U.S. firm, need not necessarily be the best choice. This is because several Indian firms have very effective distribution channels, and can offer the U.S. principal more by way of marketing savvy than mere product knowledge. Agents with fewer principals and smaller set-ups can prove to be more adaptable and committed than agents with a large infrastructure and a bigger market reputation. A small agent could be ideal where a flexible strategy is called for. Also, there may be a conflict of interest where the potential agent handles similar product lines, and many agents do. U.S. firms should decide up-front whether or not this will be acceptable in order to avoid complications later on in the process. By the same token, U.S. companies should decide if they will need more than one agent. It is not uncommon in India to appoint three to four representatives for different products, locations and even markets.

U.S. firms should examine all distributor prospects, and thoroughly research the more promising ones. Credit and reputation checks are becoming easier, with a number of private organizations now providing these services in India. Even established distributors are known to have exaggerated their capabilities.

One way of identifying suitable agents is to look for distributors of related and even competing products. U.S. firms can screen a few unsolicited applications, seek more information on specific areas, and see who responds best to these. U.S. companies can also take advantage of the Agent Distributor Service (ADS) offered by The Commercial Service.

To gauge an agent’s abilities, U.S. firms should evaluate him in the Indian context. For example, rather than focusing on the plushness of the agent's office, look at the agent’s address, as well as references from lawyers, accountants and banks. For technical products, a visit to the agent is critical. The agent's general facilities, staff and experience should be reviewed at this time. It is vitally important for U.S. firms to check the potential agent's reputation. This can be checked with local industry sources, industry associations, potential clients, bankers, other foreign companies and the agent's competitors. These steps will ensure that selection of an agent or distributor is not left to chance alone.

FRANCHISING

Following the economic liberalization of 1991, several foreign companies with strong brand names have established a presence in India through the franchising route. In the hospitality and service industries, franchising has been the preferred method for starting operations in India. Companies that operate through franchises include Hertz, Avis and Budget for car rental; Radisson, Best Western and Quality Inns for hotels; Kentucky Fried Chicken, Domino’s Pizza and Baskin Robbins for food. Pepsico's Pizza Hut has opened several outlets and McDonald's has been open for business since 1996. Similarly, Indian companies with strong brand recognition are also using the franchising route to expand business volumes. MRF for automotive tires, NIIT for computer training schools and Apollo Hospitals for hospital are examples.

Several foreign management training institutes are adopting the franchise route to expand their operations in India. Wigan & Leigh College of the U.K. seeks franchisees that can invest $25,000-100,000 and can arrange 1,200-5,000 square feet of space. The franchise study centers run the college’s various courses on management, fashion technology and graphic design. CMC is a government-owned enterprise that has 120 computer education institutes in India. It requires potential franchisees to provide a minimum space of 1,200 square feet and invest $32,000-34,000.

While franchising has mushroomed in India, the initial concept has worked mainly on an agent basis. It is still evolving and being refined, so that interaction between franchisor and franchisee is limited, and the two sides have yet to learn to share business prospects. Also, franchising in India is often perceived as a tool to cover the high cost of real estate that a company interested in retailing would have to bear. As a result, if business projections are not met, franchisees can and sometimes do shift to other franchises.

With minor variations, in a typical franchise operation, a company approaches an owner of prime commercial space to provide the real estate, to invest in interiors and inventories to run a franchise business, and to hire staff for the operation. Franchisees prefer to recruit staff directly, but most franchisors insist on training the staff themselves, particularly in educational and computer training academies. Usually, the two parties work out an arrangement by which the franchisee agrees to sell the company's products on an exclusive basis. Typically, the company's investment is reduced by about 15 percent if the same operation is run by a franchisee. Also, the company has no worries about hiring and dealing with staff or worker unions.

U.S. firms need to use several criteria to evaluate prospective franchisees. The key criterion is that prospective franchisees must be financially sound. Other considerations include space location and availability, a willingness to see through initial teething problems together, high ethical standards, and compatibility of goals and values.

Financial arrangements can vary. Some companies offer franchisees a percentage of commission on sales, while others provide a fixed percentage of the retail price of the product as a profit. The costs of promotions and advertising are usually shared between franchiser and franchisee, with some companies assisting franchisees in specific promotional activities to help increase product sales.

The franchise agreement is a comprehensive document that specifies everything from the franchise location to the finer details of operating the franchise. There are no standard franchise agreements because every franchiser and every business is different. Many details in the agreement are settled by bargaining, but the normal clauses that should be on the checklist of every franchisor include protection of intellectual property, conflict of interest, indemnity, business promotion and termination. By the same token, the franchisee will seek to ensure that the agreement maintains his intellectual property rights; covers training, consultation and equipment and includes a suitable indemnity clause.

Franchise fee payments in hard currency are allowed. A potential franchisee must submit a proposal for a franchise operation to the government ministry that regulates the particular industry sector. Among other details, the proposal must contain the amount of franchise fee that will be paid to the franchisor. The proposal moves from the relevant ministry to the Ministry of Industry and the

Foreign Investment Promotion Board. Reserve Bank of India approval of the franchise fee is automatic when the Ministry of Industry clears the proposal. There are upper limits on how much franchise fee will be approved, with cases of advanced or high-technology receiving the highest limits. Royalty payments ranging from 3 to 8 percent are allowed in hard currency, in addition to the franchise fee, although the norm is closer to 5 percent. The royalty is calculated on total turnover for the year for the franchise operation.

DIRECT MARKETING

In India, direct selling has traditionally meant manufacturers contracting with outside agencies to move surplus or promotional products or small manufacturers resorting to door-to-door selling because of their inability to compete in the retail market. It has also meant deploying direct sales employees to demonstrate products with the objective of making a spot sale. One of the first Indian companies to practice direct selling was Eureka Forbes, which sells a range of household appliances.

Although some form of direct selling had been in practice in India, a new wave of interest to sell in the Indian market through the modern concept of direct selling has occoured recently. Currently, the direct selling industry accounts for sales worth of approximately USD 80 million and is estimated to be growing at 30-33 percent a year. According to the Indian Direct Selling Association (IDSA), which was established in 1996, the direct selling industry employed 125,000 people in 1997-98. In 1998-1999, the sales force grew by more than 50 percent to 350,000.

Quite a few domestic companies and multinationals such as Amway, Avon, Oriflame, Tupperware, Time Life, and Lotus Learning have started operations in India during the last four years. Many more multinationals such as Sunrider and Herbalife are in the process of launching their Indian operations either through joint ventures or through wholly-owned subsidiaries. Established retail companies in India have also started direct selling operations, the most prominent being Hindustan Lever Limited of the Unilever group. According to the IDSA, dietary supplements are likely to become the most promising area for direct selling firms in India in the years to come. Other foreign direct selling companies planning on selling in India are in the fields of educational books, cookware, women's lingerie, and cosmetics.

The Indian direct selling market is not yet fully developed. Direct selling companies are progressing through their own learning experiences and making adjustments in branding, pricing, quality issues, product sizes, and even reward structures. India is a price sensitive market. Some of the companies are reducing package sizes; in this way, consumers do not have to spend too much at one time, and thereby perceive the product as affordable. A few foreign direct selling companies that initially targeted only the premium end of the market are now moving into mass market product ranges in search of volumes, another indication that the market is price sensitive.

Book seller Dorling Kindersley launched in Delhi in November 1997. It has already signed on 100 consultants and aims to have 1,000 within a year and 10,000 in 3 years. Like Tupperware, Dorling sells through the party concept. Consultants organize book parties and pitch premium books (in the range of USD 10-125) to assorted friends. The other agenda at these parties is to recruit consultants for the company. Commissions are paid for both sales and recruitment.

Avon cosmetics, which launched in India in September 1996, asks its beauty advisors to spend USD 25 on a beauty kit of 5 full-size products, lipstick samplers and customer literature before they get started. Hindustan Lever Ltd. (HLL) charges around USD 20 for a one day training program, and an additional amount of about USD 42 for the kit from a prospective direct sales agent. If the initial investment amount is a problem, HLL even has co-branded credit card arrangements with a bank to help out a sales agent.

In this form of selling, the need for an extensive commercial or distribution infrastructure is de-emphasized. Also de-emphasized is the role of traditional product advertising, which is an expensive exercise for fast-moving consumer goods. In this method, advertising does not increase sales, rather advertising the opportunity brings greater results.

Direct selling companies follow different plans of compensation for their sales force. Some follow the single level plan under which sales people earn commission on sales made by them alone, and does not earn from sales made by people they have introduced into the business. They may earn a one-time reward for people they help recruit. There are others who also compensate a sales person for the sales made by persons recruited by the first sales person, and for the sales of the group or network recruited by the first sales person's personal recruits. The focus of the latter plan tends to be more on enlarging the network than on the sale of the products. Because of various complaints, doubts have recently been raised about the operations of some direct selling companies in India.

The recommended retail margins on products range from 20 to 30 percent. The manufacturer provides initial training on product knowledge and use. This kind of distribution channel does not mean less expense, either on the products or on the channel. It is labor-intensive and the products retailed are not low cost/low value. Rather, they are high involvement/high value products. There is no system of credit. For all goods purchased, the distributor has to make a complete payment.

Several organizational steps are required to be in place before such a multi-level direct selling chain can be activated. First, local manufacturing needs to be out-sourced, but the formulations must be exclusive, not available in stores. This includes identifying and using locally sourced raw materials for manufacturing, when available. Next, potential suppliers who have the capability to make the necessary investments to meet capacity and technical requirements need to be identified. In India, most large and well-known companies have not shown an interest in this arrangement, so a new entrant's initial short list of suppliers may be made up of mostly medium and small-sized companies. Next, the administration, warehousing and distribution need to be established. This distribution system uses a central merchandising center and a production selection center where distributors come and select their products. The latter also serve as training centers.

In recent years, thousands of Indian women and, increasingly, men are taking to direct selling in India to supplement their salaried incomes. Rather than sales people they call themselves consultants, book advisors, dealers and beauty advisors.

Other than a minimum age requirement by law, no qualifications are needed. Most companies do offer some cursory training, ranging from two hours to one week. The dropout rate in this method of selling is high. Almost 40 percent of people who sign up find that selling is not as easy as it looks.

India has strong potential for direct selling because unemployment and underemployment is a perennial feature. Multinational direct sellers such as Amway have been quick to sense an opportunity in India's post-liberalization economy. Due to the industry's high growth potential, the Indian Direct Selling Association (IDSA) is already gearing up to appoint an ombudsman to look into complaints. It has released a code of ethics that member-companies must accept.

According to the IDSA, there are 6 types of people who tend to be good direct sellers - part-timers who could use extra cash; housewives who want to establish an identity; entrepreneurs who do not want to make a major investment; people who have a short-term need; customers who have enjoyed the benefits of a particular product and want to share it with friends; and those who want to build a multi-level distribution network which will earn them commission from overall group sales.

Mail service in India is slow, although generally reliable. Telephone service is improving. Courier services are growing strongly and the telecommunications sector is opening up for a range of modern services. An inefficient state-owned banking system prevents prompt transfers of funds from consumers to retailers. Credit card companies are increasingly targeting India's 1 million cardholders through direct mailing offers of goods and services. These factors affect direct marketing plans because they influence the convenience and certainty with which goods can be ordered conveniently and delivered with certainty.

JOINT VENTURES/LICENSING

A joint venture company is generally formed under the Indian Companies Act. It is owned jointly by an Indian company and a foreign company. This type of arrangement is quite common because India encourages foreign collaborations to facilitate capital investment, import of capital goods and transfer of technology. The joint venture can be financial, technical or techno-financial. While seeking an Indian partner, it is important to understand that even some of the large and apparently successful Indian companies don't necessarily run as smoothly as the Western ideal. Indian groups are often family-owned. Some are run on almost feudal lines. In general, also, many Indian companies tend to be under-capitalized.

It is not necessary for U.S. companies to have a local partner, even when the foreign investor wishes to hold less than the entire equity of the company. The portion of the equity not proposed to be held by the foreign investor can be offered to the public.

India is an attractive investment destination with a large consumer base. It is a big-league market that requires a careful approach because mistakes can be quite costly and local entrepreneurs yield to no one in terms of business acumen. Once a decision to go with a joint venture is made, the following practical tips will be of use to U.S. firms: define each partner’s roles and expectations; equality and trust will help keep partners together; experience is a key ingredient; there is no substitute for thorough research; and look at the long-term.

The Indian government's liberalization and economic reforms program aims to step up economic growth and integration with the global economy in a harmonized manner. The industrial policy reforms have reduced the industrial licensing requirements, removed restrictions on investment and expansion, and facilitated easy access to foreign technology and foreign direct investment. A foreign company invests in India either through automatic approval by the Reserve Bank of India (RBI) or through the Foreign Investment Promotion Board (FIPB). Automatic approval by the RBI is available if the foreign direct investment in the equity of the joint venture company does not exceed 51 percent in Annexure III and III B industries; 50 percent in Annexure III A industries; 74 percent in Annexure III C industries and 100 percent in Annexure III D industries. FIPB approval is required for all investment proposals that are not eligible for automatic approval. In a major drive to simplify procedures for foreign direct investment under the "automatic route", RBI has given permission to Indian companies to accept investment under this route without obtaining prior approval from RBI. Investors are required to notify the concerned Regional Office of the RBI of receipt of inward remittances within 30 days of such receipt and to file the required documentation within 30 days of issue of shares to foreign investors.

High-priority (Annexure III) industries: India has identified 34 industries (called Annexure III industries) where investment is sought on a priority basis. These industries are divided into four parts depending upon the percentage of foreign equity permitted under automatic approval in each category.

Annexure III Part A industries: The following is a list of industries and items where approval for foreign equity up to 50 percent is automatic: mining of iron ore; mining of metal ores other than iron ore; mining of non-metallic minerals not elsewhere classified.

Annexure III Part B industries: The following is a list of additional industries and items where approval for foreign equity up to 51 percent is automatic: agricultural production, plantations, manufacture of food products; manufacture of cotton textiles; manufacture of wool, silk & man-made fibers; manufacture of water-proof textile fabrics; manufacture of basic chemicals & chemical products except products of petroleum & coal; manufacture of rubber, plastic, petroleum & coal products; manufacture of metal products & parts except machinery & equipment; manufacture of non-metallic mineral products, manufacture of machinery & equipment other than transport equipment; manufacture of transport equipment and parts; land and water transport support services and services incidental to transport not elsewhere classified; restaurants and hotels; renting & leasing; business services not elsewhere classified; and health & medical services.

Annexure III Part C industries: The following is a list of additional industries and items where approval for foreign equity up to 74 percent is automatic: mining services; basic metals & alloys industries; manufacture of medical, surgical, scientific and measuring appliances and equipment; industrial process control equipment; meters for electricity, water and gas; laboratory & scientific instruments; photographic, cinematographic and optical goods ; electric generation & transmission; non-conventional energy generation & distribution; construction & maintenance; land and water transport; storage and warehousing services.

Annexure III Part D industries: The following is a list of additional industries and items where approval for foreign equity up to 100 percent is automatic: Electricity generation, transmission and distribution; and construction. The foreign equity limit is Rs. 15 billion under this category.

Industries reserved for the Small Scale Sector: About 850 items are reserved for manufacture by the small-scale sector. A small-scale unit is defined by an investment limit of Rs. 30 million in plant and machinery. The industries and investment requirements for small-scale sector may be revised from time to time. Small-scale units can register with the Directorate of Industries/District Industries Center, which is a part of the State Government set up. Such units can manufacture any item, including items exclusively reserved for manufacture by the small-scale sector. Small-scale units are also free from location restrictions. Non-small scale units can also manufacture items reserved for the small-scale sector, provided that they undertake an export obligation of a minimum of 75 percent of their new or additional production, within a maximum period of 3 years. Units other than small-scale units intending to manufacture reserved items need to obtain an industrial license from the Secretariat for Industrial Assistance in the Ministry of Industry. In such cases, it is mandatory for the non-small scale unit to undertake an export obligation of 50 percent. In addition, if the equity holding from another company(including foreign equity) exceeds 24 per cent, even if the investment in plant and machinery in the unit does not exceed Rs. 30 million, the unit loses its small-scale status.

To encourage the small scale sector to modernize and to allow it access to capital, foreign collaborators and other industrial units are allowed to participate in up to 24 percent of the equity of a small scale unit.

Annexure I industries or Industries reserved for the public sector: Some industries are reserved exclusively for the public sector. The following industries are not available for private investment unless a specific approval is obtained: arms and ammunition and allied items of defense equipment, defense aircraft and warships; atomic energy; specified minerals; and railway transport.

Annexure II industries or Industries subject to compulsory licensing: Six industries in India are subject to compulsory licensing based on, among others, safety, environmental and defense-related considerations. This means that a license is required to undertake manufacture, manufacture a new item, expand capacity or change the location of a factory for specified industries. The licensing authority in this case is the Ministry of Industrial Development. The industries are: distillation and brewing of alcoholic drinks; cigars and cigarettes of tobacco and manufactured tobacco substitutes; electronic aerospace and defense equipment of all types; industrial explosives including detonating and safety fuses, gun powder, nitrocellulose and matches; hazardous chemicals; and drugs and pharmaceuticals specified in the modified Drug Policy of September 1994.

Industrial License: All industrial undertakings subject to compulsory industrial licensing are required to submit an application in the prescribed format; i.e., Form FC-IL(Annexure-VIII). Licenses are granted under the provisions of the Industries(Development and Regulation) Act, 1951.

The form can be downloaded from the Web site of the SIA - http://www.nic.in/indmin. The application in Form FC-IL should be submitted to the SIA, Department of Industrial Policy & Promotion, Ministry of Industry, Udyog Bhawan, New Delhi - 110011. Approvals will normally be available within 4-6 weeks of filling the application.

Technology Licensing: While allowing an Indian partner the use of proprietary product design, ideas, technical skills, etc., consideration must be given to whether a technology transfer agreement or a franchising agreement would be more appropriate.
India currently lacks a world-class patent law. However, despite heavy backlogs, Indian courts are making headway in punishing copyright and trademark violations through tougher laws and better enforcement. Courts are acting relatively quickly in delivering search and seizure orders as well as injunctions to halt the sale of fake goods.

Foreign Investment Promotion Council (FIPC): The Government has constituted a Foreign Investment Promotion Council (FIPC) in the Ministry of Industry, comprised of professionals from industry and commerce. The FIPC aim is to have a more target-oriented approach toward Foreign Direct Investment promotion. The basic function of the Council is to identify specific sectors and projects in India that require FDI, and target specific regions and foreign countries for its mobilization.

The Reserve Bank of India (RBI): RBI is the central bank and the apex exchange control authority. The Government of India has identified various industries in which foreign investment is automatically approved for up equity up to 100 percent, 74 percent, and 51 or 50 percent. The RBI processes these approvals. It also processes technology agreements that fall within specified parameters, as well as applications for permission to set up offices in India.

Foreign Investment Promotion Board (FIPB): The FIPB is a special board created by the Central Government to encourage and facilitate foreign investment in India. Any proposal that is not within the purview of the RBI can be presented to the board for consideration. The FIPB examines the merits of each investment proposal that it receives, particularly the proposed net foreign exchange inflows, technology benefits, import requirements and employment generation-any and all aspects which would result in a positive investment outcome for India as a whole. The FIPB also grants composite approvals involving foreign technical collaborations and establishment of Export Oriented Units involving foreign investment or foreign technical collaboration.

The Chairman of the FIPB is the Secretary, Industry (Department of Industrial Policy & Promotion). Other Board members consist of Secretaries in the Ministries of Finance and Commerce, and the Economic Relations Secretary in the Ministry of External Affairs. Other members can be co-opted from senior government officials, and professional experts from industry, commerce and banks, as and when required.

Applications to the FIPB for approval of foreign investment should be submitted in Form FC-IL (Annexure-VIII). Plain paper applications carrying all relevant details are also accepted. No fee is payable. The application can be submitted to the SIA, Department of Industrial Policy &

Promotion, Ministry of Industry, Udyog Bhavan, New Delhi - 110011. Applications can also be submitted with Indian Missions abroad that will forward them to the SIA for further processing. Applications received by SIA are placed before the FIPB within 15 days of receipt. The Board has the flexibility to negotiate with investors. The FIPB's decisions are communicated by SIA, normally within 6 weeks of receipt of the application.

The FIPB's recommendations in respect of proposals involving a total investment of Rs. 6 billion or less are considered and approved by the Industry Minister. Proposals with a total investment above Rs. 6 billion are submitted to the Cabinet Committee on Foreign Investment (CCFI). The FIPB is scheduled to meet weekly on Monday to review investment proposals. Board members review the summaries of proposals and then make a recommendation on approval to the Industry Minister/CCFI. The CCFI, which includes the Prime Minister, Finance Minister and Industry Minister may give final approval to proposals, deny approval, postpone action, or refer a proposal back to the FIPB or a concerned ministry of government. Meetings are not public and only approvals are announced.

Investment in the following areas is expected to be accorded priority in considering investment applications: items listed in the automatic approval list, where conditions for automatic approval are not met; infrastructure; items with export potential; projects with large employment potential, particularly in rural areas; items which have a direct or backward linkage with the agricultural sector; socially-relevant projects such as hospitals and life-saving drugs; and projects which induct new technology or infuse capital. If the U.S. investor has written a comprehensive proposal, provided details, and the FIPB is fully satisfied that the investment meets India's industrial development goals, approval can be granted in as little as three weeks. Proposals that are badly formulated, do not meet FIPB goals, and invite objections on political, environmental or public health or welfare grounds are likely to be denied.

Environmental Clearances: Indian and foreign companies are required to obtain statutory clearances relating to pollution control and the environment for establishing an industrial project. The Environment Protection Act 1986 lists 29 projects that require environmental clearance from the Ministry of Environment, Government of India. This list includes industries such as petro-chemical complexes, petroleum refineries, cement, thermal power plants, bulk drugs, fertilizers, dyes, paper etc. However, if the level of investment is less than Rs. 500 million, such clearance is not necessary, unless it is for pesticides, bulk drugs and pharmaceuticals, asbestos and asbestos products, integrated paint complexes, mining projects, tourism projects of certain parameters, tarred roads in Himalayan areas, distilleries, dyes, foundries and electroplating industries. Further, any item reserved for the small-scale sector with an investment of less than Rs. 10 million is also exempt from obtaining environmental clearance from the Central Government. State Governments have been empowered to grant environmental clearance for certain categories of thermal power plants. There are separate guidelines issued by the Ministry of Environment for setting up industries in locations that are considered ecologically fragile, such as the Aravalli mountain range, coastal areas, the Doon Valley and Dahanu.

Once a project is approved, it must be registered with the Registrar of Companies (ROC). If a joint venture or subsidiary is being established, the company must be incorporated and a certificate to commence business must be obtained. To establish an office, registration with the appropriate regional ROC is required. Once the entry plan has been cleared by the Central Government and the appropriate registration has been done, the actual establishment of an office requires several clearances at the state level, including building planning, land use, environmental clearance, power clearance, etc.

STEPS TO ESTABLISHING AN OFFICE

Since India began its liberalization process in 1991, many overseas companies-large and small-have successfully entered the market. Yet, some have also attempted and failed. Both the central and state governments are actively seeking foreign investment, and increasing the number of incentive on offer to investors. On the surface, India looks like an attractive investment destination. However, beneath the raw numbers and large middle class, the challenges are equally vast. Entrants that succeed in India do so through careful research and a well-designed plan. U.S. investors should be prepared to take India as it is, with all of its difficulties, contradictions and challenges.

Overseas companies which do not choose to set up a subsidiary, or to form a joint venture with an Indian partner, can establish the types of offices described below.

Liaison or representative office: Many foreign companies initially establish a presence in India by establishing a liaison or representative office which is not directly engaged in commercial transactions in India. Foreign companies usually open representative/liaison offices to oversee their existing business interests, to promote awareness of their products and to explore further opportunities for business and investment. Liaison offices are not allowed to carry on any business or earn any income in India and all expenses are to be borne by remittances from abroad. Under India's Foreign Exchange Regulation Act, 1973 (FERA), RBI approval must be obtained to set up a liaison office. Along with the application form, the foreign company is required to submit copies of its memorandum and articles of association, its balance sheet and copies of any contracts that it has entered into in India. It used to be a condition of the approval that expenses of the liaison office be met exclusively out of remittances of foreign exchange to India from abroad. The Department of Company Affairs (DCA) has now eased this accounting norms. Under the new provisions, foreign companies with liaison offices in India will not be required to file a full balance sheet and a profit and loss account with the Registrar of Companies (ROC), under the provision of section 594 of the Companies Act, 1956.

Branch Office: A branch office, like a liaison office, is not an incorporated company but an extension of the foreign company in India. A branch of a foreign company is limited to the following activities by the RBI: representing the parent company, as buying/selling agent; conducting research for the parent company, provided that research results are made available to Indian companies; carrying out import and export activities; promoting technical and financial collaborations between Indian and foreign companies. A branch office actually does business in India and is subject to tax in India. Under the Banking Regulation Act, 1949, opening of branches in India by foreign banks requires RBI permission.

Project office: Foreign companies set up a project office to undertake projects in India awarded to the parent company. A project office is the ideal method to establish a business presence for a limited period of time. It is essentially a branch office set up for the limited purpose of executing a specific project. A project office can be set up with RBI approval for executing government-supported construction projects. In exceptional cases, approval can also be given for private projects.

None of these entities are permitted to acquire immovable property without prior RBI approval. However, they are allowed to lease property in India for a maximum period of 5 years.

A foreign company establishing a liaison office cannot repatriate money out of India.

There are some practical guidelines that new companies establishing offices in India should consider - identify the right decision-makers; keep these decision-makers and other key players briefed about your project; avoid getting into the land acquisition process from private sources; handle local labor issues carefully, because Indian laws essentially prohibit firing workers; and take the opposition seriously, whether it is local politicians or residents.

According to an exhaustive survey sponsored by "Business Today" and undertaken by Gallup-MBA (India), the three most important parameters in choosing a location in India are: (1) physical infrastructure; (2) state government support and flexibility; and (3) cost and availability of power. Other factors to take into account include: labor availability and cost; relations and work culture; and proximity to resources and/or markets. In the area of labor law, an employer with more than 10 workers cannot fire them without permission from a government labor commissioner -- something usually impossible to obtain. In this vast country of 975 million people and widespread poverty, labor is so sensitive an issue that government officials speak only of protecting and creating jobs.

However, the government has softened its stand on the need for each investment to create jobs directly. Many companies, both foreign and domestic, are bypassing the tough regulations by either subcontracting labor or through early retirement schemes. State governments are also encouraging this trend as they compete with each other for investment and economic growth. Still, India is a long way from creating a truly efficient labor market.

Given the shortage of good commercial office space at reasonable prices in the largest cities, business centers are a viable option for new companies wanting to establish a physical presence. They have facilities that are ready to move in, wired for communications, and air-conditioned. Billing is normally done on a monthly basis; and for long-term use, discounts are available.

The advantages of operating in India's smaller cities - cheaper land and rentals, moderate living costs, a less congested environment and a local market with relatively limited competition - have been known to Indian companies for a long time. State governments eager to attract investments to such locations often provide special support and incentives. While some foreign companies have ventured into smaller cities, the numbers are still small.

Given their large size in terms of population and middle/high income households, it is easy to see why many foreign companies have traditionally focused on Mumbai and Delhi. Despite its size, Calcutta has missed out because of the reputation of the leftist state government. During the past decade or so, foreign companies have discovered other places to set up base, such as Bangalore, Chennai and Hyderabad.

In western India, besides Mumbai there are many other cities which have good and acceptable infrastructure facilities. These cities include Ahmedabad, Surat, Vadodara in Gujarat; Pune, Nashik, Ahmednagar and Nagpur in Maharashtra; Bhopal, Indore, Gwalior and Ujjain in Madhya Pradesh; and Panaji in Goa. Some of the major U.S. companies which are slowly spreading to these small cities include: Kimberley-Clark, Johnson Wax, and Schentedy Chemicals in Pune; Colgate Palmolive in Aurangabad; Elbee-UPS Courier in Nagpur; General Motors in Vadodara; Proctor & Gamble in Mandideep, near Indore.

SELLING FACTORS, TECHNIQUES

Selling techniques in India differ from other countries because of varied consumer behavior as compared to a consumer in the U.S. As in all markets, selling techniques are dependent on the product category and market.

With India's population at over 975 million, estimating the target population is a primary consideration. The well-respected Indian economist, S.L. Rao, researched Indian market demographics and concluded that consumption, not income, differentiates consumer segments. According to his research a one million strong super-rich class has emerged at the top. The middle class actually comprises 3 different segments. Consumer durables are purchased by up to 28 million households, while non-durables are bought by up to 90 million households. Also, comfort and personal transport are the two most important priorities. Additionally, he found the following conditions in the case of rural India: the number of households exiting the low income groups is rising; rural and urban shares of many consumables purchased are equal; urbanization is creating rural demand for urban products; and lack of credit facilities and electrification are choking demand. In the case of the rich, he observed that their undeclared incomes make many households richer; 0.6 million - 1 million households earn more than USD 25,000 p.a.; there are 3.36 million consumers for the highest-priced products; between 88,000-139,000 rural households and between 424,000-489,000 urban households earn more than USD 25,000 p.a.; and almost 7-16 million households earn USD 2,500-12,500 p.a.

India can be segmented into urban and rural markets, and selling techniques differ in both markets. The urban market has varied selling techniques across a range of products. Most consumer products have been traditionally sold through retail outlets. Two criteria which determine the choice of a sales outlet are its location and its reputation for quality or brands of products. Recently, supermarkets and large departmental stores have also emerged, mainly in the major metropolitan towns. Many consumer companies have also adopted direct selling to sell their products.

Several companies offer promotional schemes and discounts during numerous Indian festivals to boost sales. Recently, road shows have been used effectively to sell products. For consumer durable products which are relatively expensive, financing and buy backs are used as incentives to promote sales.

Rural markets are experiencing increased consumption of newer products. While accurate data is not available, rural markets are growing very fast, and recording a rise in sales of hitherto typical urban goods such as televisions, refrigerators, mixer grinders and pressure cookers. An estimated induction of USD 3.58 billion in the rural sector through rural development schemes in during India's 7^{th} Five Year Plan (1989-95) and USD 7.69 billion during the 8^{th} Plan (1996-2001), is believed to have contributed significantly to this growth in demand. Significantly, most of the purchases are made from the household's own income. Hire purchase schemes and loans account for only 10 percent of rural buying. American companies planning to enter India must take into account the potential of this growing rural market during their planning phase, because the rural market will be a key ingredient in any marketing effort to the large Indian demand for several products.

Many foreign companies have been disappointed with the response to products that they have launched in India over the past three years. Initially, these companies grossly over-estimated the depth and size of the Indian market for their products. Projections for the growing middle-class ranged from 150-200 million, and these figures subsequently proved to be way off the mark. Another mistake was to offer global brands at global prices, without any customization. Merely transposing brands and products from other markets did not work. Suitability and adaptation to Indian preferences and conditions are perceived as significant benefits by Indian consumers and hence is an important factor to be taken into account while designing a sales strategy for this country. A final mistake was to enter India without an efficient distribution network, forgetting that India is a market with poor infrastructure and logistics.

A successful sales strategy will recognize and deal with the existence of strong local competition - this exists in many products and service categories and should not be under-estimated. U.S. firms must also carefully compare customer needs and the quality of latent demand with the level of service that they want to offer in India. India is not a wealthy country. Even among the affluent middle class, much of the money is spent on need-based consumption rather than on luxury goods.

India is different - many people eat with bare hands; consumers refill disposable lighters; only one out of five high-income earners use toilet paper; the outlook for anti-perspirants is similar; Indians typically bathe twice a day, so while this provides a huge market for soap, deodorant penetration is only 2 percent among urban Indians. Indians educated in the U.S. and Europe often return to India to arranged marriages; many move in with their extended families. In deference to their elders, "yuppies" do not make household purchasing decisions.

Distributing products is difficult because of a large, diverse population with several dozen regional groups, each of which has its own language. Striking the right cultural chord, therefore, becomes a priority and a real challenge. Indians recycle everything, and remain frugal even as they prosper. Frugality has historical roots and is deep-seated in the Indian psyche, and is encouraged by the absence of a social security system. Although the median annual household income is only USD 480, the private savings rate is 24 percent. Even the most well-off Indians unconsciously goes through life with financial caution, to avoid financial hardships. This mindset drives both wealthy and not-so-wealthy consumers to spend very little money at a time, even though this may not be the cheapest way to buy a product. To save costs, many Indians often ignore a manufacturer's instructions, and many will under-dose and under-consume to be economical. Indians can be tough customers. While urban temperatures exceed 45 degrees Celsius in the summer, only one percent of Indian households has air conditioners, and only 1 percent plan to buy one in the next two years.

While selling in the Indian market can be a complicated and difficult experience for most new entrants, this can be avoided if, at the outset, the market opportunity is assessed accurately and the capabilities of local competition are not underestimated. Only in unusual circumstances should new foreign entrants create a new and independent sales infrastructure, because it is very expensive in the short run, and requires sustained investment to build over the long run, even if the product is successful.

ADVERTISING AND TRADE PROMOTION

Over the years, the Indian economy has moved from being a controlled, sellers’ market to a buyers’ market. In the former, whatever was produced was sold easily, and advertising was unnecessary. The government began dismantling production controls in the mid-1980's and opened up the economy in 1991. With these developments came world class competition, and increased advertising. Today, advertising is a USD 1.25 billion industry in India. Media availability has increased exponentially, competition is unlimited, budgets are large and expectations of advertising are high. Practically every aspect of media is available for advertising, from print to outdoor advertising to satellite channels to movie theaters.
India has a diverse and growing number of daily newspapers. Since 1991, the increase of business and financial news reports in English-language and vernacular dailies has paralleled the economic reform program and the ups and downs of the stock markets.

Leading business newspapers include the Business Standard and the Economic Times. Leading magazines include India Today, Business India, Business Today, Business World and A&M.

U.S. companies have a choice of many advertising and trade promotion channels in India. The print media, nearly all controlled by the private sector, is well-developed. Advertising and promotional opportunities are available in a large number of daily newspapers including business dailies; and a wide selection of weekly, fortnightly and monthly business magazines, news magazines and industry-specific magazines. Advertising opportunities are also available on satellite and cable television channels. Doordarshan, the government-owned television network reaches almost 90 percent of the population terrestrially and through satellite. In addition, over two dozen satellite and cable television channels, including many U.S. and international channels such as CNN, NBC, Discovery, National Geographic and BBC, are available for advertising. These cable channels reach an estimated 25 percent of the total television homes. Another advertising media is radio, by which the public sector’s “All India Radio” (AIR) reaches over 90 percent of the population. Private radio channels are restricted to the FM music channels which are presently available only in a few cities.

All the above media are available in English, the national language Hindi, and a variety of regional languages.

U.S. companies interested in advertising in India in any of the above noted media can work through the many advertising agencies in India. Many large and reputed U.S. and other international advertising agencies are present in India in collaboration with local advertising agencies. The advertising sector in India is technologically advanced as a result of this.

Indian Agency	**International Partner**
Chaitra	Leo Burnett
R K Swamy	BBDO (Batton, Barton, Durstine & Osborn)
Rediffusion	Dentsu-Young & Rubicam
Mudra	DDB Needham
Triton	BDDP (Boulet, Dru, Dupuy, Petit)
Trikaya	Grey Advertising
Sista's	Saatch & Saatchi
Ulka	FCB (Foote Cone & Belding)
Clarion	(Talking to McCann & TGBWA)
Madison	DMB&B (Darcy Macius Benton & Bowles)
Everest	Dentsu
Nexus-Enterprise	Lowe Group
Speer	O&M Worldwide
MAA COMM	Bozell
Burson-Marsteller Roger Pereira Communications	Burson-Marsteller

In addition to advertising, established public relations firms are also available to U.S. companies that require such services. In public relations, too, some U.S. and other international companies are present in collaboration with local partners.

In India, advertising is no different from other businesses - local advertising companies that need to have access to the best global technologies and practices in their industry have global collaborations. Most major U.S. advertising firms have chosen local Indian partners for their work in this market. Mumbai remains the center of the advertising business in India.

With a rural population approaching 700 million, India’s rural markets should not be ignored. The key to gaining rural market share is increased brand awareness, complemented by a wide distribution network. Rural markets are best covered by mass media - India’s vast geographical expanse and poor infrastructure pose problems for other media to be really effective.

U.S. companies can select from a number of quality international trade fairs, both industry-specific and horizontal, to display and promote their products and services. The U.S. Department of Commerce (USDOC) certifies a number of Indian trade shows as good venues for U.S. companies to participate in; and U.S. Commercial Service offices in India directly organize U.S. participation in a number of selected trade shows every year.

Trade development offices of USDOC, U.S. industry associations, and individual U.S. states organize trade delegations and missions to visit India to explore prospects for doing business with local firms in the private and public sectors. Participation in such trade missions, whose programs in India are managed by the U.S. Commercial Service, will be useful for American companies interested in doing business in India. USDOC and the U.S. Commercial Service in India organize catalog exhibitions which are good, low-cost, promotional vehicles particularly for small and medium, new-to-market U.S. companies. Another low-cost promotional option available, especially to new-to-market companies, is advertising in Commercial News USA (CNUSA). Although this monthly catalog magazine is circulated world-wide through U.S. Commercial Service offices and is not country-specific, over 3,000 copies are circulated to selected buyers, agents/distributors, chambers of commerce and trade associations in India.

U.S. Commercial Service offices in India offer other trade promotion services such as the Gold Key Service and the Agent/Distributor Service, more information on which can be accessed through USDOC district offices and export assistance centers.

Major Indian business associations and organizations

India's private businesses are organized into three leading business organizations:

Associated Chambers of Commerce (Assocham)

Assocham is the oldest national organization of the Chambers of Commerce in India. It is non-political, and seeks a close working relationship with the Government and with business and commercial organizations.

Confederation of Indian Industry (CII)

The CII has more than 2,000 corporate members whose total capital investment is over USD 33 billion. CII members include public enterprises Oil & Natural Gas Corp., Gas Authority of India, Ltd., Steel Authority of India Ltd. as well as the major private business houses of India. The CII organizes trade fairs, conferences, and meetings. It has signed a Memorandum of Understanding with the U.S. National Association of Manufacturers.

Federation of Indian Chambers of Commerce and Industry (FICCI)

FICCI was established in 1927 as a central organization of industry, trade and commerce in India. The Government has invited FICCI to join over 100 advisory bodies to conduct policy reviews and to make recommendations. FICCI organizes trade fairs, conferences, and workshops to serve its members. FICCI has a longstanding relationship with the U.S.-India Business Council (USIBC) and, through them, with the U.S. Chamber of Commerce in Washington, D.C.

PRICING PRODUCT

When formulating key strategies on product pricing for the Indian market, it is important to remember that simple conversion of U.S. dollar prices to Indian Rupees may not work in most cases. Also, the assumption that a latent niche market for premium products exists has often resulted in low sales volumes and negligible returns for foreign companies. For example, when Kellogg tried dollar-to-Rupee pricing for its products, it lost out on getting the mass consumer, and today has a smaller, focused niche that it serves. General Electric's first refrigerators to hit the market did not sell well because they were priced at USD 1,500-3,500, compared with Indian products that were priced 40 percent lower.

There are pockets of really affluent Indians who can afford to buy Mercedes Benz cars, IBM Laptop computers or other brand name goods. However, in general, consumer needs and what products they can afford are very different from those in many other countries. While in the U.S., for instance, the consumption pattern is 25 percent for need-based items and 75 percent for other goods or luxury items; in India, even among the affluent, this proportion could be reversed. It would be a mistake to equate affluence or the middle class between countries.

Per-capita consumption of most manufactured items in India is relatively low, somewhere between 5-25 percent of the level in developed economies. Price is a very significant factor in a purchasing decision for the majority of potential customers. Indians tend to be particularly price conscious due to generally low per capita incomes, a frugal mind-set, a high propensity to save and buying primarily for need-based consumption.

If the product can be imitated easily in terms of quality and service, international pricing will not work in India. In no time, several local entrepreneurs will be pursuing the same business opportunity as well. To reduce product import duties or other local costs and ensure a stable market shares, several U.S. and other foreign companies have established product assembly shops in India. For instance, Ford and General Motors have established car assembly plants in India and often outsource the non-critical parts in the country.

Pricing decisions have some bearing on product packaging, too. Many consumer product suppliers have found it helpful to package smaller portions at reduced prices rather than "economy" sizes. While the Indian consumer will pay a little extra to ensure that he gets quality and value for money, he may not be able to afford the higher prices of attractive packaging which many multinational companies have developed.

Although some Indian consumers are aware of quality differences and insist on world class products, many customers can sacrifice quality concerns for price reductions. In East Asia, Europe, and North America, for example, laser printers and ink jet printers have almost eliminated the dot matrix printer from homes and offices. In India, dot matrix printers are still used in business correspondence by some industrial groups. The price advantage of this older technology has extended its lifetime in this market.

Bargaining for the best price is a favorite pastime of the buyer and seller in India. For consumer goods, including refrigerators, TV-sets and music systems, the sellers often give discounts on the listed prices, especially during festive seasons to attract more customers. Trade-ins of old products for new items are also increasingly popular among the customers. The pricing strategy has to consider all these factors, too.

In rural and remote areas, marketing costs can be 5-10 percent higher than that near the manufacturer's base, due to the high transportation costs or a large number of intermediaries between the manufacturer and the final consumer. Generally, it is advisable to work out a uniform pricing formula for all areas based on expected sales volumes in the different places. This makes it easy for the customer to buy the product at any retail outlet of choice. Moreover, under Indian law, the manufacturer's retail price (MRP) is required to be stamped on the packages for several types of consumer products, including pharmaceuticals, food and health-care products.

SALES SERVICE AND CUSTOMER SUPPORT

India's diverse industrial base already offers many locally made products that are built with competitive costs and meet real local needs. Domestic manufacturers have the added advantage of knowing their territories very well. Superior quality, innovations in product features and after sales service, therefore, must be highlighted in any selling effort by U.S. companies in this market.

Businesses insist on the highest standards of maintenance services and prompt response to problems. Engineering support for manufacturing technologies, medical equipment, state-of-the-art products and processes are required for successful sales to private firms or to the Government of India or one of its public enterprises. There is no dearth of technically qualified manpower in India at very reasonable rates to undertake customer support services, but these technicians must be properly trained. Most foreign companies doing business in India either have their own maintenance service centers or appoint well-trained service agents in the major Indian cities.

SELLING TO THE GOVERNMENT

Indian government procurement practices and procedures are not transparent or standardized; they discriminate against foreign suppliers, but they are improving under the influence of fiscal stringency. Specific price and quality preferences for local suppliers were largely abolished in June 1992. Recipients of preferential treatment are now supposedly limited to the small-scale industrial and handicrafts sectors, which represent a very small share of total government procurement. Despite the easing of policy requirements to discriminate, local suppliers are favored in most contracts where their prices and quality are acceptable. Reports persist that government-owned companies cash in performance bonds of foreign companies even when there has been no dispute over performance.

It is not unusual for negotiations to drag on for years and be held up at more than one of the sundry levels within the Indian bureaucracy for long periods with no discernible movement or reason given for lack of progress. With this in mind some firms identify local representatives who are familiar with the culture and customs of India as well as familiar with how to expedite their product or service through the maze of bureaucracy in many Government ministries.

Some major government entities routinely use foreign bids to pressure domestic suppliers to reduce their prices, and permit local bidders to resubmit tenders when a foreign contractor has underbid them. For just one large contract, (e.g., a power project), this practice could cost U.S. contractors millions of dollars in lost opportunities. When foreign financing is involved, principal government procurement agencies tend to follow multilateral development bank requirements for international tenders. However, in other purchases, current procurement practices usually result in discrimination against foreign suppliers when goods or services of comparable quality and price are available locally.

The Government of India regularly advertises its requirements for the purchase of supplies and new equipment. These foreign government tenders are reported to the U.S. Department of Commerce, which publishes them on the Economic Bulletin Board and in the National Trade Data Bank. For more information about these information services, including subscription prices, please call the U.S. Department of Commerce (202) 482-2000.

Following India's nuclear tests in May 1998, President Clinton invoked economic sanctions under section 102 of the Arms Export Control Act of 1994, known as the Glenn Amendment. A Presidential waiver has lifted some of the restrictions under sanctions, but the waiver does not include sales of U.S. weapons or military products to India - these are still not permissible. If and when the sanctions are lifted, the following information will be useful to U.S. firms pursuing such sales.

India consistently expresses an interest in U.S. weapon systems. Almost daily, Indian newspapers cover Indian defense related issues as well as India's desire and intent to modernize its forces. India often expresses its respect for western military equipment and technology. This is obviously good news for the U.S. defense industry. However, U.S. businesses desiring to make defense related sales to India should be aware that the process may be daunting as well as intimidating because it is lengthy and complicated.

Caution must be exercised when seeking local expertise. Unless strict guidelines are followed, Indian law will be broken. U.S. companies must be aware of the Indian Government's ban on the use of agents for defense goods that directs government procurement officials to deal directly with the principals. This ban makes the use of agents and agent's commissions illegal. Therefore, defining the relationship between the local representative and the seller is vital in order to adhere to Indian law. The Indian Government effectively discriminates against foreign firms because many of them do not have enough business in India to justify the high cost of resident representation.

The office of the Defense Supply Advisor (DSA) is a good point of contact for U.S. defense firms. The Chief Defense Supply Advisor will assist by providing contact details of offices that are the main purchasers of foreign defense goods for India.

PROTECTING YOUR PRODUCT FROM IPR INFRINGEMENT

In India, four statues deal with intellectual property rights (IPR). The Designs Act, 1911; The Copy Right Act, 1957; The Trade & Merchandise Marks Act, 1958; and the Patents Act, 1970. Jurisdiction to handle disputes relating to the infringement of IPR's vests with the District Court or High Court.

The reputation of trademarks of foreign companies is recognized in India and there are significant judicial precedents to protect them. These cases have protected the trans-border reputation of foreign companies and restrained local companies from using world-renowned trademarks. Indian courts have gone beyond the statute books and granted relief to protect the worldwide reputation of foreign trademarks even when the marks have not been registered in India.

The latest threat to copyright law is the growing proliferation of internet users and related issues. This affects a large number of service providers and their customers, and will continue to do so in the future. In India, internet development has resulted in two main issues – the implementation of WIPO copyright treaties; and concerns with domain names, connected registration problems and conflicts with popular trade names. The diffusion of cable television also poses a threat to copyrighted material.

Judicial pronouncements under the Indian Patents Act have been encouraging. The remedy available for infringements under the Act is injunction to restrain future infringement and action for recovery of damages or gains received due to infringement. Under the Act, the patentee has the exclusive right to make, use, exercise, sell or distribute the patented article or process, either by himself or through his agents or licensees. An assignment, mortgage, license or the creation of any other interest in a patent has to be in writing and registered with the Controller of Patents in order to be valid.

In December 1998, India agreed to abide by the Paris convention and the Patent Co-operation Treaty for the protection of industrial property.

India is a signatory to TRIPs (Trade Related aspects of Intellectual Property Rights), which it signed at the conclusion of the erstwhile General Agreement on Tariffs and Trade (GATT) which was replaced by the World Trade Organization (WTO).

The Indian Patents Act provides that patents cannot be granted for a "method of agriculture or horticulture"; or for "any process for the medical, surgical, curative, prophylactic or other treatment of human beings or any process for a similar treatment of animals or plants to render them free of disease or to increase their economic value or that of their products." This makes the Indian position on the aspect of patenting life very uncertain.

India has made sincere efforts to comply with WTO obligations to resolve disputes on patent protection for pharmaceuticals and agricultural products. On January 5, 1999 the Union Cabinet approved the promulgation of the Patents (Amendment) Ordinance which seeks to grant Exclusive Marketing Rights (EMR's) to pharmaceutical and agricultural chemical products for a period of five years from the date of approval or till the date of grant of a patent or the date of rejection of an application for the grant of a patent, whichever is earlier.

The Ministry of Industry has drafted IPR legislation designed to meet India's next set of WTO TRIPS obligations due January 1, 2000. In order to meet WTO requirements, India will have to amend her patent law again to provide, among other things, a longer duration for process patents and product patents from the current 14 years to 20 years. Given the upcoming national election, the chances of parliament passing the legislation before the end of 1999 are slim. This factor, along with India's tendency to put off meeting WTO commitments as long as possible, the passage of IPR legislation this year is by no means assured.

The procedure for filing foreign applications for patents has become more flexible. Filing of patents is permitted from any city where a foreign company's patent agent resides, even though the company may not have a presence there.

The enforcement system for IPR's consists of civil as well as criminal remedies. Criminal prosecution is possible in trademark and copyright cases. There is no criminal remedy available for cases involving infringement of patent or design rights.

Civil remedy is invoked by instituting a suit in a court of competent jurisdiction. The possible civil remedies that are available in a case of IPR infringement are interim injunction; order to stop infringement; and compensation. Civil cases have a long lead time to come to trail, and the remedy is merely termination of the infringement. Owners of IPR find it difficult to show the actual extent of damage caused by infringement. The difficulty of proving and recovering reasonable compensation often discourages IPR owners from pursuing civil claims.

A criminal remedy is generally effective and carries a deterrent effect that provides adequate protection of the rights. The usual remedies are search, seizure, forfeiture and destruction of infringing goods; penalties such as imprisonment and fines work as deterrents. Criminal action is, in general, quicker, cheaper and more cost effective. The enforcement work is performed by government agencies like the police and special squads. Criminal complaints can be filed in the Magistrate's Courts against the accused, whether known or unknown. The Trade & Merchandise Act (sections 78 & 79) and the Copy Right Act (section 63) deal with criminal remedies. In addition, search and seizure are also covered by the Criminal Procedure Code and the Indian Penal Code.

The liberalization of the Indian economy has resulted in U.S. and other foreign investors seeking Indian partners to enter into strategic alliances. In such an alliance, the U.S. partner needs to be aware of the potential licensing conflicts involving its intellectual property (IP) that may arise in future transactions.

If the U.S. partner forms a joint venture without adequately safeguarding its IPR, more often than not, its IPR will end up being the property of the domestic partner.

There may be IPR's similar to those of the U.S. partner already established in the market. The U.S. owner of the IPR must act as its own policeman. This involves ascertaining prior usage of the IPR, and examining its scope carefully. This work can be done by rights owners themselves or by IP agents and lawyers. If the search reveals an identical or deceptively similar IP in the market, litigation may be the only solution. The deceptively similar IP must be challenged by establishing prior use of the U.S. company's own IP.

A U.S. company that is or plans to be in the Indian market must continuously track its IP in India. It must monitor the use and safety of the marks which have been formally licensed, and must also keep track of other marks which are neither in use nor licensed to any third party.

An IP is a proprietary right of the person to whom it belongs. Infringement of this right is punishable by law. Rights are secured by registration and maintained for later use. The owner of an unregistered IP cannot bring an action in a court of law in India to stop infringement or to recover damages for the misuse of the unregistered IP. A registered IP may also provide important evidence in cases of dispute. Registration of a foreign trademark is especially advisable. Intended use of the trademark by a licensee is sufficient to get it registered; personal use of the trademark by its holder/owner is not necessary. The registration process can take from 2-5 months, and costs approximately USD 150.

Licensing, as opposed to selling, is common in cases of foreign collaborations. Under this arrangement, the licensor can restrict the licensees' resale rights, and impose a liability for harm resulting from the use of the IP. In granting an IP to a domestic licensee, the most common problem is registration. A U.S. company must ensure that the domestic licensee does not apply for registration of the IP in its own name and thereby prevent the U.S. company from doing so in future. Conflicts in such situations may frustrate the principal purpose of the collaboration. They may also lead to a loss of the licensor's rights, reputation and goodwill.

The following issues need to be addressed when creating an effective licensing arrangement:

- The nature and extent of the right being licensed must be defined precisely. In the absence of clarity, only litigation will resolve ambiguities in license provisions.

- The geographical scope of the license must be defined and described. Failure to do so may result in illegal use of the IP in violation of particular jurisdictional laws , or in places where it can be copied with impunity.

- Patents and copyrighted information may need to be kept confidential. To preserve the secrecy of an IPR and to avoid disputes, the license agreement should contain a confidentiality clause.

- A limited right to use an IP should not be misused. The license agreement should state and describe, for example, other trademarks for which no license is granted, so that the Indian partner desists from using these in a clandestine fashion.

An IP license agreement should specify the licensed subject matter, and address who owns the technology, patent, trademark, or copyright which the licensee derives from the license. Besides this, a license should clearly specify the licensees' right to make and use, sell, offer to sell, import or to sub-license the IP. Any vague terminology may lead to the inadvertent creation of competition that involves a U.S. firm's own products/technology and subsequent loss of profits.

A patent may involve several forms of copyright, trademark and patent. Each of the several rights, to the extent that is technologically feasible, may be licensed separately. A patentee may be able to save a patent, but may lose other valuable IP rights attached to a patent by failing to adequately safeguard related IP rights that form an indispensable part of the patent.

A license agreement must incorporate information on patent numbers, trademark and copyright notices, the number of licenses issued, etc. This will avoid infringements and notify competitors about the identity of the owner of the technology and its potential licensees.

It is a prevalent practice in India to register a foreign trade mark along with its Indian counterpart to form a hybrid mark, such as Maruti-Suzuki, Tata-Honeywell or Swaraj-Mazda. This is done to cash in on the international/local recognition already achieved by the foreign/local mark. Should the collaboration agreement come to an end, the joint venture company becomes entitled to use the hybrid mark which has become popular, thereby diluting the mark of the foreign collaborator. A U.S. company should prepare its agreements in a manner which will not allow its domestic partner to take advantage of the goodwill of the foreign mark without appropriate compensation.

Industrial designs fall somewhere in between patents and copyrights, and also need to be registered. Otherwise, a patent and its copyright in two-dimensional work in a foreign country may be copied, in India, in three-dimensional form. To safeguard the patents of industrial products that cannot be registered in India, the patentee should ensure that the design is, at least, copyrighted and registered in India.

Negotiation is a means of protecting and enforcing patents. An infringer may well be persuaded to give up what he is doing through negotiations. It may well be in the interest of the IP owner to form a strategic alliance with its competing infringers and propose a business arrangement that would benefit both parties. Negotiation and compromise are preferred to litigation in such cases.

NEED FOR A LOCAL ATTORNEY

Since the Indian government controls inbound investments, it is useful to have a local attorney who can advise on investment options, structuring of the Indian operations and actually establishing a business presence in India, whether by way of subsidiaries, joint ventures, branch offices or liaison offices. In most cases, the investor, in order to do business in India, would have to deal with a number of government departments/ officials and to comply with many rules, regulations and procedures that invariably lead to delays and can be a frustrating experience.

Doing business in India is difficult because the Indian market is complex, with some laws dating back to the early 1900's and some enacted or amended as a result of the economic liberalization process that began in 1991. Like the U.S., India has adapted a legacy of British common law and precedent to its national circumstances.

The dominance of Indian government entities as litigants and court delays lasting several years makes business dispute resolution a little different from more developed economies. The legal environment is better suited to investors who can weather unpredictable rules, delays and potentially arbitrary decision making. Despite this, the number of leading American firms investing in India is increasing, and many of them are satisfied with the legal environment.

Following economic liberalization, there has been an increased inflow of investment in power, telecommunications, banking, institutional investments, oil and gas, construction and capital markets. Due to the substantial nature of many of these projects, standard agreements have given way to legally sophisticated and specialized agreements that address all relevant counsel as applicable under Indian laws. The chosen local attorney must be able to provide expertise in handling these agreements.

Several local law firms are well equipped to serve multinational and foreign companies. They offer the entire range of legal and tax services, and have the expertise to interact with international law firms, whenever required. Billing for legal services has become extremely flexible in India. Attorneys are proposing a combination of discounted fees, blended hourly rates, partly deferred fees, overall caps and/or lump sum fees. Contingency fees are not an issue because there is increasing competition for legal advisory roles in major infrastructure projects.

For large-scale projects, U.S. developers will encounter public interest litigation and media reaction as the most difficult variables. The U.S. developers must finesse to assure success on both these fronts; must be prepared to furnish substantial information and patiently refute misleading allegations. It is imperative to have a capable local attorney to handle these situations.

In India, there are an increasing number of agreements that provide for arbitration in the event of disputes between the parties as litigation in the country is a time consuming, cumbersome and expensive process. Local attorneys not only can assist in litigation but also have developed the expertise to handle international arbitration.

The more progressive local attorneys are developing further expertise in specific areas by hiring professionals from certain industries and from other law and accounting firms. Many spend considerable non-billable time in research to increase their knowledge and information base; and to decrease their response time.

Most major U.S. international law firms have existing correspondent or informal relationships with leading solicitors and advocates in India. Two U.S. law firms have offices in India. Indian bar associations regard the entry of foreign law firms as a competitive threat to their existing business and advocate that the Government of India restrict entry to firms from nations which grant reciprocal treatment to Indian law firms. The U.S. Embassy may not recommend any individual or firm to supply legal services. However, the Commercial Service does maintain a list of such firms who are used by the local offices of U.S. corporations. This list is available on request.

PERFORMING DUE DILIGENCE/CHECKING BONA FIDES OF BANKS/AGENTS/CUSTOMERS

It is prudent to exercise normal business caution when dealing with Indian entities. The Embassy recommends that due diligence checks on potential Indian parties be carried out thoroughly and promptly. This can be done through checking with the Commercial Service, or through the following fee-paid services:

Mr. Arun Thukral
Dun & Bradstreet India Pvt. Ltd.,
1314, Ansal Tower
38, Nehru Place
New Delhi 110 019, India
Tel: 91-11-6283881/6283880
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CHAPTER V: LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

- **-- Best Prospects for non-agricultural goods and services**
- **-- Best Prospects for agricultural products**
- **-- Significant investment opportunities**

BEST PROSPECTS FOR U.S. GOODS AND SERVICES SALES IN INDIA 1999

The following are the 15 best prospect sectors for India. These prospects have been ranked by a weighted measure of market size and nominal growth. The best prospects consider the following inflation and exchange rates:

	1997	1998	1999	2000
Inflation in percent	10	10	8	8
Exchange rate USD 1 =	38	39	42	42

Best Prospects ranking

Computer Software	1
Telecommunication	2
Pollution Control Equipment	3
Power	4
Mining Equipment	5
Architecture, Construction & Engineering	6
Metal Working Machinery	7
Sporting Goods	8
Laboratory Equipment	9

Education Services	10
Airport Equipment	11
Medical Equipment	12
Water Resource Equipment	13
Food Processing and Packaging Equipment	14
Cosmetics	15

In addition, there are substantial opportunities for U.S companies in India's oil and gas sector.

Investment Opportunities

Drugs and Pharmaceuticals
Food Processing
Ports

BEST PROSPECTS

Sector Rank: 1
Sector Name: Computer Software
ITA Industry Code: CSF

NARRATIVE:

According to a recent study conducted by the National Association of Software Services Companies (NASSCOM), the premier association representing the software services sector, the Indian software industry is worth USD 1.75 billion. If the in-house development that takes place at many large commercial /corporate end-users is added, the total software industry is worth close to USD 2.2 billion. In 1998-99, software exports from India increased by more than 60 percent generating revenues worth USD 2.65 billion About USD 1.25 billion was spent on software products/services domestically during the same period. NASSCOM has announced a series of initiatives to help achieve its grand software revenue targets of USD 50 billion for exports and USD 35 billion in domestic sales by the year 2008. Indeed, many are predicting an exponential growth in the Indian software sector over the next few years.

To support the potential growth of the industry, NASSCOM will launch a series of initiatives, including the completion of a study with McKinsey & Company, to identify key growth opportunities in the sector. The association also plans to launch an aggressive campaign to increase domestic computerization.

Currently, the packaged software market is growing fast, showing a 95 percent increase in 1998. This performance was impressive given the fact that the domestic hardware industry recorded poor growth rates in that year. Also, there was political uncertainty and a falling rupee (India's currency) during that same period.

Systems software accounted for USD 167 million in revenue in 1998 (a 105 percent increase over the previous year), while application software also recorded an impressive growth rate of around 90 percent, reaching USD 297 million in revenues.

Multi-national corporations dominated the packaged software segment with Microsoft recording a 60 percent increase in sales (valued at USD 76 million). This increase in Microsoft sales was due to the Indian computer industry's acceptance of Windows NT as the enterprise segment systems software. SAP enjoyed the majority share with its ERP package, with Baan and Oracle closely following.

The Small Manufacturer/Enterprises segment was the target for other software companies, with Microsoft and Novell/Oracle offering specially bundled packages. In "group ware" solutions, Lotus Notes continued to dominate this segment as corporate India discovered the benefits of messaging and collaborative computing. MS Exchange and Novell GroupWise also sold, but in small quantities. However, in office suites, Microsoft was the forerunner. Its product, MS Office, is estimated to have a phenomenal 85 percent of the Indian market share compared to 12 percent for Lotus Smartsuite and three percent for PerfectOffice.

Realizing that the software sector is a significant foreign exchange earner, the Government of India (GOI) has identified it as a thrust area. In its second consecutive budget, the GOI provided several incentives to the sector:

-A 5 to 10 year tax holiday for units in Software Technology Parks;

-100 percent depreciation over two years on all IT products;

-Software and IT to be treated as a priority sector by banks for five years;

-Blanket approval for Indian IT companies for overseas acquisitions from export earnings;

-The issuance of sweat equity to employees;

-Zero custom duty on all IT products by the year 2002;

-The broadening of the definition for software to include the entire range of IT software as per WTO-ITA requirements;

-The exemption of software developers and exporters from physical and customs bonding at Software Technology Parks 100 percent Export Oriented Units and Export Processing Zones;

-Opening of a radio band for public wireless access; and

-Ending the parastatal (Videsh Sanchar Nigam Limited (VSNL)) monopoly as an Internet Service Provider.

In addition, the GOI amended the Copyright Act and established a rigid enforcement directorate, which is expected to curtail piracy. With these initiatives the domestic market is expected to show a growth rate of at least 25 to 30 percent in the coming years.

Like India's jewelry industry, the software industry is unique because India imports unfinished software, substantially modifies the software by customizing it for use elsewhere in the world, and then re-exports the finished product. Consequently, the value of India's imports of software exceeds the value of domestic demand.

Due to the slow-down in the Indian economy, software imports declined. NASSCOM and Data Quest estimate that imports declined by about 11 percent in 1997-98 from the 1996-97 level. Given that no concrete data are available on imports, NASSCOM and Data Quest estimate that imports were around 200 percent of the domestic market; i.e., imports were USD 3.3 billion, while the domestic market was USD 1.6 billion. The U.S. share of the India's import market for software is estimated to be as high as 45 percent, or USD 1.5 billion.

The most promising sub-sectors, with year 2000 estimated market shares, are listed below:

Sub-sectors	**U.S. Dollar Millions**
CAD/CAM software	1,005 million
ERP Solutions	50.1 million
RDBMS packages	55 million
Financial Accounting packages	55 million
Networking products	1,430 million

DATA TABLE (Estimates in USD millions)

	1997	1998	1999	2000 (est.)
A. Total Market	1,230	1,600	2,080	2,595
B. Total Local Production	692	900	1,170	1,460
C. Total Imports	2,538	3,300	4,290	5,360
D. Total Exports	2,000	2,600	3,380	4,225
E. Imports from U.S.	1,015	1,485	1,930	2,412

Data Sources: DataQuest (a computer magazine); a NASSCOM study on computer software.

Sector Rank: 2
Sector Name: Telecommunications Equipment & Services
ITA Industry Code: TEL/TES

NARRATIVE:

The Indian Telecommunication (telecom) network is the twelfth largest in the world and third largest in the developing world. The network consists of more than 21,000 telephone exchanges, equipped with a capacity of 21.5 million lines and 18 million working telephones. The long distance transmission network has coverage of over 166,230-route KM of radio systems and 76,260-route KM of optical fiber systems. The Indian telecommunication network is connected to 237 countries for international subscriber dialing. However, the telecommunication network is far from meeting international standards.

With a telephone density of 1.9 telephones per 100 people, significantly short of the global average, demand for telecom products is essential. Only 50 percent of India's 600,000 villages have telephone facilities. The new telecom policy targets a telephone density of 9 per 100 people. According to the Government of India (GOI) telecom plan (1997-2007) prepared by the Department of Telecom (DoT), the demand for new telephones during the period up to 2007 has been estimated at 81.8 million. This projected demand will generate a requirement of approximately 64 million telephones during the next eight years. About 43 million telephones are expected to be provided by the DoT and Mahanagar Telephone Nigam Limited (MTNL), and 21 million telephones by private operators. Clearly, the development of the telecom sector has an important role to play in the development of India's economy.

The production of telecom equipment in India increased from USD 1.3 billion in 1993-94 to USD 2.48 billion in 1997-98, and is expected to reach USD 5 billion in 2002. The requirement of telecom equipment by various users during the five-year period from 1997-2002 is estimated at USD 22.3 billion; USD 18.5 billion of which will be produced within India.

A number of value-added telecommunication services have been introduced in India. The Indian telecom sector today offers a host of services like cellular mobile phone, radio paging, video conferencing, mobile radio trunked service, V-SAT service, electronic mail, voice mail, Internet, credit card authorization and e-commerce.

Six vacant slots are available in India today for providing cellular mobile telephone service. The subscriber base at present is around 0.9 million and is expected to reach 1.6 million by March 2000. Thirteen vacant slots are available for providing paging services. The number of present pager subscribers is around 0.8 million and is expected to reach 1.5 million by March 2000. Most of the companies providing V-SAT service experienced a growth rate of 25 percent during the last year, reflecting a rise in V-SAT communication. At present, the total number of V-SAT installed in India is around 6,000. It is expected to reach 11,000 by March 2000.

The Internet service and e-commerce sectors have vast potential, especially since privatization in November 1998.

Privatization made terms and conditions for obtaining licenses quite liberal to ensure quick growth. There has been 100 percent growth in Internet subscribers over the last six months in 1999, and the trend is continuing. Presently, the number of Internet subscribers is only 150,000 and is expected to increase to about 2 million by the year 2000. According to a recent survey of one million telephone-owning enterprises based in India's eight largest cities, 32 percent have computers. Of those with computers, 69 percent have networking capability and 46 percent have Internet connections. However, only 16 percent conduct business through e-commerce. It is estimated that the e-commerce sector will grow at about 30 percent over the next few years.

During the GOI's Ninth Five-Year Plan (1997-2002), the following new value-added services are likely to be introduced:

- Global mobile satellite services;
- Mobile satellite phones through INSAT 2C;
- Multi-media services;
- Services using IN and ISDN platforms;
- Personal communications services;
- Global positioning systems;
- Tele-medicine/health information services;
- Pay phones services; and
- Home banking/tele-banking services.

With increased investment in value-added services and privatization of the Internet, the demand for telecom products will increase. Equipment, such as cellular switches, cellular phones, radio trunking hand sets, V-SAT terminals, ATMs, frame relays, card pay phones, feature phones, ISDN terminals, and data terminals will have excellent potential.

Indian companies have a strong interest in U.S. telecommunication products, technologies and services. The

U.S. is recognized as the leading telecom provider of products and services. There are several Indo-U.S. joint ventures in the telecom sector. On a scale of 1-5 (1 being poorest and 5 being excellent), U.S. telecom products and technologies are ranked at 4 by the DoT. However, U.S. firms face competition from the French, German, Swedish, Japanese, Koreans, Canadians, Australians, Singaporeans, Finnish and Hong Kongese firms.

The Telecom Regulatory Authority of India (TRAI) has been established to study telecom related issues and to ensure a fair treatment to all service providers. Import duties on telecom products and technologies have been reduced. They are expected to be reduced further during the next two or three years.

The most promising sub-sectors, based on estimated demand, are listed below:

Sub-sectors	**Demand (Units)**
Telephone Instruments	325 million
Cellular Mobile Phones	2 million
Radio Pagers	3 million
Radio trunk line hand sets	0.3 million
V-SAT terminals	15,000
Feature Phones/ISDN Terminals	100,000
Internet equipment	1.3 million

DATA TABLE: (Estimates in USD millions)

	1997	1998	1999 (est.)	2000
A. Total market size	4,315	5,925	7,129	8,600
B. Total local production	3,054	4,200	4,730	5,845
C. Total exports	-	-	-	-
D. Total imports	1,261	1,725	2,399	2,755
E. Imports from the U.S.	504	725	850	975

Note: The above statistics are unofficial estimates.

Sector Rank: 3
Sector Name: Pollution Control Equipment
ITA Industry Code: POL

NARRATIVE:

The Indian pollution control equipment industry is diversified and offers strong environmental business prospects. The market in India for environmental business is estimated at USD 2.5 billion and is growing at a 15 percent annual rate. The major areas of investment are: Water treatment and sanitation, industrial waste water treatment and recycling, industrial air pollution control, hazardous waste management, treatment and disposal, biomedical waste management, municipal solid waste management, pollution testing and monitoring equipment/services and environmental consultancy/engineering services. The future appears bright for the sector due to private sector implementation of projects on a "Build Own Operate and Transfer" (BOOT) and "Build Own Operate" (BOO) basis, as well as active financial participation of multilateral and bilateral agencies.

The major factors responsible for growth in the pollution control equipment sector include:

- Greater enforcement of legislation through the central and local Pollution Control Boards;

- Growing public awareness of health issues related to pollution and public interest litigation in courts;

- The large number of financing options available for capital equipment; and

- Industry avoidance of closure and penalties.

There is an increasing awareness that pollution prevention is a win-win situation; good for business and good for society. There is a move towards voluntary adoption of environment management systems namely ISO 14000.

Important pollution control equipment sub-sectors include: Hazardous waste; biomedical waste; and pollution in the metallurgical industries.

DATA TABLE: (Estimates in USD millions)

	1997	1998	1999	2000 (Est.)
A. Total Market size	2,170	2,491	2,864	3,294

B. Total Local Production	1,302	1,495	1,718	2,305
C. Total Exports	-	-	-	-
D. Total Imports	868	996	1,146	989
D. Imports from the U.S.	260	299	401	395

Note: The above estimates have been drawn from official and unofficial sources. The figures also include estimates for basic water treatment and sanitation projects. The import figure for year 2000 shows a slight decline as local capabilities within India are expected to grow.

Sector Rank: 4
Sector Name: Power, Generation, Distribution and Transmission Equipment
ITA Industry code: ELP

NARRATIVE:

The demand for ELP (Power Generation, Distribution and Transmission equipment) is expected to grow from USD 5.9 billion in 1998 to USD 6.8 billion in 1999, with a further increase to USD 7.8 billion by the end of 2000. From 2001-2003, Indian ELP should grow at a nominal annual average rate of 25 per cent. The current U.S. ELP market share of USD 246 million will grow an estimated 25-30 per cent over next two years.

Since 1991, increased industrialization in India along with the Government of India's (GOI) power program initiatives have produced a strong demand for ELP. India's present installed electric power generating capacity is close to 81,000 MW against a current demand of over 100,000 MW. The Central Electricity Authority's (CEA) ten-year power development plan identifies projects totaling 56,783 MW for implementation in the 9th Five Year Plan (1997-98 to 2001-2002). This expected capacity addition involving both the public and private sector will create a concomitant demand for ELP.

New GOI policies permit 100 percent foreign-owned companies to establish power projects and to repatriate profits without export obligations. Such power projects can be based on coal, lignite, gas, hydro, liquid fuels, wind or solar energy. These policy initiatives have opened a huge market and vast investment opportunities for the private sector. Consequently, many global players are developing power generation projects in India, either individually or jointly with leading Indian firms.

In addition to the needed increase in India’s electric power capacity, efficient power distribution and use is key to India’s economic development prospects. Efficient power distribution is necessary to achieve growth targets for industry and agriculture and to meet the growing demand for power from a variety of consumers.

By the year 2000, the Government of India (GOI) estimates that at least 30,000-35,000 MW of additional capacity will come on line. The GOI recognizes that energy savings through efficient transmission and distribution (T&D) systems can help bridge the demand and supply gap.

Both the GOI, and the state governments regulate the Indian power sector, resulting in overlapping jurisdiction. Currently Indian power developers can be broadly segmented into three main categories: Central Sector Organizations (CSO's), State Electricity Boards (SEB's) and the private sector. Of the total installed power-generation capacity, 31 per cent is owned by the CSO's, 65 per cent by the SEB's and 4 per cent by the private sector.

The CSO's are mainly comprised of bulk generating companies with the primary objective of supplementing the efforts of the states. The National Thermal Power Corporation is the largest CSO and accounts for the lion’s share of the capacity in this sector. Other CSO's include the National Hydroelectric Power Corporation Ltd., the Nuclear Power Corporation Ltd. and the Neyveli Lignite Corporation Ltd. Power generated by the CSO's is sold to SEB's, which distributes it to consumers.

The GOI holds equity in all of the CSO's, which are dependent on the Government to fund a large portion of their capital expenditure plans, mainly through budgetary support. However, in recent years budgetary support has been declining as the Government is reducing expenditures to reduce its fiscal deficit. This has prompted the CSO's to tap capital markets for funds.

For their part, the low creditworthiness of the SEB's restricts their ability to raise funds from domestic and international capital markets. Some SEB's are planning to access capital markets by adopting mechanisms for credit enhancement like escrow accounts and state government guarantees. However, major reforms, particularly efforts to lower tariffs (the sales price of electricity), will be essential to attract private investments of sufficient magnitude by the SEB's. Such reforms are especially important in light of SEB's' intentions to purchase costlier power from independent power producers.

The Indian Government's efforts to lower custom duties along with its initiatives to simplify import licensing will help encourage Indian and U.S. firms to build power projects in India. The GOI's economic reforms including amendments to the Foreign Exchange Regulations Act are expected to speed up the approval process. Foreign firms are looking at India for establishing co-manufacturing facilities. This trend should continue given the government's commitment to simplify the approval process.

Currently, the SEB's are handling the distribution and transmission of electricity in their respective states. Most of these state-owned companies are also generating companies and have been in existence for extensive periods. The regional transmission network (i.e. the inter-state transmission network) consists of networks of respective SEB's and the Power Grid Corporation of India. Even though SEB's decide the operational plans within their regional network, these plans are not fully coordinated and lead to inefficiencies.

Various constraints exist including an improper mix of plants, missing inter-regional linkages, a lack of communication facilities, deficiencies in metering facilities, and financial limitations in adding new transmission capacities. Likewise, the distribution system is operated inefficiently. The reported distribution losses are as high as 25 per cent. Inadequate metering systems, billing procedures and revenue collection systems further aggravate the problem.

Because the GOI and SEB's are unable to invest in transmission and distribution systems due to their own financial constraints, private investment is being sought in this sector. As a result, there is an increasing trend towards turnkey projects. A turnkey project could include the gamut of activities from design, manufacture/procurement of towers, conductors, insulators, hardware and the construction of power lines from survey to testing. There is a growing market for higher voltage lines 400 KV and above and HVDC lines. Also, increasing importance is given to the contractor's ability to raise financing for build-own-transfer (BOT) and build-own-operate-transfer (BOOT) projects.

The GOI has planned for the distribution network (constituting 33 KV and lower system) to remain directly under the control of the government, while transmission networks comprised of 220/132/66KV systems will be privatized. An evolutionary power transmission and distribution plan formulated by the Central Electricity Authority (CEA) further widens the scope of business. It provides for construction of 220 KV, 400 KV, 765 KV and HVDC transmission lines. Inter-regional transmission interconnections have been planned to be super-imposed on the regional networks to form a National Power Grid.

The key factors for U.S. firms to further their success in this sector are strength in designs and research and development (R&D), an ability to source international financing, good project management skills, possession of a network of global sourcing points and effective global risk management skills.

Data Table: (Estimates in millions of USD)

1997	1998	1999	2000	(est.)
A. Total Market Size	5,166	5,908	6,860	7,814
B. Local Production	4,414	4,944	5,593	6,242
C. Total Exports	232	266	308	350
D. Total Imports	984	1,230	1,575	1,922
E. Imports from U.S.	205	246	307	365

1998: Import market share percentage (USA 20 %; Germany 16%; U.K10%; Japan 16%; Others 38%)

Receptivity score (1-5) : 4 (Very receptive)

Reasons: The high rating of 4 reflects a very good demand for U.S. made ELP. With an increase in Indo-U.S. collaborations in the Indian power sector, market entry for U.S. firms in developing large and medium-size power plants is excellent.

Data sources: Economic Times, CEA power development plan and internal references.

Sector Rank: 5
Sector Name: Mining and Mineral Processing Equipment
ITA Industry Code: MIN

NARRATIVE

Predominantly state-controlled until recently, India's vast mineral sector that includes coal, ferrous and non-ferrous minerals is opening up to new Indian and foreign private investments. By declaring its liberalized Mineral Policy (1993) and its February 1997 Amendment to the Coal Mines Nationalization Act of 1973, the Government of India (GOI) has encouraged private investment in mining and processing of minerals. The new policy is applicable to coal, iron ore, manganese, ferro-chrome, bauxite, copper, lead, zinc, silver, gold, platinum, diamonds and sulfur. The GOI will allow foreign ownership of 51 percent for mining these minerals, and it is prepared to raise that limit for captive mines of firms processing the minerals based on imported technology. Given rising investments in privately-owned mines and new mineral processing firms, demand for the latest equipment and technology from abroad, particularly the U.S., should grow rapidly during the next 5-10 years. In addition, coal mines operated by GOI-owned Coal India Limited (CIL) are also in urgent need of equipment modernization and expansion. CIL was awarded World Bank loans totaling USD 1.6 billion for a project to purchase new equipment in the next few years. Several U.S. multi-national companies have bid successfully for contracts in the first phase of this project.

The requirement for computerized mine haulage truck deployment monitoring based on satellite Global Positioning Systems (GPS) in open cast mines has good prospects for U.S. exporters. Besides new equipment, some of India’s private developers of mines may also be willing to explore the possibility of getting used or reconditioned equipment at a reasonable cost.

Earlier, the GOI obtained equipment under tied loans or bilateral aid programs offered by U.K., Germany, or Japan. Now, given the recently liberalized Mineral Policy and private entrepreneurs investing in the mining industry, the opportunity for U.S. firms to enter India's market through joint ventures and technical collaborations has grown immensely. U.S. equipment suppliers, with an indisputable technological advantage, should also be well placed to win an increasing number of contracts funded by the World Bank, Asian Development Bank and other multilateral financing agencies.

The most promising sub-sectors, with year 2000 market size estimates, are listed below:

Sub-sector	**H.S. Code**	**Market Size** USD million
Mine Locomotives:	8428.50	USD 350
Longwall Loader Systems:	8428.90	USD 150
- Excavators, Shovels, etc.:	8429.50	USD 190
- Walking Draglines:	8429.52	USD 180
- Coal/Rock Cutters:	8430.31	USD 140
- GPS and Communication Eqpt.:	8525.20	USD 85
- Mineral Screening, Washing, Flotation/Separation and : - Sedimentation equipment.	8474.10	USD 630
Mineral Crushers & Grinders:	8474.20	USD 280

DATA TABLE: (Estimates in USD millions)

	1997	1998	1999	2000 (est.)
A. Total Market Size	1,235	1,440	1,700	2,005
B. Total Local Production	885	1,015	1,100	1,175
C. Total Exports	130	150	180	210
D. Total Imports	480	575	780	1,040
E. Imports from the U.S.	125	160	220	290

Note: The above statistics are unofficial estimates.

Sector Rank: 6
Sector Name: Architecture, Construction and Engineering Services
ITA Industry Code: ACE

NARRATIVE:

India provides a market for architecture, construction and engineering (ACE) services in several infrastructure sectors. The most promising of these, from a growth perspective, are power, oil & gas, telecommunications, ports, roads, civil aviation, urban infrastructure and housing.

Power

The demand for power is expected to rise at a 7.5 percent annually rate over the next decade. The 9th Five Year Plan (1997-2002) places considerable emphasis on the role of the private sector in helping to solve India's power shortages. Out of the capacity addition of over 40,000 MW envisaged during the plan period, the private sector is expected to add 44 percent of this estimated capacity increase. Opportunities for U.S. firms to provide ACE services will arise as part of India's privatization process, as part of private investment, and as part of renovation and modernization efforts in India.

Oil & Gas

The demand for petroleum products is expected to increase at 7 percent annually and an estimated investment of more than USD 100 billion will be required over the next 10 years to meet this projected demand. Additional refining capacity of 110 million tons will be required by 2010. U.S. companies will find opportunities to provide ACE services in the following areas: speculative surveys; oil exploration, development and production; refining; development of oil and gas distribution infrastructure, including cross country pipelines; and development of liquefied natural gas (LNG) handling facilities, port terminals and tanks.

Telecommunications

India has one of the fastest growing telecommunications networks in the world, with expressed demand increasing at more than 15 percent annually. The number of Internet subscribers is expected to reach 2 million by 2000. It is expected that India will need more than USD 6 billion of imported telecommunications equipment and an additional of 23.7 million new lines during the Ninth Five Year plan period.

Activity in this sector will be marked by increased deregulation, competition and private sector participation.

Opportunities exist for U.S. firms to provide ACE services in each of these areas, and also in interconnectivity between the state-owned and private networks.

Ports

In the ports sector, India requires an investment of USD 7.3 billion to increase overall port capacity to 540 million tons by 2006. The Ninth Five Year Plan expects the private sector to invest a major portion of the USD 1.9 billion that it envisages as investment for port development during the plan period. Opportunities to provide ACE services will arise for U.S. firms in the following areas: Augmenting container facilities; constructing bulk, break bulk, multi-purpose and specialized cargo berths; establishing captive power plants; mechanizing loading and unloading facilities for coal; improving petroleum/oil handling and night navigation facilities.

Roads

India has the third largest road network in the world, totaling 3 million kilometers. There is a continuing rapid increase in the demands on road infrastructure. The national highways carry 40 percent of total road traffic, and are overloaded. The number of registered vehicles is expected to rise from 27.5 million in 1995 to 54 million in 2001. An estimated USD 33.7 billion is required for the development of national and state highways over the next six years. Private investment is expected to be modest because of the risks of toll road projects in India and the relative underdevelopment of the Indian debt market. Only projects which are financially viable and bankable on the basis of traffic density are expected to be taken up by the private sector. U.S. business opportunities to provide ACE services in the roads sector will be found in projects for constructing bypasses and bridges as well as adding lanes to existing sections of the National Highway.

Civil Aviation

For details on ACE opportunities in air passenger and cargo traffic, see Best Prospect on "Airport and Ground Support Equipment."

Urban Infrastructure and Housing

Urban India comprises less than 30 percent of its population but contributes more than 50 percent to its GDP. An estimated investment of more than USD 80 billion is required before the year 2005 to improve basic urban amenities and facilities. Three hundred Indian cities constitute nearly two-thirds of the population. The government has a target of constructing 2 million dwellings annually. Only eight cities have waste water collection and treatment facilities and 209 cities have partial treatment facilities. Organized sewage system coverage ranges from 35-75 percent in different towns and cities, and basic sanitation facilities still have to reach 50 percent of the population. U.S. firms will find opportunities to provide ACE services for improved housing, water supply, sanitation, sewerage and public transport.

Other statistics for this services sector are not available and are not easily estimated because of the number of sectors involved.

Sector Rank: 7
Sector Name: Metal Working Equipment
ITA Industry Code: MTL

NARRATIVE:

India's domestic production and imports of metal working equipment increased significantly over the past five years because the machine tool industry is an integral part of India's USD 3.75 billion manufacturing sector. Despite the general slow-down in India's economy, imports of machine tools continue to experience real annual growth rates exceeding 15 percent—particularly for CNC machine tools like heavy-duty horizontal and vertical machining centers, milling machines, and used and refurbished equipment.

The growth in the demand for metal working equipment is attributed to substantial existing and expected new investments in the automobile and automotive components industry, domestic appliances industry, and the engineering industry. Automobile manufacturers such as Ford, General Motors, Fiat, Hyundai, Daewoo, Toyota, and the local Maruti and Tata companies, are expected to upgrade/change models and/or increase production periodically. Both the automobile manufacturers and component and original equipment manufacturers (OEM) manufacturers have a periodic requirement for new machine tools, forming tools, and molds.

Imports of metal working equipment are also expected to accelerate due to the Government of India's recent reductions in import tariffs--from 85 percent in 1991-92 to around 20 to 30 percent in 1997-98. In addition, simplification of rules for imports of used equipment and the increase in excise duties on machine tools manufactured in India from 10 percent to 13 percent are expected to produce an increase in imports. Moreover, Indian suppliers are finding it very difficult to compete with the cheaper and technologically superior equipment offered by foreign suppliers.

Although there are a large number of Indian manufacturers of metal working equipment (over 200 large and medium-sized firms, and over 1,200 small firms), only ten firms account for an estimated 70 percent of India's production. Some U.S. companies and the U.S. Association for Manufacturing Technology (AMT) are relatively active in the Indian market; however, companies from Taiwan, Korea, China, Japan and Germany are more aggressive marketers of their equipment. According to estimates from the Indian Machine Tool Manufacturers' Association (IMTMA), the U.S. possesses a 15 percent market share of India's imports of metal working equipment.

The most promising import sub-sectors, with estimated market sizes for the year 2000, are provided below:

Sub-sectors	Market Size (USD Million)
CNC Machine Tools and Center	575
Other Machine Tools	435

DATA TABLE: (Estimates in USD millions)

	1997	1998	1999	2000 (est.)
A. Total Market Size:	1,041	1,246	1,415	1,650
B. Total Local Production	625	862	850	900
C. Total Exports:	440	516	560	650
D. Total Imports: 856 900	1,125	1,400		
E. Imports from the U.S.	85	126	170	200

Data Source: Indian Machine Tool Manufacturers' Association; Industry Sources

Sector Rank: 8
Sector Name: Sporting Goods, Fitness Equipment and Amusement Machines
ITA Industry Code: SPT

NARRATIVE:

The industry sector comprising sporting goods, fitness equipment, and amusement machines is one of the fastest growing industries in India. While sporting goods is a relatively small industry, the market for fitness equipment and amusement machines is booming because Indians are experiencing increased disposable incomes and are focusing on health and recreation. In 1999, the total market for sporting goods, fitness equipment, and amusement machines (SPT) is estimated at USD 605 million with imports accounting for USD 300 million. The SPT market is expected to increase to USD 760 million in the year 2000 with imports accounting for nearly 50 percent of the total market.

The Indian sporting goods industry has been in existence for over 115 years, but is still relatively unorganized and confined mainly to the small-scale sector and cottage units. The main products are traditional items like hockey sticks, cricket bats and inflatable balls. The total turnover of sporting goods last year was about USD 102 million, of which about 60 percent (USD 61 million) was exported. India’s raw material imports for sporting goods equipment include:

Felt cloth for tennis balls; ash and beach wood for tennis badminton and squash rackets; ashwood for hockey stick handles and billiard cues; willow clefts for cricket bats; marble slates, billiard cloth and rubber cushions for billiard tables; fishing hooks for fishing flies; nylon gut for stringing of tennis, badminton and squash rackets; cane for cricket bats and hockey stick handles; glass, carbon and polymide fibre tapes for hockey stick handles; cork bottoms for shuttlecocks; feathers for shuttle cocks; cork sheets for inner core of cricket and hockey balls; stamping foils for stamping cricket and hockey balls; stamping inks for inflatable balls; PU/PVC leather cloth for cricket and hockey leg-guards; latex/synthetic foam cloth for sports gloves; butyle bladders for inflatable balls; and PU coated leather grips for hockey sticks.

For sustained growth, the industry needs to diversify into newer, non-traditional products with technological, managerial and financial collaboration with companies from developed countries. Following economic liberalization in 1991, India's middle class has been expanding in size and disposable income. It is estimated that the sporting goods industry in India could reach USD 3 billion by 2005 and USD 5 billion by 2010, if adequate attention is given to the sector.

Two sub-sectors in the sporting goods industry are fitness equipment and amusement machines, which include amusement rides, games and family entertainment centers (FEC). The increasingly sedentary lifestyles of today, together with increased awareness of the need to exercise and keep fit, have produced a boom in these sectors. Many consumers have the purchasing power and the desire to acquire high quality exercise machines for personal fitness.

India offers one of the largest potential markets for fitness equipment. According to industry sources, the total market is estimated at USD 100 million and is expected to reach USD 550 million by the year 2005. India's nearly 1 billion population includes 200 to 250 million middle class households with tremendous buying power. They are potential customers, in addition to the 210 million students and 761,000 educational institutions spread across the country.

The amusement rides, games and machines market in India has experienced substantial growth over the past three years, and the growth is expected to accelerate over the next three years. The market in India for amusement park and water park rides and equipment is growing at a rate of over 100 percent per year. The total market is estimated at USD 80 million in 1999. Because of the high import tariff of 50 percent on such equipment, nearly 90 percent of amusement park and water park rides and equipment is manufactured or fabricated in India by companies in the small-scale sector. There has been significant demand for imported amusement and water park rides and equipment, but the import market will increase only if the import tariffs on this equipment is lowered.

The market for the FEC sector in India is booming. It is mainly comprised of bowling equipment, pool tables, go-carts and associated equipment, juke boxes, and coin-operated video and other games and machines. New demand is emerging for laser games and ice skating equipment. Unlike amusement and water park rides and equipment, where 90 percent of the total market demand is presently met by local production, over 90 percent of FEC games and equipment demand is met through imports. The estimated total market in 1998 for FEC games and machines was approximately USD 90 million. In 1999, the market is expected to be USD 250 million. In bowling equipment alone, the 1998 requirement for 100 lanes is expected to increase to over 1,000 lanes in 2000. The U.S. is strong in the FEC games and machines sector and its present share of the import market is estimated at 50 percent. The U.S. has virtual monopolies in bowling equipment, pool tables, juke boxes, and go-carts. In coin-operated video games and machines, U.S. products are generally more expensive than comparable Japanese and other South East Asian equipment; therefore, Japan is the leading supplier.

The most promising import sub-sectors, with estimated market sizes for the year 2000, are given below:

Fitness Equipment (gym equipment)	USD 100 million
Amusement machines (Coin-Operated video and machines, Bowling equipment, Pool tables and Juke boxes)	USD 300 million

DATA TABLE: (Estimates in USD millions)

	1997	1998	1999	2000 (est.)
A. Total Market Size	190	270	605	760
B. Total Local Production	137	195	380	460
C. Total Exports	45	65	75	100
D. Total Imports	98	140	300	400
E. Imports from the U.S.	28	40	120	200

Sector Rank: 9
Sector Name: Laboratory and Scientific Instruments
ITA Industry Code: LAB

NARRATIVE:

India’s laboratory and scientific instrument industry is currently showing double-digit growth. Despite the existence of many domestic manufacturers of laboratory and scientific instruments, India continues to import a significant amount of equipment and will continue to do so over the next five to ten years.

End-users of sophisticated laboratory and scientific instruments include: Medical and diagnostic labs; industrial quality control and analytical labs; research and development labs related to medical sciences and industrial processes; space, atomic and defense research labs, and colleges and universities.

Government policies, such as concessional customs duties, reductions in income taxes for research and development (R&D) expenditures, and other incentives are helping this market segment grow. More than 100 small and medium-sized Indian firms manufacture, import and sell the following types of instruments: Engineering meteorology instruments; physical science instruments; astronomical observation instruments; microscopes; analytical instruments such as spectrophotometers, life science research instruments; genomic and molecular biology research instruments; biotechnology and cell culture instruments; survey instruments; recording and diagnostic instruments, such as ELISA readers and analyzers; pollution control and monitoring instruments for air and liquid effluent; semiconductor research instruments; and electronic and electrical test and measuring instruments.

Although India is investing considerable resources in both academic and industrial research, the nation’s manufacturers look for technology transfer/joint venture opportunities with foreign companies to manufacture the latest laboratory instruments in India. Japan, the U.K., Germany, and France compete with U.S. firms to sell their latest laboratory instruments in India. Large foreign firms such as Siemens, Philips, Toshiba, British Physical Laboratories have established offices in India.

U.S. firms interested in entering the Indian laboratory and scientific instruments market are advised to identify suitable Indian agents, distributors or joint venture partners.

The most promising sub-sectors, with estimated market sizes for 1999, are presented below:

Sub-sectors	(USD Million)
Medical Laboratory	98
Biotechnology	100
Testing and Research Labs	75
Defense Labs	125

DATA TABLE: (Estimates in USD millions)

	1997	1998	1999	2000 est.)
A. Total Market size	294	359	430	516
B. Total local production	95	122	152	190
C. Total Exports	4	5	7	10
D. Total Imports	203	241	301	376
E. Imports from the U.S.	71	85	90	112

Note: The above statistics are unofficial estimates based on discussions with trade chambers of commerce and industry contacts in south India.

Sector Rank: **10**
Sector Name: **Education Services**
ITA Industry Code: **EDS**

NARRATIVE:

Today, education is a prime focus of India's development plans. The Government of India (GOI) allocated 6 percent of the gross domestic product to the education sector and increased outlays by 57 percent to USD 1.9 billion for fiscal year 1998-99.

India has 6.75 million students enrolled in higher education and the number grows by 24 percent annually. The share of higher education expenditures is seven percent of the total education expenditures. Currently, the GOI is considering investment in higher education through privatization.

The demand for higher education in computer science, engineering and management is increasing. The management studies sector is growing at an average rate of 35-40 percent annually. About 1,740 students are currently enrolled in the leading Indian business management schools. The demand by industry for 2,735 business management graduates outstrips the supply. Management education is being transformed dramatically; the transformation is being fueled by advances in information technology, the Internet and exchange programs. Moreover, Indian corporations are preparing their managers in enterprise resource planning (ERP), and higher educational institutions are offering ERP packages covering planning, management and control of resources influenced by market forces and mergers, acquisitions, and corporate restructuring.

Promoters of education are establishing international business schools. Reputable American business schools can form alliances with one-or-more leading Indian business schools. These arrangements will provide access to expertise, state-of-the-art teaching methodologies and skills. The Wharton School at the University of Pennsylvania and the J.L. Kellogg Graduate School of Management at Northwestern University recently identified Hyderabad in the state of Andhra Pradesh as the location for the Indian International Business School. This institution will include the CEOs, founders and owners of some of the largest business enterprises like McKinsey & Co., Daimler, Citicorp and the WPP Group.
India’s information technology education and training segment is projected to grow at 25 percent annually. Currently, 200,000 software professionals are available whereas the demand is likely to increase to 1.5 million by 2008.

The two big national players are the National Institute of Information Technology (NIIT) and Aptech; each has a countrywide presence and offers training in applications software. There is increasing demand for training centers offering courses in specialized areas. Given the growth of the Internet and Internet services, the trend is towards globalization of services. NIIT and Aptech are planning joint ventures with international companies using cutting-edge technologies.

The education services sector is experiencing growing alliances and joint ventures for management studies and computer training in India. Little information is available on the sector.

In addition, thousands of India's college-aged students obtain visas to study abroad. According to a December 1998 International Market Insight (IMI) by Sangeeta Gupta, over 35,000 Indians were enrolled in U.S. colleges and universities. The trend of Indian students being enrolled in U.S. higher education institutions is growing by 15 to 20 percent each year. Assuming a cost of USD 25,000 per student, Indian student enrolled in the U.S. generate nearly USD 900 million in exported educational services each year. The estimate should be adjusted upward to account for Indians who attend U.S. elementary and secondary educational institutions.

Promising sub-sectors with estimated market sizes for 1999, are presented below:

Sub-sectors	1999(USD Million)
Management Studies	287.6
Computer Training	142.8
Exported educational services	677.1

DATA TABLE: (Estimates in USD millions)

	1997	1998	1999	2000 (Est.)
A. Market Size:	1658	1,710	1,740	1,900
B. Local production:	N/A	N/A	N/A	N/A
C. Exports	N/A	N/A	N/A	N/A
D. Imports	734	880	1,056	1,267
E. Imports from the U.S.	N/A	N/A	N/A	N/A

Note: The above statistics are unofficial estimates.

Sector Rank: 11
Sector Name: Airport and Ground Support Equipment
ITA Industry Code: APG

NARRATIVE:

Domestic and international passenger traffic in India is projected to grow annually at 12.5 percent and 7 percent, respectively, over the next decade. By the year 2005, Indian airports will handle 60 million international passengers and 300,000 tons of domestic and 1.2 million tons of international cargo annually. This growth potential, coupled with the government's decision in January 1999 to privatize five key airports, makes India a very attractive market for airport and avionics equipment manufacturers and service providers. The liberalization of the Indian civil aviation market is expected to not only bring rapid increases in aviation capacity and improvements in service quality, but it will also present U.S. firms with significant export and investment opportunities.

The Airports Authority of India (AAI) owns and manages 92 airports and 28 civil enclaves at defense airfields, and provides air traffic services over the entire Indian airspace and adjoining oceanic areas. There are 449 airport/airstrips in India.

India's air traffic is highly concentrated around the main international gateways. The top five international airports at Mumbai (Bombay), Delhi, Chennai, Calcutta and Bangalore account for approximately 74 percent of the total traffic. The next largest 10 airports at Hyderabad, Thiruvananthapuram, Goa, Ahmedabad, Guwahati, Cochin, Kozhikode, Jaipur, Varanasi and Nagpur account for an additional 16.3 percent of the overall traffic. In fiscal year 1997-98, 13 AAI airports generated USD 93.6 million in profits, while the remaining 107 airports lost USD 19.4 million. AAI utilized the profits generated from the 13 airports to cross-subsidizes the loss-making airports.

Approximately 60 AAI airports, on average, handle less than two aircraft landings or 45 passengers (both departing and arriving) per day. India's airport capacity is low when compared with its East Asian neighbors. To remedy this situation, the government has taken several measures to support the development of adequate airport infrastructure. For example, it has implemented policies to increase private sector participation in airport construction and has merged the domestic and international airport authorities established the AAI.

The AAI is currently in the process of privatizing the five largest international airports: Delhi, Mumbai (Bombay), Banglore, Chennai and Calcutta. The combined investment in these five airports is expected to total USD 4 billion. The primary goal of corporatization of the airports into separate entities, is to permit them to seek foreign investment and joint venture participation. On December 24, 1998, the AAI invited Expressions of Interest from prospective financial consultants for submission of an "Action Plan on Private Sector Participation in Airports Infrastructure and Restructuring of AAI and Enhancement of Non-aeronautical Revenue at Airports." After the evaluation of the Expressions of Interest, AAI will invite the short-listed consultants to submit their commercial and financial bids for final selection. The selection process was expected to be completed by April 1999; however, due to recent political developments, the implementation schedule will be delayed. Once government approval is received, the conversion of the five airports into independent corporations is expected to be completed within a year, followed by the privatization of the airports. This implementation timeline, however, is optimistic and the expected implementation time frame is likely to be by the year 2001.

Other private sector-aided airports that are expected to be developed in the next five years are Hassan (Karnataka), Mumbai, Goa, and Bangalore. These airports are capital intensive projects, which must be operated efficiently if they are to be commercially profitable. The Mumbai project, for example, will cost an estimated USD 457 million. The government has also decided to concentrate on developing existing airports rather than on constructing new ones. Among the airport construction projects with private participation, the Cochin International Airport has progressed furthest past the initial planning and land acquisition stages. The project is expected to cost around USD 45.7 million in the first phase, and to increase to around USD 85.7 million by completion.

The AAI has also drawn up a USD 1.1 billion plan to modernize and expand its airspace management and infrastructure to meet the growth in demand projected for the next five years. The growth strategy envisages not only better passenger facilities, but also improved navigational and communications systems. The first phase will involve upgrading conventional communication, navigational and surveillance systems as an immediate measure. The second phase will be a transition from the present ground-based ATS systems to satellite-based CNS/ATM systems by the year 2000.

In January 1998, the AAI also drafted a USD 500 million investment plan to develop six greenfield airports in the country. The locations selected for the new airports are

Lengpu and Tura in the northeast, Androth in Lakshadweep, and Kargil, Kashtwar and Rajgori in the north. In addition, the AAI is also planning to upgrade the existing facilities in 27 airports and develop 12 airports as model terminals. Among the 27 major airports in need of remodeling are Banglaore, Ahmedabad, Calcutta, Calicut, Guwahati and Goa.

During the last two years, several important airport equipment installations were conducted by AAI. The most important was the commissioning of the USD 50 million Raytheon Air Traffic Control (ATC) system at Delhi and Mumbai airports. Other important projects included the commissioning of the primary and secondary radar at Calcutta and Chennai airports and the installation of Doppler Very High Omni Range and Distance Measuring Equipment at airports in Srinagar, Goa, Chandigarh, Agra, Imphal, Silchar, Jamnagar, Tezpur, Pune, Jabalpur and Lilabari. Instrument landing systems were installed at Mangalore, Aurangabad, Udaipur, Port Blair and Ranchi, while automatic dependent surveillance systems were installed at Calcutta and Chennai.

U.S. aviation and communications equipment suppliers, design and engineering firms, and construction contractors have a strong competitive position, which should be supplemented by an aggressive marketing position following announcements for project bids. The following is a list of products that provide opportunities for U.S. companies: Communications equipment, weather equipment, baggage handling information systems, security equipment, signage, aerobridges, navigational aids utilities and power equipment, airfield lighting systems and approach lighting, radar systems, management information systems, and flight information systems. The following U.S. companies are already in the Indian market: Raytheon, Airport Systems International, Airsys ATM, and Northrup Grumman.

The most promising sub-sectors, with estimated market sizes for the year 2000, are presented below:

Sub-sectors	Market Size (USD Million)
Communications, Navigation and Surveillance (CNS)/ Air Traffic Management (ATM)	100
Baggage handling, security	

and information systems 40

DATA TABLE: (Estimates in USD millions)

	1997	1998	1999	2000 (est.)
A. Total market size	92	115	160	220
B. Total local production	45	65	90	140
C. Total exports	3	5	8	10
D. Total imports	50	65	78	90
E. Imports from the U.S.	22	30	35	43

Note: The above statistics are unofficial estimates.

Note: While civil aviation is not included with military aviation on the sanctions list, certain aviation equipment and technology, such as radar, that could be easily converted to military use, may fall under the prohibition. In such cases, the sale of equipment or technology would be reviewed on a case by case basis by the Bureau of Export Administration in the U.S. Department of Commerce. The agency's guidelines on the issue are published in section 744 of the Export Administration Regulations (EAR) regulations. The EAR provides a list of prohibited trade products and technologies and a list of Indian defense and nuclear-related companies that U.S. firms are prohibited from developing transactions with or making investments in, without obtaining a government export license. If a U.S. aviation firm is uncertain about the legalities of their export sale or investments in India, they are advised to contact the Bureau of Export Administration of the U.S. Department of Commerce in Washington, D.C. at http://www.bxa.doc.gov.

Sector Rank: 12
Sector Name: MEDICAL EQUIPMENT
ITA Industry Code: MED

NARRATIVE:

The Indian medical equipment industry is expanding to meet growing domestic demand. Over 100 to 150 million of India's nearly 1 billion population demand high quality health care services at a competitive price. New hospital projects in the private sector have been incorporated in India to meet this significant demand. Favorable government policies and reduced import duties continue to support the growth of new health care projects in the country. A successful medical insurance program encourages people to seek specialists' opinions and to use advanced medical diagnostic facilities like ultrasound scanners, MRI, CT scanners, etc.

Despite government efforts, the demand for hospitals and beds far surpasses the availability. For example, there are a total of 5,000 super specialty beds against an estimated demand of 50,000 beds. One hospital facility serves a population of 76,082 people with one hospital bed for every 1,324 people. The 11,174 hospitals (7,606 in the urban areas, and 3,568 in the rural areas) have created a combined bed capacity of 642,103 in the country. About 80 percent of these beds (515,729 beds) are in the urban centers, leaving only 20 percent (126,474 beds) for a large rural population.

The Government of India (GOI) and state governments are planning to upgrade selected rural facilities during the current five-year plan period (1998-2003). New government and private sector hospital projects are also expected to increase hospital bed capacities to meet the growing health care demands. Government hospitals in towns and district headquarters are planning to either upgrade their existing diagnostic and laboratory facilities or create new facilities. Both new and existing private sector hospitals are planning to upgrade their medical diagnostic laboratory facilities to meet the demand. Furthermore, government and private hospitals are expected to add hospital beds requiring the latest medical diagnostic and treatment equipment.

The GOI's health services departments have started projects to control major diseases like malaria, AIDS, tuberculosis and leprosy. The GOI, with World Bank assistance, has introduced a Reproductive Child Health (RCH) program in the country. This multi-year program attempts to offer total care to pregnant mothers and infants. World Bank financing is used only to upgrade medical treatment and diagnostic facilities in the existing government hospitals.

The driving forces that create the demand for medical equipment include: Increased income for India's middle class, a growing health consciousness in the population, the establishment of a number of super-specialty hospitals and specific diagnostic centers, and favorable government policies such as a reduction in import duties on medical equipment.

India has several manufacturing units producing a diverse range of medical equipment. Foreign firms such as Siemens, Wipro-GE, Network Pickers, and Phillips Medical Systems, have expanded their operations in the Indian market. Manufacturers of sophisticated systems such as ultrasound and CT scanners have been successful in the market. Systems like multi-parameters, ICCU, heart/lung machines, linear accelerators, doppler ultrasound machines, MRI scanners and other diagnostic and therapeutic equipment are showing good market potential.

The biggest market segment, constituting 40 to 45 percent of the total market, is in imaging systems including X-rays, CT scanners and MRI machines. This segment is dominated by Siemens, followed by Wipro-GE, Phillips and Indchem ATL, Network-Pickers, Toshiba-STM and Toshniwal. The second biggest segment, equipment used in cardiology, has a large number of small and large players such as Hewlett Packard, Indchem, Larsen & Toubro, BPL, Hinditron, Toshbro and Torrent.

The importation of medical electronic equipment by hospitals and other medical organization has always been liberally allowed by the GOI. The basic customs duty on medical equipment ranges from zero to 20 percent. Critical equipment such as surgical microscopes, MRI scanners, surgical lasers, digital subtraction, and angiography systems are bought under the zero duty import category. Major imports, in terms of volume and value, include highly specialized equipment such as body scanners, ultrasound scanners, specialized portable and non-portable X-ray machines, and implantable pacemakers, radiography and radiotherapy equipment. Overall, imports grew from USD 54.5 million in 1993-94 to USD 96 million in 1997, and is targeted to reach USD 142 million in 1999.

The most promising sub-sectors, with estimated market sizes for the year 2000, are presented below:

Sub-sectors	Market Size (USD Million)
Medical Imaging Equipment	97
Cardiology Equipment	90

Laboratory Instruments/Supplies	72
Cancer Diagnostic & Treatment Equipment	35

DATA TABLE: (Estimates in USD millions)

	1997	1998	1999	2000 (est.)
A. Total market size	129	199	275	325
B. Total local production	73	88	102	120
C. Total exports	6	7	8	10
D. Total imports	62	118	165	195
E. Imports from the U.S.	34	60	82	98

Note: The above statistics are unofficial estimates

Sector Rank: 13
Sector Name: Water Resource Equipment
ITA Industry Code: WRE

NARRATIVE:

India's streams and rivers suffer from very high levels of pollution caused by municipal wastes, industrial effluents and agricultural run-off. According to World Health Organization (WHO) standards, 98 percent of sampled water from any one area should be free of coliform bacteria. By this measure, most of India's surface water resources are highly polluted. For example, the Yamuna river receives an estimated 500 million liters of untreated sewage every day as it passes through Delhi, raising the coliform count from 7,500 per 100 milliliters upstream of the city to 24 million downstream of the city. It is estimated that 70 percent of India's surface water is severely polluted. According to a Government of India (GOI) report, wastewater from municipal sources accounts for almost three-fourths of total wastewater generation by volume and almost one half of the total pollution load on surface waters. The pressure on groundwater sources is, therefore, increasing and almost 80 percent of irrigation requirements and 60 percent of urban water supplies are being met by ground water sources. Burgeoning population, haphazard industrial development, and poor management of existing water resources is aggravating the problem further. In 1993, about 80 percent of rural Indians and 85 percent of the urban masses had access to potable water. However, the average annual water availability per capita has declined from 5,236 cubic meters in 1951 to 2,464 cubic meters in 1996, and is expected to go down to 1,920 cubic meters by 2007. All of the metropolitan areas in India suffer from water scarcity with supply shortfalls ranging from 30 to 60 percent. The ground water sources are, therefore, being over exploited with a significant decline in water table levels recorded in most places.

The GOI will be revamping the existing National Water Policy shortly. Under the Command Area Development Program (CADP), The Ministry of Water Resources is placing particular emphasis on farm activities such as development of field channels, field drains, etc. Most of these programs are less technology intensive. Federal assistance of USD 41 million has been released to the state governments under this program. Under the Accelerated Irrigation Benefits Program, USD 360 million of Federal assistance has been given to various state governments for 72 projects. Besides these GOI programs, multilateral assistance to certain states for developing basic water resources is also in progress. For example, the Andhra Pradesh State government has received a loan of USD 142 million from the World Bank for irrigation projects in the state. The Asian Development Bank is also planning to invest USD 2 billion in various infrastructure projects in various states over the period of 2001-2002.

However, the immediate market potential lies in the municipal and industrial waste water treatment segment, which is currently estimated at USD 900 million and is expected to grow at an annual average rate of 14-15 percent over the next three years. According to the Central Pollution Control Board, most of this market is either in the municipal segment or is for industrial wastewater and recycling equipment for the highly polluting industrial sectors of petrochemicals, fertilizers, chemicals (especially dye and dye intermediates), steel, refineries, sugar and distilleries, synthetic fibers and textiles, metal refining, pharmaceuticals, leather and paper. Given these conditions, the municipal and industrial wastewater treatment market in India can be basically described as technology driven. For U.S. businesses to succeed in India, it is necessary to have broad technical expertise and an "all-India" reach in terms of infrastructure or capability to organize sub-contractors in diverse geographical areas of the country. Another point to note is the Indian customer's desire for a package of solutions at affordable costs, rather than an individual piece of equipment or service. The Indian equipment market is well developed and there is a need for advanced treatment technologies for recycling treated effluent. Tertiary treatment equipment will, therefore, become the most important area for exporters to India over the next few years.

Indian industry prefers to have joint ventures or technology licensing agreements where the Indian partner manufactures equipment in India and imports either the design or the core processes. Under such arrangements, Indian companies can manage on-site execution of projects with the U.S partner providing the required technical and technological expertise as required. Thus, the U.S. partner can derive cost competitiveness in the Indian market.

DATA TABLE: (Estimates in USD millions)

	1997	998	1999	2000 (est.)
A. Total market size	796	08	1035	1180
B. Total local production	78	45	621	708
C. Total exports	-	-	-	-
D. Total imports	18	63	414	472
E. Imports from the U.S	47	4	2	118

Sector Rank: 14
Sector Name: Food Processing and Packaging Equipment
ITA Industry Code: FPP

NARRATIVE:

The Indian food processing industry is a high priority sector and is poised for excellent growth in the next century. The Government of India has adopted a major policy decision for commercializing agriculture and developing the food processing, preservation and packaging sectors. India is among the leading producers of sugar, tea, milk, fruits and vegetables. Agricultural production and food processing account for 30 percent of India’s GDP and employs more than 70 percent of its workforce. By one study, India’s total food market is estimated at USD 70 billion, of which USD 22 billion is the share of the value added food products.

India is the world's second largest producer of fruits and vegetables, but only two percent of the produce is processed and about 40 percent of the fruit and vegetable output are wasted. It has large amounts of marine products and processing potential with varied fish resources along the coastline and rivers. India's livestock population is the largest in the world with 50 percent of the world's buffaloes and 20 percent of the world's cattle, but only about one percent of total meat production is converted to value-added products. Of the total horticultural production, an estimated 25-30 percent wastage is attributed to the lack of cold chain such as cold storage/warehouses and transport refrigeration systems.

The food-processing sector is rapidly being transformed into a high-volume industry. A distinct shift is seen among the consumers for packaged food items. Over 40 percent of all packaged goods consumed in urban areas are foods and beverages. According to a recent study, nearly 200 million people will move from subsistence foods like cereals and pulses to basic products that demand more processing like packaged dough and packaged homogenized milk. This will offer new opportunities in the high-growth, mass-based and high-volume markets such as the USD 10 billion processed milk industry, the USD 7.5 billion poultry industry, the USD 4 billion packaged dough, and the USD 3 billion bakery products sector. These conditions portend excellent opportunities for U.S. firms in the food processing and packaging equipment sector.

The most promising sub-sectors, with year 2000 market size estimates, are presented below:

Sub-sectors	2000 Estimates USD Million
Food Processing Equipment	245
Food Packaging Equipment	230
Fruit/Vegetable Processing Equip.	258
Food Preservation Machinery	287

DATA TABLE: (Estimates in USD Millions)

	1997	1998	1999	2000 (est.)
A. Total Market Size	797	1,032	1,257	1,571
B. Toatl Local Production	635	828	992	1,240
C. Total Exports	35	44	55	69
D. Total Imports	197	248	320	400

E. Imports from U.S.	59	75	96	120

Note: The above statistics are unofficial estimates.

Sector Rank: 15
Sector Name: Cosmetics
ITA Industry Code: COS

NARRATIVE:

India, with a population of nearly a billion people, is a country of contrasts. India's urban population is the main engine that fuels the demand for various cosmetic products. Although Indians are strongly attached and committed to their traditions, and culture, the advent of television and the awareness of the western world is changing the tastes, and customs of India. The "morphing" of India is subtle and the changes are not visible for the first time visitor. However, the market liberalization process that began in 1991, along with the crowning of three Indians as Miss World and Miss Universe during the past four years, have made Indian women conscious of their appearance. Consequently, the cosmetic consumption patterns of Indian women have changed, and this trend is fueling growth in the cosmetic sector.

The present size of India's cosmetic and toiletries market is estimated at USD 544 million. Industry sources estimate a nominal growth rate of 15 percent across different segments of this industry reflecting an increasing demand for most types of beauty and personal care products.

The organized personal care market, which is mainly dominated by multinational companies and a few large Indian companies, is clearly divided into two categories: The premium segment, which mostly caters to the urban higher middle class; and the popular segment that caters to the middle and lower middle classes. The premium segment is less price sensitive and highly brand conscious, while products in the popular segment compete mainly on a price basis.

Since market liberalization, several multinational companies, such as Revlon, Coty, Oriflame, Chambor, Avon, Yardley, Nina Ricci, Garnier Laboratories, and L'oreal, have entered the Indian market. These companies initially cashed in on their international brand image; however, repeat purchases were not forthcoming because the products were not priced competitively. Consequently, these companies became price-sensitive and most of the international brands are now priced competitively in the Indian market.

The segment that offers the highest competition is the color cosmetic segment which has Indian players such as Lakme Lever, Tips & Toes and Shenaz Hussain and multinational company players such as J. L. Morrison, Ponds, Unilever and Colgate Palmolive. Domestic players like Lakme, Tips & Toes and My Fair Lady, mainly dominate the USD 59 million color cosmetic market.

The new EXIM policy that was announced by the Government of India (GOI) on March 31, 1999, eliminated import restrictions on 894 product items, including some cosmetics. The product items were moved from the GOI's "Restricted List of Imports" and were placed on "Open General License" list. Now, cosmetics can be imported into India by paying a total duty of 77.94 percent. Special import licenses are no longer required. This has made the Indian market more attractive to foreign cosmetic companies. The world cosmetic industry is slowly acknowledging the potential of the Indian market.

The most promising sub-sectors, with estimates of the current market size, are presented below:

Sub-sectors	(USD Million)
Colour Cosmetics	47.00
Perfumes/Fragrances	25.00
Skin Care Products	145.00
Hair Care	310.00

DATA TABLE: (Estimates in USD Millions)

	1997	1998	1999	2000 (est.)
A. Total .Market Size	525	527	544	631
B. Total Local production	591	680	782	895
C. Total Exports	141	140	161	186
D. Total Imports	75	87	101	117
E. Imports from the U.S.	4	5	12	18

Note: The above statistics are unofficial estimates.

BEST PROSPECTS FOR AGRICULTURAL PRODUCTS

Rank of Sector: N/A
Name of Sector: Pulses
PS+D Commodity Code: 0542100, 0542200, 0542300, 0542400

Comment: Domestic pulse production has not kept pace with demand and imports are expected to reach 400,000 metric tons in 1998-99. India is primarily a price (rather than quality) market. In addition to the U.S., imports are sourced from Canada, Australia, Myanmar, Turkey, and Thailand. Firm U.S. prices have hindered exports in recent years, but exporters with competitively priced supplies of green peas, lentils, and some dry beans, should find a home for their product in India's growing pulse market during 1999-2000. Pulses are on Open General License and attract a zero import tariff.

Data Table in Million Metric Tons

	1996-97	1997-98	1998-99
a. Total Market Size	14.8	14.0	14.9
b. Total Local Production	14.2	13.1	14.5
c. Total Exports	0	0	0
d. Total Imports	0.6	0.9	0.4
e. Imports From the U.S.	0.005	007	0.005

1996-97 and 1997-98 production and trade figures are official estimates, all other statistics are unofficial estimates.

Rank of Sector: N/A
Name of Sector: Grains - Corn and Wheat
PS+D Commodity Code: 0440000, 0410000

Comment: India has recently liberalized imports of corn and wheat by the private sector, allowing feed and flour millers to import these commodities subject to an end-user condition. In the six months following liberalization in October 1998, flour millers have imported an estimated 500,000 MT of wheat. For the first time, feed millers have imported corn. Future growth in the poultry sector along with rising wheat consumption are expected to make India a more regular importer of both wheat and corn in coming years.

Data Table in Million Metric Tons
Corn

	1996-97	1997-98	1998-99
a. Total Market Size	10.6	10.8	10.0
b. Total Local Production	10.6	10.8	9.8
c. Total Exports	0	0	0
d. Total Imports	0	0	0.2
e. Imports From the U.S.	0	0	0.1

Wheat

	1996-97	1997-98	1998-99
a. Total Market Size	65.6	68.0	69.0
b. Total Local Production	62.1	69.4	65.9
c. Total Exports	2.1	0	0
d. Total Imports	0.6	2.1	1.9
e. Imports From the U.S.	0	0	0

Note: 1998-99 corn data are unofficial estimates. All other statistics are official estimates and are based on the local marketing year.

Rank of Sector: N/A
Name of Sector: Vegetable Oil
PS+D Commodity Code: 4240000

Comment: India is expected to import 3.0 million metric tons of vegetable oil in 1998-99, making it the second largest import market in the world. While palm olein has traditionally dominated this import market, India is a price market, and exporters with competitively priced supplies should be able to find buyers in India. India has emerged as a commercial buyer of U.S. sunflower and soybean oil.

Data Table in Million Metric Tons

	1996-97	1997-98	1998-99
a. Total Market Size	7.2	7.8	8.7

b. Total Local Production	5.4	5.8	5.7
c. Total Exports	0	0	0
d. Total Imports	1.8	2.2	3.0
e. Imports From the U.S.	0.05	0.10	0.25

Trade figures are based on local marketing year(Oct./Sept.) and are trade estimates.

Rank of Sector: N/A
Name of Sector: Tree Nuts and Dry Fruit (excluding cashews)
PS+D Commodity Code: 0802110000, 080212, 0802320000, 0802502100

Comment: Dry fruits and nuts are the leading commercial U.S. export to India, with exports totaling USD 46 million in 1997-98. The U.S. is the dominant supplier of in shell almonds to India with approximately 90 percent of the market. Shelled almonds are also imported in consumer packages. Pistachios, hazel nuts, prunes, and raisins are also imported in small quantities.
Data Table in Million Metric Tons

	1996-97	1997-98	1998-99
a. Total Market Size	NA	NA	NA
b. Total Local Production	0.048	0.050	0.050
c. Total Exports	0.008	0.008	0.008
d. Total Imports	0.018	0.020	0.018
e. Imports From the U.S.	0.010	0.015	0.014

Unofficial estimates.

1/ Walnuts, Almonds and Raisins

Rank of Sector: N/A
Name of Sector: Wood Products
PS+D Commodity Code: 4401

Comment: India has lifted virtually all non-tariff trade restrictions on wood products. However, in some cases tariffs are still quite high. The local market is very price sensitive and scarce supplies and high prices have limited the use of wood products in construction and other uses in recent years. However, with dwindling supplies and increasing restrictions on domestic timber cutting, more liberal import parameters could result in rising imports of wood products in coming years.

Data Table in Millions of Dollars

	1996-97	1997-98	1998-99
a. Total Market Size	Na	Na	Na
b. Total Local Production	Na	Na	Na
c. Total Exports	58	60	62
d. Total Imports	266	444	370
e. Imports From the U.S.	4.0	8.3	2.0

Trade figures are based on Indian Fiscal Year (Apr/Mar) official estimates.

Rank of Sector: N/A
Name of Sector: Fruits/Fruit Juices
PS+D Commodity Code: N/A

Comment: India has recently liberalized imports of several fruits and fruit juices. Due to the seasonality in production, which results in high off season prices, there is potential for imports of several fruits to India, such as limes and lemons, apples, oranges, etc. Also the wealthy segment of the urban population and the hotel industry are interested in exotic fruits, such as kiwi fruit, grapefruit, strawberry and peaches. There is a growing demand for fruit juices with some consumers insisting on world standards.

Data Table in Millions of Dollars

	1996-97	1997-98	1998-99
a. Total Market Size	Na	Na	Na
b. Total Local Production	Na	Na	Na
c. Total Exports	Na	Na	Na
d. Total Imports	0.50	1.00	1.50
e. Imports From the U.S.	0.02	0.03	0.05

All figures are estimates.

Rank of Sector: N/A
Name of Sector: Snack food/ Consumer Food products
PS+D Commodity Code: N/A

Comment: Increasing urbanization, rising incomes, more working women, the arrival of large multinationals and a proliferation of fast food outlets, have all lead to greater acceptance and increased demand for packaged processed food products. However, these products usually need to be tailored to Indian taste. India has recently opened up market access for a number of processed food products.

INVESTMENT OPPORTUNITIES

Sector Name: Drugs and Pharmaceuticals
ITA Industry Code: DRG

NARRATIVE:

The drug and pharmaceuticals sector in India has grown steadily over the years and is currently estimated at USD 3.75 billion (traditional medicine USD 0.75 billion and allopathic medicine USD 3 billion). The key sector statistics for 1997-98 place imports at USD 346 millions, the value of bulk drugs produced at USD 625 millions, formulations at USD 2873 millions and exports at USD 973 millions--a record 75 percent increase from 1996-97.

The working group on drugs and pharmaceuticals for the Government of India's (GOI's) 9th Five-Year Plan period (1997-2002) projected a 15 percent growth rate for formulations and 20 percent for bulk drugs. Following the de-licensing of the pharmaceuticals sector, over 256 Industrial Entrepreneur Memoranda's (IEMs) were received for the manufacture of bulk drugs/intermediates and formulations. The 1999 budget permits entry of international companies under the automatic route and foreign direct investment of up to 74 percent of paid up capital. Almost all medicines are freely importable, and the drug price control order is likely to reduce further the number of drugs under administered pricing. A major highlight of the sector is the ratification of Product Patent Bill by India in 1999, and the implementation of the international patent regime, which should boost greatly investments and increase the pace of new product launches in this promising sector.

India’s per capita medicine consumption is estimated at USD 3--one of the world’s lowest. The GOI’s renewed emphasis on health and family welfare for nearly one billion people and the growing awareness of medical facilities create excellent investment opportunities in this sector. New pharmaceutical production facilities will open export opportunities for plant and equipment, packaging materials/machinery, lab equipment/instruments, bulk drugs/intermediates, excipients and additives.

Subsector	Year 2000 Estimates
Bulk drugs	900 million
Formulations	3899 million

Sector Name: Processed Food
ITA Industry Code: FOD

NARRATIVE:

India is the world’s second largest producer of food but the processed food industry in the country is relatively small and untapped. The growth potential for the food business in India, however, is substantial considering factors such as changing food consumption patterns, increased spending on value-added food products, increased income levels, rapid urbanization, the increasing number of women joining the workforce and other lifestyle changes. The size of the Indian food industry is USD 61 billion, out of which the processed food industry accounts for a total market of USD 20 billion.

According to a study undertaken by one of the world’s leading consulting firms (McKinsey & Company), the market for value-added food products is expected to triple by the year 2005, rising to USD 60 billion from the present USD 20 billion. The size of the semi-processed, ready-to-eat, food segment is over USD 1.1 billion.

India is the second largest producer of fruits and vegetables but less than 2 percent of produce is processed. The annual milk production in India is 70 million tons, 15 percent of which is processed. Only about 1 percent of India’s annual meat production of slightly over 4.5 million tons is converted to value-added products. The convenience food sector, growing at the rate of 20 percent, offers good potential.

India reflects good market potential for processed food. Strong growth is likely to come from various kinds of processed meat, especially poultry, soft/fruit drinks, ready-to-eat/serve snacks, value-added dairy products, bakery and confectionery items. The biggest opportunity, however, is expected to come from products that are mass-based, (consumed by the majority of household) such as biscuits, wheat, etc. By the year 2005, consumption of processed chicken is estimated to increase by more than 10 times from the present level of 1 percent of total chicken consumption.

The processed food industry is a major beneficiary of the Government of India's (GOI's) new EXIM policy announced on March 31, 1999. More food items have been placed under the Open General License. This will help foreign companies test-market their products in India before starting manufacturing operations. The EXIM policy permits fish, various fresh fruits and vegetables and their processed products, yogurt, whole milk, butter milk, acidified milk, whey, cream and cheese of various kinds to be imported freely.

Since the liberalization of the Indian economy in 1991, the GOI has announced various incentives to attract investment in the food-processing sector, which has been estimated to have an annual growth rate of 20 percent. The industry has been accorded "high priority sector" status to ensure easier availability of bank funds. To establish a food-processing unit, an industrial license is not required. All food processing units other than malted foods, milk food, alcoholic beverages and excluding the items reserved for the small scale industry sector, are eligible for automatic approval of foreign technology agreement and up to 51 percent foreign equity participation. Use of foreign brand names is freely permitted and foreign equity ownership of up to 24 percent is permitted in the small-scale sector. Import duties on food processing equipment have been reduced.

Between 1991-1998, investment proposals worth USD 18 billion in the food processing industry have been received. The GOI has approved proposals for joint ventures and over

1,000 investments for industrial operations totaling USD 4.7 billion. In the 1999-2000 budget, the GOI has granted a five-year tax holiday for cold chains that start operations after April 1, 1999. Experts believe that by the year 2005, significant investment opportunities worth USD 30 billion will be available across the food chain to strengthen procurement, processing, and storage and distribution infrastructure.

Several multinationals have entered the Indian food-processing sector, the oldest being Nestle of Switzerland and Brooke Bond Lipton of the Unilever Group. Over the last few years, U.S. companies, Coca Cola, Pepsi Foods, Kellogg's, Pillsbury, Sara Lee Bakery, Heinz and Del Monte, have established their presence in India through manufacturing ventures. Other major foreign companies that have entered India include McCain Foods of Canada and Whyte & Mackay of the U.K. Thirty percent of India's imports of food processing machinery and equipment comes from the U.S. Other major suppliers include Germany, Sweden, and the U.K.

The most promising sub-sectors, with estimated current market values, are given below:

Sub-sectors	(USD Million)
Soft/fruit drinks	357
Value-added dairy products	3,572
Bakery	381
Processed meat and poultry	8

Note: The above statistics are unofficial estimates.

Sector Name: Ports
ITA Industry Code: PRT, TRN

NARRATIVE:

Seaports handle 90 percent of India's foreign trade. Developing this infrastructure is now a top priority of the Government of India (GOI). India's 11 major ports handle 214 million tons of cargo every year. By the year 2012, total annual traffic at major ports is estimated to be 850 million tons, and 400 additional berths will be required at a projected cost of USD 13.5 billion. The GOI announced the port privatization policy in 1996. The privatization initiative is being actively pursued both at the central and state government levels.

The Ministry of Surface Transport (MOST) has announced a policy for private participation in the development of new facilities at major ports, as well as, the privatization of existing facilities. The working group on the port sector established by MOST has identified projects for private participation. The areas identified by the committee for private participation are:

A. Leasing out of existing port assets such as cargo handling equipment and floating crafts; and

B. Construction of the following types of assets: container terminals; bulk, break bulk, multipurpose cargo berths and specialized cargo berths; warehouses and container freight stations; storage facilities and tank farms; captive power plants; and dry dock and ship repair facilities.

The GOI's privatization plan covers most of the major ports across the country including the Jawaharlal Nehru Port Trust (JNPT), Kandla, New Mangalore, Tuticorin, Chennai, Vishakapatnam, Paradip, Cochin, Mormugao, and Haldia ports. MOST has approved leasing of existing berths at Kandla, Chennai, Haldia, Mumbai and Calcutta.

The GOI has appointed a Tariff Authority to frame the scale of rates for services and properties at the ports. The GOI has constituted a Maritime States Development Council to facilitate integrated development of major and minor ports. Based on these policy initiatives, port projects with an estimated cost of over USD 6.5 billion are expected to be available for participation by the private sector within the next two years.

The Major Port Trust Act of 1963 was amended through the issuance of an independent Tariff Authority for major ports to revise the ceilings on tariff rates. Major Port Trusts are now empowered to make investment decisions on projects valued up to USD 12.5 million for the addition, modification, or renewal of port assets. Port Trusts are also empowered to exercise full powers in awarding contracts and placing orders for projects and programs for which approval has been obtained.

To encourage foreign private participation, automatic approval of up to 74 percent foreign equity participation has been permitted in the ports sector. Also, up to 100 percent foreign direct investment is allowed for build, operate and transfer (BOT) projects. Almost all the maritime states have initiated privatization in the last year. Privatization of existing port terminals is however, yet to take off.

Improved productivity and reductions in turn around time should allow existing ports (under the most favorable circumstances) to handle an additional 100 metric tons (MT) of traffic by 2011. Creation of green field ports to cater to overseas and coastal trade is imperative to sustain national growth goals.

ESTIMATED TRAFFIC FORECAST: VISION 2000 (IN MILLION TONS)

PERIOD	LIQUID BULK	DRY BULK	CONTAINER	GENERAL CARGO	TOTAL
2001-02	199.2	143.6	40.7	31.9	415.4
2006-07	323.4	170.6	71.8	46.9	612.7
2011-12	496.3	188.4	115.6	65.7	866.0
2016-17	667.2	208.6	169.9	83.8	1129.5
2019-20	742.8	225.2	208.1	97.1	1273.2

Note: The above forecasts are unofficial estimates.

Note: The Government of the United States acknowledges the contribution that outward foreign direct investment can make to the U.S. economy. U.S. foreign direct investment is increasingly viewed as a complement or even a necessary component of trade. Nearly sixty percent of the total U.S. exports originate with American firms with investments abroad. Recognizing the benefits that U.S. outward investment brings to the U.S. economy, the Government of the United States undertakes initiatives, such as overseas private investment corporation (OPIC) programs, bilateral investment treaty negotiations and business facilitation programs, that support U.S. investors.

CHAPTER VI.   TRADE REGULATIONS, CUSTOMS, AND STANDARDS

- **Trade barriers, including tariff and non-tariff barriers**
- **Customs regulations**
- **Tariff rates**
- **Import taxes**
- **Import license requirements**
- **Temporary goods entry requirements**
- **Special import/export requirements and certifications**
- **Labeling requirements**
- **Prohibited imports**
- **Warranty and non-warranty repairs**
- **Export controls**
- **Standards (e.g. ISO 9000 usage)**
- **Free trade zones/warehouses**
- **Special import provisions**
- **Membership in free trade arrangements**
- **Customs contact information**

In 1998, the United States trade deficit with India was USD 4.7 billion or USD 1 billion more than that in 1997. U.S. merchandise exports to India were USD 3.5 billion, down USD 100 million or 2.8 percent from 1997. U.S. imports from India totaled USD 8.2 billion in 1998, up USD 900 million or 12.3 percent higher than in 1997. The higher trade deficit was partly due to the sanctions imposed by the U.S. government on India following nuclear blasts in May 1998, which restricted sales of high technology exports to India.

Trade Barriers, Including Tariffs, Non-Tariff Barriers And Import Taxes

India still maintains high tariffs and many quantitative restrictions on imports. These tariffs and restrictions have constrained U.S. firms from selling in India. They have also made it difficult for U.S. investors to import competitive inputs in several industry sectors.

General provisions regarding exports and imports are guided by the Export Import (EXIM) Policy of 1997-2002. Revised on April 1, 1999, the current EXIM policy has given several benefits to importers, with a focus on developing India’s export potential.
Unless otherwise noted, imports and exports are valid from and to any country, except Iraq.

With the introduction of economic reforms in 1991, the Government has made the trade regime increasingly more open and transparent, leading to a substantial increase in U.S.-India trade and investment. With further liberalization, this trade is poised to grow significantly. Also, following economic reforms, the Indian economy has become more oriented towards international trade and commerce. This process of globalization has required protection of patents, trademarks, copyrights and industrial designs by statutory laws in India. In March 1999, the Indian Parliament approved the Patents Bill, paving way for product patents and giving exclusive marketing rights to foreign manufacturers of pharmaceuticals and agricultural chemicals.

India has reduced tariffs and removed quantitative restrictions on many items in a phased manner. However, it still restricts consumer goods and agricultural imports; tariffs are still high enough to remain serious impediments to U.S. trade; and quantitative restrictions still apply through a negative (restricted import) list. The United States continues to raise and discuss India’s restrictive trade practices in all trade-related meetings with Indian officials, in the World Trade Organization and in regular bilateral consultations.

TARIFF RATES

The Indian government continues to reduce tariff rates from a peak rate of 300 percent in 1991 to a ceiling (with a few exceptions) of 30 percent in the 1999-2000 budget. This budget, announced in February 1999, has reiterated the commitment to a phased reduction in duty rates in accordance with the WTO. To increase revenue generation, the Indian Government levied a uniform surcharge of 10 percent of basic custom duty on all commodities with some exceptions such as crude oil and petroleum products. This surcharge will continue until March 31, 2000, i.e. until the end of the fiscal year. The special customs duty of 2 percent and 5 percent, introduced in 1997, was discontinued from February 28, 1999. The special additional duty (SAD) will continue at a rate of 4 percent on all products except on duty free imports. All duty free imports will be charged a flat rate of 5 percent on basic duty to generate additional revenue for the government. Tariffs have been lowered selectively on capital goods and semi-manufactured inputs to help Indian manufacturers.

Despite reforms, Indian tariffs are still some of the highest in the world, especially for goods that can be produced locally. Most agricultural produce face trade barriers that severely restrict or, as in the case of processed foods, prohibit their import. Consumer goods are similarly restricted and need special import licenses (SIL).

Although reduced tariffs have assisted several U.S. export industries, further reductions in basic tariff rates and removal of additional duties would benefit a wide range of U.S. exports. For example, the tariff on shelled almonds is calculated at 55 rupees per kilogram. The market potential, if the tariff is removed, is estimated at up to USD 100 million by the year 2005. The U.S. has asked for a change to a specific (per kilogram) duty on pistachios, where under invoicing by competing suppliers creates unfair competition and limits U.S. market access. Other industries that might benefit from reduced tariff rates include fertilizers, wood products, jewelry, camera components, paper and paperboard, ferrous waste and scrap, computers, office machines and spares, motorcycles, air conditioners and refrigeration equipment, heavy equipment spares, medical equipment components, copper waste and scrap, hand tools, soft drinks, cling peaches, vegetable juice, and canned soup.

India has appealed to the Appellate Body of the World Trade Organization (WTO) against the recommendations of a WTO panel report on its quantitative restrictions on import of agricultural, textile and industrial products. India has challenged the panel’s authority to determine whether the balance of payments can be used to justify imposition of import restrictions and the overall compatibility of regional trade agreements with WTO norms. In accordance with agreements signed with the European Union and other major trading partners, India is committed to lifting import curbs by the year 2003.

As a result of the Uruguay Round commitments under the Multi fiber Agreement, India and the United States concluded successful bilateral textile negotiations giving the United States rapid and significant reductions on the entire range of textile products. The agreement is pivotal because it calls for India to lower its tariffs over a 7-year period, with some reductions to be imposed within 4 years. By January 1, 2000, Indian tariffs will be reduced to levels no higher than 20 percent for yarns, fibers, industrial fabrics and home furnishings; 35 percent for most apparel fabrics; and 40 percent for most apparel items.

IMPORT TAXES INCLUDING VALUE ADDED TAXES, PURCHASE TAXES, UPLIFTS AND SURCHARGES, AND PROVINCIAL TAXES

India maintains a variety of additional or countervailing duties, raising effective tariff rates well above the tariff ceiling for some products. For example, the tariff on power transmission projects includes a basic tariff rate of 25 percent, surcharge of 10 percent, additional duty of 16 percent and a special additional duty of 4 percent. This works out to an effective rate of 53.81 percent. The countervailing duty (CVD) is applicable only on certain products and is equal to the excise duty for similar products manufactured locally. "Octroi" is an entry tax charged by the municipality of final destination at 4 percent on the landed cost. When an agent or distributor resells imported goods, sales tax is applicable. The sales tax in Maharashtra, for example, is 8 percent. If the end user imports directly from the overseas vendor, sales tax is not applicable.

QUANTITATIVE RESTRICTIONS

India is moving quickly to phase out quantitative restrictions on imports. In accordance with WTO procedures, the U.S. approached a dispute settlement panel, which submitted its final report in April 1999. While the panel maintained that India should dismantle the remaining quantitative restrictions (QRs) to accelerate import liberalization, it has also suggested that India be given a reasonable period for adhering to WTO guidelines to implement its recommendations. The panel further advised that the timeframe for phasing out QRs should be mutually negotiated between the two parties. While India can still file an appeal, it is likely that, faced with a high fiscal deficit and hard-pressed to reduce tariffs to Asian standards, it will have to curtail the phase-out period by a year or two.

India has eased many restrictions on the import of capital goods. Also, imports of all second-hand capital goods by actual users are permitted without license, provided the goods have a residual life of five years.

In March 1993, India abolished the two-tiered exchange rate regime, moving to a single market-determined exchange rate for trade transactions and inward remittances. The rupee is convertible on current account transactions with indicative limits remaining on foreign exchange for travel and tourism. Capital accounts' transactions for foreign investors, both portfolio and direct investors, are fully convertible. However, Indian firms and individuals remain subject to capital account restrictions.

India has committed to remove many apparel, fabric and yarn imports from the restricted licensing list as a result of the United States-India market access agreement for textiles and clothing of January 1, 1995. India agreed to provide immediate "unrestricted" access for fibers, yarns and industrial fabrics. Similar unrestricted access for apparel fabrics, home furnishings and clothing will be provided as soon as India lifts its balance of payments exemption or no later than January 1, 2000, for home furnishings and apparel fabrics and January 1, 2002, for most apparel and other made-up textile items. Removal of these licensing restrictions will be on a most-favored-nation (MFN) basis.

In April 1999, the GOI announced amendments to India's EXIM policy for the year 1997-2000. The amendments moved 894 items from the restricted and special import license (SIL) lists to the open general license (OGL) or freely importable list and another 414 items were moved to the SIL list. With the new amendments, out of the total 2,714 items in WTO's QR list, 1,298 are now freely importable, 679 are under SIL, 72 are canalized, and 665 require import license. These changes will enable India to meet the 2003 deadline committed to the WTO to remove all quantitative import restrictions.

CUSTOMS REGULATIONS

India's legislative and administrative procedures on customs valuation are consistent with the GATT customs valuation code. Customs tariffs are levied on the "cost, insurance and freight" (CIF) value of imports. The opening of India's trade regime has reduced tariff levels, but it has not eased some of the worst aspects of customs procedures. There have also been private sector reports of misclassification and incorrect valuation of goods for the purposes of duty assessment, and corruption.

The Commissioner of Customs (Air Cargo) confirmed that, since October 28, 1997, goods which remain "uncleared" for more than 30 days as air cargo, are being auctioned by the custodian of the goods, i.e., the Airports Authority of India. This procedure is standard practice, is applicable to all carriers and forwarders and is in place at all ports of entry in India. In the case of surface shipments or sea cargo containers, normally 60 days are allowed for clearance of shipments; alternatively, port authorities are empowered to auction the cargo.

There is a lack of consistency and transparency in customs rulings between different ports. Local customs officials appear to have complete discretion. Further computerization and a national customs communications network could make decisions more compatible. All major ports in India are linked by computers and electronic data interface.

When part of an import order is missing, customs charge duty on the full value of an invoice, including the missing parts. However, customs officials reportedly insist on charging duty on the short parts sent later despite a "no charge" invoice. New products and technologies continually pose challenges for customs classifications. India needs to establish a process that allows industry and Indian Customs to work together to keep abreast of new technologies and provide classification consistency between different points of entry.

There is a lack of consistency between treatment of importers. Different price/value rulings are often made up for similar items imported by different importers. Valuation of used or second-hand equipment is a very technical area with frequent disputes.

Industrial products are often classified as consumer goods. Products that are imported in individual packages, e.g., less than 1 kilogram packages or small sheets that do not require further processing, are usually automatically classified as consumer goods. Examples are lubricants, abrasives, adhesives or sealants normally supplied in small quantities because they are only used sparingly or cannot be bulk-packaged; and they are for industrial use only.

American investors are concerned about Customs' apparent automatic treatment of foreign joint venture investors as related persons of the Indian joint venture company. Customs then imposes a 3.5 - 5 percent additional revenue deposit on imports from the foreign company and/or provisional duty bonds. The process for reviewing such decisions is also very costly and time consuming for the Indian company.

IMPORT LICENSE REQUIREMENTS

India's EXIM Policy regulates the import of goods. Imports into India are permitted under license, with the majority of all imported items falling within the scope of the Open General License (OGL). In effect, OGL is a blanket permit to all legally registered industrial units to import items falling within its ambit, without restriction.

India's import policy is administered through a negative list. Imports of goods not covered by OGL are regulated and fall into three categories: banned or prohibited items (tallow, fat & oils of animal origin); restricted items, requiring an import license, including all consumer goods (as defined in the import licensing section above), such as distilled spirits, canned soup, vegetable juice, seeds, plants, animals, insecticides, pesticides, electronics items and components, chemicals and pharmaceuticals, and a wide variety of other items; and "canalized" items importable only by government trading monopolies (bulk agricultural commodities) and subject to Cabinet approval regarding timing and quantity.

Consumer goods are defined very broadly as goods that can directly satisfy human needs without further processing. As a result, products of agricultural or animal origin must be licensed and are, with few exceptions, effectively banned.

Importers of theatrical films must obtain a certificate from the Central Board of Film Certification, stating that the film is suitable for import according to guidelines set by the Indian Government. The U.S. film industry maintains that this certification process constitutes a pre-censorship quality check obstacle.

Where imports require a license, only an actual user can import such goods, unless the licensing authority specifically dispenses with the actual user condition.

Capital goods can be imported with a license under the Export Promotion Capital Goods scheme at concessional rates of duty, subject to the fulfillment of a time-bound export obligation.

Additionally, a duty exemption scheme is offered under which imports of raw materials, intermediates, components, consumables, parts, accessories and packing materials required for direct use in products to be exported may be permitted free of duty under various categories of licenses. The most common among these are advance licenses, under which duty-free imports of inputs are permitted on fulfillment of a time-bound export obligation.

Finally, a Special Import License (SIL) may be used to import, among other items, certain consumer goods. The SIL is an import permit traded in the market, currently for a 1-2 percent premium on its value. It is issued to Indian exporters as an export incentive, and its value is tied to export earnings. A SIL is required for imports of completely unassembled vehicle kits after manufacturer signs a memorandum of understanding (MOU) with the Director General of Foreign Trade. The MOU must cover investment plans, capacity, local content, value of the imports, and export earnings.

Import licenses may be obtained from the Director General of Foreign Trade. A person cannot export or import unless an Importer-Exporter Code (IEC) has been obtained from the concerned Regional Licensing Authority.   On March 31, 1997, the Indian Government announced the EXIM policy for 1997-2002, which took effect from April 1, 1997. For the first time, the import of several consumer goods was allowed. The OGL and SIL lists were substantially expanded. The freely importable list was again expanded in the amendments to the EXIM policy announced in April 1998 when 340 items were moved from the restricted and SIL list to the OGL list.

The EXIM Policy and the Handbook of Procedures is being placed on the Internet and henceforth all public notices issued by the Directorate General of Foreign Trade (DGFT) will be on the Internet Website: http//www.nic.in/eximpol .

TEMPORARY GOODS ENTRY REQUIREMENTS

Potential U.S. investment seeking a home in India is hampered by the difficulty in determining if there is, in fact, a market in India for the company's products. Allowing temporary imports, including consumer goods, will help these companies to analyze the market and then make informed investment decisions. U.S. companies understand and accept the need for such test marketing to be allowed on a restricted, time-bound basis.

At present, imports for demonstration and test marketing are allowed only for Indian Trade Promotion Organization-approved trade events, and then against a required bank guarantee. However, successful demonstration of a product to a customer often requires placement in his premises or elsewhere other than a trade event. There are no differential tariffs for test marketing. Approval for imports for test marketing should be part of the company's investment application to the FIPB, which makes the decision. Imports for private demonstration of equipment are not allowed. Imports under ATA carnet are also not allowed.

Import of exhibits (including the construction and decorative materials) required for display at international exhibitions or trade fair for a period of six months are permitted on a re-export basis. However, this requires submission of a certificate from an Under Secretary in the Ministry of Commerce or an office of the Indian Trade Promotion Organization, stating that the exhibition is approved by the Government of India (GOI) and is being held in the public interest.

Sale of exhibits of restricted items imported for a GOI-approved exhibition may also be made without a license within the bond period allowed for re-export, on payment of the applicable custom duties, subject to a ceiling of Rs. 500,000 (CIF) for such exhibit for each exhibitor. If the goods brought by exhibitors are not re-exported within the bond period due to circumstances beyond the control of the importer, the Customs Authorities may allow extension of bond period on merit.

U.S. firms that plan to participate in international trade shows in India should contact the U.S. & Foreign Commercial Service (US&FCS) for assistance with importing exhibits duty-free in India. In lieu of a bank guarantee, US&FCS offices provide an Embassy bond to facilitate the duty free entry for an American exhibitor's products into India. For issuing such a bond, an indemnity letter from the participating U.S. firm to comply with Indian customs regulations, and a fee of USD 75 is payable to U.S. Embassy to cover administrative costs.

SPECIAL IMPORT/EXPORT REQUIREMENTS AND CERTIFICATION

Special licensing procedures apply to export firms, which may import practically anything needed for production. Actual users can import used machinery and other capital goods with a residual life of at least five years without a license. In the case of imports of capital goods exceeding a CIF value of Rs. 200 million, the used machinery should have a residual life of at least 10 years.

The GOI has attempted to make Indian manufacturers internationally competitive by introducing duty drawback in the Indian Customs Act. Four categories of companies that can avail of duty drawback in India are companies that are located in 1) free trade zones, 2) export-processing zones, 3) electronic technology parks and 4) jewelry complexes. Companies operating in these areas are allowed importing free of duty and are free from local taxes. One hundred percent export oriented units (EOUs) not located in the free trade zones are also free from all government duties. Units primarily engaged in domestic production can also get duty free imports to service an export order under the Duty Exemption/ Advance License scheme. To obtain this exemption, the manufacturer needs to execute a bond with customs for fulfilling the export obligation. To claim duty drawback, the Indian importer must provide documentary evidence that proves he has used the imported product as an input for the exported item, and that a minimum of 25 percent value has been added to service an export order under the Duty Exemption/ Advance License scheme.

The EXIM policy allows import of raw materials in small quantities by small-scale export units through private bonded warehouses. Similarly, private bonded warehouses may be established under the new EXIM policy to facilitate bulk exports from India.

LABELING, MARKING REQUIREMENTS

Under existing law, foreign merchandise bearing any name, trademark or description must be marked with the country of origin, either on the goods themselves, or on their containers. The bill of lading, commercial invoice and packing list required by Indian customs must show country of origin, description, quantity and value of goods.

PROHIBITED IMPORTS

There are very few prohibited items in India's import policy. These items are tallow fat, animal rennet, wild animals and ivory. These items are banned completely from importation into India.

WARRANTY AND NON-WARRANTY REPAIRS

Quick availability of spares and service is critical to maintaining operations in any industry. The import policy allows re-export of equipment for repairs and reconditioning. However, current procedures delay the shipment and return of parts or equipment that must be sent overseas for repair or replacement. Exporting parts for repair involves the Reserve Bank of India (RBI) clearance and then customs verification that these parts were indeed originally imported. Since the parts were imported usually as part of a larger piece of equipment, and, therefore, are not listed on the original bill, documentation and discussion can take considerable time.

Similarly, when parts are returned after repair, it is necessary to prove once again that these were the same parts that were shipped for repair, including verifying the parts' price. In many cases, it is not economical or even possible to repair the parts; consequently, replacement parts are required. But even if these items are identical models, circuit boards or parts, duty must be paid all over again on the replacements.

EXPORT CONTROLS

The current trade policy allows for free export of all goods, except for some 45 items that are subject to certain restrictions. Of these, the majority are permitted under license, some are canalized and some are banned for export. The Director General of Foreign Trade lays down conditions according to which certain items may be exported without licenses. Such terms and conditions generally include minimum export price, registration with specific authorities, quantitative ceilings and compliance with other laws. A trader wishing to export an item on the negative list of exports must have a registration and membership certificate from the relevant export promotion council. All export contracts must be denominated in freely convertible currencies.

Export earnings are exempt from income and trade taxes. Promotion measures include exemptions or concessional tariffs on raw materials and capital inputs, and access to special import licenses (SIL) for restricted inputs. Concessional income tax provisions apply to exports (export earnings are tax-exempt). Commercial banks also provide export financing on concessional terms.

STANDARDS

Indian standards generally follow international norms and do not constitute a significant barrier to trade. Requirements established under Indian food safety laws are often outdated and sometimes more stringent than international norms, but enforcement has been weak. Opponents of foreign investment have tried to apply these laws selectively to U.S. firms, as in the case of Pepsi and Kentucky Fried Chicken, but these attempts have not withstood judicial scrutiny. Where differences exist, India is seeking to harmonize national standards with international norms. No distinctions are made between imported and domestically produced goods, except in the case of some bulk grains.

The Ministry of Non-Conventional Energy Sources has issued strict guidelines, although not mandatory, requiring that all wind machines, imported into India, to be certified. The Ministry has indicated that the National Renewable Energy Laboratory would be an acceptable certifying agent for U.S.-manufactured wind machines. U.S. manufacturers have the option of certifying their machines in Europe, although it is believed that European manufacturers receive preferential treatment at these facilities.

Over the past decade, Indian companies have sought ISO certification, hoping this would increase opportunities to supply products and services to foreign markets. As the demand for ISO certification has accelerated, however, the ISO 9000 label has, in many cases, become more decorative than real with corruption/irregularities creeping into the certification process. The drive for quality in India has raised consumer awareness and ensuing demands for quality production and service. ISO 14000, designed to make production environmentally friendly, has also gained currency in India. Industry observers are hopeful that the adoption of newer, more stringent standards and auditing procedures will correct some of the flaws and ensure better implementation of quality requirements.

FREE TRADE ZONES/WAREHOUSES

Foreign investment up to 100 percent is permitted in units set up in Export Processing Zones (EPZs) and 100 percent EOUs. New industrial undertakings set up in Free Trade Zones (FTZs) are entitled, subject to various conditions, to complete exemption from income tax on business income. The period of exemption is five successive years out of the first eight years from the year in which production commences. Such units are allowed to make a specified percentage of their sales in the domestic tariff area. While it lasts, the tax holiday in FTZs replaces all other income tax incentives available to industrial undertakings.

The Ministry of Industry and the Development Commissioners of Export Processing Zones/Free Trade Zones approve such investments. EPZs are currently set up in seven designated areas in India, as follows: Kandla FTZ, Santa Cruz Electronics EPZ, NOIDA EPZ and Cochin EPZ, Falta EPZ, Vishakapatnam EPZ and Chennai EPZ.

The EXIM Policy allows converting EPZs into FTZs starting from July 1, 1999. The rationale for the FTZ scheme envisages no interference by customs authorities in order to get the best from exporters when left without any bureaucratic barriers.

Private customs bonded warehouses may be set up in domestic tariff areas by following the procedure envisaged in chapter IX of the Customs Act 1962. Such warehouses shall be permitted to import items consistent with paragraph 4.15 of the policy notifying the validity of import licenses and custom clearance permits.

On receipt of goods, such warehouses shall keep the goods for a period of one year without payment of applicable customs duties. Goods can be cleared against a bill of entry for home consumption on payment of applicable custom duty and submission of license, wherever required, provided an order for clearance of such goods for home consumption has been made by the competent customs authorities. The goods can also be re-exported without payment of custom duty provided (i) a shipping bill or a bill of export is presented in respect of such goods, and (ii) an order for export of such goods has been made by competent custom authorities.

SPECIAL IMPORT PROVISIONS

Importers are required to furnish an import declaration in the prescribed bill of entry format, disclosing full and accurate details of the value of imported goods. This must be accompanied by any import licenses, along with documentation such as sales invoice, freight and insurance certificates. Not all consignments are inspected prior to clearance, and inspection may be dispensed with for reputed importers. In the current customs set-up, the appointment of clearing agents for clearance purposes will avoid delays. In general, documentation requirements, including ex-factory bills of sale, are extensive and delays are frequent. American investors are concerned about the length of time for completing customs clearances (e.g., repeated physical inspections; lack of port and customs coordination causing delays in locating consignments; delays in clearing even duty-free imports). These delays cost investors time and money, including additional detention and demurrage charges, making it more expensive to operate and invest in India. American investors are looking for fixed time periods for customs document processing and clearance. If there are delays beyond these time limits, investors seek release of shipments anyway, preferably against a performance bond, since bank guarantees are more expensive. Customs have recently extended operations to 24 hours a day to ensure timely clearance of export cargo.

MEMBERSHIP IN FREE TRADE ARRANGEMENTS

India is a participant in the Global System of Trade Preferences (GSTP), the Bangkok Agreement (BA), the South Asian Agreement for Regional Cooperation (SAARC), and the South Asian Preferential Trading Arrangement (SAPTA) under which it grants and receives tariff concessions on imports and exports. The rule of origin requirement is mandatory for availing tariff preferences. India is a signatory to the Tokyo Round Agreements on Technical Barriers to Trade, Customs Valuation, Anti-Dumping Subsidies and Countervailing Duties.

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Commissioner of Customs
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CHAPTER VII INVESTMENT CLIMATE

- Openness to foreign investment
- Right to private ownership and establishment
- Protection of property rights
- Adequacy of laws and regulation governing commercial transactions
- Foreign Trade Zones/free ports
- Major taxation issues affecting U.S. business
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- Labor
- Efficiency of capital markets and portfolio investment
- Conversion and transfer policies
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- Dispute settlement, including enforcement of foreign arbitral awards
- Political violence
- Bilateral investment agreements
- OPIC and other investment insurance programs
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- Major foreign investors
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OPENNESS TO FOREIGN INVESTMENT

India’s post-independence economic policy combined a vigorous private sector with state planning and control, treating foreign investment as a necessary evil. Prior to 1991, foreign firms were allowed to enter the Indian market only if they possessed technology unavailable in India. Almost every aspect of production and marketing was tightly controlled, and many foreign companies that came to India eventually abandoned their projects. The industrial policy, announced in July 1991, is vastly simpler, more liberal, and more transparent than its predecessor, and promotes foreign investment as indispensable to the country’s international competitiveness.

The new policy permits automatic approval for foreign equity investment of up to 51 percent in 48 “high priority” industries, accounting for the lion’s share of industrial activity. In 1998, equity levels were raised to 100 percent for automatic approval for foreign direct investment (FDI), provided foreign equity does not exceed Rs. 15 billion (USD 357 million) in the following sectors: electricity generation, transmission and distribution; roads and highways; ports and harbors; and vehicular tunnels and bridges.

Foreign investment exceeding 51 percent and up to 100 percent is allowed in several other sectors with the approval of the Foreign Investment Promotion Board (FIPB) for investment proposals up to Rs. 6 billion (about USD 150 million). FDI proposals involving more than Rs. 6 billion (USD 150 million) are considered by the Cabinet Committee on Foreign Investment (CCFI). The Indian Government has denied some requests for a foreign equity stake exceeding 51 percent. Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs - firms with NRI majority ownership) may hold 100 percent ownership in all industries except those reserved for the public sector. These reserved industries are arms, ammunition and defense equipment, atomic energy, mineral oils, minerals used in atomic energy, railway transport, and coal and lignite.

Foreign investment under the Reserve Bank of India's (RBI) automatic approval process does not require foreign equity to cover foreign exchange requirements for import of capital goods. In 1997, the Industry Ministry formed the Foreign Investment Promotion Commission (with private industry representatives as its members) to facilitate foreign investment. In January 1998, the RBI announced simplified procedures for FDI proposals that are not approved under the automatic route. Henceforth, Indian companies no longer require prior clearances from the RBI for inward remittances of foreign exchange or for the issuance of shares to foreign investors. In 1998, permitted FDI in the Non-Banking Financial Services sector was expanded to include the credit card business.

A number of recent policy changes have promoted FDI. The government has amended exchange control regulations previously applicable to companies with significant foreign participation. The ban against using foreign brand names/trade marks has been lifted. The corporate tax rate for foreign companies was reduced from 55 percent to 48 percent and the rate for domestic companies from 40 to 35 percent in fiscal year 1997-98. An additional 10 percent surcharge was introduced in the 1999-2000 Budget for domestic companies, making the effective tax rate 38.5 percent. The 10 percent tax rate on long-term capital gains (securities held for 12 months or more) and the 30 percent tax rate on short term capital gains (securities held for less than 12 months) are the same for both Indian and foreign firms and investors. Dividends and interest income are taxed at a rate of 20 percent. Final tax incidence may be different if investors take advantage of bilateral double taxation treaties, which India has signed with 40 countries, including the United States, the United Kingdom, Japan, Germany, and France. The Indian Income Tax Act exempts export earnings from corporate income tax for both Indian and foreign firms. The ceiling limit for portfolio investments by NRIs and OCBs in the stock markets has been increased from one percent to five percent individually, and from five percent to 10 percent in the aggregate. If permitted by the listed Indian company, the aggregate ceiling can be raised to 24 percent of capital. The combined foreign portfolio investment limit by NRIs, OCBs and FIIs has been raised from 30 percent to 40 percent of a domestic company's share capital. Global Depository Receipt (GDR) and American Depository Receipt (ADR) guidelines have been further liberalized by allowing unlisted companies to float Euro issues. All end-use restrictions on GDR/ADR issue proceeds have been removed, except restrictions on investment in stock markets and real estate.

Other policy changes have been introduced to encourage foreign direct and institutional investment. The Securities and Exchange Board of India (SEBI) has established guidelines to facilitate the operations of foreign brokers in India on behalf of registered Foreign Institutional Investors (FIIs). These brokers can now open foreign currency denominated or rupee accounts for crediting inward remittances, commissions and brokerage fees. Individual FIIs are permitted to hold up to 10 percent of the equity of any Indian company and may invest in dated government bonds. The collective investment of all FIIs cannot exceed 30 percent of a company's shares. The list of eligible FIIs has been expanded to include endowment funds, university funds, foundations and charitable trusts with good track records.

New, liberal external commercial borrowings (ECBs) guidelines, effective April 1, 1998, allow the use of ECBs, subject to certain conditions, to meet rupee costs (previously available only for infrastructure projects.) The minimum average maturity is 3 years for ECBs up to USD 20 million and 5 years for higher amounts. The upper limit on borrowing is USD 200 million for 8 years and USD 400 million for 16 years.

Other changes include limiting foreign institutional investor (FII) debt funds to USD 500 million and restricting the issue size of foreign currency convertible bonds (FCCBs) to USD 250 million. The Indian government further liberalized consumer goods imports and decentralized licensing functions through the amended Export Import Policy, 1997-2002. The harmonized system of commodity classification developed by the Customs Cooperation Council, Brussels, has been used by India since October 1995, ensuring greater transparency in export/import licensing policy and reducing areas of ambiguity on import policy matters. The Export-Import Policy announced on April 1, 1999, treats service exports on par with merchandise exports.

The condition of dividend balancing (offsetting the outflow of foreign exchange for dividend payments against export earnings) has been abolished for all but 22 consumer goods industries. A 5-year tax holiday is available to enterprises engaged in development of infrastructure facilities. This tax holiday has been extended from 5 to 10 years for industrial undertakings set up in Export Processing Zones (EPZs), Free Trade Zones (FTZs) and units in software technology parks. Even without a registered office in India, foreign companies are allowed to start multi-modal transport services in India. Most state governments in recent years have offered fiscal concessions and other facilities to attract investment, particularly in the infrastructure sector.

The peak basic custom duty rate was maintained at the previous level of 40 percent in the 1999-2000 budget. However, a surcharge of 10 percent of basic duty has been imposed across the board on all items except those attracting 40 percent basic custom duty, crude oil/petroleum products, certain General Agreement on Tariffs and Trade (GATT) bound items, gold and silver. The special customs duties of 2 percent and 3 percent, introduced in 1996-97, have been abolished as of February 28, 1999, whereas the 4 percent special additional duty imposed in 1998, remains in effect. Another significant feature of the 1999-2000 Budget was the rationalization of multiple excise duty rates by introducing three duty rates in place of the earlier 11 rates.

Under the new Telecommunications Policy announced in March 1999, providers of private Internet services as well as global mobile personal communication services are allowed to have foreign equity up to 49 percent. In accordance with the policy for issuing licenses for providing internet services, no license fees for the first five years are charged. Private internet service providers are also permitted to set up information gateways after obtaining security clearance.

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Foreign investors in specified priority industries can operate in Export Processing Zones (EPZs), Export Oriented Units (EOUs) and software and hardware technology parks. The Indian Government's policy does not permit investment in housing/real estate by foreign investors, except for company property for use in carrying out business transactions. NRIs, OCBs, or persons of Indian origin (PIOs), however, are permitted 100 percent equity investment in real estate on a repatriable basis. Portfolio investments by NRIs and OCBs in the Indian stock markets are subject to ceiling limits of five percent individually, and 10 percent collectively. FIIs, including pension funds, mutual funds, investment trusts and asset management companies, are now permitted to invest in all securities traded on India's primary and secondary markets, subject to initial registration with the SEBI. FIIs can even invest in unlisted domestic debt securities; but they have to bear the exchange risk. FIIs can buy, sell, and realize capital gains on their investment. Portfolio investments, however, are subject to a ceiling (cumulative) of 40 percent of issued share capital of any one company, subject to the approval of the board of directors of the Indian company. NRIs and PIOs have been allowed to open non-resident special rupee bank accounts in India as of April 15, 1999.

PROTECTION OF PROPERTY RIGHTS

Indian law offers rigorous protection for copyrighted material. The Indian Copyright Act of 1957 is based on the Berne Convention on Copyrights, to which India is a party. An amended copyright bill, which became effective in May 1995, enlarged the scope of protection and introduced stiff mandatory penalties for copyright infringement. Indian copyright law is now on par with the most modern law in the field. India is also a party to the Geneva Convention for the Protection of Rights of Producers of Phonograms and to the Universal Copyright Convention, as well as an active member of the World Intellectual Property Organization and UNESCO. Trademark protection is considered good, and will be raised to international standards with the passage of a new Trademark Bill that codifies existing court decisions on the use and protection of foreign trademarks, including service marks. In May 1995, the Government of India introduced in Parliament such a trademark bill that was passed by the lower house, but opposition in the upper house has stalled consideration of the legislation to date. Historically, enforcement of intellectual property rights was poor, but has steadily improved as the courts and police respond to domestic concerns about the high cost of piracy to Indian rights holders.

Indian patent protection is weak and has had especially adverse effects on U.S. pharmaceutical and chemical firms. Indian patent law prohibits product patents for any invention intended for use, or capable of being used, as a food, medicine, or drug, or relating to substances prepared or produced by chemical processes. Many U.S.-invented drugs are widely reproduced since product patent protection is not available. Processes for making such products are patentable, but the patent term is limited to the shorter of five years from the grant of patent or seven years from the filing date of the patent application. Product patents in other areas are granted for 14 years from the date of filing.

As a signatory to the Uruguay Round of GATT Trade Negotiations, including the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), India must introduce a comprehensive system of product patents no later than 2005. The Indian Government has announced its intention to conform fully to the IPR-related requirements of the Uruguay Round. As a first step, in late 1994, the Government of India (GOI) promulgated a temporary ordinance and, in early 1995, introduced patent legislation intended to fulfill India’s TRIPS obligations under the so-called “mailbox” provisions. The patent bill failed to pass the upper house of Parliament in 1995, leaving India in violation of this TRIPS provision when the patent ordinance expired in early 1995. In November 1996, the WTO Dispute Settlement Body established a panel at the request of the United States to review India’s failure to meet these TRIPS obligations. The final panel report on this case was issued in August 1997, and ruled that India had failed to meet its obligations under the TRIPS agreement. Following an appeal by India, the WTO's appellate body ruled in favor of the United States in December 1997. Patent legislation designed to meet India's TRIPs obligations was introduced and passed in the Upper House in December 1998, and the Lower House in March 1999, in advance of the April 19, 1999, deadline established by the WTO dispute settlement process.

Aside from its immediate obligations, the Indian government has announced its intention to take full advantage of the transition period permitted to developing countries under TRIPS, before implementing full patent protection. A small, but growing domestic constituency, made up of some Indian pharmaceutical companies, technology firms, and educational/research institutions, favors an improved patent regime, including full product patent protection. India's decision in August 1998 to join the Paris Convention and the Patent Cooperation Treaty, which took effect in December 1998, is a sign of improved IPR protection.

ADEQUACY OF LAWS AND REGULATIONS GOVERNING COMMERCIAL TRANSACTIONS

India has adequate laws and regulations governing commercial transactions. Central and state governments regulate the prices of "essential" products, including food grains, sugar, edible oils, basic medicines, energy, fertilizers, water and many industrial inputs. Many basic food products are under a dual pricing system; some output is supplied at fixed prices through government distribution outlets, with the remainder sold by producers on the free market. Prices in government outlets are usually regulated according to a cost-plus formula; some formulas have not been adjusted in more than a decade. Regulation of basic drug prices has been a particular issue for U.S. pharmaceutical firms operating in India, although changes in national drug policy sharply reduced the number of price-controlled formulations in late 1994, from 142 to 76 formulations. The new industrial policy announced in 1991 considerably relaxed the government's regulatory hold on commercial transactions. Additionally, the Indian government announced in 1994, 1995 and 1998 liberal policies for the pharmaceutical and telecommunications industries. The Indian government is in the process of revising the Companies Act, 1956, which governs competition laws and commercial practice of companies operating in India. Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. Political opposition has slowed or halted important regulatory reforms governing areas like labor, bankruptcy, and company law that would enhance the efficiency of foreign and domestic investment.

FOREIGN TRADE ZONES/FREE PORTS

Export Processing Zones (EPZs) are designed to provide internationally competitive infrastructure facilities, and a duty-free, low-cost environment for exporters. India has eight EPZs in operation, one of which was developed by the private sector at Surat (Gujarat). Another private sector EPZ is being developed in Mumbai. Units in these zones may be 100 percent foreign-owned or joint ventures with majority foreign equity holding. 100 percent export oriented units (EOUs) may be established outside the zones, subject to government approval. All the incentives granted to units set up in the EPZs are available to EOUs. The Export-Import Policy allows export firms duty-free import of all goods, including capital goods; ten-year income tax exemption; exemption of excise tax on capital goods, components and raw materials; exemption of sales tax at the federal/state level; and permission to sell 50 percent of output (by value), as well as up to five percent “seconds” into the domestic market against payment of appropriate taxes. The Government of India requires a minimum value-addition of 20 percent for most products.

MAJOR TAXATION ISSUES AFFECTING U.S. BUSINESS

India’s direct tax base is very narrow, with only 14.5 million taxpayers out of a total population of about 975 million. Marginal corporate rates are high by international standards (although the current corporate income tax rate of 48 percent for foreign companies was lowered by 7 percent in the 1997-98 budget). Tax evasion is widespread, and the GOI states that improvements in tax compliance are necessary to further cut corporate tax rates. Over the last eight years, the government has streamlined the tax regime along the lines recommended by a government-appointed committee: increasing the revenue share from direct taxes, introducing a modified valued-added tax (MODVAT), and replacing India's complex tax code with one that is more simple and transparent. The GOI also provides tax incentives for specific sectors, such as a 5-year tax holiday for infrastructure projects.

PERFORMANCE REQUIREMENTS/INCENTIVES

The current investment policy requires no local sourcing for new and existing foreign investment. In some consumer goods industries (e.g., automobiles), however, the GOI requires the signing of a memorandum of understanding (MOU) by the concerned foreign party to insure net inflow of foreign exchange. Foreign equity must cover the foreign exchange requirement for imported capital equipment. In December 1992, the government removed all controls on dividend repatriation by foreign firms, except the specified 22 consumer goods industries, including automobiles, entertainment electronics, food products, footwear, white goods and soft drinks. Dividend repatriation in these industries is subject to a requirement of dividend balancing against export earnings for a period of 7 years from commencement of production. Balancing is not required beyond this period. Earlier requirements calling for gradual reduction in foreign equity, and conditions related to technology transfer have been dropped.

In November 1997, India's Cabinet Committee on Economic Affairs (CCEA) announced specific new rules applicable to all new foreign automobile manufacturing investments in India. Under the new policy, new and existing joint venture companies seeking to import unassembled kits and automotive components must sign a standardized MOU with the GOI containing several requirements: a USD 50 million minimum equity investment in joint ventures with majority foreign ownership; a local content requirement including waiver of the import license requirement when local content exceeds a certain threshold; export obligations; and foreign exchange balancing. Prior to this policy, investors in the auto sector were required to conclude MOUs on a case-by-case basis. There are concerns that the new policy may violate India's WTO Trade-Related Investment Measures (TRIMS) Agreement commitments in regard to both national treatment and the general elimination of quantitative restrictions.

India has a fairly liberal plant location policy. In urban settings, non-polluting factories may be established outside a 25-kilometer radius. State environmental regulations and local government zoning policies may affect plant location and have, on occasion, been a source of delay. There is no requirement to employ Indian nationals, and previous restrictions on the employment of foreign technicians and managers have been eliminated, although companies continue to complain that hiring and compensating expatriate employees remains time-consuming and expensive. Special incentives are available for units set up in EPZ's and for 100 percent EOUs. EOUs are granted incentives which include duty-drawbacks, duty-free import of capital goods, raw materials and components; permission to sell up to 50 percent of the output in the domestic market; exemption from central/state taxes on output and sales; and liberal loans and financing schemes from government financial institutions.

TRANSPARENCY OF THE REGULATORY SYSTEM

Abolition of industrial licensing for many sectors, the convertibility of the rupee on trade and current account transactions, and the advent of a regulatory approach more conducive to investment and competition have produced a marked change in the Indian investment climate. Investors, foreign and domestic, still complain that the regulatory system allows far too much leeway for bureaucratic discretion, but the volume of complaints has fallen sharply, and the GOI appears intent upon improving the clarity and consistency of regulations. Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. As the pace of regulatory reform at the federal level accelerates, the focus of liberalization is gradually shifting to state governments which, under India's federal system, enjoy broad regulatory powers. The speed and quality of regulatory decisions governing important issues such as zoning, land-use and environment can vary dramatically from one state to another. Opposition from labor unions and certain political parties has slowed or halted important regulatory reforms governing areas like labor, bankruptcy, and company law that would enhance the efficiency of foreign and domestic investment.

CORRUPTION

Although there are a number of laws that have been enacted to tackle corruption, it still remains one of the largest hurdles that foreign investors face while doing business in India. The GOI has initiated steps to control the problem. These include a proposal for changes in the Prevention of Corruption Act, 1988 to make it more stringent on offenders, to give more powers to vigilance departments in various government bodies and to make the Central Vigilance Commission (CVC) a statutory body.

India has a number of laws and regulations that address corruption. The main ones are the Prevention of Corruption Act, 1988; The Code of Criminal Procedures, 1973; The Companies Act, 1956; and The Indian Contract Act, 1872. U.S. firms doing business in India continue to identify corruption as an impediment to foreign direct investment.

According to the Embassy’s 1999 Investment Survey, corruption was considered a major problem faced by U.S. firms in India. The government procurement system has been particularly subjected to allegations of corruption in the telecommunications and power sectors.

While the GOI has not amended its anti-corruption laws since 1988, the Companies Act of 1956 is in the process of being revised. Giving or accepting a bribe is considered a criminal act under the Prevention of Corruption Act. A bribe to a foreign official is also considered a criminal act. The judiciary has taken the lead in combating corruption in India. A number of bureaucrats and politicians have been found guilty under anti-corruption laws; however, no information has been found to indicate that any investors have been convicted.

LABOR

India has the world’s third-largest pool of scientific and technical personnel, which serves as an important attraction for foreign investors. Most managerial and technical people, and many skilled workers, speak English, and many have studied or worked abroad. Unemployment and underemployment are high, providing an abundant supply of potential employees. Although there is a large pool of underemployed educated personnel, as in much of the developing world, illiteracy acts as a brake on labor productivity in the workforce as a whole. The current industrial policy provides for hiring of foreign technicians without prior government approval. The RBI has raised the remittable per-diem rate from USD 500 to USD 1000, with an annual ceiling of USD 200,000 for services provided by foreign technicians payable to a foreign firm. Technical personnel can remit up to 75 percent of their monthly net income through authorized exchange dealers. Total duration of employment of a technician is limited to 12 months at a time. Employment in excess of 12 months requires clearance by the Ministry of Home Affairs.

India is a member of the International Labor Organization (ILO) and adheres to 37 ILO conventions protecting worker rights. Industrial relations are governed by the Industrial Disputes Act of 1947. The Act curbs unfair labor practices by employers, workers or trade unions through imposition of fines and imprisonment. Workers may form or join unions of their choice. Nevertheless, although unionized workers affiliated with national federations number more than seven million, their unions represent less than one fourth of the workers in the so-called modern sector (subject to the Factories Act of 1948), primarily in state-owned concerns, and less than two percent of the total work force. Where workers are unionized, wage increases are negotiated between unions and management. Most unions are linked to political parties and their politicization has, in the past, created problems for domestic and foreign employers. Labor militancy has declined in recent years, however, even among the formerly strident Communist-Marxist unions of West Bengal. Worker-days lost to strikes and lock-outs have declined every year since 1991.

Worker rights are broadly protected under Indian law. The Industrial Disputes Act established freedom of association and collective bargaining rights. The Factories Act regulates working conditions in mechanized factories employing more than 10 employees or non-mechanized factories employing more than twenty, prescribing standards for working conditions, working hours, handling and storage of materials, etc. Other laws regulate employment of women and children and prohibit bonded labor. Enforcement of these laws has been imperfect, however, and working conditions for workers not subject to the Factories Act are often quite poor. Payment of wages is governed by the Payment of Wages Act, 1936 and Minimum Wages Act, 1948. Industrial wages range from about USD 3 per day for unskilled workers, to over USD 150 per month for skilled production workers. Retrenchment, closure and layoffs are governed by the Industrial Disputes Act, which requires prior government permission to carry out layoffs or closure of businesses employing 100 or more workers. In practice, permission is not easily obtained. However, private firms have successfully downsized using voluntary retirement schemes.

EFFICIENCY OF CAPITAL MARKETS AND PORTFOLIO INVESTMENT

The size and sophistication of India’s capital market have increased significantly in recent years, due in large measure to the entry of foreign institutional investors (FIIs). After registering with the SEBI and the RBI, FIIs may make portfolio investments in equity shares. Disinvestment and repatriation of dividends are permitted after payment of capital gains taxes. The 5-year old National Stock Exchange of India employs a screen-based trading system. Computer workstations and reliable telecommunications links permit automated buy and sell transactions. This system offers efficient nation-wide access to investors. Other regional exchanges and the National Over the Counter Exchange of India have also introduced computer trading systems. Despite their growing sophistication, Indian stock exchanges continue to lack adequate safeguards against manipulation, and suffer from inadequate custodial services and lengthy delays in physical delivery of certificates. The SEBI is empowered to regulate all market intermediaries. The Depositories Act of 1996 permits transfer of securities through electronic book entry leading to better investor service and protection. As a result of this Act, the National Securities Depository Limited (NSDL) commenced operation in October 1996, meeting the long-standing demand of FIIs. NSDL is a part of the National Stock Exchange. In a parallel move, the Bombay Stock Exchange (BSE), one of the oldest stock exchanges in India, is also in the process of setting up a depository system for dealing in securities.

The Indian credit policy for April-October 1999 announced on April 20, 1999, aims at improving credit availability and liquidity in the short run and carrying forward financial sector reforms in the long run. The bank and the repo rates were reduced by one percentage point each, to 8 percent and 6 percent, respectively. The cash reserve ratio (CRR) was reduced from 11 percent to 10.5 percent in March 1999. Following this reduction, most commercial banks lowered their prime lending rates to 12 percent. The CRR was further cut by 0.5 percent to 10 percent in April 1999, mainly to inject more liquidity. Domestic or foreign investors can borrow from commercial banks for approved projects. They can also tap the domestic capital market for financing through a variety of instruments such as shares, bonds, etc. Indian firms have been successfully floating Euro-issues in overseas markets for the last four years. Since 1993, several large firms have entered international markets by issuing Global Depository Receipts (GDRs) and convertible bonds. Foreign Institutional Investors (FIIs) are allowed to invest in Indian treasury bills with a ceiling of 30 percent in debt instruments. FIIs are now allowed to bypass brokers and deal directly with companies in case of open offers. FII debt funds (100 percent owned) can invest in unlisted debt securities of Indian companies. FIIs are allowed 100 percent forward cover on investments made after March 31, 1999. Banks are given the freedom to fix penalties on premature withdrawal of deposits.

At present, public sector banks account for more than 80 percent of India’s banking activities. Regional private banks handle 6 percent; and foreign banks account for about 8 percent. Gross non-performing assets of public sector banks were estimated to be 16 percent of total loan assets on March 31, 1998, down from 23.2 percent in 1992-1993. A Board for Financial Supervision has been established to ensure compliance with guidelines in such areas as loan management, capital adequacy, and asset classification.

Domestic Indian banks are required to extend 40 percent of their loans at concessional rates to “priority” borrowers, the agriculture sector, exporters, and small businesses. Since July 1993, foreign banks also have been required to offer 32 percent of their loans to the non-agricultural priority sector.

SEBI takeover regulations are intended to be transparent, with a particular focus on protecting the interest of minority shareholders. Highlights of the takeover regulations include: (a) disclosure requirements on acquisition of shares exceeding five percent of the voting capital of the target company; and (b) in case of acquisition of over 10 percent, the buyer must make a public offer for acquiring a minimum of 20 percent from the remaining shareholders of the target company at a pre-determined price. The Companies (Amendment) Ordinance of 1999 permits companies to buy back their shares in the market to retain control and to ward off hostile attacks and make inter-corporate investments. RBI and FIPB clearances are required for acquiring a controlling interest in Indian companies.

CONVERSION AND TRANSFER POLICIES

There are no restrictions on remittances for debt service or payment for imported inputs, but the government approval process can be time consuming. Transfers are made in hard currency at prevailing market rates. Dividend remittance restrictions apply to firms in specified consumer goods industries which are subject to dividend balancing against export earnings. There are no dividend restrictions on firms in other industries. RBI permission for remittances in these industries is not required and authorized exchange dealers can remit dividends. Prior RBI approval is required for remittance of funds from asset liquidation, but foreign companies generally have been able to liquidate assets and repatriate the proceeds without long delays. The RBI recently relaxed remittance rules for international musicians. Remittances for the engagement of foreign dancers and musicians is allowed where the artists are engaged by tourism-related organizations like the India Tourism Development Corporation (ITDC) or State Tourism Development Corporations during festivals organized by them. On the other hand, a foreign exchange remittance facility is not available to persons in the racing trade, cabaret artists and wrestlers. The RBI allows foreign partners in Indian companies to sell their shares at a premium of 25 percent on the weekly average market price to resident investors who wish to take management control of the company.

India allows free movement on current account transactions. The Indian rupee is also convertible on the capital account for foreign investors. The success of liberal trade and exchange rate policies in boosting India’s foreign reserves has reduced the likelihood that draconian exchange controls will be re-instituted. The Indian rupee, floated in March 1993, has depreciated moderately against the U.S. dollar. In April 1999, the exchange rate was about Rs. 42.5 to an U.S. dollar, compared to Rs. 31.38 at end-December 1993.

Foreign institutional investors are allowed to open foreign currency accounts in designated banks along with non-resident rupee accounts. They can transfer repatriable proceeds from the rupee account to the foreign currency account and vice versa at the market rate of exchange. Repatriation, net of all taxes, of capital, capital gains, dividends, interest income, and any compensation received from the sale of rights offerings, is permitted without approval.

Indian companies that enter into technology transfer agreements with foreign companies are permitted to remit royalty payments. Indian policy guidelines normally limit recurring royalty payments, including patent licensing payments, to eight percent of the selling price (net of certain taxes and purchases). Royalties and lump sum payments are taxed at a 30 percent rate. The 1997-98 budget provided for a concessional rate of 20 percent on such payments for agreements signed on or after June 1, 1997. On June 4, 1998, the RBI allowed foreign banks operating in India to remit their profits and surpluses to their headquarters abroad, subject to the banks' compliance with the provision of the Banking Regulation Act, 1949. Banks are now free to undertake credit card business without RBI approval.

EXPROPRIATION AND COMPENSATION

Since the wave of nationalization and expropriation in the early 1970s, there have been few instances of direct expropriation in India. Indeed, the current trend favors government disinvestment of existing publicly owned enterprises. In the past, compensation and due process meeting international standards were observed in all cases.

DISPUTE SETTLEMENT

Currently, there are no Indo-American investment disputes over expropriation or nationalization. Government demands for penalty payments for alleged overcharging by pharmaceutical companies during the 1980's could lead to potential liabilities exceeding the net worth of several companies in India. A committee has been named to study these longstanding disputes, but the failure of successive governments to produce a transparent resolution, coupled with poor IPR protection, has led to a virtual standstill in foreign investment in India's pharmaceutical sector. Indian courts provide adequate safeguards for the enforcement of property and contractual rights, but case backlogs frequently lead to long procedural delays. India is not a member of the International Center for the Settlement of Investment Disputes, but is a member of the New York Convention of 1958. In February 1996, a new arbitration law entered into effect providing for quick arbitration. Companies have now begun to take cases to the Arbitration Council of India rather than through the slow judiciary process.

The Arbitration and Conciliation Act of 1996 is based on the UNCITRAL (United Nations Commission on International Trade Law) Model Law. The Act attempts to unify the adjudication process on commercial contracts in India with the rest of the world. It is a major step in the ongoing process of liberalization as it encourages businessmen from foreign countries to enter into contracts in India, confident that there exists a mode of resolution of disputes which is similar to their own.

The Act has made a number of much needed changes in the arbitration law, which became necessary in view of excessive judicial interference at all stages-pre arbitration, ongoing arbitration and post-award.

POLITICAL VIOLENCE

There have been a few incidents of politically motivated attacks on foreign projects or installations. In the instances where attacks have occurred, state and federal governments generally have responded swiftly to avoid further damage. Violent separatist movements exist in Kashmir and some of the northeastern states. Relations between India and Pakistan continue to be strained. The Indian government has generally been able to maintain law and order in all but a few isolated areas.

BILATERAL INVESTMENT AGREEMENTS

The GOI places great importance on bilateral investment agreements as a tool to reassure foreign investors. India has signed bilateral investment treaties (BIT) with a number of countries, including the United Kingdom, France, Germany and Malaysia. Negotiations on investment protection agreements are underway with other countries. The United States does not have a BIT with India, however, and there are no plans for negotiations.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

In November 1997, the United States and India signed an Investment Incentive Agreement which covers programs of the Overseas Private Investment Corporation (OPIC). This agreement updated and superseded the previous bilateral agreement between the two countries signed in 1963. Since 1963, OPIC has provided coverage for over 100 U.S. investment projects in India. As a result of U.S. sanctions in the wake of the nuclear tests carried out by India in May 1998, OPIC ceased to provide support to new projects in the country.

In November 1998, however, OPIC resumed its operations in India after the U.S. partially lifted sanctions. India has been a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA) since April 1992.

CAPITAL OUTFLOW POLICY

The GOI's policy on direct investment abroad by Indian companies ensures that capital outflows, though determined by commercial interest, are consistent with India's macro-economic and balance of payments situation. Major incentives for investment in overseas ventures include reimbursement of 50 percent of expenditure toward market development assistance; Indian EXIM bank credit to developing countries to encourage project-related exports; concessional import tariffs on imports of used equipment for re-export by Indian investors; and 50 percent income tax exemption on earnings from project and consultancy services. Under the earlier policy, GOI approval was required for Indian direct investment overseas. The GOI now grants "automatic" approval within 30 days to proposals in industrial, commercial and service activities. In June 1997, the limit of USD 4 million for overseas investment by Indian companies was raised to USD 15 million. Fifty percent of GDR proceeds of Indian companies can be used to fund overseas investments. Investment proposals above USD 15 million are also allowed if the required funds are raised through GDR issues.

MAJOR FOREIGN INVESTORS

Major U.S. and other investments approved in 1998 include:

COMPANY	PROJECT	EQUITY
Tractebel, S.A. Belgium	Energy	USD 742 million
BHP Petroleum Pvt. Ltd. Australia	Energy	USD 606 million
DeBeers Consolidated Mines South Africa	Diamond mining	USD 406 million
Chatterjee Petroleum Mauritius	Energy	USD 234 million
Royal Dutch Shell Group U.K.	Energy	USD 139 million
Afro Asian Satellite Communi- cations Ltd., U.K.	Telecom	USD 135 million
Mitsui & Co. Ltd. Japan	Export services	USD 127 million
CGP India Investments Ltd. Mauritius	Telecom	USD 124 million
AES Corporation U.S.	Energy	USD 122 million
PowerGen Plc. U.K.	Energy	USD 101 million
Universal Holdings Ltd. W. Indies	Infrastructure project	USD 98 million
Goodyear Tyres & Rubber U.S.	Consumer goods (Tyres for autos)	USD 83 million
Monsanto Holdings U.S.	Chemicals/ Pharmaceuticals	USD 61 million

CONTACT INFORMATION FOR INVESTMENT RELATED ENQUIRIES

Mr. I. Srinivas, Director
Ministry of Industry

Department of Industrial Policy & Promotion
Udyog Bhawan, New Delhi 110 011
Tel: 91-11-3014218. Fax: 91-11-3015245.

Foreign Investment Promotion Board
Ministry of Industry
New Delhi 110 011
Tel: 91-11-301-1815; 301-1983
Fax: 91-11-301-6298

Reserve Bank of India
Exchange Control Department
Central Office Building
Shaheed Bhagat Singh Road
Mumbai 400 023
Tel: 91-22-266-3596
Fax: 91-22-266-5330, 266-2105

Indian Investment Center. Website location http://www.nic.in/iic
Ministry of Industry, Department of Industrial Policy & Promotion. Website location http://www.nic.in/indmin/

CHAPTER VIII. TRADE AND PROJECT FINANCING

- **Description of the banking system**
- **Foreign exchange controls affecting trade**
- **General availability of financing**
- **Types of available export financing and insurance**
- **Availability of project financing**
- **Types of projects receiving financing support**
- **List of U.S. banks**

DESCRIPTION OF THE BANKING SYSTEM

India has an extensive banking network that covers both urban and rural areas. Although the Government of India (GOI) owned public sector banks and financial institutions dominate the financial sector, the GOI has allowed the controlled entry of local private sector and foreign competitors into banking and most other financial services.

The Indian banking system is comprised of scheduled commercial banks in the public sector, regional rural banks, specialized development banks, private sector banks and foreign banks. The sector is dominated by state-owned banks, which account for more than 80 percent of deposits and loans. Private banks handle 5 percent of the market and foreign banks, located in metropolitan areas, account for the approximately 8 percent of the market.

The Reserve Bank of India (RBI), India's central banking institution, is the banking sector's supervisory and control organization. It has sole authority for money supply management as well as for the administration of exchange controls and banking regulations. It is also responsible for granting licenses for new banks and bank branches.

The Deposit Insurance and Credit Guarantee Corporation, an organization promoted and fully funded by the RBI, offers deposit insurance coverage facilities. The RBI requires banks to meet Bureau of Indian Standards guidelines. Indian banks must also adhere to the prudential norms laid down by the Basle Group for income recognition, capital adequacy and accounting practices.

Most public sector banks have met the RBI's guideline of 8 percent capital to risk assets ratio, which will be increased to 9 percent by March 2000. Branches of foreign banks must also meet the above requirements on the basis of locally-held capital as well as achieve the specified levels of capital to risk assets ratio. A separate Board at the RBI, with the RBI Governor as its Chairman, performs the supervisory function in this regard.

Indian banking financial statements conform to internationally recognized standards, but, in some cases, are modified to suit the Indian conditions. The RBI issues periodic circulars to all banks in this regard and advises banks to follow these requirements. Banks are free to choose their auditors. Most foreign banks and the more progressive private Indian banks work with international auditing firms. Many private and GOI banks continue to work with local auditing firms whose audit reports do not conform to international standards.

The RBI requires that domestic Indian banks make 40 percent of their loans to priority sectors at concessional interest rates. The GOI has identified agriculture, exporting ventures and small businesses as priority sectors. Since July 1993, foreign banks have been required to make 32 percent of their loans to the priority sectors. Within an overall target of 32 percent, two sub-targets for loans to the small-scale sector (minimum of 10 percent) and exporting ventures (minimum of 12 percent) have been fixed. Foreign banks, however, are not required to open branches in rural areas or to make loans to the agricultural sector.

Most Indian banks lend approximately 30-40 percent of their money to the GOI. A high demand from the GOI for credit, and the Indian banking sector's relative lack of experience in market-based lending, support this trend. By lending to the GOI such large portions of the money available to them, Indian banks have been criticized for failing to fulfill their key economic role of mobilizing capital and investing in productive assets. For example, although the RBI lowered the credit reserve ratio (CRR) from 10.5 percent to 10.0 percent in May 1999, which freed up USD 773 million, most of the released cash was invested in GOI securities and not earmarked for industrial and developmental financing.

The following is statistical information relating to the Indian banking industry:

	1996-97	1997-98	1998-99*
	(USD in billion)		
Total deposits	120.38	144.14	170.87
Total Investments in securities	45.36	52.07	60.50
Total Credit	66.28	77.16	87.14

Source: The RBI Bulletin, Money & Banking dated May 5, 1999
* Provisional estimate

Exchange rate used: USD 1 equals Indian Rupees 42

On average, over 80 percent of the Indian banking sector's investments in securities have been in government securities. Investments in government securities grew from USD 37.83 billion in 1996-97 to USD 44.51 billion in the following year. The provisional estimate for 1998-99 is USD 53.03 billion, as Indian banks will continue to favor this type of investment.

During 1998-99, the annual growth in the total money supply on a point-to-point basis was 17.8 percent, as compared to 17.9 per cent in 1997-98. Total deposits of the scheduled commercial banks increased by 18.5 percent to reach USD 170.87 billion, up from the previous year's total of USD 144.14 billion.

Total loans are estimated to increase from USD 77.16 billion during 1997-98 to USD 87.14 billion (provisional) during 1998-99. Industrial loans/credit in all forms should expand from USD 70.17 billion in 1997-98 to USD 79.73 billion in 1998-99.

A rising level of bad debts and non-performing assets (NPA), particularly in public sector banks, continue to cause concern for both the GOI and the Indian banking system. The GOI has established Debt Recovery Tribunals (DRTs) which are offering speedy disposal of long pending cases related to debt recovery. The GOI’s 1999 budget contained measures to strengthen DRTs and to selectively encourage banks with high NPAs to establish asset reconstruction companies to better facilitate debt recovery. A government committee set up to examine Indian banking sector reforms has recommended that the average level of net NPAs for all banks must be brought down to less than 5 percent by the year 2000, and down to 3 percent by 2002.

As of March 1999, there are 45 foreign banks in India with 180 branches, most of which are located in metropolitan centers. These banks finance trade and lend to large business groups. They have also diversified into merchant and retail banking, deposit mobilization from non-resident Indians, security operations, and consulting services. They account for 8 percent of total deposits, and have a small exposure in the priority sectors for lending that are specified by the government. As of March 1999, there were 26 representative offices of foreign banks in India.

FOREIGN EXCHANGE CONTROLS AFFECTING TRADE

The RBI sets India’s exchange-control policy and administers foreign exchange regulations in consultation with the GOI. The base policy was laid down in 1973 with the Foreign Exchange Regulation Act (FERA). The GOI recently drafted the Foreign Exchange Management Act (FEMA) to replace the FERA. FEMA, when enacted as law, will focus on the management of foreign exchange rather than foreign exchange regulations. FEMA will also liberalize current account/capital account transactions of Indian firms and dilute the powers of the Indian Enforcement Directorate. Since the Indian Parliament was dissolved before the bill was passed into law, the bill will be taken up by the new Indian Parliament after September 1999.

Foreign companies operating in India fall under the purview of FERA. Since 1992, all foreign companies have been on par with Indian companies and foreign-equity firms in terms of the activities they can conduct in India.

Firms may make advance payments without prior RBI approval for import value for certain products such as machinery and capital goods when foreign manufacturers require down payments. Where the amount of advance remittance exceeds USD 15,000, such payments are permitted only if the importer obtains a bank guarantee from an international bank covering the advance remittance amount. Imports should be normally completed physically within three months of advance payments to foreign exporters.

The RBI permits short-term credits up to 180 days only. Longer periods are allowed for deferred-payment credits, especially for capital goods, but permission must be obtained and a deferred import license is required from the Director General of Foreign Trade.

Since April 1997, companies can use forward cover from authorized dealers in foreign exchange for periods exceeding six months. Documentation requirements of banks for arranging such cover have also been drastically reduced and replaced with business projections and past performance criteria to gauge the level of exposure that is prudent. As a result of these measures, the RBI has enabled banks to arrange swaps between two borrowers without obtaining prior RBI approval.

In March 1993, India abolished its two-tiered exchange rate regime, moving to a single, market-determined exchange rate for trade transactions and inward remittances. The Rupee is convertible on current account transactions, with limits remaining on foreign exchange for travel and tourism. Capital account transactions for foreign investors, both portfolio and direct, are fully convertible. However, Indian firms and individuals remain subject to capital account restrictions.

Indian companies are allowed to employ foreign nationals and make payments in foreign currency. Prior to 1997-98, all such employment contracts were limited to 180 work days and involved RBI approvals. Indian companies are now also allowed to bid in foreign currencies for major projects such as oil exploration contracts and multilateral funded projects. This is a significant policy change welcomed by Indian companies.

GENERAL AVAILABILITY OF FINANCING

Sources of finance are available in general to all companies equally, whether they are Indian owned or 100 percent subsidiaries of foreign companies. The most important source for raising finance for the corporate sector continues to be the capital markets. However, the Indian capital market, particularly the primary market, continues to be depressed with small investors generally shying away. Companies are not required to obtain prior permission from the GOI to access capital markets, but it is compulsory for companies to obtain RBI permission before issuing any shares to a non-resident investor.

Commercial banks continue to be the main source of short-term finance for Indian companies' working capital requirements. Companies also raise funds by issuing commercial paper and debentures, from inter-corporate borrowings and by accepting public deposits. Several term-lending public financial institutions provide local and foreign exchange loans for new capital investment projects. They also provide deferred payment loans, long-term working capital finance, export credit and stock underwriting services. Lending banks secure their loans with company assets, corporate guarantees from a parent company and, in some cases, by personal guarantees from company directors.

Local and resident foreign companies are permitted to raise medium-to-long-term loans in foreign currency for projects requiring capital equipment, technology imports or the purchase of aircraft or ships. The Indian government permits borrowing through suppliers' credits, buyers' credits, syndicated loans, floating-rate notes, revolving underwriting facilities and bonds. The RBI permits loans which mature within one year to be repaid from net foreign exchange earnings without prior government approval.

Loans in foreign currencies can be obtained through foreign commercial banks, overseas financial institutions (e.g., the International Financial Corporation and the Asian Development Bank), and foreign export-credit agencies, in addition to Indian development and commercial banks.

Indian companies can also raise foreign currency loans in accordance with the guidelines for External Commercial Borrowing (ECB), issued by the GOI’s Ministry of Finance. ECBs up to UDS 5 million with a minimum simple maturity of 3 years can be made for meeting rupee expenditures. Other ECBs can only be utilized for meeting the foreign exchange costs of capital goods and services.

Long-term loans with an average maturity of 8 and 16 years are allowed up to USD 100 million and USD 200 million. There are no restrictions on the use of such loans, except that they cannot be used for real estate or for stock market speculation. Once the RBI and Ministry of Finance have approved a loan and its terms, no limitations are placed on interest and principal payments. A firm, however, must report to the RBI through its designated banker every time an interest payment is effected.

The RBI encourages and permits, on a specific approval basis, Indian companies to receive interest-free loans from their parent companies. In addition, permission is given to receive advance share subscriptions from the foreign collaborators to be adjusted against the company’s share capital for meeting pre-operative expenses in India.

TYPES OF AVAILABLE EXPORT FINANCING AND INSURANCE

The Export-Import Bank of the United States (EXIM Bank)

EXIM Bank, an independent agency of the U.S. federal government, helps finance the overseas sales of U.S. goods and services. In over 60 years of operations, EXIM Bank has used loan, guarantee, and insurance programs to support over USD 300 billion in exports of U.S. goods and services worldwide.

EXIM Bank will finance the export of all types of goods and services, including commodities, as long as they are not military-related (certain exceptions exist). However, to qualify for EXIM Bank support, the product or service must have at least 50 percent U.S. content. EXIM Bank has co-financed projects with the U.S. Agency for International Development, the World Bank, and Regional Development Banks. Its programs often help U.S. exporters participate in development projects.

The following are descriptions of the main EXIM Bank programs:

<u>Working Capital Guarantees</u> cover 90 percent of the principal and interest on commercial loans to creditworthy small and medium-sized companies that need funds to buy or produce U.S. goods or services for export. Exporters may apply for a Preliminary Commitment, a letter from EXIM Bank outlining the terms and conditions under which it will provide a guarantee, which can be used to obtain the best financing from a private lender. The lender also may apply directly for a final authorization. Guarantees may be for a single transaction or a revolving line of credit. Guaranteed loans generally have maturities of 12 months and are renewable. Certain lenders, experienced in the program, have been given delegated authority to commit EXIM Bank’s guarantee.

<u>Export Credit Insurance</u> policies protect against both political and commercial risks of a foreign buyer defaulting on payment. Policies may be obtained for single or repetitive export sales and for leases. Short-term policies generally cover 100 percent of the principal for political risks and 90-95 percent for commercial risks, as well as a specified amount of interest. They are used to support the sale of consumer goods, raw materials and spare parts on terms up to 180 days, and bulk agricultural commodities, consumer durables and capital goods on terms up to 360 days.

Capital goods may be insured for up to five years, depending upon the contract value, under the medium-term policy which covers 100 percent of principal and interest on the financed portion. EXIM Bank’s credit insurance allows exporters to finance receivables easily by assigning the proceeds of the policy to their lender.

EXIM Bank export credit insurance policies include:

<u>The Small Business Policy</u> which is available to firms just beginning to export or with average annual export sales of less than USD 2 million over two years. These businesses must also meet SBA guidelines for the definition of small business. The policy offers enhanced coverage and a lower premium than that usually found in regular insurance policies.

<u>The Umbrella Policy</u> is available to commercial lenders, state agencies, export trading companies and similar organizations to insure export receivables of their small business clients.

<u>The Bank Letter of Credit Policy</u> insures commercial banks against loss on irrevocable letters of credit issued by foreign banks for U.S. exports.

<u>The Financial Institution Buyer Policy</u> insures individual short- and medium-term export credits extended by financial institutions to foreign buyers. These short- and medium-term single buyer policies allow exporters to insure their receivables against loss due to commercial and specified political risks on a selective basis.

<u>The Lease Insurance Policy</u> offers a company the opportunity to expand its overseas leasing program by providing comprehensive insurance for both the stream of lease payments and the fair market value of the leased products.

<u>Guarantees of Commercial Loans</u> to foreign buyers of U.S. goods or services cover 100 percent of principal and interest against both political and commercial risks of nonpayment. Medium-term guarantees cover the sale of capital items such as trucks and construction equipment, scientific apparatus, food processing machinery, medical equipment, or project-related services including architectural, industrial design, and engineering services. Long-term guarantees are available for major projects, large capital goods and/or project-related services. EXIM Bank's credit guarantee facilities also can be used to extend medium-term credit to buyers of U.S. capital goods and services through banks in certain foreign markets.

EXIM Bank's Direct Loans provide buyers with competitive, fixed-rate financing for their purchases from the U.S. EXIM Bank's loans and medium-term insurance cover 85 percent of the contract price (100 percent of the financed portion). The foreign buyer is required to make a 15 percent cash payment. The fees charged by EXIM Bank for its programs are based on the risk assessment of the foreign buyer or guarantor, the buyer's country, and term of the credit. EXIM Bank's fees are highly competitive with those charged by the export credit agencies of other exporting countries.

U.S. exporters can obtain an EXIM Bank Letter of Interest (LI) to assist in negotiations with a potential foreign buyer. The LI indicates EXIM Bank's willingness to consider a financing offer if a sale is completed. A LI can be issued within seven days of a request for financing and remains in effect for six months.

The U.S. Small Business Administration (SBA)

SBA is committed to helping small companies finance their export sales. SBA offers finance counseling and loan guarantee programs which include:

The Business Loan Guarantee Program assists qualified small businesses to obtain financial assistance from banks. This provides the lender with a guarantee that if the borrower cannot repay the loan, the federal government will repay the loan up to the percentage of the SBA guarantee. SBA can make loans to businesses engaged in manufacturing, construction, wholesale, retail or service industries. The proceeds may be used to acquire equipment, facilities, machinery, supplies or materials to obtain working capital. Proceeds may also be used to finance construction, conversion, or expansion and to refinance most existing debt. There are no limits on the total amount for a SBA guaranteed loan, but the maximum dollar amount that SBA will guarantee is USD 750,000.

SBA's Working Capital Program provides short-term, transaction-specific financing for small business exporters. U.S. exporters may use this program for pre-export financing of labor and materials, for financing receivables generated from these sales, and for standby letters of credit used as performance bonds or payment guarantees to foreign buyers. This program provides repayment guarantees up to USD 750,000 to commercial lenders and offers exporters preliminary commitments that encourage lenders to provide credit to small business exporters.

SBA's International Trade Loan program targets U.S. small businesses that are either new-to-export or already engaged in exporting and seeking to expand their operations. SBA guarantees up to USD 1.25 million, less the amount of SBA's guaranteed portion of other loans outstanding, to the borrower under SBA's regular lending program. Proceeds may be used for working capital and facilities or equipment. Maturities of loans for facilities or equipment may extend to the 25-year maximum. Licensed by SBA, U.S. firms whose investment strategies include export activities, may receive equity capital or term working capital in excess of SBA's USD 750,000 statutory limit.

The Office of the International Trade (OIT) directs and coordinates SBA's export finance and development assistance. OIT actively markets the SBA's loan guarantee programs to small business exporters, including the export working capital program through the U.S. Export Assistance Centers and SBA field offices across the United States.

The Overseas Private Investment Corporation (OPIC)

OPIC offers several programs to insure U.S. investments in emerging markets and developing countries against the following risks: 1) currency inconvertibility - the inability to convert profits, debt service, and other investment remittances from local currency into U.S. dollars; 2) expropriation--the loss of an investment due to expropriation, nationalization, or confiscation by a foreign government; and 3) political violence--the loss of assets or income due to war, revolution, insurrection, or civil strife. Coverage is available for new investments and for investments to expand or modernize existing operations. Equity, debt, loan guarantees, leases and most other forms of long-term investment can be insured. Special programs are also available for contractors, exporters, and oil and gas projects.

The Multilateral Investment Guarantee Agency (MIGA)

MIGA, a member of the World Bank group, supplements the activities of the IBRD, IFC and other international development finance institutions. MIGA complements the activities of national and regional development insurance through coinsurance and reinsurance agreements with these institutions, bilateral exchanges of information, and its membership in the Berne Union. MIGA issues guarantees against noncommercial risks for investments in its developing member countries. MIGA offers guarantees to cover the following risks: currency transfer, expropriation, war and civil disturbance and breach of contract by a host government.

In India, finance for exports may be obtained from commercial bank branches. State-owned commercial banks provide loans for working-capital financing of exports which are in turn refinanced by the Export-Import Bank of India. Payment terms are specified by contract between the bank and the applicant for the loan. Concessional foreign exchange credit is available to exporters, including pre-shipment and post-shipment credit on favorable terms.

AVAILABILITY OF PROJECT FINANCING & TYPES OF PROJECTS RECEIVING FINANCING SUPPORT

EXIM Bank: The Limited Recourse Finance Program provides financing for projects that are dependent on the cash flows of the project for repayment rather than on the credit strength of a purchaser. Combinations of either direct loans and guarantees for commercial bank loans with political risk only or comprehensive coverage are available for a given project. During the construction period, EXIM Bank will provide guarantees to cover only political risk and will finance up to 85 percent of the export value. EXIM Bank offerings also include: the financing of interest accrued during construction; the financing of host country local costs of up to 15 percent of the U.S. contract value; and the provision of maximum repayment terms under OECD guidelines.

OPIC: Medium-to-long-term financing for sound overseas investment projects is made available through loan guarantees and direct loans. Direct loans generally range from USD 2 million to USD 30 million and are reserved exclusively for projects significantly involving U.S. small businesses and cooperatives. Loan guarantees generally range from USD 10 million to USD 200 million. OPIC financing commitment may range from 50 percent of total project costs for new ventures up to 75 percent for the expansion of existing successful operations, with final maturities of five to 12 years or more. Additionally, OPIC supports a family of privately-managed, direct-investment funds in various regions and business sectors.

U.S. Trade and Development Agency (TDA): The primary activity of TDA is grant funding of feasibility studies, consulting studies, and other project planning services for major projects in developing countries. The studies are conducted by U.S. private sector firms and represent a wide range of host government high-priority sectors including: agribusiness, educational technology, electronics, energy, mineral development, telecommunications, transportation, and waste management. Feasibility studies assess the economic, financial and technical viability of a potential project. The host country must hire U.S. firms to undertake detailed studies of the technical and economic feasibility of the proposed projects.

TDA maintains trust funds at six multilateral development banks (MDBs): the World Bank, the International Finance Corporation, the European Bank for Reconstruction and Development, the Inter-American Bank, and its private sector arm, the Inter-American Investment Corporation, and the African Development Bank. These funds can be used for technical assistance and for feasibility studies. Most are known as "Evergreen funds". TDA maintains a minimum balance that is readily available to fund project opportunities for U.S. firms or to help U.S. businesses take advantage of time-sensitive projects.

The Multilateral Development Bank Operations (MDBO): MDBO, an office operating within The International Trade Administration of the U.S. Department of Commerce, counsels U.S. firms about opportunities associated with funding by the World, Asian, African, and Inter-American Development Banks, the European Bank for Reconstruction and Development; ensures project information is available on a timely basis; and organizes and develops outreach programs throughout the United States. The development banks assist in financing social and economic infrastructure and privatization projects in developing countries. The MDBO liaison officers in each of these institutions are dedicated to the identification of projects at the earliest possible stage. They provide in-depth counseling to U.S. firms on bank opportunities and advocate on behalf of U.S. firms.

Asian Development Bank (ADB): India is one of the three largest borrowers from the ADB. The ADB is extensively involved in development projects in the Asia and Pacific Region. The ADB's major objective is the promotion of the social and economic well being of its developing member countries in Asia and the Pacific. This is achieved by lending funds to projects involving agriculture, energy, industry, transportation, and communication, as well as for social infrastructure projects such as water supply, sewage, and sanitation, education, health and urban development. The ADB also invests in and lends to the private sector for Build-Own-Operate (BOO) and Build-Operate-Transfer (BOT) infrastructure, industrial and capital market development projects and mobilizes additional resources through cofinancing arrangements, including the bank's credit enhancement instruments such as guarantees and complementary financing schemes.

For many American companies, ADB projects represent an attractive opportunity for lucrative business in Asia. ADB projects are especially appealing because they are fully financed and bid according to international competitive guidelines. In addition, participation in an ADB-funded project often leads to other related work in that country. The ADB finances development projects in 31 Asian countries, totaling USD 5-6 billion per year.

World Bank: India is also one of the single largest borrowers of World Bank and IDA funds. In recent years, the World Bank's IBRD has been giving support for India's economic policy reforms and expanded social and environmental programs. Future World Bank projects in India under consideration are designed to promote sustainable economic growth in the areas of power, highways, environment management, urban development, social infrastructure, health and financial services. The top 10 Indian states in order of IBRD/IDA commitment to India are Maharashtra, Tamil Nadu, Orissa, Uttar Pradesh, Karnataka, Andhra Pradesh, Haryana, Madhya Pradesh, Punjab and West Bengal.

Capital Markets: Developing countries, including India, increasingly are financing their infrastructure projects through international capital markets, a trend reflected in the growth of commercial bank borrowing and their increased use of bond and equity markets. Finance for infrastructure projects typically comes in a package bundling commercial bank loans, export credit guarantees, equity, debt, and contingent liabilities of the host government ranging from "credit guarantees to comfort letters". The power generation, telecommunication, and transport sectors have attracted the most project finance in India.

Following India's detonation of five nuclear explosions on May 11 and 13, 1998, the President invoked economic sanctions on May 13, 1998, under Section 102 of the Arms Export Control Act of 1994, known as the Glenn Amendment. U.S. firms are permitted to conduct business with Indian private and public organizations, subject to the provisions of these sanctions. On November 7, 1998, President Clinton exercised his authority, granted by Congress via the Brownback Amendment (October 1998) to waive for one year the sanctions against the use of U.S. Export-Import Bank, the U.S. Trade and Development Agency, and the Overseas Private Investment Corporation facilities. These facilities are now available to support U.S. trade and investments in India for the next 12 months. For details, please contact the India sanctions hotline at (202) 482-2955 and visit the Website at http://www.mac.doc.gov/sanctions. The U.S. Government has released an "entities list" that prohibits 40 Indian entities and 200 of their subsidiaries from trade and business relations with the U.S. For details on the list, please refer to the website at:
http://www.bxa.doc.gov/Licensing/Ind-Pak2.htm

For further inquiries regarding the list, please contact:

Joan M. Roberts
Director, Foreign Policy Controls Division
Office of Strategic Threat and Foreign Policy Controls

Bureau of Export Administration
U.S. Department Of Commerce
Tel: 202-482-0171
or India point of contact
Farah Press at 202-482-3772

LIST OF U.S. BANKS

American Express Bank Ltd.
Maker Chamber IV, 7th Floor
Nariman Point
Mumbai 400 021, INDIA
Telephone: 91-22-283-3230
Fax: 91-22-287-2968

Bank of America
Hansalaya Building
15, Barakhamba Road,
New Delhi, India
Telephone: 91-11-372-2333
Fax: 91-11-371-4042

Chase Manhattan Bank
Mafatlal Centre, 9th Floor
Nariman Point, Mumbai 400 021, India
Telephone: 91-22-286-3100; 281-6110 (D)
Fax: 91-22-202-7772; 286-3198 (D)

Citibank N.A.
Plot C-61
Bandra Kurla Complex
G Block, Bandra (East)
Mumbai 400 051
Telephone: 91-22-653-5757; 653-5888(D)
Fax: 91-22-653-5859

Mr. B. K. Achan
Chief Representative, India
Bank of Boston
Maker Chambers V, 11th floor, 1114/1115
Nariman Point, Mumbai 400 021
Telephone: 91-22-202-1141
Fax: 91-22-282-6108

Mr. Bhaskar Ghose, Representative
The Bank of New York
Express Towers, 13th Floor, Nariman Point
Mumbai 400 021
Telephone: 91-22-202-2936; 204-4941; 204-4943
Fax: 91-22-204-4942

American Express	4 branches, *145 ATM's
Citibank	7 branches, 60 ATM's

Bank of America	4 branches, 9 ATM's
Chase Manhattan	1 branch

*Note: 2 ATM centers in each Metros, and in tie-up with IDBI for 27 ATMs & with HDFC for 110 centers

CHAPTER IX. BUSINESS TRAVEL

- **-- Business customs**
- **-- Travel advisory and visas**
- **-- Holidays**
- **-- Work week**
- **-- Business infrastructure**
- **-- Temporary entry of goods**

BUSINESS CUSTOMS

Time differences between India and the U.S.

Eastern Standard	Eastern Daylight	India
8:00 a.m.	7:00 a.m.	4:30 p.m.
12:00 noon	11:00 a.m.	8:30 p.m.
10:30 p.m.	9:30 p.m.	7:00 a.m.

New Delhi is 9 hours 30 minutes AHEAD of Washington, D.C., during daylight savings time and 10 hours 30 minutes AHEAD of Washington, D.C., during standard time. Because of the uncomfortable time differences, many business executives find communication via automatic fax machines or the Internet a practical and convenient alternative to real-time voice communications.

India is a secular, democratic nation without a state religion. The Indian Constitution protects the freedom of religion, though some 80 percent of the population consider themselves living in accordance with Hindu beliefs. It is considered polite in India to inquire about dietary preferences, since Hindus abstain from beef, Muslims abstain from pork, and Indians of many religions practice vegetarianism. U.S. visitors can learn more about social attitudes and dietary preferences by watching Indian movies and reading guide books and novels. English-language guidebooks include:

South Asia. Lonely Planet Guides, 1993 (and later editions)
Fodor's India. Fodor, 1994 (and later)
The South Asia Handbook, 1997.

Indian authors writing in English provide U.S. readers insights into life and society in India. Some recent novels and travel narratives include:

Naipaul, V.S., A Million Mutinies Now, 1990.

Seth, Vikram, A Suitable Boy, 1993.

Mehta, Geeta, Karma Cola, 1995.

Mistry, Rohinton, A Fine Balance, 1996.

Mehta, Geeta, Snakes and Ladders, 1997.

TRAVEL ADVISORY AND VISAS

COUNTRY DESCRIPTION: India is an economically developing democratic republic. Tourist facilities varying in degree of comfort and amenities are widely available in the major population centers and main tourist areas.

ENTRY REQUIREMENTS: A passport and visa are required for entry into India for tourism or business. All visitors, including those on official U.S. Government business, must obtain visas at an Indian embassy or consulate abroad prior to entering the country. There are no provisions for visas upon arrival, and those arriving in India without visas bearing the correct validity dates and number of entries are subject to deportation. The U.S. Embassy in New Delhi can offer very little assistance when U.S. citizens arrive without visas. For further entry information, the traveler can contact the Embassy of India at 2536 Massachusetts Avenue N.W., Washington, D.C. 20008, telephone (202) 939-9849 or 939-9806 or the Indian consulates in Chicago, New York, San Francisco, and Houston. Outside the United States, inquiries should be made at the nearest Embassy or Consulate of India.

TERRORISM: In July 1995, Western tourists, including two Americans, were kidnapped by terrorists in Kashmir. One hostage was brutally murdered and one escaped. The remaining hostages, including one American, have not been released and their whereabouts are unknown. In 1994, several tourists, including an American, were held for weeks by Kashmiri militants before police rescued them. Since January 1996, New Delhi has been the site of a dozen terrorist bombing attacks, some with multiple explosive devices (four exploded in October 1997 alone). These bomb blasts have occurred in public places, as well as on public transportation (common carriers), such as trains and buses. While no U.S. citizens were among the victims, other foreign visitors were reported injured. There is no pattern that has emerged in these attacks, nor is there any indication that they were directed against foreigners in general or Americans in particular. Nevertheless U.S. citizens should be alert to suspicious packages in public places, and avoid crowds, political demonstrations, and other manifestations of civil unrest.

AREAS OF INSTABILITY:

Countrywide -- Major civil disturbances can pose risks to a traveler's personal safety and can disrupt transportation systems and city services. In response to such violence, Indian authorities may occasionally impose curfews and restrict travel. Political rallies and demonstrations in India have the potential for violence, especially during periods immediately preceding and following elections. In addition, the potential exists for religious and inter-caste violence. While such violence has not usually targeted foreigners specifically, mobs have attacked Christian workers, including foreigners. Missionary activity has aroused strong reactions, and an Australian missionary and his two sons were murdered by a mob in the eastern state of Orissa in January 1999. Nevertheless, the principal risk for foreigners appears to be that of becoming inadvertent victims. U.S. citizens should contact the U.S. Embassy or the nearest U.S. Consulate for further information about the current situation in areas where they wish to travel.

Kashmir - The Department of State strongly urges private U.S. citizens to avoid all travel to the Kashmir valley area of the State of Jammu and Kashmir. In addition to the American and other Western tourists taken hostage (and one murdered) in Kashmir by terrorists in 1995, an American tourist was fatally shot in Srinagar in 1994. Also in 1994, militants held two British hikers hostage for 18 days before releasing them. Within the state, the Ladakh region has been unaffected by terrorist violence. Srinagar, the Kashmir valley and the city of Jammu remain dangerous places where terrorist activities and violent civil disturbances continue. U.S. Government employees are prohibited from traveling to the state of Jammu and Kashmir without permission from the U.S. Embassy in New Delhi.

Northeast States - Sporadic incidents of violence by ethnic insurgent groups, including the bombing of buses and trains, are reported from parts of Assam, Manipur, Nagaland, Tripura, and Meghalaya. While U.S. citizens have not been specifically targeted, visitors are cautioned not to travel outside major cities at night. Security laws are in force, and security personnel have been deployed by the central government in New Delhi to several northeast states. Travelers may check with the U.S. Consulate in Calcutta for information on current conditions. (Please see address below.)

India-Pakistan border - Tensions run high between India and Pakistan, particularly over Kashmir. The only official India-Pakistan border crossing point is between Atari, India, and Wagah, Pakistan. A Pakistani visa is required for entry to Pakistan.

Restricted Areas: Permission from the Indian government (from Indian diplomatic missions abroad or in some cases from the Ministry of Home Affairs) is required to visit the states of Mizoram, Manipur, Nagaland, Arunachal Pradesh, Sikkim, parts of Kulu district and Spiti District of Himachal Pradesh, border areas of Jammu and Kashmir, areas of Uttar Pradesh, the area west of National Highway no. 15 running from Ganganagar to Sanchar in Rajasthan, the Andaman and Nicobar Islands, and the Union Territory of the Laccadive Islands.

MEDICAL FACILITIES: Adequate medical care is available in the major population centers, but is usually limited in the rural areas of the country. Doctors and hospitals often expect immediate payment in cash for health services. The Medicare/Medicaid program does not provide for payment of medical services outside the United States. Serious medical problems requiring hospitalization and/or medical evacuation can be extremely costly.

MEDICAL INSURANCE: Check with your own insurance company to confirm whether your policy applies overseas, including provision for medical evacuation. Ascertain whether payment will be made to the overseas hospital or doctor or whether you will be reimbursed later for expenses you incur. Some insurance policies also include coverage for psychiatric treatment and for disposition of remains in the event of death. Useful information on medical emergencies abroad, including overseas insurance programs, is provided in the Department of State, Bureau of Consular Affairs brochure, Medical Information for Americans Traveling Abroad, available on the Bureau of Consular Affairs Internet home page or by autofax at (202) 647-3000.

OTHER HEALTH INFORMATION: Information on vaccinations and other health precautions may be obtained from the Centers for Disease Control and Prevention's international traveler's hotline at telephone 1-877-FYI-TRIP (1--877-394-8747); fax 1-888-CDC-FAXX (1-888-232-3299), or by visiting the CDC Internet home page at http://www.cdc.gov.

INFORMATION ON CRIME: Petty crime, especially theft of personal property, is common. The loss or theft of a U.S. passport abroad should be reported immediately to local police and the nearest U.S. embassy or consulate. Useful information on safeguarding valuables, protecting personal security, and other matters while traveling abroad is provided in the Department of State pamphlets A Safe Trip Abroad and Tips for Travelers to South Asia. They are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, or through the printing office Website at http://www.access.gpo.gov/su docs, or from the Bureau of Consular Affairs Website at http://travel.state.gov.

DRUG PENALTIES: Travelers are subject to the laws and legal practices of the country in which they travel. Penalties for possession of, use of, or trafficking in illegal drugs are strictly enforced. Convicted offenders in India can expect a minimum jail sentence of 10 years and fines.

CUSTOMS CONSIDERATIONS: Indian customs authorities strictly enforce the laws and regulations governing the declaration, importation, or possession of gold and gold objects. Travelers have sometimes been detained for possession of undeclared gold objects.

MOUNTAIN CLIMBING: Both India and Pakistan claim an area of the Karakoram mountain range that includes the Siachen Glacier. The two countries have military outposts in the region, and armed clashes have occurred. Because of this situation, U.S. citizens traveling to or climbing peaks anywhere in the disputed areas face significant risk of injury and death. The disputed area includes the following peaks: Rimo Peak; Apsarasas I, II and III; Tegam Kangri I, II and III; Suingri Kangri; Ghiant I and II; Indira Col; and Sia Kangri.

TRAFFIC SAFETY AND ROAD CONDITIONS: Travel by road in India is dangerous. Outside major cities, main roads and highways are poorly maintained and always congested. Even main roads often have only two lanes, with poor visibility and inadequate warning markers. Heavy traffic, including overloaded trucks and buses, scooters, pedestrians, and livestock, is the norm. Travel at night is particularly hazardous. In March 1996, a tour bus crashed at night near the city of Agra, claiming the lives of five Americans. The information below concerning traffic safety and road conditions in India is provided for general reference only, and may not be totally accurate in a particular location or circumstance.

Safety of Public Transportation: Poor
Urban road Condition/Maintenance: Poor
Rural Road Condition/Maintenance: Poor
Availability of Roadside Assistance: Poor

AVIATION SAFETY OVERSIGHT: The U.S. Federal Aviation Administration (FAA) has assessed the Government of India's Civil Aviation Authority as Category 1 -- in compliance with international aviation safety standards for oversight of India's air carrier operations. For further information, travelers may contact the Department of Transportation within the U.S. at
1-800-322-7873, or visit the FAA's Internet Website at http://www.faa.gov/avr/iasa.htm. The U.S. Department of Defense (DOD) separately assesses some foreign air carriers for suitability as official providers of air services. For information regarding the DOD policy on specific carriers, travelers may contact the Pentagon at (703) 697-7288.

PILOTING CIVIL AIRCRAFT: In past years, there have been a number of incidents in which civil aircraft have been detained for deviating from approved flight plans. U.S.

citizens piloting civil aircraft in India must file any changes to previous flight plans with the appropriate Indian authorities and may not fly over restricted airspace.

Y2K INFORMATION: U.S. citizens contemplating traveling or residing abroad in late 1999 or early 2000 should be aware of potential difficulties. They may wish to consider taking practical precautions against possible disruptions of services triggered by the Y2K computer phenomenon. Monitor the home page of the Department of State for updates on Y2K issues. See also the Government of India's Internet home page on Y2K issues at http://www.doe.gov.in/~doe/y2k.htm.

EMBASSY LOCATION AND REGISTRATION: U.S. citizens are encouraged to register at the U.S. Embassy in New Delhi or at one of the U.S. consulates in India, and to obtain updated information on travel and security in India and Bhutan and request a copy of the booklet "Guidelines for American Travelers in India." The workweek is Monday through Friday.

--The U.S. Embassy in New Delhi is located at Shanti Path, Chanakyapuri 110021; telephone (91)(11) 419-8000. The Embassy's Internet home page address is http://www.usia.gov/posts/delhi.html.

--The U.S. Consulate General in Mumbai (Bombay) is located at Lincoln House, 78 Bhulabhai Desai Road, 400026, telephone (91)(22) 363-3611.

--The U.S. Consulate General in Calcutta is at 5/1 Ho Chi Minh Sarani, 700071; telephone (91)(033) 282-3611 through 282-3615.
--The U.S. Consulate General in Chennai (Madras) is at Mount Road, 600006; telephone (91)(44) 827-3040.

This replaces the Consular Information Sheet for India dated December 4, 1997, to underscore the need for both official and private travelers to obtain visas before entering India, to update information on areas of instability, to include the Embassy's Internet home page address, and to add sections on Aviation Oversight and Y2K.

Consular Information Sheets and Travel Warnings

LIST OF HOLIDAYS
1999

DATE	DAY INDIAN/AMERICAN	HOLIDAY
January 1	Friday American	New Year’s Day
January 18 King’s Birthday	Monday American	Martin Luther
January 26	Tuesday Indian	Republic Day
February 15 Birthday	Monday American	Washington’s
March 2	Tuesday Indian	Holi *
April 2	Friday Indian	Good Friday *
May 31	Monday American	Memorial Day
July 5	Monday American	Independence Day
August 15 Independence Day	Sunday Indian	Indian
September 3	Friday Indian	Janmastami*
September 6	Monday American	Labor Day
October 2 Birthday	Saturday Indian	Mahatama Gandhi
October 11	Monday American	Columbus Day
October 19	Wednesday Indian	Dussehra *

November 8	Monday Indian	Diwali *
November 11	Thursday American	Veterans Day
November 23	Tuesday	Guru Nanak
Birthday *	Indian	
November 25	Thursday American	Thanksgiving Day
December 24	Friday American	Christmas

***Subject to change**

WORK WEEK

In most government offices and business offices the work week is Monday through Friday (9:30am - 5:30pm). There are a few offices which work Monday through Saturday.

BUSINESS INFRASTRUCTURE

Transportation: Public transportation is available seven days a week. The most developed intra-city system is in Mumbai, which has an elaborate railway and bus network, in addition to private taxicabs and, in its suburbs, auto rickshaws. Delhi, Chennai, Bangalore, and Calcutta are among the other major cities where public transportation facilities are available.

The Indian Railways, Asia's largest and the world's second largest railway system under a single management has a network of 38,752 miles.

India has a 2.1 million-kilometer-long road network spread over 3.3. million sq. Km. Of land mass. National Highways (NH) are the major roads and their total length is 34,058 km. The central ministry responsible for National Highway development is the Ministry of Surface Transport. Recently, an autonomous agency called the National Highways Authority of India (NHAI) has been created which is the central implementation agency for NH developments. The state governments maintain state highways, district roads and rural roads. Road transport in the country consists of nearly 60 state surface mass transportation systems deploying a fleet of about 100,000 vehicles. Roads carry 400 billion ton kilometers of freight and move 1500 billion passenger kilometers. In the initial years of planning, India's economy was rail dominated and now the railways are second to roads in both freight and passenger movement. Nearly 60 percent of freight movement and 80 percent of passenger movement are carried on roads. Vehicle population has been growing at 11 percent and vehicular traffic in important corridors is registering a growth of approximately 10 percent. Private sector entities can invest in highway construction in India in the following areas: (a) consultancy services, (b) construction contracts, and (c) project development (on BOT terms).

India's maritime transportation industry has the sixteenth largest fleet in the world; its major ports are Mumbai, Jawaharlal Nehru (also in Mumbai), Kandla, Mormugao, New Mangalore, Cochin, Chennai, Paradip, Vishkhapatnam, Tuticorin and Calcutta. Ports in 1996-97 carried 236 million tones.

India's official international carrier is Air India; its domestic airline, Indian Airlines, also operates some international routes. Also, a number of private air taxi companies operate some of the major trunk routes.

Language: The official language of the Indian union is Hindi, the language spoken by the largest number of people, but with 18 other major languages and 700 dialects, English has become a sort of "lingua franca" and is the accepted language for business and government.

Communications: Telephone, facsimile and electronic mail services are available in India. Mobile phones and paging services have also been introduced in India. Telecommunications can be problematic, particularly outside the major metropolitan areas. With recent telecommunication reforms and the introduction of the private sector into the industry, service should improve dramatically in the future.

India has the highest number of post offices in any country having 147,000 post offices with over 130,000 of the offices in rural areas. An international speed post service operated by the public-sector postal authorities connects 39 countries. Major international express couriers, such as Federal Express, DHL, and UPS, are also well represented in India.

Housing: The Foreign Exchange Regulation Act, regulated by the RBI, allows a foreign individual to own property in India only if it is for his/her residential purpose. Prior permission from the RBI is required to enter into a lease of real property with a term of five years or more. Permission from the RBI must also be obtained to take out a mortgage on real property. Housing and apartments are available in the major metropolitan areas and in large and medium-size towns. Apartments and houses are usually available for rent for a maximum renewable period of 11 months. A security deposit, equivalent to 10 or 15 times one month's rent, is generally required.

Health: India's well-developed network of medical facilities is hampered by its services, such as shortage of doctors, mid-wives, nurses and laboratory technician, especially at the primary health centers functioning in rural areas.

Number of hospitals in India	7,350
Number of Government hospitals/dispensaries	314
Number of State Governments/municipal Corporations/public sector undertakings	4,000
Number of primary health centers	22,322
Number of subsidiary health centers	131,510
Number of community health centers	1,923
Number of medical colleges	144
Number of hospital beds (government and private)	621,450
Bed-population ratio (per '000 population)	0.75
Number of registered doctors (1990) (Nos.)	368,000
Number of registered nurses (Nos.)	267,000
Number of Health guides	419,000

Food: Special care should be taken while eating food in India. It is safe to have food at five star hotels. If well-cooked hot food is eaten, most food borne infections can be avoided. Raw fruits should be eaten only when they have unbroken skins and they are peeled. Raw vegetables and salads should be avoided, as they are often contaminated with parasite cysts or worm eggs. Scrubbing green leafy vegetables, soaking them in a proper chlorine solution, and then rinsing them in boiled water should eliminate most, but perhaps not all, parasites. Potassium permanganate (Pinky's solution) and quaternary ammonium compounds such as Roccal are not recommended for soaking of vegetables. Unless dairy products are known to be hygienically prepared and properly refrigerated, they should be avoided. Even if refrigerated, custards, cream pastries, potato salads, and shellfish should be avoided. These are all excellent vehicles for growth of pathogenic organisms that cause food poisoning. When fresh fruits and vegetables cannot be obtained or eaten, multivitamin supplementation should be taken. Eating raw or undercooked local beef, pork, sausage, or fish can lead to trichinosis, tapeworm, or fluke infections. Smoking, salting, pickling, or drying meat or fish alone is not effective in killing parasites. Heating meat or fish to at least 55 degrees Centigrade for 1 hour or freezing at minus 10 degree Centigrade for 20 days will kill parasites.

TEMPORARY ENTRY OF GOODS

Laptop computers can be hand-carried into India. However, visitors should ensure that, upon arrival to India, customs authorities endorse these laptops in their passports, along with noting their respective serial numbers. This endorsement is the most practical way for a visitor to bring a laptop into India without payment of duty. At the time of departure, ensure that a customs officer deletes the endorsement from the passport. There is a nil rate of import duty on software. Therefore, software can be brought into India without any problems, provided it is a licensed copy. Imports for demonstration and test marketing are allowed only for Indian Trade Promotion Organization-approved trade events, and then against a required bank guarantee. Imports for private demonstration of equipment are not allowed. Imports under ATA carnet are also not allowed. Imports of exhibits (including the construction and decorative materials) required for display at international exhibitions and trade fairs for a period of six months are permitted on a re-export basis on submission of a certificate from an Under Secretary in the Ministry of Commerce or an office of the Indian Trade Promotion Organization (ITPO) stating that the exhibition is approved by the GOI and is being held in the public interest.

U.S. firms that plan to participate in international trade shows in India should contact the U.S. Embassy’s commercial service for assistance with importing exhibits duty-free in India. In lieu of a bank guarantee, commercial service offices provide an Embassy bond to facilitate the duty free entry for an American exhibitor's material into India. For issuing such a bond, an indemnity letter from the participating U.S. firm to comply with Indian customs regulations, and a fee of USD 75 is payable to U.S. Embassy to cover administrative costs.

(For additional information, see Chapter VI's section on "Temporary Goods Entry Requirements.")

CHAPTER X. ECONOMIC AND TRADE STATISTICS

APPENDICES

- -- A. Country data
- -- B. Domestic economy
- -- C. Trade
- -- D. Investment statistics

APPENDIX A: COUNTRY DATA

Population (as of March 31) (Millions)

1996	927
1997	943
1998	959
1999	975 (est.)
2000	990 (est.)

Population growth rate (Percent)

1996	1.8
1997	1.68
1998	1.65
1999	1.65

Religion(s)	**(Percent)**
Hindus	82.1
Muslims	12.0
Christians	2.3
Sikhs	2.1
Buddhists	0.7
Jains	0.4
Others	0.4

Government System

Democratic and secular

The Indian Constitution of 1950 provides for a federal system with a parliamentary form of government. Sovereignty is shared between the central government and the states, but the national government is given greater powers. The office of president is largely ceremonial, with real authority vested in the Prime Minister.

The Parliament consists of two houses, the Rajya Sabha (Council of States) and the Lok Sabha (House of the People). Real power resides in the Lok Sabha, whose members are elected directly by all eligible voters and sits for 5 years unless dissolved earlier. The State government resembles the federal system. The governor of each state is appointed by the President. The Chief Minister and council of the state holds executive authority and are responsible to an elected state legislative assembly.

Languages

More than 200 languages are spoken in India. Hindi is the language of 30 percent of the population and is also the official language of India. The constitution of the country has specified the following 18 official languages (alphabetically arranged): Assamese, Bengali, Dogri, Gujarati, Hindi, Kannarese, Kashmiri, Konkani, Malayalam, Manipuri, Marathi, Oriya, Punjabi, Sanskrit, Sindhi, Tamil, Telugu and Urdu.

The constitution has recognized the continued use of English in official work. The Official Languages Act of India lays down that both Hindi and English shall be used compulsorily for a wide range of specified official purposes. English is widely used for business and important in government, education and science and understood almost anywhere in India.

Sources: The Constitution of India, Center for Monitoring Indian Economy, Government of India Publications, Department of Economics & Statistics

APPENDIX B DOMESTIC ECONOMY (USD billion, except where noted)

U.S. India Trade	**1996/97 (Est)**	**1997/98 (Est)**	**998-99 (Est)**
Nominal GDP	398.0	420.0	432.0
GDP growth rate (percent)	7.8	5.0	5.8
GDP per capita (USD)	400.0	412.0	426.0
Government spending as a percentage of GDP	14.3	14.8	15.9
Inflation (percent	6.3	4.8	6.8
Unemployment (percent)	22.5	22.5	22.5
Foreign exchange reserves	22.4	26.0	29.6
Average exchange rate for U.S. dollar	35.46	37.1	42.0
Debt service ratio	21.2	19.5	20.0
U.S. economic assistance (USD million)	167.8	185.0	154.0
U.S. military assistance (USD million)	0.35	0.40	0.17

Source: Government of India ministries and Indian research institutes

APPENDIX C: TRADE (U.S.$ Million)

U.S. India Trade	**1995/96 (Est)**	**1996/97 (Est)**	**1997/98 (Est)**	**998-99 (Est)**
Total Indian Exports	32,311	34,133	36,088	36,088
Total Indian Imports	36,678	39,133	36,362	55,000
Indian Exports	3,877	3,383	3,500	7,000
Indian Imports	5,588	6,563	6,700	3,529

(Source: Economic Survey,India)

GOI provides fiscal data (April 1 to March 31). Country exports and imports for 1999 are average figures for the fiscal year. Estimate for 98/99 were judgmentally prepared based on average growth rate for the preceding fiscal years.

APPENDIX D: INVESTMENT STATISTICS

Foreign Direct Investment Statistics

Foreign Direct Investment (FDI) approvals have risen sharply since the introduction of reforms in July 1991. Over USD 7 billion in FDI was approved in 1998, down 50 percent over the previous year. However, the U.S. continues to be the leading source of foreign direct investment in India, accounting for nearly 12 percent of total investments approved in 1998.

TABLE 'A'

Investment approvals by major countries (in USD millions):

Year	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Total Approvals	207	1,484	2,824	4,522	9,700	10,125	14,330	7,250
Of which:								
U.S.	72	470	1,103	1,112	2,138	2,817	3,418	838
U.K.	12	45	199	414	523	427	1,140	753
Mauritius	-	-	40	170	548	654	2,638	745
Australia	1	29	9	124	450	235	116	621
Malaysia	0	28	3	8	414	12	536	424
Japan	20	233	82	128	459	417	479	302
Germany	16	33	56	181	406	431	548	201
South Korea	3	15	9	34	94	907	494	87
FDI approvals as percent of GDP	0.1	0.6	1.2	1.6	3.2	3.1	3.7	1.8

TABLE 'B'

Actual inflow of FDI by country as provided by the RBI follows (in USD millions):

Year	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Total Inflow	136	258	569	946	1,930	2,420	3,050	2,166
Of which								
Mauritius	-	-	1	29	507	846	900	942
U.S.	13	45	152	107	192	255	737	493
Germany	21	22	13	42	100	166	151	142
Japan	3	28	23	87	61	97	164	249
U.K.	19	29	74	136	71	54	126	49

FDI inflow as percent of GDP	0.1	0.1	0.2	0.3	0.6	0.7	0.8	0.5

Source: Secretariat for Industrial Approvals, Ministry of Industry, Indian Investment Center, RBI Annual Report. Please note that the inflow data is for the Indian fiscal year (April-March).

Total FDI stock in 1998 is estimated at around USD 11 billion at historical cost, which is approximately 2.7 percent of the GDP. Estimated actual inflows of USD 2,166 million in 1998 accounted for about 30 percent of total FDI approvals.

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APPENDIX E
-- U.S. and Country contacts

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Department of Treasury	www.ustreas.gov
State Department	www.state.gov
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Overseas Private Investment Corporation (OPIC)	www.opic.gov
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CHAPTER XII. MARKET RESEARCH AND TRADE EVENTS

APPENDICES
-- F. Market Research
-- G. Trade Event Schedule

INDUSTRY SECTOR ANALYSIS AND MARKET RESEARCH REPORTS

INDUSTRY SECTOR ANALYSIS (FY'99)

- Advertising Services
- Amusement Games and Machines
- Book Publishing

- Cable TV
- Cogeneration in Sugar Industry
- Computer Software – Design Tools
- Construction Equipment
- Drip Irrigation System
- Electronic Component for Automotive Industry
- Engineering Plastic Resins
- Environmental Management & Pollution Control in Paper & Pulp Industry
- Industrial Process Control Instruments & Equipment
- Insurance Industry
- Leasing Industry
- Medical Laboratory Equipment
- Municipal Solid Waste Management
- Newsprint Industry
- Packaging for Food Processing Industry
- Petroleum Refinery Equipment
- Plastic Processing Equipment
- Private Investment in Ports
- Safety and Security Equipment
- Textile Machinery
- Waste Management & Pollution Control in Coal Mining Industry
- Waste Management & Pollution Control in Metallurgical Industry
- Waste Management in Textile Industry
- Water Infrastructure Development

INTERNATIONAL MARKET INSIGHT (IMI FY'99)

-- West Bengal Plans Investor's Meet

-- Exchange Program on Safe Drinking Water

-- World Bank Loan for Calcutta

-- The Emerging East Moves Forward

-- Business Prospects for the Natural Gas Sector in Bangladesh and India

-- Asian Development Bank Technical Assistance Grant for Calcutta Municipal Corporation

-- Tamil Nadu to Develop a Hub Port at Manavalakkurichi
Auto Asia' 99

-- Market Growing for Food Products and Food Processing Equipment in India's New Fast Food Sector

-- Kitfair' 98

-- Tamil Nadu Agro Plans to Establish a Fruit Processing Export- Oriented Unit

-- India Meters Ties up with GE for Energy Meters
-- Hi-Tech City in Hyderabad
-- TNEB Signs Agreement with Texas Utility
-- Chennai Water Supply Project
-- TIDCO Seeks Partner for Iron Ore Project
-- PPN Power Achieves Financial Closure
-- Oil & Gas Pipeline Grid for India
-- Vizag Port Trust Invites Bids for Wharf Cranes
-- Vizag Port Trust Invites Bids for Supply of Container Terminal Equipment and Maintenance on BOT
-- Seven Firms Short-Listed for Kochi Port Project
-- Tirupur Area Development Program
-- Petronet Invites Pre-Qualification Bids for EPC Contracts for LNG Terminals
-- Industrial Estate for Food Processing
-- Atlantis Water Fund to Pick up Stake in Tirupur Water Project
Siemens-led consortium
-- Indian Railways Invites Bids to Build Wheel and Axle Assembly Plant
-- Silver
-- Trade Opportunity - Autoclaves and Shredders
-- Privatization of Airports
-- Farm Tools
-- Information on Exhibition Cargo
-- An Overview of the Indian Automobile Industry in FY 1997-98
-- Haryana
-- Internet Licenses to be Issued Before Nov. 7, 1998
-- India’s Machine Tool Industry in 1997-98
-- Leasing of Prime Hotel Property in Chandigarh
-- Mauritius - Gateway to Foreign Direct Investment into India
-- Trade Deficit Doubles to $5 Billion
-- Clearance of Petro Tax Code Makes Way for Oil Exploration Opportunities
-- An Overview of the Indian Elevator Sector
-- Road Projects and Foreign Investors
-- Delhi Metro Update
-- Progress of Transportation Projects in India - Update

-- Oil pipelines to be Opened to Private Sector Investment
-- Punjab State Industrial Development Corp. Ltd
-- India Signs Patent Treaties
-- Status of Business-Related Legislation
-- Selecting Legal Counsel in India
-- Investment in Rajasthan
-- Arbitration Cases to be Heard in India
-- Code for National Power Grid on Anvil
-- Indians Allowed to Receive Foreign Exchange
-- New Internet Policy Announced
-- Mittals Plan $800 million Launch into Satellite Telephony; -- -- Hughes Likely Partner
-- Secretariat for Industrial Assistance Website
-- MNC Pullouts to Delay Refining Plan
-- India Rating Lowered by Japanese Agency
-- 1998 India Economic Summit
-- 100 percent FDI in India's Residential Sector
-- Petroleum Ministry Seeks Foreign Participation in Oil Tankage Facilities
-- Opportunity to Develop an Amusement Park in Chandigarh, Punjab
-- Indian Consumer Market Structure
-- New Policy on Technology Imports
-- India Out of Top - 5 Destinations for FDI
-- U.S. Amusement Companies Bullish
-- Planning Commission Recommends Core Sector Status for Coal Industry
-- Delhi May Ban Non-Commercial Diesel Vehicles
-- Hazardous Waste Being Dumped in municipal Landfill Sites
-- Polluting Companies Will Be Made to Pay
-- Review of the Indian Captive Power Market
-- Stock Valuation Norms
-- Liberalized Norms for Foreign Holding Companies
-- India's Smart Card Market
-- FDI Going More into Equity than New Projects
-- Show report: Aero India' 98, Bangalore
-- Industry Task Force Recommendations
-- Government Offers 48 Blocks for Oil Exploration under NELP
-- Four-day Workshop on "Mediation and Conciliation"

-- Gujarat Government Announces Maiden Infotech Policy
-- Antidumping Duty on Import of Calcium Carbide from China and Romania
-- Opportunities for Foreign Companies to Exploit Coal Bed Methane
-- Indian Stock Market Drops but Overall Economic Mood Better
-- Ministry of Environment & Forests to Phase Out Polythene Bags
-- Inclusion of Environmental Statement (Form V) to Become Mandatory
-- Ind Show 99 at Ahmedabad
-- Industrial Show "Intechmart - 98, Gujarat"
-- "VCCI - 99" A Mega Event for the Millennium
-- Stationery Market in India
-- Gujarat Develops Three Software Parks
-- New FCS Office Opened in Pune
-- Personal Care Industry in India
-- Indian Steel Industry Demands Hike in Import Duty
-- Indian Textile Machinery Makers Demand Level Playing Field
-- Opportunities for American Companies in Toy Cities
-- Opportunities for American Companies in the Corporate Farming Sector in India
-- Pune the Hi-Tech City and an Attractive Investment Center
-- India Plans Vidya Vahini Network
-- India International Maritime Expo
-- Food Processing Industry in India
-- Market for Modems in India
-- GOI Announces New Internet Policy
-- Indore - The Commercial Hub of Madhya Pradesh
-- Govt. of Maharashtra Encourages IT Development
-- Investment Scenario in Maharashtra
-- Coastal Pollution to be Monitored by the Government
-- Wire & Cable Expo' 99
-- Diesel Generator Manufacturers Will Go in for a Pollution Control Equipment
-- Bottled Water Business Blossoms in India
-- Indo-U.S. Gems and Jewelry Trade

-- Major Project: JNPT’s Marine Chemical Terminal Project in Mumbai.

-- Emerging Trend of Indian Students in American schools

-- Standard and Poor Lowers Rating Outlook for India’s three Major Lending Institutions

-- India’s Corporate Sector under Severe Pressure; Casualty List Grows as Companies Reluctantly Attempt to Remodel

-- Joint Venture Opportunity

-- Change of Area Code for Dialing to Pune

-- Image’ 99

-- US-AEP/CTEM Signs MOU with Local Chamber of Commerce

-- Intechmart 99 - West Bengal Investment Expo.

-- Cogeneration Opportunities in Sugar Mills of Tamil Nadu

-- Indian Automobile Components Industry

-- Effluent Treatment in Tamil Nadu Tanneries

-- Indian Home PC Market

-- Foreign Investment in Foodgrains Storage

-- Conference on Financing Indian Infrastructure

-- Financial and Fiscal Incentives for Waste-to-Energy Projects in India.

-- Oil pipelines: Industry Task Force Report

-- Air India Shelves MCLR Aircraft Plan - to go for Smaller Aircrafts

-- Airport Policy Liberalization

-- Indian Railways Website

-- Notice Inviting Offers for Exploration for Oil and Natural Gas under New Exploration Licensing Policy - 1999

-- Important aviation contacts

-- Top 25 Cities for Business

-- Gujarat Offers Incentives for Waste Treatment Facilities

Indian Industry Ready for Kyoto Talks on Clean Technology

-- Relief for State Governments on Bio-Medical Wastes

-- Central Pollution Control Board Cracks its Whip

-- Indian Department of Mines Website

-- New Indian Department of Steel Website

-- Repfind India’ 99

-- Infrastructure and Investment India 1999

-- Players in the Insurance Industry

-- Crisis Resolution Group, Ministry of Power

-- Industrial Model Town in Rajasthan

-- Lubricants Market in India

-- AIDS Spread Due to Mismanagement of Hospital Waste in India.

-- Asia Pacific Crop Protection Conference

-- Urban Land Ceiling (Regulation) Act to Repeal

-- Enron's First Power Plant in India

-- Tough time for Auto Part Makers

-- Mumbai's Transport Problems

-- Demand for Industrial Valves and Fittings in India

-- Broadcast India' 99

-- $29 Billion to Boost Gujarat Economy

-- Software Company Shares Follow the World Pattern in Indian Stock Markets

-- Chem India '99

-- Source Book' 99 by Hotel & Food Service

-- Dubbed English films will not be Distributed in the Indian Market

-- Business Times Special Issue for Infrastructure and Investment India' 99

-- Environ Watertec India' 99

-- Pharma India' 99

-- Advanced technology for Marble and Stone Processing in India.

-- Indian Government Encouraging Private Cold Storage Units

-- Dream Beach Destination

-- Indo-US Cooperation on Cleaner Technologies

-- Potential Market for Cleaner Technologies in India

-- Investment Promotion Board of India meets American Business Council

-- Franchising Workshop in Mumbai

-- India Needs Green Accounting

-- Emerging Auto Component Market in India

-- What Percentage of Mumbaites are Really Poor

-- Mahratta Chamber of Commerce, Industries and Agriculture

-- Pune, an Ideal Location for Mega Film Studios

-- Nagpur can be the National Freight City

-- India Makes Stock Dematerialization and Depository Compulsory, Enhancing its Trading and Transfer Mechanism.

-- First Indian Company Taps American Depository Receipts Market and Gets Listed on NASDAQ.

-- Oberoi Melting Point' 99
-- Infocity to be Developed at Gandhinagar in Gujarat
-- Exporting of American Wine to India
-- Recycled Plastic Industry
-- Activity at Falta Gains Momentum
-- Compasss - 99 Infotech Show in Calcutta
-- Seminar on E- Commerce in Calcutta
-- Calcutta Gets on the Environmental Information Superhighway
-- Hazardous Waste Management Business Opportunity in Calcutta
-- Environmental Technology Transfer Opportunity in Health Systems Project in West Bengal
-- International Exhibition on Water in Calcutta
-- State of Tamil Nadu Aims to Set up Two New Power Projects
-- El Paso to Take Stake in PPN Power Project
-- Erection, Procurement and Construction Contractors
-- Apseb Splits, Two New Corporations Set Up
-- Indian Machine Tool Industry
-- Highway Automation System
-- Bangalore International Airport
-- India's Southern States on Fiscal Edge
-- Cochin International Airport Takes Off
-- Export-Import Policy for Fiscal Year 1999/2000
-- New Telecom Policy Announced
-- New Uplinking Policy
-- Update on the Pharmaceutical Industry in India
-- Telecom Developments in India
-- Corporate External Borrowing Liberalized
-- India Ranked Fifth in terms of Purchasing Power Parity
-- IT Asia 2000
-- 12^{th} World LPG Gas Forum
-- Bid date for Exploration of Oil and Natural Gas under New Exploration Licensing Policy (NELP) Extended to August 18, 1999.
-- Equity Dilution Norms for MNC Subsidiaries
-- VSNL Partners with IPASS to Offer Global Internet Roaming
Service to Customers in India
-- Text of 1999 Survey of U.S. Investment in India
-- Website for the State of Delhi
-- Foreign Investment Touches USD 1 billion in March 1999
-- Website for the State of Jammu and Kashmir
-- Important Indian Newspaper Websites

-- Dept. Of Telecom Set to Offer Mobile Phones in 17 Cities in the First Phase
-- Plast India 2000
-- Opportunities in the Indian Plastics Fabrication Machinery Sector
-- Punjab Waives Licence for Cold Storage Facilities
-- Indian Processed Food Market
-- Indian Railways Optic-Fiber Network Project (ADB)
-- India Looks at Reforming Pension System
-- India's Plastic Industry
-- Opportunities in India's Plastic Moulds and Dies Industry
-- Aviation Traffic Growth in India
-- India's Civil Aviation-Organization and Administration Structure
-- Opportunities in India's Airport Sector
-- Air India Seeking Bids for SCLR and SCSR
-- Ordinance to Enforce Cyber Laws Soon
-- Financial Institutions Back ZEE Promoter's Satphone Project, Biggest Rupee Term Loan in the Indian Broadcasting Industry
-- Tourism gets an Industry Status in the State of Maharashtra
-- Cutting costs - The India Inc. Way
-- Items Freed for Import in the Exim Policy
-- Recent Developments in the Indian Film Industry
-- Commodity Trading: Oilseed Future
-- Indian Gold Imports
-- Indian Diamond Exports Crosses 50 percent of Total World Diamond Exports
-- Early Alert: Global Bids for Exploitation of Coal Bed Methane
-- Opportunities for IT Companies in Gujarat
-- The Road to Gujarat's Progress
-- Gujarat Focuses on Development of Power Projects
-- Saurashtra Chamber of Commerce and Industry
-- A Peep into the Indian Shoppers' Mind
-- Investment Opportunity in Tourism
-- Engimach 2000
-- Indian Broadcasting Society
-- Rural Consumers Counts in India
-- PowerTech India 99
-- Gujarat - The Land of Opportunities
-- Abolish of Octroi Tax Draws Flak in Gujarat
-- Oil and Gas show in Mumbai '99
-- Indian Bank's still hesitant for automation
-- Goa, an upcoming industrial state of western India

-- Indian Pharmaceutical Firm Gets FDA Approval for Clinical Trials in U.S. Hospitals
-- Top 14 Organizers and their Trade Shows in Western India
-- Plastic processing sector in India
-- Intelligent Enterprise 99
-- Kisan 99
-- Mumbai Gift Show
-- International Agricultural Equipment and Machinery Show
-- Pool fever hits Mumbai
-- Body Plus
-- Brewtech India' 99
-- Judicial Compulsion for Euro-I and II Norms Compliance for Automotive Industry
-- Development of Pune as a Major IT Center
-- Venture Capital Fund for Small Scale IT Industries
-- Wind Power-Plant for Generating Energy
-- Madhya Pradesh beckons private investors
-- Passenger Cum Ro-Ro Ferry Services
-- Fisheries Harbour to be Developed at Umargram
-- Flora' 2000 Equipment and Supplies Display
-- Leisure Industry in India

U.S. & FOREIGN COMMERCIAL SERVICE/INDIA
FY-99/00/01 CALENDAR OF EVENTS

DATES	CITIES	EVENT
1999		
June		
7-11	Dallas, TX	IBP delegation to Waste Expo 99
15-16	Washington, D.C.	USIBC Annual General Meeting
22-25	Singapore	Indian buyer delegation to CommunicAsia'99
23-25	Singapore	Indian buyer delegation to Scan Tech Asia 99
July		
	Calcutta Chennai Mumbai New Delhi	"Safety & Security Equipment" Industry of the Month Catalog Show

14-16		Singapore-Indian buyer delegation to Asian Amusement Expo 99
August		
	Calcutta Chennai Mumbai New Delhi	“Food Processing & Packaging Equipment & Supplies” Industry of the Month Catalog Show
15-18	Chicago, Il	IBP delegation to the National Hardware Show
TBD	TBD	California Environmental Trade Mission
September		
	Calcutta Chennai Mumbai New Delhi	“Infrastructure” Industry of the Month Catalog Show
13-15	New Delhi	“RepFind India 99" (SFO)
11-15		New Delhi U.S. Environmental Technology Matchmaker (MKR)
16-17	Mumbai	Ambassador’s Trade Mission
22-30	U.S. Cities	FICCI Business Mission to the U.S.
22-25	New Delhi	U.S. Pavilion at India Internet World 99 (CTF/BIO)
30- Oct. 2	Dallas, TX	IBP delegation to NAFEM
October		
	Calcutta Chennai Mumbai New Delhi	“Medical Equipment & Supplies” Industry of the Month Catalog Show
Early- October	New Delhi	Fall 1999 issue of US&FCS/India commercial newsletter IND*USA
9-13	New Orleans,	IBP Promotion: Weftec 99

	LA	
11-13	Orlando, Fl	IBP delegation to the International Public Transit Expo 99
18-20 99	Las Vegas, NV	IBP delegation to IEFP/Pack Expo
TBD	TBD	Leasing Trade Mission (TENTATIVE)
November		
1-5	Bangalore	U.S. Pavilion at IT.COM 99 (TFO)
3-6	New Orleans, LA	IBP Promotion: Medtrade
15-16	Mumbai	USIBC's U.S. Investment Summit "The ???? West"
30-Dec.3	Singapore	Indian buyer delegation to Environmexasia 99 & Watermexasia 99
December		
	Calcutta Chennai Mumbai New Delhi	"U.S. Environmental Technologies" Industry of the Month Catalog Show
1-4	Hyderabad	3rd India International Poultry Expo 99 (CTF/BIO)
6-9	Chennai	CII's FoodPro 99 (FCS participation to be determined)
8-10	New Delhi	CONVERGENCE INDIA 99 (Communications India 99; Broadcast,Cable & Satellite India 99; and IT @ India 99 (CTF/BIO)
14-17	New Delhi	Paperex 99 (CTF/BIO)

2000

January

12-18	New Delhi	CII's Auto Expo 2000 (FCS participation to be determined)
TBD	New Delhi Bangalore Mumbai	Electronic Commerce/Internet Trade Mission (TM) (TENTATIVE)

February

2-5	New Delhi	IT Asia 2000 (CII/MAIT/NASSCOM) (FCS participation to be determined)
TBD	TBD	Manufacturing Matchmaker in Association with NAM (MKR) (TENTATIVE)
19-24	New Delhi	Plastindia 2000 (FCS participation to be determined)

March

15-17	New Delhi	4th India Amusement Expo 2000 (SFO)

September

26-29	New Delhi	3rd Minerals, Metals & Metallurgy 2000 (CTF/BIO)

October

3-6	New Delhi	U.S. Pavilion at International Dairy and Food Technology Expo 2000 (Possible CTF/BIO)
19-22	New Delhi	CII's 4th International Railway Equipment Exhibition (IREE) (FCS participation to be determined)

November

TBD	Chennai	CII's Energy Summit 2000

		(FCS participation to be determined)

December

1-5	Chandigarh	CII's Agrotech 2000 (FCS participation to be determined)

Event Type Abbreviations:

BIO	Business Information Office
CTF	Certified Trade Fair
CTM	Certified Trade Mission
GKS	Gold Key Service
IBP	International Buyer Program
MKR	Matchmaker
MS/CE	Multi-State/Catalog Exhibition
PLC	Product Literature Center
PVF	Privatized Fair
RC	Regular Catalog Show
SFO	Solo Fair
SM	Seminar Mission
TFO	Trade Fair
TM	Trade Mission
USIBC	U.S.-India Business Council