

DOING BUSINESS IN INDIA

1. MARKET OVERVIEW

EXPORTING TO INDIA

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Bilateral U.S.-India trade expanded to \$126.2 billion in goods and services in 2017 against a backdrop of declining overall levels of global trade volumes. The United States remained India's largest trading partner, with exports of U.S. goods and services to India reaching \$49.4 billion (up 16 percent from 2016), and imports from India hitting \$76.8 billion (up six percent from 2016). The United States also remained India's top export market – and its \$27.3 billion trade surplus with the United States is its largest with any country – while India was the 15th biggest export market for U.S. goods in 2017.

Top U.S. exports to India in 2017 were precious metal and stones (\$7.0 billion), machinery (\$2.1 billion), aerospace (\$2.1 billion), optical and medical instruments (\$1.4 billion), and mineral fuels (\$2.8 billion). Top U.S. imports from India in 2017 were precious metal and stones (\$10.4 billion), pharmaceuticals (\$6.1 billion), mineral fuels (\$2.5 billion), miscellaneous textile articles (\$2.4 billion), and machinery (\$2.5 billion).

U.S. foreign direct investment (FDI) stock in India was \$32.9 billion in 2016 (latest data available), a 16 percent increase from 2015. U.S. FDI in India was led by professional, scientific & technology services, manufacturing, and wholesale trade investments. India's FDI stock in the United States was \$12.1 billion in 2016, up 3.5 percent from 2015. India's direct investment in the United States is led by professional, scientific & technology services, but also includes depository institutions, and manufacturing. Most major U.S. companies are active in the market, including fast growing U.S. franchisors that are responding to changing consumer tastes and an expanding consumer class, particularly in urban areas.

India's economy performed well in 2017, with GDP growing at over seven percent coupled with a stable rupee and steady, relatively low inflation. Inflation remains low and stable and the IMF expects India will continue to grow at between seven and eight percent in 2018, though a widening current account deficit has weakened the country's external position somewhat. Furthermore, the steady depreciation of the rupee relative to the dollar since January has made US exports to India about ten percent more expensive.

In 2014, the Narendra Modi-led Bharatiya Janata Party (BJP) won an outright majority in parliamentary elections, replacing a Congress-led coalition that had been in power for a decade. In August 2014, Prime Minister (PM) Modi announced his Make in India initiative, a branded campaign to attract international capital to the country's struggling manufacturing sector.

Make in India aims to increase the share of manufacturing GDP from 16 to 25 percent and create 100 million jobs by 2020.

On June 20, 2016, the government of India (GOI) announced major changes aimed at further opening the economy to foreign investment. Per the new norms, 100 percent FDI is now permitted in civil aviation and e-commerce, among others, and requirements have been modified to allow for up to 100 percent FDI in the defense sector in special cases.

The long-awaited rules reinforce the GOI's stated goals to develop more business-friendly policies as India looks to spur job creation and maintain its growth momentum.

This is second in a series of FDI openings by the Modi-led government after the liberalization of various sectors in 2015. The government has also relaxed local sourcing requirements for single-brand retailers of high technology products.

Other measures have been taken by the Central and State Governments to facilitate manufacturing, improve the business environment, and promote the development of industrial corridors across India. Moreover, the GOI has largely completed the implementation of a national Goods and Services Tax (GST), implemented in July 2017, to replace the complex web of national and state-government taxes, although tax rates on specific commodities remain subject to change.

While PM Modi and the BJP enjoyed several key victories in state elections in 2017, including in Uttar Pradesh, a state with a population of over 200 million, results in other states have been mixed. We expect national parliamentary elections in early-to-mid 2019.

The BJP currently holds a majority in the lower house. Given India's decentralized political system, U.S. companies doing business in India should be prepared to encounter varied political and economic conditions across India's twenty-nine states and seven union territories. There are differences at the state level in the quality of governance, regulation, taxation, labor relations, and education levels. India ranked 100 of 189 in the World Bank's Ease of Doing Business Report published in October 2017, up 30 spots from the previous year.

While the government has managed to push through several investor-friendly reforms mentioned above, on others, such as land acquisition, it has failed to muster sufficient political support to move forward.

Thus, while the outlook has improved considerably, objective conditions for doing business in India remain like years past.

Opportunities for U.S. companies to succeed in India, however, are still abundant.

Indian conglomerates and high technology companies are generally equal in sophistication and prominence to their international counterparts. Indian companies in certain industrial sectors, such as information technology, telecommunications, pharmaceuticals, textiles and engineering, are globally recognized for their innovation and competitiveness. U.S. companies operating in India emphasize that success requires a long-term planning horizon and a state-by-state strategy to adapt to the complexity and diversity of India's markets

If you fail to plan, you are planning to fail.

Setting up a business in India has been liberalised over the years, still it requires company formation, approvals if required, legal compliances and registration with various authorities. We provide our clients Business Setup Solution based on “turnkey” methodology which takes care of approvals, legal compliances, registrations with authorities etc. to provide a ready to operate business setup in shortest possible time frame. mail@farhataas.com for more information.

Start with good plans. Start with us.

THANK YOU

We hope to work with you in the future

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