U.S. Department of State
FY 2001 Country Commercial Guide: India

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CHAPTER I. EXECUTIVE SUMMARY

India's economic reforms since 1991 have led to reasonable economic growth, higher investment flows, and growth in trade. Real gross domestic product (GDP) grew by 5.9 percent in Indian fiscal year (IFY) 1999-2000, down from 6.8 percent in the previous year, primarily due to slower agricultural growth. Agriculture accounts for 26.5 percent of India's GDP and employs 62 percent of the work force. Agricultural production declined by 3.1 percent in IFY 1999-2000, compared to growth of 8.2 percent in 1998-99. In the same period, industrial production grew 8.2 percent, double the rate of the previous year, while growth in services was buoyant at more than 8 percent.

Exports turned around during the year, growing 12 percent as compared to a fall of 1 percent in previous year. Total exports were USD 37.6 billion in IFY 1999-2000 and the trade deficit was USD 8.6 billion, up from USD 8.2 billion in the previous year. Imports grew 10.5 percent in IFY 1999-2000, compared to 2.5 percent in 1998-99. Oil imports were higher by 64 percent due to the spurt in global petroleum prices, while non-oil imports grew by just 1.4 percent. The Ministry of Commerce and Industry set an 18 percent export growth target for 2000-01.

Portfolio and foreign direct investment (FDI) was USD 3.7 billion in IFY 1999-2000, up from USD 1.7 billion in the previous year. The increase was due to higher foreign equity issues and increased portfolio investment even as FDI registered a slowdown. Institutional investors appeared extremely optimistic about India, as they brought in fresh inflows of USD 2.1 billion during IFY 1999-2000 versus outflows of USD 390 million during the previous year. Foreign exchange reserves of USD 38 billion in May 2000 were sufficient to cover 7.7 months of imports.

The exchange rate vis-a-vis the U.S. dollar has remained stable, moving in a narrow range of Rs. 43.30-43.65/dollar during IFY 1999-2000, but depreciated by 2.6 percent in May 2000. To curb volatility, the Reserve Bank of India (RBI) intervened and imposed a surcharge on import financing. Inflation, as measured by the wholesale price index, remained in the 2-4 percent range in IFY 1999-2000, but rose to more than 6 percent in May; it is expected to remain at this level through most IFY 2000-01.

The Government's annual budget for IFY 2000-01 targeted a fiscal deficit of 5.1 percent of GDP. The budget focussed on increasing revenues, simplifying excise duties, and cutting subsidies, but failed to control government expenditure or improve the fiscal deficit.

The Indian stock markets experienced high volatility during 2000. The two major exchanges have introduced their first pure derivative products, index futures. The Securities and Exchange Board of India continues to modernize the capital market. Standard and Poor's affirmed its BB long-term foreign currency rating in March 2000 and upgraded the outlook to positive from stable. Three Indian companies, Infosys Technologies, Satayam Infoway and Rediff Communications listed on the NASDAQ during the year.

President Clinton visited India in March 2000, and signed a vision statement with Indian Prime Minister Vajpayee to further strengthen the relationship between the two countries in the 21st century. Both countries agreed to institutionalize an ongoing dialogue to intensify and regularize bilateral exchanges on issues ranging from trade, finance, investment, energy, and environment to foreign policy, regional and international security, and non-proliferation concerns. Business agreements valued at more than USD 4 billion were signed between the two countries during the President's visit. During the visit, the U.S. Export-Import (ExIm) Bank agreed to guarantee up to USD 1 billion in rupee-denominated trade financing. U.S. companies operating in India continue to use the goodwill generated by the President's visit to pursue project approvals and development in India.

India's nuclear tests in May 1998 and its failure to sign such global nonproliferation accords as the Comprehensive Test Ban Treaty remain serious issues for the U.S. As a result of the tests and ensuing economic sanctions, the task of executing the U.S. common agenda with India was made more difficult. The Congressionally-mandated sanctions eliminated some of the "tools" for the U.S.

Government's trade and investment promotion and financing for U.S. companies. Projects that had U.S. promoters or involved new U.S. Government-assisted financing were forced to identify alternative financing, and many ended up costing more to implement. U.S. exports of dual-use technology and products were severely affected, as licensing became a limiting factor. 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 U.S. business did not suffer. On December 16, 1999, the U.S. Government removed 51 entities from the entities list originally published in 1998.

The following are 15 best prospect industry sectors in India for U.S. firms: Computer software and services; telecommunications services; telecommunications equipment; computers and peripherals; pollution control equipment; oil and gas machinery; medical equipment; chemicals and petrochemicals; food processing and packaging equipment; biotechnology; power transmission and distribution systems; airport and ground support equipment; water resources; air-conditioning and refrigeration equipment; agricultural chemicals.

India's economy is fundamentally sound, and has recently experienced the emergence of "new economy" sectors, such as information technology, communications and entertainment. On balance, India continues to develop an attractive business environment for foreign investment. However, high interest rates, a large government fiscal deficit and inadequate infrastructure have hampered economic growth and dampened the appetite of foreign investors from time to time.

CHAPTER II. ECONOMIC TRENDS AND OUTLOOK

— Economic trends and outlook
— Principal growth sectors
(e.g., manufacturing, agriculture, and services from an Indian macro perspective)
— Government role in the economy
(India's budget priorities, privatization of state enterprises)
— Balance of payments situation/external sector
— Adequacy of the infrastructure system
— Regional economic integration

SUMMARY OF THE CURRENT MACROECONOMIC SITUATION

Economic reforms since 1991 have led to stronger economic growth, higher investment flows, and growth in trade. The fundamentals of the Indian economy are generally sound. The Indian economy has recently witnessed the emergence of "New Economy" sectors, such as infotech, telecommunications and media and entertainment. Inflation has been moderate and foreign exchange reserves strong. Exports and industrial production are growing again after a slump. Albeit, political uncertainty, high interest rates, a large government fiscal deficit and inadequate infrastructure have hampered economic growth.

The economy continues to grow at a moderate pace of 5.5 to 6.0 percent annually. Real gross domestic product (GDP) growth was 5.9 percent in Indian fiscal year (IFY) 1999-2000, down from 6.8 percent in IFY 1998-99. The slowdown is primarily due to slower agricultural growth. Industrial production grew 8.2 percent in 1999-2000, double the rate of the previous year, while growth in services was buoyant at about 8.2 percent. The industry sectors that grew were chemicals, machinery, cement, cotton and textiles, cars, commercial vehicles, motorcycles and basic metals. For the current year, the Reserve Bank of India (RBI) projects real GDP growth of 6.5-7.0 percent. Despite the optimism, India faces difficult months ahead on the fiscal front. Growth prospects are clouded by the central and state government's consistent failure to live within their means.

The trade deficit in IFY 1999-2000 increased to USD 8.6 billion from USD 8.2 billion the previous year. Exports have turned around, growing by 12 percent as compared to a fall of 1 percent in IFY 1998-99. Total foreign investment (direct and portfolio) was USD 3.7 billion in 1999-2000, up from USD 1.7 billion the previous year. Foreign exchange reserves at USD 38 billion in May 2000 are enough to cover 7.7 months of imports. External debt was up USD 99 billion in September 1999 versus USD 97.7 billion in March 1999. The exchange rate remained stable, moving in a narrow range of Rs 43.30-43.65/dollar during 1999-2000 but depreciated by 2.6 percent in May 2000. To curb volatility, RBI intervened in the market and imposed a surcharge on import finance.

The gross fiscal deficit of the central government for IFY 1999-2000 rose to 5.6 percent of GDP, well above the target of 4 percent or the previous year's deficit of 4.5 percent. The consolidated center and state deficit is over 10 percent of GDP. A fiscal deficit of 5.1 percent is projected for IFY 2000-01. Inflation measured by the wholesale price index (WPI) remained in the 2-4 percent range in 1999-2000. In May 2000, inflation rose to over 6 percent and is expected to be 6-7 percent through most of the fiscal year. Stock markets were volatile in 1999-2000. Standard and Poor's Credit Rating Agency affirmed its double B long-term foreign currency rating in March 2000 and upgraded the outlook to positive from stable.

Parliamentary elections were held in September and October 1999. The National Democratic Alliance (NDA) led by Bhartiya Janta Party (BJP) under Atal Bihari Vajpayee secured a comfortable majority of 303 seats. The manifesto of the NDA calls for education for all, 8 percent economic growth, foreign investment of USD 10 billion annually and faster privatization of government-owned industries. The Parliament since has passed major economic bills—the Insurance Regulatory Authority and Development Act, the Foreign Exchange Management Act, the Securities Laws (Amendment) Bill 1999, and the Information Technology (IT) Bill, which gives e-commerce a legal framework.

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 in September/October 1999. 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. Mr. A.V. Vajpayee succeeded himself as Prime Minister when his BJP was re-elected to head a 19-party coalition called the National Democratic Alliance. The Prime Minister 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.

U.S. President Bill Clinton visited India during March 2000. Together with Prime Minister Atal Bihari Vajpayee, President Clinton, signed a Vision Statement to further strengthen the relationship between the two countries in the 21st century. Both countries agreed to institutionalize an ongoing dialogue to intensify and regularize bilateral exchanges on issues ranging from trade, finance, investment, energy, and environment to foreign policy, regional and international security, and non-proliferation concerns. Business agreements of USD 4-5 billion were signed between the two countries. The U.S. ExIm Bank has agreed to guarantee up to USD 1 billion in rupee-denominated trade financing.

Finance Minister, Yashwant Sinha presented the 2000-01 budget on February 29, 2000. It simplified excise taxes and custom duties by reducing the number of rates and raised dividend and income taxes. The defense budget was increased by 28 percent over last year's budget estimate. The budget increased money for rural development, support to the states, and for science and technology. It avoided direct action on the fiscal front, weak public sector banks, and disinvestment. It was passed with no changes made to contentious subsidy cuts.

India's relations with her immediate neighbors remain mixed, with only limited progress in regional economic cooperation. India's foot dragging prevented much action in the ongoing SAARC process for regional cooperation in South Asia.

ECONOMIC 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. The Indian economy continues to perform relatively well and long-term prospects are good. The trend growth rate is about six percent, with variations around that trend depending mainly on volatile agriculture performance. With further reform that trend rate could be boosted to 8 or even ten percent. With greater access to international markets, capital inflows may rise as industry borrows more. Serious concerns remain about inadequate infrastructure and high budget deficits. Moody's and Standard and Poor's upgraded India's outlook to positive from stable in March 2000, noting better prospects for accelerated economic reforms and positive trends in external flexibility. India's economic international competitiveness ranking has slipped by four places to 43th position due to large budget deficit.

Growth in GDP: Real GDP growth was 5.9 percent in 1999-2000, compared to growth of 6.8 percent in 1998-99 and 5 percent in 1997-98. The slowdown was primarily on account of poor agricultural performance. An industrial recovery is underway from the cyclical downturn of the last two years. The growth in the service sector slowed but remained an engine of growth at 8.2 percent. This year, the RBI projects real growth will be between 6.5-7.0 percent. The rapidly growing software sector is boosting service exports and modernizing India's economy.

Inflation: The inflation rate based on the Wholesale Price Index was 3.3 percent during IFY 1999-2000, compared to 6 percent the previous year. Adequate supply of goods, slowdown in domestic consumption after depressed growth in agricultural incomes and lower money supply growth kept prices under control. The retail price inflation rate measured by the Consumer Price Index for Industrial Workers fell to zero growth in November 1999 after peaking at 19.7 percent in November 1998. It rose sharply to 5.5 percent in April 2000. Currently, WPI inflation is 6.7 percent led by higher fuel prices. Inflation is expected to remain in the 6-7 percent range throughout the year.

Fiscal Deficit: India's finances pose a threat to medium-term prosperity. The fiscal deficit for 1999-2000 slipped sharply to 5.6 percent of GDP, compared to the budget target of 4 percent and 4.5 percent achieved in 1998-99. Additional spending on pensions, subsidies, defense, elections, and loans to the states caused the overrun. Low receipts from the sale of government shares in public sector companies and shortfall in tax collections led to lower than projected revenue. When consolidated with fiscal deficits at the state level, the total public deficit exceeded 10 percent of GDP. The fiscal deficit for 1999-2000 is expected to be about 5.1 percent of GDP. This year the government reduced the interest rate it pays on small savings schemes and provident funds from 12 to 11 percent to reduce its interest costs.

PRINCIPAL GROWTH SECTORS

Agriculture: Agriculture accounts for 26.5 percent of India's GDP and employs 62 percent of the work force. Agricultural exports declined by 9 percent in 1999-2000. Agricultural production declined by 3.1 percent in fiscal year 1999-2000, compared to a positive growth of 8.2 percent in 1998-99. Food grain production registered a fall of 1.4 percent, reflecting a fall in output of wheat and pulses and coarse grains. The Agriculture Ministry has set a food grain target for IFY 2000-01 of 212 million tons, a five percent increase over last year. Rice production is expected to increase by 1.6 percent and wheat by 5.6 percent.

Services: The service sector, which includes trade, hotels, transport and communications, now accounts for 51 percent of GDP and is the largest and the fastest growing sector of the economy. Although slowing down slightly, services growth was at 8.2 percent during 1999-2000 versus 8.6 percent in the previous year. We expect services to continue to grow in the 8-9 percent range. Within services, telecom was the fastest growing sector and construction the slowest.

Industry: Industrial recovery is underway from the cyclical downturn of the last two years. Industrial production grew 8.2 percent in fiscal year 1999-2000, double the growth of 4 percent in IFY 1998-1999. Manufacturing growth of 9.3 percent is responsible for the upturn. Consumer durables were up 11.9 percent versus 8 percent last year. The industry sectors that witnessed growth were chemicals, machinery, cement, textiles, cars, commercial vehicles, motorcycles, and basic metals. Record food grain output in 1998-99 resulted in higher rural incomes and greater consumer demand contributed to the industrial recovery. The capital goods sector grew at a lower pace of 4.8 percent compared to 12 percent in the previous year. The pick-up in industrial production has generated higher business profits and investible resources. We expect industrial production to be in the region of 7.0-7.5 percent during 2000-01.

Banking and Finance: Further reforms in the banking sector seek to improve the efficiency and financial strength of commercial banks. Aggregate deposits of commercial banks stood at USD 27 billion in IFY 1998-99, an increase of 16 percent. Net profits of commercial banks declined 28 percent. The loss-making Indian Bank made an operating profit of USD 10 million for 1999-2000, largely because of cash recovery of USD 90 million from non-performing loans. The Parliament enacted the Foreign Exchange Management Act to ease regulations on foreign exchange transactions and to liberalize current account and capital account transactions. The government plans to accept the recommendations of the Narashimham Committee on banking sector reforms and reduce the required minimum government shareholding in nationalized banks to 33 percent. No public sector bank will be closed and the government may re-capitalize the weak banks.

Capital markets: Capital markets remained volatile in IFY 1999-2000. Resources raised from the primary markets rose 50 percent to Rs 57 billion in 1999-2000, with technology stocks being the leader. The recently passed, Securities Laws (Amendment) Act 1999, allows index futures and other derivatives and strengthens the legal framework. The Bombay Stock Exchange and National Stock Exchange both introduced their first pure derivative products—index futures. The Securities and Exchange Board of India (SEBI) has continued to modernize the capital market, relaxing the listing requirements for the Information Technology Sector and new companies. Domestic mutual funds can now invest in ADRs/GDRs issued by Indian companies. ICICI Bank became the first Indian Bank to list on New York Stock Exchange with a USD 175 million American depository shares issue generating a demand book 13 times its size at USD 2.2 billion. Three Indian companies, namely Infosys Technologies, Satayam Infoway and Rediff Communications listed on the NASDAQ during the year.

Insurance: The BJP-led government passed the Insurance Regulatory Development Authority (IRDA) Bill in December 1999. The bill removes the government monopoly on insurance and establishes IRDA as an independent regulator. The bill permits foreign equity participation upto 26 percent. Minimum capital norms are set at Rs. 1 billion for life and non-life business and Rs. 2 billion for reinsurance. The RBI will allow banks to act as agents of insurance companies on a fee basis. The bank entering insurance must have a net worth not less than Rs 5 billion. Non Banking Finance Companies (NBFCs) with net–owned funds not less than Rs 5 billion can enter the insurance business as a joint venture partner. The IRDA has completed work on the regulations needed to begin licensing new insurance companies. The bulk of the regulations are published on its web site at www.irdaindia.org. The IRDA will begin accepting license applications in September 2000.

Oil: Indian production of crude oil fell by 2.2 percent to 320 million tons in 1999-2000. The production decline is attributed to aging oil fields, inadequate power supply, and water cuts. Demand for petroleum products increased by 7 percent to 105 million tons during the year. Crude oil imports were 58 million tons during 1999-2000. India is planning to import 72 million tons of crude oil and petroleum products during the current year. Enhancing oil production is a priority for the government. The government implemented the New Exploration and Licensing Policy (NELP) in January 2000, awarding 25 blocks in the first round of bidding, with 40 more blocks to be offered in the next round. The government has raised the foreign equity cap from 49 percent to 100 percent in the refining sector.

The government has not automatically adjusted the prices of petroleum products in line with world prices, but has delayed increases, resulting in fewer, larger adjustments, and keeping the subsidy burden high. India still has the lowest kerosene and cooking gas prices in South Asia.

Broadcasting: Private radio broadcasting will begin officially in India this year. The government has granted licenses to 108 FM channels in 40 cities from the four AM channel and one FM channel currently run by state-owned All India Radio (AIR). Private broadcasters may offer education and entertainment only. The government retains its monopoly on news and public affairs programs. The government will auction more FM channels in more cities. Investors bid high prices for licenses, which had no relation with expected advertising revenue, which may undermine sector performance.

Coal: Coal accounts for about 70 percent of commercial energy consumption in India. Indian coal has a high ash content of 20-40 percent. IFY 1999-2000 coal production was 299 million tons, up 3 percent from last year. The government has fixed a 2000-01, target of 308 million tons. The government has ended the state monopoly on coal mining, allowing domestic private firms to mine coal. Private firms setting up power projects or mining coal or lignite for captive consumption will be allowed to bring in 100 percent foreign equity in coal-processing. The country has estimated coal reserves of 209 billion tons to the depth of 1200 meters. An investment of USD 18 billion will be required in the next 10 to 15 years to meet the growing gap between the demand and supply. Further reforms will be necessary to attract needed investment.

GOVERNMENT ROLE IN THE ECONOMY

U.S. President Bill Clinton finally made his much-awaited visit to India in March 2000. He headed a high level delegation that included Secretary of State Madeleine Albright, Commerce Secretary William Daley, and National Security Advisor Sandy Berger. President Clinton and Indian Prime Minister Atal Bihari Vajpayee signed a joint vision statement to work together for global peace and prosperity in the 21st century. Under this vision, commercial ties between the two countries, especially in knowledge-based industries and high technology, will expand. Both countries will work together to strengthen an open, equitable, and transparent rule based multilateral trading system. President Clinton in his speech to a joint session of Parliament urged India to overcome its objections to the WTO, adding that differences in approach between India and the U.S. should not hinder mutual trade. The U.S. and India differ on linking labor standards and environment with trade, multilateral investment agreement, and competition law. In agriculture, industrial tariffs, and e-commerce, both the countries share common interests. Business agreements worth more than USD 4-5 billion were signed between the two countries during President Clinton’s visit.

Budget: On February 29, 2000 the Finance Minister (FM) presented the Indian government’s budget for fiscal year 2000-01, targeting a fiscal deficit of 5.1 percent of GDP. The budget focussed on increasing revenue, simplifying excise duties, and cutting subsidies but failed to control government expenditure or improve the fiscal deficit. The budget increased spending on rural development, support to the states, and science and technology. The defense budget increased by 28 percent over last year’s target. The FM extended temporary taxes or duties put in place last year. Controversial cuts in food and fertilizer subsidies were made. Sectors that received favor were housing, construction, the film industry, telecom, infotech, and pharmaceuticals.

The government eliminated a two- percent tax on bank income from interest to encourage banks to lower lending rates. A proposed amendment to the banking act will allow the government to reduce its share in public sector banks to 33 percent. Exports, including software exports will lose their tax exemption over five years. The dividend tax was increased from 10 to 20 percent to match the tax on interest income. The three ad valorem rates of basic excise duty (8, 16 and 24 percent) have been merged to a single rate of 16 percent called the Central Value Added Tax. The peak customs duty was reduced from 40 to 35 percent, but the 10 percent surcharge was extended and with the 4 percent SAD make the applied rate just fewer than 40 percent. Items removed from the list of quantitative restrictions attract the peak tariff of 35 percent. The major reaction to the budget was disappointment. Reform advocates had hoped for more while opposition parties across the board slammed the budget as anti-poor. The finance bill was passed with no changes made to contentious subsidy cuts, and surprisingly little opposition.

Trade Policy: The government Export-Import (EXIM) policy this year removes quantitative restrictions on the import of 714 items as part of India's agreement with the U.S. to abolish all quantitative restrictions by March 31, 2001. 715 items remain to be removed by March 2001. The EXIM policy also created special economic zones. Four existing export-processing zones will convert to special economic zones. Export procedures were rationalized and special incentives provided for jewelry, software, pharmaceuticals, and biotech exports. The government raised customs duties on tea, coffee, poultry meat, marble slabs, tiles, and cooking coal to protect domestic industry.

Investment Policy: Although the 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.

Monetary Policy: Broad money (M3) in 1999-2000 increased 13.6 percent, lower than the RBI's target of 15.5-16.0 percent and 19.2 percent actual growth in 1998-99. The lower money supply growth was possible because of lower expansion in reserve money, a decline in the monetized government deficit. Net RBI credit to the central government was 3 percent lower in 1999-2000 than in 1998-99. Bank credit to business increased 16 percent, up from 14 percent in the previous year. Bank investment in government securities increased by 25 percent in 1999-2000.

Credit Policy and Bank Regulation: The Reserve Bank of India has been experimenting with lower interest rates but has been constrained by the extent of pre-empted domestic savings to finance the fiscal deficit. The credit policy for April- October 2000 aims to ensure easier money conditions while guarding against any emerging inflationary pressures. The policy relaxed the requirement of maintaining a Cash Reserve Ratio (CRR) on an average daily basis to 65 percent, introduced a full-fledged Liquidity Adjustment Facility, eased procedures for financial institutions to raise resources, rationalized prime lending rates, and promised a new capital adequacy ratio (CAR) framework soon. With inflation rising and government borrowing running strong, the RBI faces strong pressure to increase rates lowered earlier this year.

Public Sector Disinvestment: There are 247 public sector companies owned by the central government, and many more owned by state governments, covering a broad range of sectors, from heavy industry to financial services. They are generally overstaffed, inefficient and offer a poor return on investment. Public sector reform has been stymied by political sensitivities about the role of the public sector and the fate of employees. The Prime Minister, in December 1999, created a Disinvestment Department with greater executive powers to accelerate privatization. In IFY 1999-2000, the disinvestment program began with a small sale of shares in Gas Authority of India. In January 2000, the Disinvestment Committee approved selling 51 percent of government equity in Indian Airlines — 26 percent to a strategic partner and the remaining 25 percent to FIs, employees, and the public. The government sold 74 percent of Modern Food Industries to Hindustan Lever for Rs 11 billion. In 1999-2000 the government raised USD 1.2 billion from disinvestment. The 1999-2000 budget set a revenue target for disinvestment of USD 2.3 billion. The budget said that Public Sector Units (PSUs), which cannot be revived will be closed down and that government equity in non-strategic PSUs will be eventually reduced to 26 percent. The Disinvestment Department has prepared a roadmap for a more planned and aggressive approach to privatization than in the past.

BALANCE OF PAYMENTS SITUATION/EXTERNAL SECTOR

Foreign Trade: Exports recovered sharply, growing by 12 percent during 1999-2000 compared to a fall of 1 percent in IFY 1998-99 and 3 percent in IFY 1997-98. Low inflation has strengthened the competitiveness of India's exports in global markets. Total exports were USD 37.6 billion in 1999-2000 and the trade deficit was USD 8.6 billion, up from USD 8.2 billion in the previous year. India's exports to East and South East Asia, including those to Japan, and Korea have shown a significant rise. While gems and jewelry, handicrafts, chemicals, software, and engineering goods have recorded high growth rates, agricultural exports fell. Imports grew 10.5 percent in IFY 1999-2000, compared to 2.5 percent in 1998-99. Oil imports were higher by 64 percent due to the spurt in global petroleum prices. Non-oil imports grew by just 1.4 percent. The downturn in gold and silver imports and a sharp fall in capital goods imports contributed to the slowdown. The Ministry of Commerce and Industry set an 18 percent export growth target for this year.

Foreign investment: Total foreign investment in IFY 1999-2000 was estimated at USD 3.7 billion, more than double the amount of USD 1.7 billion in 1998-99. The increase was on account of higher foreign equity issues and increased portfolio investment even as foreign direct investment (FDI) registered a slowdown. FDI was down to USD 1.6 billion compared to USD 2.1 billion in 1998-99. The falling inflow of FDI may upset the government's medium term target of achieving FDI inflows of USD 10 million. Institutional investors appeared extremely optimistic about India as they brought in fresh inflows of USD 2.1 billion during 1999-2000 as against outflows worth USD 390 million during the previous year.

Foreign Exchange Reserves: Foreign reserves (including gold and SDRs) stood at USD 38 billion at end April 2000, enough to cover 7.7 months of imports. This compares favorably to reserves of USD 32 billion in March 1999.

External Debt: Total external debt stood at USD 99 billion in December 1999 compared to USD 97.7 billion in March 1999. The external debt-GDP ratio was around 22.3 percent in March 2000, down from 41 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 18 percent in IFY 1999-2000. India's external debt position is manageable, with short-term debt accounting for only 4.7 percent of total external debt. Nearly 40 percent of India's longer-term debt is on concessional terms

Real Exchange rate: The rupee remained fairly stable during the year and moved in a narrow range of Rs 43.3-43.7/dollar. The weaker dollar, high foreign exchange earnings, and low inflation contributed to the rupee's stability during the year and helped to maintain the competitiveness of Indian exports. In May 2000, however, the foreign exchange market witnessed considerable volatility as the rupee depreciated by 2.6 percent. To curb the volatility, RBI intervened in the market and imposed a 50 percent surcharge on import finance and cautioned banks against building speculative reserves.

Balance of Payments: India ended IFY 1999-2000 with an estimated current account deficit of USD 4 billion, about 1 percent of GDP, down from a deficit of 6.5 billion in IFY 1998-99. The improvement was due to strong receipts of net non-merchandise exports, led by software. The government controls external commercial borrowing (ECB), but allows Indian firms to use ECBs to finance foreign currency capital expenditures within limits set annually by the Ministry of Finance. ECB rules were revised in February and June 2000. The government has raised the ECB limits through the automatic route to USD 50 million and RBI can approve proposals up to USD 100 million.

Seven infrastructure sectors including power, telecom, railways, road, including bridges, ports, industrial parks, and urban infrastructure will qualify as infrastructure sectors. Infrastructure companies and export-oriented units can raise more funds in overseas debt and equity markets up to USD 200 million. Export earners can now repay outstanding external loans. The government has retained the total annual ceiling of USD 8.5 billion on ECBs. The government has made it simpler for Indian companies' abroad to acquire companies abroad. The ceiling for automatic approval for overseas investment has been raised from USD 15 million to USD 50 million.

ADEQUACY OF THE INFRASTRUCTURE SYSTEM

Outlook: Inadequate provision of high quality and reasonably priced infrastructure services represents a major barrier to continued growth of the economy. Inefficiencies and shortfalls in capacity are reflected in congested roads and ports, power failures, and drinking water shortages. Infrastructure investments have slowed considerably, largely because of the uneconomic pricing of the power and other services. To sustain a real GDP growth of 7 to 8 percent, it is imperative to accelerate the rate of infrastructure investment. To boost infrastructure development, the government continues to simplify FDI rules in several sectors. The power and telecom sectors require an estimated USD 300 billion funding in the next 10 years. The government has removed the Rs 15 billion cap for automatic clearance to 100 percent FDI proposals for power sector projects. U.S. EXIM bank has signed an MOU with India's Power Finance Corporation for up to USD 500 million support for transactions involving U.S. exports of energy-related technologies.

Power: As of March 2000, India's installed power generation capacity was 96,682 MW. Total power generation during IFY 1999-2000 was 480 billion kWh, up 7 percent from last year. Power shortages increased during IFY 1999-2000, with a 6.2 percent overall shortage and 12.4 percent peak shortage. State Electricity Boards (SEB's) continued their poor financial performance in 1999-2000, with an average rate of return on assets negative 12.2-16.0 percent. This was largely due to massive subsidies to agricultural and domestic users, which are not adequately reimbursed by state governments. The Power Ministry estimates that 35-40 percent of generated power is lost in transmission, distribution and technical losses. The theft and pilferage at the macro level was estimated at 4.6 billion annually. To prevent electricity theft, the government is proposing to make power meters mandatory in every slum, factory, house or office by December 2001. The Central Electricity Authority (CEA) has projected a peak energy requirement of 570 billion kWh in 2001-02 and 782 billion by 2006-07. Peak load is estimated to reach 95,757 MW in 2001-02 and 130,944 MW in 2006-07. The CEA estimates India's current generation capacity will double in 10 years, requiring more than USD 120 billion in new investments. Even if the country doubles its present capacity by IFY 2011-12, it will still face a shortage of 28,000 megawatts.

The state-owned Power Trading Corporation is expected to take the power generated by the 1,800 MW Ennore and 500 MW Jayamkondam plants in Tamil Nadu as the state electricity board cannot provide payment guarantee to purchase the electricity. The government has issued guidelines allowing states to share power from central utilities, linking it with power sector reforms. Under the new formula, states will have to sign power purchase pacts with central utilities and make payments upfront. Although the Power Ministry has streamlined the approval process, most private power projects have not reached financial closure due to the inherent risk of selling to insolvent SEB's. Counter guarantees for the foreign debt component of 'fast-track' projects planned by the AES's Ib Valley project and Mangalore power project were issued in December 1999. Cogentrix, however, walked out of the Mangalore power project citing inexplicable delays.

In view of the insolvency of the SEB's, the Indian financial Institutes, including the Power Finance Corporation have linked their funding to credible state-level reform program meant for restructuring the utilities. The disbursement of loans will henceforth be tied to corporatization, breaking up the SEB's into separate generation, transmission and distribution companies, metering, reduced transmission and distribution losses and phasing out subsidies. The government is considering divestment of its equity in the National Thermal Power Corporation, National Hydel Power Corporation and the Power Grid Corporation of India.

New electricity legislation to enable the restructuring of the power sector is to be passed in the parliament this year. The legislation would do away with the existing requirement to obtain techno-economic clearance from the Central Electricity Authority. It recommends that be desegregated into horizontally separated generation and transmission and distribution entities and the transmission utility be corporatized within six months. The states will be required to establish state electricity regulatory commissions within three months and to ensure that electricity supply and consumption is metered and consumers are billed.

Roads: India's road network of 3 million kilometers is the third largest in the world. Half of roads are unsurfaced, with only 52,010 km of national highways suitable for high-speed traffic. The government estimates that by 2005, road traffic will account for 85 percent of passenger traffic and 70 percent of goods traffic. The government has given greater financial powers to the National Highway Authority of India (NHAI) to execute the Rs 540 billion National Integrated Highway Project connecting Delhi, Mumbai, Chennai, and Calcutta with East-West and North-South corridors and for sanctioning and implementing highways projects. The cost of upgrading the existing highway system is over USD 23 billion. The World Bank has cleared a loan of USD 516 million and ADB has offered USD 200 million for the project. The project also will receive funds from a tax on diesel fuel and state and central government contributions. NHAI can float bonds, which could result in an inflow of USD 925 million. Up to 100 percent FDI is allowed for construction of roads and bridges and highway construction equipment can be imported at low duty.

Railways: Indian Railways operates a network of 62,809 kilometers, 23.3 percent of which is electrified. Freight traffic in IFY 1999-2000 was 456 million tons, up 8 percent over the previous year. The freight policy plans to hold freight prices steady for at least one year. This year's target is 475 million tons. The 2000 Railway budget focused on improving safety, passenger amenities, and capacity increases. It proposes to build a nation-wide telecom and multimedia network by laying optic fiber cables along rail networks, creating a telecom corporation to provide value-added data and communication services to companies, besides meeting the railway requirements. The Railway's Build-Own-Lease-Transfer (BOLT) and Own-Your-Wagon Schemes have not attracted private investors.

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 272 million tons of cargo in IFY 1999-2000, registering a growth of 8 percent over last year. The Jawaharlal Nehru Port (JNPT) near Mumbai saw a 28 percent growth in traffic, buoyed by a 30 percent increase in container cargo. Port traffic has been growing 9-10 percent annually and is projected to reach 424 million tons by 2002 and 650 million tons by 2005-06. Besides working beyond their optimal capacity, India's ports are very inefficient by world standards, with ship turnaround times averaging 6.9 days. This stems from highly unionized labor, low labor and equipment 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 available port capacity, the government passed the Major Port Trust Act 2000 enabling port trusts to form joint ventures with the private sector, including foreign ports. It seeks private investment of about Rs. 400 billion by 2012 to increase the capacity of major ports. Automatic approval of foreign equity up to 100 percent is available for the port and harbor construction. A new major port at Ennore, 25 kms north of Chennai is being constructed with the help of ADB loan costing USD 216 million. International Sea Ports and Stevedoring Services of America are developing Port Dhamra, a private port.

India's 148 minor ports are under the jurisdiction of their respective states. Minor ports handle about 10 per cent of total traffic. Gujarat, Maharashtra and Andhra Pradesh have progressive privatization policies and have attracted private investment for port development at existing ports and green field sites. The lack of rail and road links hinders development of minor ports, but state governments competing to attract investment have significantly reduced red tape. The Maritime States Development Council is framing an integrated policy for Indian ports.

Telecommunications: India operates one of the largest telecommunication networks in Asia comprising over 26,049 exchanges with a capacity of nearly 27 million lines and 23 million working connections as of December 1999. Domestic long distance service is to be opened up to private operators this year. The Department of Telecom (DOT) is to be corporatized by 2001 and Mahanagar Telephone Nigam Limited (MTNL) begin cellular operations. Existing basic and cellular licensees continue under existing licenses. New licenses will be granted for vacant circles with firms paying a one-time entry fee and a revenue-sharing arrangement determined by the Telecom Regulatory Authority (TRAI). The DOT plans to provide 18.5 million new telephone lines by 2002, while private operators are expected to provide 5.2 million lines. A group of secretaries has recommended that international long distance telephony be opened in 2002 instead of 2004. Internet telephony on is not permitted.

The TRAI (Amendment) legislation has been passed by the parliament paving the way for reconstitution of the TRAI and creation of the Telecom Dispute Settlement and Appellate Tribunal (TDSAT). The legislation empowers the TRAI to provide recommendations on various aspects related to the functioning of telecom service providers in India and to discharge certain regulatory functions. The TRAI will determine the quantum of revenue sharing, entry of new players and matters related to licensing and operations. TRAI will arbitrate between (DOT) and license holders. The TDSAT has been empowered to adjudicate on disputes between the licensor, licensee, and the service providers and also act as the appellate authority on any directions, decisions, and orders of the TRAI. The decision of the Tribunal can only be challenged in the Supreme Court of India.

A new satellite policy was announced in 1999. Companies intending to establish and operate satellite systems for telecommunications, broadcasting and internet-related services will be allowed foreign equity up to 74 percent provided they are registered in India. Users will also be permitted to use foreign satellites if capacity is not available on Indian satellites.

Information Technology: The software industry has emerged as one of the fastest growing sectors in the economy with compound annual growth rate exceeding 50 per cent in the last five years and total annual receipts of USD 5.7 billion and exports worth USD 3.9 billion in 1999-2000. A separate Ministry of Information Technology (IT) has been established to promote knowledge-based enterprises, Internet, e-commerce and IT related education in India. The IT Ministry hopes to make India an IT superpower in the next century and achieve a target of USD 50 billion in software exports by 2008. A series of measures are proposed in information and communication technology infrastructure and the legal and regulatory framework to develop Indian e-commerce. The recently passed IT Act, 2000 in the budget session amended laws to facilitate e-commerce and provide a legal framework for electronic contracts, and digital signatures to enable the conclusion of contracts, creation of rights and obligations through the electronic medium, and prevent computer crimes.

The National Association of Software and Service companies (NASSCOM) put the total volume of e-commerce in India at USD 102 million for 1999-2000. Of this, USD 11 million was contributed by retail business-to-consumer transactions and business-to-business dealings on the Internet. E-commerce is expected to grow over USD 10 billion in the next eight years. More than 437 Indian software companies provide web-based applications and services. E-commerce solutions exports are expected to increase to USD 2 billion by 2002, when total Indian software exports are projected to be USD 8.7 billion. The government allows foreign equity of 100 percent in business to business e-commerce ventures, provided the overseas promoters agree to divest 26 percent of their holding to the Indian public within 5 years. Foreign investment will not be permitted in business to consumer operations.

The Internet has the potential to explode to 37 million connections once net connections are available to cable networks spread across India. The television and the Internet are converging with web cruisers and internet-enabled TVs. Private Internet service providers (ISPs) have slashed Internet rates by 20 to 66 percent between December 1999 and March 2000. Private ISPs now will be allowed to uplink to any satellite - foreign or domestic — on both Ku-band and C-band, without having to go through the state-owned international telecom carrier VSNL. The increasing growth of Internet and data traffic is prompting the industry to upgrade infrastructure and introduce high bandwidth or broadband communications to ease data transfer. The current Internet international bandwidth availability in India is 375 Megabytes per second while the present demand is 5 Gigabytes per second. The requirement by end 2000 is expected to be 10 Gbps and by 2005 it will be 300 Gbps. Software companies depend on telecommunication and broad bandwidth to do business with overseas clients, via teleconferences, the Internet, and for remote access of client systems.

REGIONAL ECONOMIC INTEGRATION

India’s relations with her immediate neighbors remain mixed. In the 1990’s India adopted a conscious “Look East” policy and there has been a substantial increase in bilateral trade and investment between India and ASEAN countries. India’s outward-oriented regions of western and peninsular India are already linked closely to Southeast Asia through maritime trade, air links and other commercial and financial links. Singapore and Mumbai maintain close links in the financial sector.

India is an active member of the South Asia Association for Regional Cooperation (SAARC) and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). India has liberalized the procedures for Indian investment in the SAARC region, raising the ceiling for Fast Track approvals from USD 4 million to USD 15 million and lifting quantitative restrictions on imports from SAARC countries. The South Asian Preferential Trading Arrangement (SAPTA) has established a framework to exchange trade concessions among SAARC member countries, with the objective of a South Asian Free Trade Area (SAFTA)by 2001. BIMST-EC, the Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation group also offers regional cooperation.

Bangladesh is India's largest trade partner in the region. Sri Lanka has traditionally been an important export market for India and is the second largest importer of Indian goods in the region after Bangladesh. India and Sri Lanka signed a free trade agreement in December 1998 under which tariffs on a large number of items will be phased out within a time frame. India provides trade concessions to Sri Lanka within the SAPTA framework to improve market access for Sri Lankan products in India. India's trade with Pakistan is constrained by the discriminatory policy adopted against imports from India. While India accorded MFN treatment to imports from Pakistan, Pakistan is yet to allow its trade on an MFN basis. In the post-Kargil context, the worsened political relations between India and Pakistan further affect economic relations.

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, including nuclear nonproliferation and counter terrorism. 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. 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. President Clinton telephoned 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 strengthen 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 Congressionally-mandated sanctions, trade, development aid, and implementation of our common agenda has become more difficult. Loans by international financial institutions for projects not related to basic human needs have been curtailed. India's credit rating has dropped and borrowing costs for the business community have increased. On the other hand, after the nuclear tests the BJP government cleared a number of pending projects, including several proposals from the United States, in record time, presumably to signal that business would proceed as usual.

MAJOR POLITICAL ISSUES AFFECTING THE BUSINESS CLIMATE

The BJP-led coalition government elected in March 1998 was toppled after thirteen months by a narrow vote of no confidence. The BJP was re-elected to power in the fall of 1999 at the head of a 19-party coalition. This government continues 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 parties to reductions in subsidies, further privatization and labor law reforms remains an important inhibition to modernizing the Indian economy. 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 and its failure to sign such global nonproliferation accords as the Comprehensive Test Ban Treaty remain serious issues for the United States. As a result of the tests and ensuing economic sanctions, the task of carrying out the U.S.' common agenda with India was made more difficult. The Congressionally-mandated sanctions eliminated "tools" for the U.S. Government's 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 were severely affected, as licensing became a limiting factor. 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 has tried to minimize the negative effects of the sanctions. The cost to India of manufacturing more of its own defense needs is likely to increase, however, and thus intensify pressures for more defense spending at the expense of basic infrastructure and other badly-needed sectors. Similarly, the armed conflict with Pakistan in 1999 along the contested border of northern Kashmir has increased political pressures for higher defense budgets. Various other governments have instituted nuclear-related sanctions of various kinds, and support for multilateral agency loans to India has 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 resulted in three wars between 1947 and 1971. The most recent conflict was a limited but bloody struggle over the contested border dividing northern Kashmir in the spring/summer of 1999. The U.S. called for restraint by both sides to prevent the situation from escalating. India's stock market was weakened by the conflict, but the impact was relatively short-lived. The longer-term consequences of the conflict have been serious damage to Indo-Pakistan relations and heightened military tensions between the two nuclear-armed neighbors.

In India, enormous social diversity and democracy give rise to many voices of dissent. Many major decisions generate vigorous debate along caste, ethnic/linguistic, religious, regional, urban/rural, socio-economic, and ideological lines. 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 with needed reforms at a desirable pace because it is faced with mediating among competing interests both within its own party and among coalition partners. 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 not yield the gains in liberalization it has achieved without a fight. To deal with this, BJP leaders have projected a "swadeshi" or nationalist image, and called for India to be built by Indians. We believe that these leaders can embrace economic nationalism without antagonizing foreigner investors and traders 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 largely 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 April 1999 the BJP-led government of Prime Minister A. B. Vajpayee (a 13-party coalition) lost a parliamentary vote of confidence by one vote. Attempts by the main opposition, the Congress Party, to form an alternative government failed and President K. R. Narayanan ordered new national elections. In the Lok Sabha elections in the fall of 1999, the BJP again emerged as the single largest party but again did not command, by itself, a majority. The BJP returned to power, however, because it was able to cobble together a workable coalition of 19 center-right and regional parties. Since then the Prime Minister has strengthened his leadership and managed successfully the complex politics of his diverse coalition.

CHAPTER IV. MARKETING U.S. PRODUCTS AND SERVICES

— Distribution and sales channels
— 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
— Government procurement practices
— Protecting your product from IPR infringement
— Need for a local attorney
— Performing due diligence/checking bona fides of banks/agents/customers
— E-commerce related websites

DISTRIBUTION AND SALES CHANNELS

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.

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 adaptation 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 1 billion. The urban population is approximately 300 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 approximately 4 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 pricing. 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.

There has been a big quantitative expansion in distribution channels in India during the past few years. The total number of retail distribution outlets in the country is more then 4 million. A firm can take its products to the user in more ways then one. It can use different types of marketing intermediaries; it can structure its channel into a single tier or a three-tier outfit. After deciding on the broad design of the distribution channel and the number of tiers in the channel, the number of members required in each tier and their locations are decided, after which suitable dealers need to be selected and appointed.

In selecting a distributor, the following considerations are important: business reputation and business standing; business capacity and salesmanship; expertise and previous experience in the line; financial capacity and willingness to invest in the line; and creditworthiness. In addition, an ideal distributor will have the capacity to offer customers the required assortment of products and services and a willingness to extend credit. The distributor will be able to provide storage facilities, showrooms, shops, service workshops, salesmen and service commensurate with the expected volume of business.

USE OF AGENTS AND DISTRIBUTORS; FINDING A PARTNER

When a company wants to sell its products or services in India before establishing a branch office or a subsidiary, it can enter the market by appointing an agent or a distributor. If the product has a wider and a specialized market, it would be appropriate to appoint agents region-wise.

With the gradual opening up of the market in line with India’s WTO commitments, U.S. exporters will find a high response rate from potential agents and distributors for many products.

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 are 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 an 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. The U.S. firms should set up proper feedback systems so that the level of dedication in the venture remains stable.

The U.S. firms should examine all distributor prospects and thoroughly research the more promising ones. Credit and reputation checks will be 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.

To gauge an agent's abilities, U.S. firms should evaluate him in the Indian context. For example, rather than focusing on the decor 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 to ensure the technical expertise of agents. 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. After performing a credit check of the proposed partner, contract details can be negotiated and a memorandum of understanding or agency agreement finalized.

U.S. companies can take advantage of the Agent Distributor Service (ADS) offered by The Commercial Service through its seven offices in India.

FRANCHISING

While a sizeable proportion of the Indian population still lives in the villages and has limited purchasing power, India also has a large and growing middle class and wealthy segment of consumers. The Indian market has a segment of more than 200 million people with growing purchasing power, who seek products and services for a better lifestyle.

Approximately 2 percent of Indians have a per capita income in excess of USD 13,000, which translates to 20 million people - a number that is greater than Malaysia and Singapore put together. Approximately 8 percent of Indians have a per capita income of more than USD 3,500, which means 80 million people - larger than the population of South Korea. More than 100 million Indians have a per capita income in excess of USD 2,800.

Franchising has been used to do business in India since several decades. One well-known example of this is the Bata shoe Chain, started by Canadian Thomas Bata in the 1960’s. From using franchising for ‘spare real estate’ or for ‘what one’s wife did’, the concept has moved to new franchise business concepts in healthcare, foods, education, entertainment, fitness clinics and courier services, to name a few. Franchising is poised to spur economic growth because it encourages private enterprise with no danger of flight of capital, and because it offers the potential to establish products and services that meet global standards.

A legal framework for new franchisers interested in setting up master franchises in India already exists, in terms of brand protection and rules regarding payment of franchise fees. However, there is also a growing need to smoothen this regulatory framework.

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, this 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 its 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. 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 USD 32,000-34,000.

While franchising has mushroomed in India, the concept has initially worked mainly on an agent basis. It is still evolving and being refined, so that interaction between franchiser 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 that is 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 franchisers 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 one 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 similarity 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 franchiser 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 franchiser. 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.

The Franchising Association of India (FAI) was established through the efforts of the Indo American Chamber of Commerce in 1999. The first organization of its kind in India, it represents the interests of franchisers, franchisees, vendors, consultants and other interested individuals and bodies. The FAI's objectives include enabling the business environment for franchising; acting as a resource center for current and prospective franchisers and franchisees, media and the government; promoting the concept of franchising and its use as a healthy business practice; establishing a discussion forum for franchising matters; and promoting the interests of members by organizing seminars, conferences and meetings. The FAI is in the process of establishing appropriate international linkages, and was admitted as a member of the World Franchising Council in early 2000. The FAI will make representations to the government with regard to legislative and other measures affecting franchising.

The FAI can publicize updated information on American franchisers that are interested in expanding their business in India. It can advise potential franchisers about the current legislative framework, and lobby with the government for changes. It can also help to identify high-quality potential Indian franchisees.

DIRECT MARKETING

In India, direct selling has traditionally meant contracting of outside agencies by manufacturers 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 in India was Eureka Forbes, which sells a range of household appliances through direct selling. Though 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 begun only recently.

According to the Indian Direct Selling Association (IDSA), which was established in 1996, the direct selling industry in India accounts for sales worth approximately USD 200 million and is estimated to be growing at 36 percent a year. Today, the direct selling industry employs 700,000 sales persons as compared to 8-10,000 in 1997.

Many Indian and multinational companies like Aero Pharma, Amway, Avon, D K Family Learning, L B Publishers, Lotus Learning, Oriflame, Tupperware and Time Life have started operations in India 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.

Promising sub-sectors in the direct selling market include consulting services in real estate, sales and marketing of education programs and services such as immigration, health and nutritional products, skin care products, costume jewelry and consumer durables.

The Indian direct selling market is still in the nascent stage of the product life cycle and will take a few years to get fully developed. Direct selling companies are busy reworking their strategies with emphasis on the three critical Ps of marketing - Product, Pricing, and Packaging. Once considered as the medium for sales of premium products today, direct selling in India today is moving towards price effectiveness to combat the price sensitive Indian consumer. Package sizes are being reduce to bring down the psychological price barrier and make the products being sold through the direct selling channel appear more economical. Industry sources indicate that future product ranges will be 16 to 20 percent lower than existing ranges. The Indian market is a volume game where players are turning to numbers rather than concentrating on high-income groups. Also, the Indian consumer buys more frequently because of the availability of extensive distribution channels. Unlike in the United States, retail outlets are closer to Indian consumers.

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 do not earn anything on sales made by people they have introduced in the business. They may earn a one-time reward for people they help recruit. There are still some others who also compensate a sales person for the sales made by persons recruited by the first sales person, and from 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 on 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.

In recent years, thousands of Indian women and, increasingly, men are taking to direct selling in India to supplement 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 perennial. 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 direct industry association is already gearing up to appoint an ombudsman to look into complaints. It has released a code of ethics that member-companies have to adhere to.

According to the Indian Direct Selling Association there are six types of people who tend to take to direct selling - part-timers who could do with extra cash; housewives who want to establish an identity; entrepreneurs who don't 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 that would earn them commission from overall group sales.

The mail service in India is slow, though generally reliable. Courier services are exhibiting strong growth 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, and is jointly owned by an Indian company and a foreign company. This type of arrangement is quite common because India encourages foreign collaborations to facilitate capital investments, import of capital goods and transfer of technology. The joint venture can be financial, technical or techno-financial.

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 because 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.

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 IIIB industries; 50 percent in Annexure IIIA industries; and 74 percent in Annexure IIIC industries. FIPB approval is required for all investment proposals that are not eligible for automatic approval. The rules regarding equity limits are being constantly liberalized and revised.

High-priority (Annexure III) industries: India has identified 35 industries (called Annexure III industries) where investment is sought on a priority basis. These 35 industries as defined by the Government in Annexure III to its statement on Industrial Policy of July 24, 1991, include: metallurgical industries; boilers and steam generating plants; prime movers (other than electrical generators); electrical equipment; transportation equipment; industrial machinery and equipment; agricultural machinery; earth-moving machinery; industrial instruments; scientific instruments; fertilizers; chemicals; drugs and pharmaceuticals; paper, pulp and paper products; heavy-duty rubberized and plastic products; plate glass; ceramics for industrial use; cement; high-technology reproduction equipment; carbon and carbon products; pre-tensioned high pressure RCC pipes; rubber machinery; printing machinery; welding electrodes; industrial synthetic diamonds; equipment for biotechnology applications; extraction and upgrading of minor oils; prefabricated building materials; soya products; high-yield seeds and live plants; food processing; food packaging; hotels and tourism; software development.

Annexure III Part A: 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 and uranium ores; 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. Manufacture of food products; cotton textiles; wool, silk & man-made fibers; water-proof textile fabrics; basic chemicals & chemical products except products of petroleum & coal; rubber, plastic, petroleum & coal products; metal products & parts except machinery and equipment; non-metallic mineral products; machinery and equipment other than transport equipment; land and water transport support services and services incidental to transport not elsewhere classified; renting & leasing; business services not elsewhere classified; health and medical services; tourism related industry.

Annexure 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 & alloy industries; manufacture of medical, surgical, scientific and measuring appliances and equipment; industrial process control equipment; meters for electricity, water and gas; laboratory and scientific equipment; photographic, cinematographic and optical goods; construction of electricity generation, transmission and distribution projects; construction of hydroelectric power and industrial plants; non-conventional energy generation & distribution; construction and maintenance of ocean and inland and water transport; refrigerated cold-storage and warehousing of agricultural products.

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. 10 million in plant and machinery. These industries and investment requirements may be revised from time-to-time. Ice cream, biscuits, automobile component and corrugated paper and board have been de-reserved. These de-reserved items are now open for manufacture by non-small scale units without any 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 to be achieved 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.

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

INDUSTRIES SUBJECT TO COMPULSORY LICENSING

Only six industries are subject to compulsory licensing in India. The need for licensing is attributed to safety, environmental and defense related considerations. The licensing authority in this case is the Ministry of Industrial Development and the industries are: distillation and brewing of alcoholic drinks; cigars and cigarettes; electronic aerospace and defense equipment of all types; industrial explosives; detonating and safety fuses, gun powder, nitrocellulose and matches, hazardous chemicals; drugs and pharmaceuticals; (according to the modified Drug Policy issued in September 1994).

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, coal and lignite, mineral oils, specified minerals; and railway transport.

Foreign Investment Promotion Board: The Foreign Investment Promotion Board (FIPB) is a high-level central agency that deals and clears proposals for investment into India. It is chaired by the Secretary, Industry (Department of Industrial Policy & Promotion). Other Board members consist of the 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 are received by the FIPB through the Secretaries for Industrial Assistance (SIA). Applications can also be made with India mission abroad. 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 are considered and approved by the Industry Minister. Proposals with a total investment of above Rs. 6 billion are submitted to the Cabinet Committee on Foreign Investment (CCFI). The FIPB is scheduled to meet weekly on Saturday morning 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 or 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.

TECHNOLOGY TRANSFERS

In addition to direct foreign investment, foreign investors may enter into technology-transfer and technical collaborations. Technology transfer agreements involve one-time payment in exchange of know-how, drawings, design and other specifications. Technical collaborations are long term agreements bound by a periodic royalty payment. Automatic approval from the RBI is permitted for technical collaborations as follows: payment of a lump-sum know-how fee of up to US dollar two million; royalty payment of up to 5 percent of domestic sales and up to 8 percent of exports; and an overall ceiling on total payment of 8 percent of sales over a 10-year period from the date of the agreement or over seven-year period from the start of production.

STEPS TO ESTABLISHING AN OFFICE

Overseas companies are required to obtain general or special permission of the Reserve Bank of India for carrying out any activity relating to agriculture or plantation.

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. A Liaison office cannot generate any revenue in India; therefore there are no tax implications on the office in India. Such offices are not allowed to charge any commission or receive other income from Indian customers for providing liaison services. All expenses are to be borne by remittances from abroad.

Under India's Foreign Exchange Management Act (FEMA), RBI approval must be obtained to set up a liaison office. The liaison office has to be registered with the Registrar of Companies (ROC). 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. Under now-eased accounting requirements of the Department of Company Affairs, 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 ROC, under section 594 of the Companies Act, 1956.

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

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. Remittances of net profits/surplus by Indian branches of such banks to their head offices abroad however, require prior approval of the Exchange Control Department of the Reserve Bank.

Also under the Indian Companies Act, prescribed documents need to be filed with the ROC in the state where the branch is situated, and also with the main office in New Delhi. After initial registration, every year the accounts of the branch need to be submitted to the registrar of companies. The branch office is allowed to repatriate the profits generated from the Indian operations to the parent company after payment of taxes.

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.

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 a detailed survey sponsored by “Business Today” and undertaken by Gallup-MBA (India), the 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; (4) law & order situation. Other factors to take into account include labor availability and cost; labor 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 1.0 billion people, 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. In some sectors like software, availability of technically superior manpower is the major advantage. Still, a truly efficient labor market is not there in all fields.

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. For selected industry sectors like Software, biotechnology, auto ancillary, the state governments are creating special Technology Parks.

The advantages of operating in India’s smaller cities - cheaper land and rentals, moderate living costs, good law & order situation, 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 slowly increasing.

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. Pune is also catching up fast especially for software companies.

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, Nagpur, Aurangabad and Kolhapur 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: GE Medical Systems, Johnson Controls, John Deere, Whirlpool, Frito Lay, Parametric Technology Solutions, Lucent Technologies, Cirrus Logic, Amphenol Amphetronix, AT&T, BPL US WEST, Babcox & Wilcox Pizza Hut, Domino’s Pizza, McDonald’s, 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

The size of the economy, its diversified industrial base, and high economic growth rates, together with a demand for a wide spectrum of manufactured products have made India among the few markets in the world which offer high prospects for growth and earning potential in many areas of business. However, selling techniques in India differ from other countries because of varied consumer behavior when compared with the U.S. As in all markets, selling techniques are dependent on the product category and market.

The well-respected Indian economist, S.L. Rao, researched Indian market demographics and concluded that consumption, not income, differentiates Indian 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.

At first sight the bulk of the purchasing power in India would appear to be concentrated in its urban markets. However, a significant majority of the Indian population lives in the rural areas distributed over some 627,000 villages. The balance lives in 3,700 towns of which approximately 300 have a population of more than 100,000 inhabitants. It is said that the real India lives in the villages. All smart marketers, Indian as well as MNC's, who have been quick to identify the tremendous market potential of rural India, have revered this gospel. For the country's mega-marketers, rural reach is on the rise, and it is fast becoming the most important route to growth. Due to increasing literacy levels and explosion of media, brand consciousness is on an upswing. These factors and the increasing disposable income of rural households have changed rural consumer purchase behavior. Significantly, most 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 the growing rural market, because it is a key ingredient in any marketing effort.

Indian consumer habits are changing rapidly and this subtle slow change is difficult for several marketers to perceive. Unlike the west, there are very few malls in major cities and town in India. There is a teeming marketing layer of major and minor retailers. In addition, Several companies are offering 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.

The first major survey of the Indian consumer was recently conducted by the Kurt Salmon Associates and Technopak (KSA), U.S.A. KSA conducted the consumer outlook '99 survey in 12 Indian cities. A sample size of 7,500 selected from the middle and higher middle class were selected for this survey, which found that Indian consumers had more loyalty to the stores where they shop and not to any particular brand. 75 percent of respondents said they would revisit the shop where they last made purchases for apparels. The survey also revealed that non-store retailing has caught the attention of the Indian consumer. Although aware of the existence of non-store shopping, very few people actually shop in this manner in India. Although 72 percent of consumer were aware of home/TV shopping, just 5 percent had used it. Direct mailers fared slightly better, with 54 percent respondents saying they were aware of this method, and 8 percent saying they used it.

In order for the sales techniques to be successful, distribution coverage is of prime importance. Indian consumers are dispersed over an extensive landmass. They are serviced by an efficient, but highly fragmented, trade system consisting of over 4 million retail and wholesale outlets, spread over many urban and rural population centers. The ability to physically deliver one’s goods to the consumers, therefore, remains a source of significant competitive advantage.

In addition to the traditional selling techniques, the Internet is also now gaining importance as a selling method. As the number of Internet users continues to increase due to reduction in the cost of Internet access, the Indian e-tailing market will also expand. Although E-tailing currently constitutes only 10-15 percent of the value of e-commerce in India, e-commerce is projected to grow by 30 times in the next three years, which will lead to a substantial growth in e-tailing in India. Similarly, industry experts believe that online business-to-business (B2B) commerce is set to take off in India because it meets a genuine need and portals offering such services are based on strong revenue models. The National Association of Software and Services Companies estimates that web- based B2B trade will grow to USD 572 million in the year 2000/2001 and to more than USD 2 billion in 2002/2003. There are currently more than a dozen B2B portals in place and half have persuaded about 6,000 companies to list goods on their websites.

Although India’s rapidly growing population presents limitless opportunity, many Indian and foreign companies have discovered that for a handful of product categories, only a fraction of India’s population can be regarded as potential customers. Many 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.

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 hardly necessary. 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. According to the Advertising and Marketing (A&M) magazine, a leading trade journal, advertising is today a USD 2.10 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. According to the National Readership Survey (NRS) 2000, the print media reaches 62 percent of urban adults. The NRS is a biannual survey of media habits amongst Indians. It is conducted under the auspices of the National Readership Survey Council. The council comprises members from the Indian Newspaper Society (INS), the Advertising Agencies Association (AAA) and the Audit Bureau of Circulation (ABC). 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.

The Times of India, the flagship of the Bennett Coleman Group is India's largest selling English-language newspaper, with a readership base of 4.5 million across India. 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 and 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, has the potential reach of 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.

According to the National Readership Survey 2000, television reaches 75 percent of all homes in India. In terms of numbers, television reaches 336.6 million adults, of which 153.2 million are located in urban areas. Satellite and cable television penetration is approximately 50 percent of all urban homes. In the rural areas, too, satellite and cable penetration has reached 28.9 million viewers.

Another advertising media is radio, by which the government-owned All India Radio (AIR) reaches over 90 percent of the population. Private radio channels are restricted to the FM music channels that are currently available only in a few cities. The latest medium to become available is the worldwide web. Today, net access is estimated at 2.4 million people, but the growth rate in the last six months of 1999 was more than 43 percent. Internet advertising is expected to grow at almost 100 percent annually for the next five years.

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 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
Siesta’s	Saatch & Saatchi
Ulka	FCB (Foote Cone & Belding)
Madison	DMB&B (Darcy Macius Benton & Bowles)
Everest	Dentsu
Nexus-Enterprise	Lowe Group
Speer	O&M Worldwide
MAA COMM	Bozell

The recent (June 2000) mega-merger of Leo Burnett and MacManus Group in the US, when BCom3 was formed will have its ramifications in India also. Leo Burnett is Chaitra Leo Burnett in India and Ambience D’Arcy represents MacManus Group. The merger of Burnett’s Starcom and D’Arcy’s MediaVest has created the world’s largest advertising entity valued at USD 16.5 billion. In India, the merged entity will take shape soon and will be known as Starcom. It will combine the billings of Chaitra Leo Burnett and Ambience.

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. They 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 the U.S. & Foreign 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 of 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. & Foreign Commercial Service, will be useful for American companies interested in doing business in India.

The USDOC and the U.S. & Foreign 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, particularly 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 representative 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 35 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 for policy review and recommendation. 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 and making decisions about 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. 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. GE'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 share, several U.S. and other foreign companies have set up product assembly shops in India. Thus, Ford and GM have set up 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 could 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

An important consideration during the decision of purchase is the quality of after sales service of the company. To retain customer loyalty, local and multinational companies are increasingly focusing on after sales service and customer support as a means of offering their consumers more value.

India has a diversified industrial base, therefore the Indian consumers are familiar with a variety of locally available products and services. Domestic manufacturers have the added advantage of knowing their territories well. This makes it important for U.S. companies in this market to highlight their superior quality, innovations in product features and after sales service in any selling efforts.

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 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.

Call centers are now becoming the order of the day with overseas and Indian firms setting up centers purely for domestic clients. In the face of competition, call centers are becoming an effective way to improve customer service.

In addition, as the number of Internet users continue to rise due to reduction in the cost of Internet access, the Indian e-tailing market is set to expand.

Indian consumers are now getting increasingly aware of their rights and are demanding more from manufacturers. Several web sites on consumer rights have been launched to create such awareness. Two of these are www.planetcustomer.com and www.customerpowernyou.com.

Several Indian consumer awareness magazines inform Indian consumers of their his rights, and provide a comprehensive source of independent, objective information on products and services. These magazines also provide reports on products and services. One such publication is Insight the

Consumer.

GOVERNMENT PROCUREMENT PRACTICES

Indian government procurement practices and procedures are not transparent or standardized, and 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 seek out 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 then 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.

India consistently expresses an interest in U.S. weapon systems. Almost daily, Indian newspapers cover Indian defense related issues and 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 because unless strict guidelines are followed, Indian law will be broken. This is due to the fact that the government of India has banned the use of agents for defense goods and directed government procurement officials to deal directly with the principals. This means that agents and agent’s commissions are illegal. Therefore, defining the relationship between the local representative and the seller is vital in order to adhere to Indian law.

The Government's 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.

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 he waiver does not include sales of items on the U.S. Munitions List (USML). However, the military services and the Ministry of Defense are not on the entities list. The sale of some items not on the USML has occurred to the Indian military. Likewise, there are similar opportunities of sales to India's large paramilitary force, which is under the Home Ministry.

PROTECTING YOUR PRODUCT FROM IPR INFRINGEMENT

In India, four statutes 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 IPRs vests with the District Court or High Court.

Trade Marks: The reputation of foreign trademarks is recognized in India and there are significant judicial precedents to protect them. These cases have protected the 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.

It is a prevalent practice in India to register a foreign trademark 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. An U.S. company should prepare its agreements in a manner that will not allow its domestic partner to take advantage of the goodwill of the foreign mark without appropriate compensation.

Copyright: Indian law provides for copyright protection for a term of 60 years, that is 10 years more than the minimum prescribed under General Agreement on Trade & Tariff (GATT)(Article 11). The law also provides for the right to authorize or prohibit the commercial rental to the public of originals or copies of their copyright works in respect of computer programs and cinematography films, in accordance with Article 11. India is also gearing up its enforcement efforts with the Indian judiciary has taken the lead in this regard.

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 World Intellectual Property Organization (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.

Industrial Design: 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. In the field of designs, a comprehensive enactment to revise the existing Designs Act, 1911 is under consideration. This is in accordance with the WIPO Guidelines. India continues to recognize reciprocal arrangements with Australia, New Zealand, Sri Lanka and the U.K.

Patents: 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 intellectual property. India is a signatory to TRIPs (Trade Related aspects of Intellectual Property Rights), which it signed at the conclusion of the erstwhile GATT that 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.

1998 and the first half of 1999 have been years of change in India in the field of intellectual property rights. In the general Indian patent scenario, the most significant change was brought about when India, quite unexpectedly, became a signatory to the Paris Convention and the Patent Co-operation Treaty (PCT), effective December 7, 1998. On the trademark front, the Indian Government effective December 3, 1998 notified 130 WTO signatory countries and effective December 7, 1998 notified 150 Paris Convention countries for the purposes of claiming priority under the Indian Trademarks Act (Trade & Merchandise Marks Act,1958). The period of priority was fixed at six months and was made operative prospectively.

The Patent Office in India now functions as the Receiving Office, Designated Office and the Elected Office for the purpose of international applications filed under the PCT. Applicants can now file international PCT applications in their local Receiving Offices designating India as a Designated State and an Elected State. India today recognizes the U.S. Patent Office as the authorized international search and examining authority, in addition to the Australian, Austrian, Chinese and the European Patent Offices.

In compliance with its TRIPS requirements, India has brought about certain changes in its Patents

Act by introducing a system of accepting applications for product patents in the form of black box applications limited to certain defined medicines and drugs. Provisions have also been incorporated for grant of Exclusive Marketing Rights (EMR's).

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. This seeks to grant Exclusive Marketing Rights (EMR's) to pharmaceutical and agricultural chemical products. The EMR is 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 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 IPRs 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 trial, 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 against the accused can be filed in the Magistrate's Courts. The Trade & Merchandise Act (sections 78 & 79) and the Copy Right Act (section 63) deal with criminal remedies. In addition, the Criminal Procedure Code and the Indian Penal Code also cover search and seizure.

The liberalization of the Indian economy has resulted in the 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 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 enter 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 that 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 500.

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.

Negotiation is a means of protecting and enforcing patents. An offender 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 offender and propose a business arrangement that would benefit both parties. Negotiation and comprise 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 a complex one, 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 or network 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 litigations and media reaction as the most difficult variables. They 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 industry professionals and professionals 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. Local law firms advocate that the Government of India should restrict entry only to firms from nations that 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 due diligence checks on Indian parties and these should be carried out thoroughly and promptly. This can be done by checking with the Commercial Service, or through the following fee-paid services:

Mr. Arun Thukral
Dun & Bradstreet India Private Limited
1314 Ansal Tower
38 Nehru Place
New Delhi 110 019
Phone: 91-11-464 1662/4622158/628 3830
Fax: 91-11-628 3978
E-mail: dbis@del12.vsnl.net.in

The cost of a standard background report on an Indian entity is approximately USD 300. When ordering a report, specify “ICP Report” for speedy action.

Kroll Associates, a part of the U.S. based Kroll-O’Gara Group also provides due diligence services. Kroll conducts pre-transaction research and assesses critical information on potential joint venture partners.

Mr. Deepak Bhawnani, Country Manager

Kroll Associates (Asia) Ltd.
1202 Ashoka Estate
24 Barakhamba Road
New Delhi 110 001
Phone: 91-11-373 6355
Fax: 91-11-373 6356
E-mail: krollin@kroll-ogara.com

E-COMMERCE RELATED WEB SITES

www.clickforsteel.com
Steel trading

www.e-chem.com
Chemical exchange in association with Indian Chemical Manufacturers Association

www.e-indiabiz.com
In strategic partnership with U.S. India Business Council. Offers auctions.

www.indiaconstruction.com
Marketplace for construction material & equipment

www.indiaengineering.com
A market space for manufacturers and engineers

www.indiahomeseek.com
Indian real estate portal.

www.indiamarkets.com
Marketplace for multiple industry sectors.

www.indiatransporters.com
Transportation

www.industrialproductsfind.com
Industrial products

www.itconnexion.com
Information Technology marketplace

www.kagaz.com
Paper and pulp industry

www.oilmandi.com
Oil industry

www.packagingindia.com

Indian packaging industry. Offers auction facility.

www.rupeesaver.com
Computers, telephony products, electronics

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

The following are the 15 best prospect sectors for India. These prospects have been ranked by weighted measure of imports from the U.S. and nominal growth.

	ITA Code	Rank
Computer software and services	CSF	1
Telecommunication services	TES	2
Telecommunication equipment	TEL	3
Computers and peripherals	CPT	4
Pollution Control Equipment	POL	5
Oil and gas machinery	OGM	6
Medical equipment	MED	7
Chemicals and petrochemicals	CHM	8
Food processing and packaging equipment	FPP	9
Biotechnology	BTC	10
Power transmission and distribution systems	ELP	11
Airport and ground support equipment	APG	12
Water resources	WRE	13
Air-conditioning and refrigeration equipment	ACR	14
Agricultural chemicals	AGC	15
Investment Opportunities		
IT enabled services	CVS	
Drugs and pharmaceuticals	DRG	
Insurance	INS	

The best prospects consider the following exchange rate:

	1999	2000	2001
Exchange rate USD 1=	43.0	43.5	43.5

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

NARRATIVE:

The Indian software industry experienced exponential growth from USD 150 million in 1989-90 to USD 3.9 billion in 1998-99. If we add the value of in-house development that takes place among many large commercial/corporate end-users, then the total software industry is estimated at USD 4.6 billion. During the last five years, the annual growth rate of software industry revenues was 56 percent. The growth rate for the software export was 61 percent and 46 percent for the domestic industry. The domestic software market is expected to reach USD 1.6 billion in 1999-2000.

Given rigorous enforcement of copyright laws, increased governmental spending on IT due to “Task Force” recommendation, the domestic software industry has the potential to grow at a 50 percent annual rate. According to a recent study conducted by the National Association of Software Services Companies (NASSCOM), the premier association representing the software services sector, the industry plans to achieve its software targets of USD 50 billion for exports and USD 35 billion in domestic sales by 2008.

According to the NASSCOM study, over 122 new software products were launched by domestic software companies and over 158 new software products were launched by foreign companies in the Indian domestic market May 2000. Computer aided design (CAD)/computer aided manufacturing(CAM) market grew at a 37 percent rate, relational data base management system (RDBMS) sales grew 31 percent, sale of enterprise resource planning (ERP) packages increased 46 percent, and sales of financial packages grew 35 percent. Increased penetration of computers, strict implementation of the copyright Act, and control of piracy will further strengthen these segments of the market. Software purchases by small office home office segment (SOHO) market experienced an all time high growth rate of 61 percent. Good opportunities exist in: software development and products; application software; systems software; computing services; ERP; global information system (GIS) mapping; software maintenance, data entry, document conversion; and customer help document management.

Currently, 59 percent of software development is performed on site, with improved data communication links this percentage is expected to decline. Products and packages have a 48.5 percent domestic market share, while professional services command an almost 44.15 percent share of the export market. The following table shows the segment-wise break up of the domestic software industry.

Software activity	USD Million	Percentage
Projects	321	28.5
Professional Services	57	5.0
Products & Packages	548	48.5
Training	53	4.5
Support and Maintenance	45	4.0
I.T Enabled Services	107	9.5

According to McKinsey & Co., IT-enabled services are expected to grow 15-fold by 2008, providing vast opportunities. Currently call centers and animation are the largest opportunities, accounting for 85 percent of all IT-enabled services. By 2008, the overall market for IT-enabled services will amount to approximately USD 142 billion. The top five opportunities and their value creation potential is:

Human Resources Services	USD 44 billion
Customer Interaction Services	USD 33 billion
Finance and accounting	USD 15 billion
Data Search, Integration and Analysis	USD 18 billion
Remote Education	USD 15 billion

In India there are 10,000 software development and service companies. The most promising sub-sectors and their estimated market shares for 2000 are listed below:

Sub-sectors	**USD Millions**
CAD/CAM Software	1,455
ERP Solutions	125
RDBMS Packages	87
Financial Accounting packages	166
Networking Products	3,730

DATA TABLE :(Estimates in USD millions)

	1999	2000	2001 (est.)
A. Total Market	1,600	2,490	4,115
B. Total Local Production	900	1,880	2,890
C. Total Exports	2,600	4,280	4,925
D. Total Imports	3,300	4,890	6,150
E. Imports from U.S.	1,485	2,930	4,110

Data Sources: NASSCOM study on computer software.

Sector Rank 2
Sector Name: Telecommunications Services
ITA Industry Code: TES

NARRATIVE:

India's 27.2 million line telephone network is among the top 10 largest networks in the world and the third largest among the emerging economies. It is growing at an average annual rate of 20 percent for the last few years. The total number of lines added to the network over the last 5 years is comparable to the total number of lines added over the preceding 5 decades. India has a relatively low tele-density of 2.5 per 100 persons, with plans for attaining telephone on demand by 2002, a tele-density of 7 by 2005 and 15 by 2010. Considering India's population of 1 billion, it has been estimated that for achieving these objectives, approximately 75 million telephone connections will be required by the year 2005 and 175 million telephone connections by the year 2010. At current prices, this translates into an additional investment of approximately USD 37 billion by 2005 and USD 69 billion by 2010. The growth potential is not limited to the basic telephone services, but is spread across a wide range of services using the latest technologies, be it cellular, internet, radio trunking, global mobile personal communication by satellite (GMPCS), or other value added service. The huge surge in growth of various services would facilitate an enormous growth in the market for telecom equipment.

Over the past 3 years, several value-added telecommunications services have been introduced such as:

Cellular mobile phone service;
Rradio paging service;
Mobile radio trunk line service;
Electronic mail;
128 kbps domestic data service using V-SAT;
Voice mail/audiotex service;
Fax/data broadcast service;
Videotex service;
Video conferencing;
Services using IN platform and ISDN platforms;
Call centers;
Tele medicine/health information service;
Pay phones services;
Home banking/tele banking;
Remote area business message network (RABMN).

In a less than 5 years, cellular mobile communication has developed an India-wide subscriber base of 1.6 million and is growing at a rate of 15 percent. Paging services serves 2 million subscribers in 31 cities. Today, E-mail and VSAT services are also available and the demand for these services are growing.

Up to November 1998, Internet service was under Government of India monopoly. Currently, there are 1.2 million Internet subscribers and the subscriber base is growing at a rate of more than 100 percent each year.

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 handsets, V-SAT terminals, Asynchronous Transmission Mode (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 provider of telecom 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 Department of Telecommunications (DoT). However, U.S. firms face competition from the French, German, Swedish, Japanese, Koreans, Canadians, Australians, Singaporeans, Finnish and Hong Kongese firms.

DATA TABLE: (Estimates in USD millions)

	1999	(est.) 2000	2001
A. Total market size	2,005	3,265	7,145
B. Total local production	780	1,300	3,730
C. Total exports	300	650	950
D. Total imports	1,525	2,615	4,365
E. Imports from the U.S.	825	1,245	2,875

Note: The above statistics are unofficial estimates.

Sector Rank: 3
Sector Name: Telecommunications Equipment
ITA Industry Code: TEL

NARRATIVE:

The Indian telecommunication (telecom) network is the tenth largest in the world and third largest in the developing world. The network consists of more than 25,400 telephone exchanges, equipped with a capacity of 27.2 million lines and 22.6 million working telephones. The transmission network has coverage of over 150,000-route Kilometers(KM) of microwave/UHF systems and 108,000-route KM of optical fiber systems. The Indian telecommunication network is connected to 237 countries for international subscriber dialing. Although not small, it reflects a low penetration of 2.5 per 100 persons compared to the world average of 10 per 100 persons. The new telecom policy targets a telephone density of 15 per 100 people by 2010.

Up to 1984, manufacturing of telecom equipment was exclusively reserved for government enterprises. Since the economic reform process and the National Telecom Policy (NTP) of 1991, the Indian telecom-manufacturing sector has undergone a sea change. Subsequently, two new NTPs were announced one in 1994 and a second in 1999.

The NTPs produced broad liberalization of the sector by allowing private companies to manufacture telecom equipment permitting imports, and lowering of import tariffs. Currently, private sector participation is permitted in the manufacture of telephone instruments, cables, transmission equipment and small switching exchanges. The current regulatory environment allows the entry of private companies in all areas of telecom services and equipment manufacturing, except for those associated with long distance communications and strategic communication.

It is expected that by the end of 2000, private participation will be allowed in domestic long distance services. Foreign ownership of equity up to 51 percent is approved automatically by the Reserve Bank of India (RBI) for telecom equipment manufacturing companies.

The telecom equipment sector has performed very well in FY 2000, with entry of a large number of private sector companies. Medium sized units dominate the industry, although there are a few units that are large. The public sector's share in manufacturing is on the decline. It has a strong presence mainly in exchanges and transmission hardware.

The production of telecom equipment in India increased from USD 1.3 billion in 1993-94 to USD 2.5 billion in 1997-98, production is expected to reach USD 5 billion by 2002. Telecom equipment requirements 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.

The development of the telecom sector has an important role to play in the development of India's economy and due importance is expected to be bestowed on this sector by the Government. 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 is estimated at 81.8 million. This projected demand will generate a requirement of approximately 64 million telephones during the next eight years. The DoT and Mahanagar Telephone Nigam Limited will provide about 43 million telephones, while 21 million telephones will be provided by private operators.

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

Currently, India has 22 private companies providing cellular services in 18 telecom circles and the four metro cities (Delhi, Mumbai, Chennai, and Calcutta). The cellular market has grown impressively with the number of subscribers exceeding 1.6 million by the first quarter of 1999. The number of pager subscribers is estimated at 1.5 million and is expected to reach 2 million by March 2001. Most of the companies providing V-SAT service experienced a growth rate of 25 percent during the last year.

The domestic long distance (DLD) market in India was opened for private participation in December 1999. Approximately USD 17-20 billion will be spent over the next five years to wire up the 40 most populous Indian cities. Today, the DLD market generates revenues of approximately 3 billion, revenues are expected to reach USD 5.6 billion by 2005 and will reach USD 12 billion by 2010.

The telecom sector is expected to experience a substantial increase in the use of telecom services that will drive up equipment sales. Equipment manufacturing companies are expected to do well in the near future, due to the large capital expenditures that are expected by Mahanagar Telephone Nigam Limited (MTNL) and Videsh Sanchar Nigam Limited (VSNL), which are the current companies in the market.

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, especially on cellular phones. They are expected to be reduced further during the next two to three years.

The most promising sub-sectors, are listed below:

Sub-sectors	2001 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)

(est.)

	1999	2000	2001
A. Total Market Size	7,129	8,600	10,436
B. Total Local Production	4,730	5,845	7,130
C. Total exports	-	-	-
D. Total imports	2,399	2,755	3,306
E. Imports from the U.S.	850	975	1,170

Note: The above statistics are unofficial estimates.

Sector Rank: 4
Sector Name: Computers and Peripherals
ITA Industry Code: CPT

NARRATIVE:

The Indian Information Technology (IT) industry continues to grow at an explosive pace for the fifth consecutive year. In 1998-99, the Indian IT Industry was estimated to have earned revenues of USD 6 billion, a growth of 32.79 percent over the previous year. This high growth rate has been achieved despite the otherwise slow growth in the Indian economy 6 percent GDP growth, and uncertain political situation.

The Indian computers and peripherals market is the primary driver of the Indian IT market. It has been growing steadily over the last few years. There is an increasing thrust by the private sector to have a connected and state-of-the-art computing system. At the same time there is a growing awareness among the small and medium enterprises (SMEs) and small office home office segment (SOHO) of the benefits of computerization. These segments contributed about 32 percent of total hardware shipments.

Over the past decade, the manufacturing segment in this industry is growing at an average annual rate of 28-30 percent. The industry has over 135 major hardware players supported by over 800 ancillary units and small time vendors engaged in sub-assemblies and equipment manufacturing.

Personal Computers (PCs) constitutes the largest share of the total computers and peripherals market. Growth in demand for personal computers along with the rising popularity of the Internet are two major forces driving the growth of the domestic IT industry. During 1998-99, more than 820,000 PCs were sold in India. This took PC penetration to 3.2 PCs per 1000 persons. The Desktop PC sub-sector is expected to grow 45 percent, notebooks by 90 percent and servers by 56 percent.

The PC Market in India is divided into three major categories – assembled (48 percent), Multinational Companies (MNC) brands (29 percent), and Indian Brands (23 percent). In India, 45 percent of PC buyers are first-time buyers, while the rest are repeat buyers. Many U.S. hardware companies such as Dell, IBM, and Intel have a strong presence in the market. Intel has captured the desktop microprocessor market with their Pentium and Celeron brands.

The computer peripheral sub-sector has experienced a significant increase in volumes and a major surge in revenues. The peripherals segment grew more than 59 percent in 1999. This growth was partly aided by buoyant sales in inkjet and laser printers (non-impact printers). The trend of companies abandoning dot matrix printers became more pronounced in the first half of 1999. Almost 46 percent of printers sold were inkjet and laser printers. The Government of India (GOI) is recognized as a key driver of domestic IT demand in India. GOI IT spending is currently around 28 percent of total IT spending and is expected to grow.

The major focus sectors for the computers and peripherals market are Central/State Administrations, Insurance, Banks, Energy, Financial Institutions, Defense, Public Tax System, Ports, Customs, Telecom, Education, and Small Office Home Office/Individuals. Large sectors with low IT penetration such as textiles and healthcare are being pushed by the GOI and private sector to adopt IT.

Southern and western states such as Andhra Pradesh, Tamil Nadu, Maharashtra, and Karnataka have contributed significantly to total domestic IT spending. States that have announced a major computerization drive include Gujarat, Kerala, Orissa, Delhi, Goa, Himachal Pradesh, West Bengal, Uttar Pradesh, Madhya Pradesh, and Rajasthan.

The GOI has initiated various measures to give a boost to the IT business in India. A new IT Ministry has been established that will increase IT penetration, and promote IT applications in various sectors such as healthcare, education, and e-governance. In 2003, the computers and peripherals sector will enter into a zero duty regime, which will significantly increase foreign competition.

The most promising sub-sectors, are listed below:

Sub-sectors	2001 demand (units)
Desk top PCs	2.52 million
Notebooks	90,000
Servers	99,500
Printers	742,000
Key boards	2.67 million

Monitors	2.45 million

DATA TABLE: (Estimates in USD millions)

	1999	2000	(est) 2001
A. Total Market Size	1520	1824	2189
B. Total Local Production	608	730	876
C. Total exports	-	-	-
D. Total imports	912	1094	1313
E. Imports from the U.S.	532	638	766

Note: The above statistics are unofficial estimates.

Sector Rank: 5
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 2.9 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,hazardous waste management, treatment and disposal, biomedical waste management, municipal solid waste management, pollution testing and monitoring equipment/services and environmental consulting/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:

Improved enforcement of legislation by the Central and State Pollution Control Boards;
Growing public awareness of health issues related to pollution and increased judicial activism;
The large number of financing options available for capital equipment; and increasing awareness among industry that being environmentally responsible is being economically sound.

There is an increasing awareness that pollution prevention is a win-win situation—good for both business and society. More and more industrial units are moving towards the adoption of environment management systems (ISO 14001) and other voluntary initiatives.

DATA TABLE: (Estimates in USD millions)

	1999	2000	(est.) 2001

A.	Total Market Size	2864	3294	3788
B.	Total Local Production	1718	2061	2272
C.	Total Exports	-	-	-
D.	Total Imports	1146	1233	1516
E.	Imports from the U.S.	401	431	530

Note: The above estimates were developed from official and unofficial sources. The figures also include estimates for basic water treatment and sanitation projects. The growth in imports for 2000 shows a slight decline as local capabilities within India are growing rapidly. However, given increasing privatization and better enforcement, imports will register higher growth as local capacity will not be able to meet demand.

The most attractive sub-sectors, that have shown a very high growth rate and are expected to drive the environmental market are, hazardous waste management, treatment and disposal, and vehicular emissions control and monitoring technology, products and services.

The GOI notified new Hazardous Waste (Management and Handling) Rules in January 2000, and the courts have also been highly proactive. The estimated market size of this sub-sector is USD 237 million with an expected annual growth rate of 22 percent.
Similarly, the vehicular emissions control and monitoring technology, products and services market has been kick-started by increased judicial activism and public awareness. The Supreme Court of India has issued a notification that clearly establishes a time frame for implementing Euro norms (as applicable in Europe and known as India norms locally). The current market size is estimated at USD 300 million and is expected to grow 40 percent annually in the near term.

Local capabilities, especially in the services and monitoring segment, are almost negligible in both of these sub-sectors.

Sector Rank: 6
Sector Name: Oil and Gas Machinery
ITA Industry Code: OGM

NARRATIVE:

Per capita energy consumption in India is approximately 226 kilograms oil equivalent (kgoe), which is less than the world average of 1,478 kgoe. In India, oil contributes 31 percent of the commercial energy requirement as in many developing countries in Asia, while coal contributes 58 percent.

There are 26 sedimentary basins in India covering an area of 1.78 million square kilometers (skms); 1.46 skms are onshore and the rest are offshore basins. Total oil reserves are estimated at 20 billion barrels (bbl), but only 27 percent of this has been explored. Thus, approximately 5.4 bbl of oil (732 million metric tons (mmt)) has been discovered, with an annual production of 35-40 mmt.

Consumption of petroleum products grew 7.8 percent to reach 90.86 mmt in 1999. Tata Environmental Research Institute (TERI) has projected an annual growth rate of more than 7 percent for the next 5 to 7 years. Domestic production of oil, gas and other oil products was around 68.43 mmt.

During the last year, India imported crude and petroleum products worth USD 5.7 billion.

Until recently the oil and gas sector was comprised of three government controlled companies: the Oil and Natural Gas Commission Limited (ONGC), Oil India Limited (OIL) and Gas Authority of India Limited (GAIL). Beginning 1991 private Indian companies and foreign companies have been granted permission to operate in this sector.

In 1999, India produced 32.7 mmt of crude oil. ONGC accounts for more than 80 percent of India's crude, while OIL and other new private entrants account for the rest. GAIL exclusively handles gas production. The Government of India (GOI) decided to disinvest in this sector by adopting the cross-holding route for the government-owned companies, thus all government-owned companies hold shares in other government-owned companies.

In 1991, to augment the exploration and production (E&P) program, the GOI invited domestic and foreign companies to participate in India's E&P activity. Since then, Indian private and foreign companies have invested approximately USD 2 billion in developing new oil fields. As of 2000, the GOI has signed 23 contracts for exploration blocks and 18 for discovered fields. The need of the hour is for rapid development in exploration. The demand for petroleum products continues to grow, especially for crude which has increased two and a half time from 30 MMT in 1980-81 to 88 MMT in 1997-98 and is expected to reach 113 MMT by 2001-02. Presently, imports are the only solution to this problem. The demand and supply gap, coupled with the earlier administered price mechanism, has led to an oil pool deficit. Under these circumstances in 1997, the Ministry of Petroleum & Natural Gas formulated A New Exploration Licensing Policy (NELP) to augment exploration efforts.

The NELP was formulated to provide a level playing field to private and government-owned companies. Some of the salient features of NELP include: Government companies will be paid international prices for oil discoveries made in the blocks offered under this policy; government oil companies have to compete with other foreign and domestic bidders for obtaining exploration licenses; exploration blocks will be allotted on the basis of an open acreage system implying that companies can apply for exploration at any time and not be restricted by bidding rounds; and a comprehensive fiscal package has been proposed to attract investment in this sector.

Major U.S. companies are already in the Indian market. Enron Oil Exploration was the first foreign oil company to sign a production sharing contract with a government-owned oil company, ONGC. Australian, Dutch, and Japanese companies are also active in the market. Given increased exploration activity, there is a steady growth in demand for oil and gas exploration and production equipment. U.S. companies account for 30 percent of India's imports of oil and gas field equipment.

Traditionally, the Indian oil and gas sector has been dependent on the U.S. technology and equipment. Each year several Indian oil company officials visit the United States to attend the oil and gas exhibitions. The ONGC has an office at Houston for procurement purposes and to keep abreast with the latest technologies.

Because the Indian oil and gas industry uses American Petroleum Institute (API) specifications for this sector, U.S. manufacturers have an edge over the rest of the international oil and gas equipment manufacturers.

Promising sub-sectors include:

Seismic Survey Equipment and Instrument:	380
Offshore/Onshore Drilling & Equipment:	580
Offshore Logistical Support Services & Equipment:	480

Data Table: Estimates in USD millions

	1999	2000	2001
A. Total Market Size	1,975	2,345	2,790
B. Total Local Production	1,350	1,552	1,784
C. Total Exports	240	288	345
D. Total Imports	865	1,081	1,351
E. Imports from the U.S.	260	325	406

Source: Above statistics are unofficial estimates.

Sector Rank: 7
Sector Name: Medical Equipment
ITA Industry code: MED

NARRATIVE:

The Indian medical equipment market is expanding to meet growing domestic demand for the latest medical products and technologies. This growth is expected to continue for the next five years and beyond.

The Government of India's (GOI)budget allocation for the health care delivery system is meager when compared to the resources needed to meet the basic needs of the population. A major part of the government's health care budget is spent on curative treatment of diseases and has an "urban bias". Although about 60 to 70 percent of the Indian population lives in rural areas, only 25 percent of government health care spending reaches this large population. Over 58 percent of "attractive-income" individuals are in urban areas and the top 6 to 10 cities account for half of this 58 percent. Rural Indians, in many cases, are required to travel long distances to the nearest urban center for basic medical care.

Both the GOI and State Governments are planning to upgrade many hospital facilities during the current five-year plan period (1997-2003) to improve the present level and quality of health care services. New hospitals are being planned in rural areas to offer basic medical care for the rural population. As a first step, government hospitals at district headquarters and large towns will be upgraded with multi-specialty facilities.

Existing private sector hospitals are planning to increase bed capacity. For example, the Apollo Hospital group, the pioneer in the industry, plans to increase its total bed capacity from its current

2,400 to over 5,000 in the next two to three years. Apollo Hospital also plans to buy out, lease, manage, or participate in the equity of existing hospitals in different parts of the country with the ultimate goal of integrating about 100 hospitals in the country. Apollo is expected to spend about USD 450 million over the next two years. The Satya Sai Foundation plans to establish a major multi-specialty hospital project near Bangalore. USD 10 million worth of medical equipment will be purchased for this new facility. Other major private sector hospitals with expansion plans are Sri Ramachandra Medical College and Hospital in Chennai, the Christian Medical College Hospital in Vellore, CDR Hospital in Hyderabad, and Escorts Heart Institute in Delhi.

In December 1999, the Insurance Regulatory and Development Authority Act was passed by the Indian Parliament allowing private Indian and foreign companies to enter India's insurance industry. Emergence of new medical insurance programs is expected to further support the Indian healthcare sector. Presently, India has a very limited health insurance program offered by the General Insurance Company (a government-owned company). According to the Economist Intelligence Unit, barely 0.25 percent of the Indian population has insurance of any kind(in the U.S. three out of four people are covered by medical insurance). This number includes the two million holders of medical insurance policies. The international consultancy firm, McKinsey, estimates that India has an insurance potential of over 315 million insurable "lives". Private sector insurance companies are expected to focus on this large market when they start their programs in India. An active medical insurance program is expected to support the healthcare services.

Health insurance is expected to accelerate healthcare revenues in India following trends in other countries. McKinsey estimates that the USD 745 million health insurance business in 1999, is expected to reach USD 4 billion by 2005. The Aetna International U.S. insurance company, projects that 6 percent of the household income will be spent on healthcare in the near future, up from the present 2 percent. This will further increase the demand for healthcare delivery systems. India has several manufacturing units producing a diverse range of medical equipment. Foreign firms such as Siemens, GE, Network Pickers, and Phillips Medical Systems have expanded their operations in the Indian market. Manufactures of sophisticated systems such as Ultrasound scanners and CT scanners in India have been successful. Systems such as 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 largest market segment, constituting 30 to 35 per cent of the total market, is imaging systems including X-rays, CT scanners and MRI machines. This segment is dominated by GE, followed by Siemens, Phillips and Indchem ATL, Network-Pickers, Toshiba-STM, and Toshniwal. The second largest 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 0 to 20 per cent. 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, include highly specialized body scanners, ultrasound scanners, specialized portable and non-portable X-ray machines, implantable pacemakers, radiography and radiotherapy equipment. Overall, imports grew from USD 54.5 million in 1993-94 to USD 96 million in 1997. Imports are expected to reach USD 449 in 2001.

A list of most promising sub-sectors, are presented below:

Sub-sector	2000 Market Size (USD Million)
Medical Imaging Equipment	200
Cardiology Equipment	254
Laboratory Instruments/Supplies	101
Cancer Diagnostic & Treatment Equipment	54

DATA TABLE: (Estimates in USD million)

	1999	2000	(est.) 2001
A. Total market size	505	630	786
B. Total local production	210	273	354
C. Total exports	10	13	17
D. Total imports	305	370	449
e. Imports from the U.S.	122	148	179

Note :The above statistics are unofficial estimates.

Sector Rank: 8
Sector Name: Industrial chemicals and petrochemicals
ITA Industry Code: CHM

NARRATIVE:

India's per capita consumption of industrial chemicals and petrochemical products, although one of the lowest among the developing countries of Asia, is poised for rapid growth in the next few years. The domestic chemical industry, which operated under a closed regime and was protected by high import tariff barriers until recently,is now open to foreign competition due to reduced tariff rates. As a result, the Indian chemical industry is trying to reduce its costs and improve its product quality. A significant development during the last decade has been the emergence of specialty chemicals used in engineering, plastics, rubber tires, leather tanning, paints, textile and paper industries. This has also opened up export opportunities for U.S. and other foreign chemical suppliers. Consequently imports are expected to grow at 14 percent for the next five years. New investments in this sector are also expected to grow 20 percent for the next three years.

Total sales of chemical products amounted to USD 14.5 billion in 1998-99, recording a seven percent increase over the previous year. The chemical/petrochemical industry includes the following market segments (growth rates in parenthesis): fertilizers (20 percent); polymers and fibers (19 percent); pharmaceuticals (14 percent); organic chemicals (12 percent); soaps and cosmetics (10 percent); inorganic chemicals (8 percent); paints and dyestuffs (6 percent); plastics (5 percent) and other segments (6 percent).

The rapid growth of the chemical industry is attributed to the liberalization of the Indian economy beginning 1991. Organic and inorganic chemicals account for one fifth of the Indian chemical industry and is considered to be the fastest growing segments. In 1999, Indian imports of industrial chemicals amounted to USD 1.7 billion, a 14 percent increase from the previous year. Industry sources expect imports to increase to more than USD 1.8 billion in 2000. The total domestic production of industrial chemicals amounted to USD 3.2 billion in 1999, and is expected to be about USD 3.8 billion in 2000. This increase is due to the recent start up of two new petrochemical plants: The Haldia Petrochemicals Limited plant in eastern India, and the Reliance Petrochemicals' unit in the western region.

Promising Sub-sectors: The best sales prospects for U.S. suppliers are in the following sub-sectors:

Amino-function compounds
Ketones
Esters
Alcohols
Vinylacetate
Phenol
Organo-inorganic compounds
Carboxyclic acids
Epoxide resins

Data Table: (Estimates in USD Millions):

	1999	2000	(est) 2001
A. Total Market Size	4598	5240	6025
B. Local Production	3219	3770	4510
C. Total Exports	328	370	470
D. Total Imports	1707	1840	1985
E. Imports from the U.S.	307	330	395

Note: Above statistics are unofficial estimates.

Sector Rank: 9
Sector Name: Food Processing and Packaging Equipment
ITA Industry Code: FPP

NARRATIVE

The Government of India (GOI) has announced a number of incentives to commercialize agriculture and to develop the food processing industry. India's diverse agro-climatic conditions and wide-ranging availability of raw material throughout the year are suitable factors for the development and growth of the food processing industry.

India is the second largest producer of fruits and vegetables, but its share in the world trade of processed food is only 1 percent. Only 2 percent of the fruits and vegetables are processed and about 40 percent of it is wasted due to lack of storage and processing units. Primary food is a major industry in India with thousands of bakeries, traditional food units, and fruits, vegetable and spice processing units.

Handling of horticulture crops is extremely inadequate in tropical countries like India. Physiological as well as microbial damage occurs quickly.

Increased literacy, changing life-styles, and mass media promotion have contributed to the increased demand for processed food. India's total food market is estimated at USD 70 billion, of which USD 22 billion is the share of value added food products. To minimize the pre and post harvest wastage, the GOI is encouraging investment in the food processing industry and has approved proposals for joint ventures/foreign collaborations. For the period August 1991 to December 1998, foreign investment in this sector was about USD 2.2 billion.

India's 8041 km of coastline, 28,000 km of rivers and millions of hectares of reservoirs contain large quantities and varieties of marine products that can be processed. India's livestock population is the largest in the world with 50 percent of world's buffaloes and 20 percent of the world's cattle. However, meat production is only 1 percent of world production.

Packaged food products are slowly penetrating the large Indian market and its growing middle class. The size of the semi-processed, ready-to-eat food segments (bread, biscuits, bakery products, chocolates, soya based products, and ready-to-eat pasta products) is estimated at USD 22.2 million. Domestic production of packaging machinery for these products is estimated at USD 23 million; 10 percent is imported.

India is the second largest milk producing country in the world. Apart from 100 large dairy product units, a large number of units are small and only 15 percent of the total milk production is processed by them. The GOI is allowing foreign equity participation of 51 percent through the automatic approval route for full utilization of the milk production capacity and for value added products.

India's agricultural production is scattered all over the country. Proper packaging will enhance the shelf life of the food product. Eighty-three percent of agricultural produce is transported by non-refrigerated trucks, tractors, bullock-carts in traditional packaging.

Tetra pack (Swedish), Bosch and Hassi (German) and a few Italian manufacturers dominate the Indian market. Post harvest technology including handling, processing, storage facilities and cold chains for preservation are gaining importance. The GOI has announced a number of incentives to encourage investment cold chain technology and equipment.

Investment opportunities worth USD 30 billion will be available to strengthen the procurement, processing, storage, and distribution infrastructure. Current conditions in processing and handling food commodities offer excellent opportunities for U.S. firms in the food processing and packaging equipment sector.

Industrial license is not required for most of the food and agro-processing industries. Use of foreign brands is freely permitted. In the food-processing sector capital goods can be freely imported including second hand machinery. Excise and import duties on equipment in this sector have been substantially reduced. This sector hold immense opportunities for the U.S. companies.

The most promising sub-sectors are listed below:

	2001 market size in USD million
Vegetable and fruit processing equipment:	302
Food processing equipment:	287
Food packaging equipment:	270
Integrated post harvest technology/ food preservation machinery	336

Data Table:(Estimates in USD Millions)

	1999	2000	(est.) 2001
A. Total Market Size	1,257	1,571	1,896
B. Total Local Production	992	1,240	1,500
C. Total Exports	55	69	84
D. Total Imports	320	400	480
E. Imports from the U.S.	96	120	150

Note: The above statistics are unofficial estimates.

Sector Rank: 10
Sector Name: Biotechnology
ITA Industry code: BTC

NARRATIVE:

The Indian biotechnology industry is experiencing a rapid growth in cell fusion techniques, recombinant DNA technology, protein engineering, and molecular design. Over the past five years there has been an increase in products manufactured through genetic engineering, immunological techniques, and cell culture methods.

Intensified local research in biotechnology has resulted in produced an increased demand for biotech equipment and supplies. The total market for biotech products is expected to grow at an average annual rate of 35-40 percent. The total market for biotechnology products in India during 1999 was USD 120 million; it is expected to increase to USD 240 million by 2001. Approximately 65 percent of biotech products are imported.

In the area of bioactive therapeutics, most of the formulations are imported. In the agriculture sector, several production units have been established in India to manufacture plant tissue cultures. The production of bio-pesticides and bio-fertilizers is on the increase. India has started field evaluation of transgenic plants and it is expected that several transgenic crops will be introduced in Indian agriculture. In the field of industrial biotechnology, products such as industrial enzymes, amino acids, carboxylic acids and alcohol are locally produced and imported.

There are approximately 500 biotechnology firms, having an annual sales receipts of over USD 1 billion. This covers biotechnology firms in healthcare, agriculture, foods, and research and development.

A number of multinational firms such as like Pfizer, Hindustan Lever, Dupont, Novartis, Cadila and Monsato have invested in India. Over the next few years, with India conforming to the World Trade Organization (WTO) requirements on patents, the Indian biotech industry will experience exponential growth.

DATA TABLE: (Estimates in USD million)

	1999	(est.) 2000	2001
A. Total Market	120	160	227
B. Local Production	40	51	91
c. Total Exports	4	5	8
D. Total Imports	84	114	144
E. Imports from the U.S.	48	61	79

Note: The above statistics are unofficial estimates.

Rank of sector: 11
Name of sector: Power distribution and transmission systems
ITA Industry code: ELP

NARRATIVE:

The demand for power distribution and transmission systems (ELP) is estimated to grow from USD 4.6 billion in 1999, to USD 5 billion in 2000, with a further increase to USD 5.5 billion by the end 2001. During the next two years, ELP imports from the U.S. are estimated to grow 25 to 30 percent.

Since 1991, increased industrialization in India along with 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 versus a 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 Ninth Five-Year Plan (1997-98 to 2001-2002). This expected capacity addition in generation through implementation of public and private sector projects will produce increased demand for ELP.

A new GOI policy permits 100 percent foreign-owned companies to establish power projects and repatriate profits without any export obligations. Such power projects can be based on any type of fuel such as coal, lignite, gas, hydro, liquid fuels, wind or solar. These policy initiatives have opened huge market and investment opportunities for the private sector. Many global players are developing power generation projects in India either individually or jointly with leading Indian firms.

In addition to increased power generation, efficient power distribution is necessary to achieve growth targets for industry and agriculture and to meet the growing demand for power from the commercial and household sectors. Energy savings through efficient transmission and distribution systems can greatly help to bridge the demand and supply gap. Industry experts strongly believe power distribution reforms are imperative and hold the key to capacity additions in India's power sector.

Many states in their enthusiasm to meet the short fall in power have approved power projects exceeding their escrow account capacity. Enlarging the escrowable revenue through distribution reforms will resolve these problems. The S.J. Coelho Committee on private sector participation in power distribution has recommended to the GOI that generation, transmission and distribution functions should be separated for restructuring of the State Electricity Boards/Indian Power Sector.

For this volume of electricity throughout the country, excellent growth prospects exist for U.S. Power companies and suppliers of distribution transformers, voltage rectifiers, power cables/HVDC systems, power capacitors, LT/HT circuit breakers, relays and transmission equipment and on line monitoring systems.

The GOI's efforts to lower custom duties, and initiatives to simplify import licensing are likely to 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 investment approval process. Foreign firms are looking at India as a place to establish co-manufacturing facilities. This trend should continue given the GOI's commitment to simplify the approval process.

Presently, the transmission and distribution of power in India is governed by the Electricity Act of 1910, and the Electricity Supply Act of 1948. SEBs are handling distribution and transmission of electricity in their respective states. Most of these state-owned companies are also power generating companies and have been in existence for quite a long period of time.

According to the Indian Electricity Act, SEBs are required to adjust their tariffs to earn a minimum return of 3 percent on net fixed assets after meeting expenses. However, SEBs are not given a free hand to adjust tariffs and are not compensated by the state governments for subsidizing agriculture and households. Further, there are no parameters to check on SEB's operational efficiency and to make them accountable for revenue losses.

In transmission, the regional transmission network consists of networks of respective SEBs and the Power Grid Corporation of India. Even though SEB's determine the operation plans for their regional network, these are not fully coordinated and lead to inefficiencies. Various constraints, including an improper mix of plants, missing inter-regional linkages, lack of communication facilities, deficiencies in metering facilities, and financial constraints in increasing transmission capacity prevent an integrated operation for power trading.

The distribution system is managed inefficiently. Reported transmission and distribution losses are as high as 25 per cent. Inadequate metering systems, billing procedures and revenue collection further aggravate the problem. The GOI and SEBs are unable to invest in transmission and distribution systems due to financial constraints, therefore, private sector investment is sought in this sector.

There is an increasing trend towards turnkey projects in transmission and distribution sector. A turnkey project includes the entire gamut of activities from design, manufacture/procurement of towers, conductors, insulators, hardware and construction of power lines from survey to testing. There is a growing market for higher voltage lines (400 KV and above)and HVDC line. Increasing importance is given to contractor's ability to raise finance for BOT/BOOT projects.

The GOI has planned that the distribution network (33 KV and lower systems) will remain directly under the control of the government, while transmission networks (220/132/66KV) system will be privatized. An evolutionary power transmission and distribution plan formulated by the 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 R&D, an ability to source international financing, good project management skills, a network of global sourcing points, and effective global risk management skills.

DATA TABLE: (Estimates in USD MILLION)

	1999	2000	(est.) 2001
A. Total Market	4600	5050	5520
B. Local Production	3910	4216	4470
c. Total Exports	184	226	220
D. Total Imports	874	1060	1270
E. Imports from the U.S.	166	212	273

1999: Import market share percentage (USA 20 %; Germany 15%; U.K. 10%; Japan 16%; Others 39%)

Sources: Economic Times, CEA power development plan, and Foster Wheeler and internal reference.

Sector Rank: 12
Name of sector: Airport & ground support equipment
ITA Industry Code: APG

NARRATIVE:

A massive program for upgradation and development of airports is being initiated by the Government of India (GOI). In February 2000, the Ministry of Civil Aviation released a draft Civil Aviation

Policy aimed at providing infrastructure capacity in accordance with demand, ensuring maximum utilization of available capacities, and efficiently managing airport infrastructure by increasing involvement of the private sector. The draft policy envisages foreign equity participation up to 74 percent, with automatic approval and 100 percent with special approval from the GOI. Also, after the unfortunate hijacking of an Indian Airlines flight from Kathmandu, the GOI plans to purchase sophisticated security equipment for all airports.

Domestic and international passenger traffic in India is projected to grow 12.5 percent and 7 percent respectively, over the next decade. By 2005, Indian airports are likely to be handling 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 GOI's decision to lease five key airports, makes India a very attractive market for airport and avionics equipment manufacturers and service providers. The liberalization of India's civil aviation market is expected to not only bring rapid increases in aviation capacity and improvements in service quality, but also presents U.S. firms with significant export and investment opportunities.

India's air traffic is highly concentrated around the main international gateways. The top five airports at Mumbai, Delhi, Chennai, Calcutta and Bangalore account for approximately 74 percent of the total traffic. The next 10 largest airports are at Hyderabad, Thiruvananthapuram, Goa, Ahmedabad, Guwahati, Kochi, Kozhikode, Jaipur, Varanasi and Nagpur and account for an additional 16.3 percent of the overall traffic. In fiscal year 1999-00, the Airport Authority of India (AAI), generated profits of about USD 50 million.

The AAI is currently in the process of leasing five international airports at Delhi, Mumbai (Bombay), Thiruvananthapuram, Chennai, and Calcutta. The combined expected investment in these five airports is expected to be around USD 4 billion. The AAI plans to appoint financial and legal consultants that will advise the Authority on various aspects of leasing, including human resources. Other private sector-aided airports expected to be developed in the next five years will be in Karnataka, Mumbai, Goa, and Bangalore. Among airport construction projects with private participation, the Kochi International Airport is the first one to become operational.

Another interesting development is the growing interest of the state governments in developing airports and air cargo complexes. The States of Andhra Pradesh, Haryana, Maharashtra, Madhya Pradesh, Kerala, Uttar Pradesh and West Bengal have already prepared new airport projects or formed joint ventures.

During the last year several important airport equipment installations were conducted by the AAI, including the installation of: Doppler Very High Omni Range(DVOR) equipment, Distance Measuring Equipment (DME), Non-Directional Beacons (Cochin Airport), Instrument Landing Systems (ILS) (Udaipur and Jaipur Airports), and DVOR/DME
(Pune and Indore Airports). The following are proposed installations for FY 2001-02:

1. Secondary Radar at Nagpur, Varanasi, and Mangalore ILS at Madurai, Bhavnagar, Dimapur, Silchar and Lilabari.
2. DVOR & DME at Barapani, Agatti, Katihar and Moga.

The AAI has designed ambitious long-term plans to meet the challenges posed by ever increasing air traffic and advancement in aircraft technology. Some of the major plans are:

Replacement of ground based Communication, Navigation and Surveillance (CNS) with Satellite based CNS systems.
Establishment of Differential Global Positioning Systems (DGPS).
Automation in Air Traffic Control Services.
Establishment of Automatic Dependent Surveillance (ADS).
Coverage of the Indian land mass through Satellite Communications, VHF Data Links and Monopulse Secondary Surveillance Radar with Mode 'S' Capability.

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

The most promising sub-sectors are listed below:

Sub-sector	2001 Market Size (USD million)
Communications, Navigation and Surveillance (CNS)/ Air Traffic Management(ATM)	120
Baggage handling, security and information systems	55

DATA TABLE: (Estimates in USD millions)

	1999	2000	(est.) 2001
A. Total Market Size	160	182	225
B. Total Local Production	90	110	140
C. Total Exports	8	12	15
D. Total Imports	78	84	100
E. Imports from the U.S.	35	39	45

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

India's streams and rivers suffer from very high levels of pollution caused by municipal wastes, industrial effluents and agricultural run-offs. 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 instance, 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. In 1993 about 80 percent of rural Indians and 85 percent of the urban population 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 1920 cubic meters by 2007. All metropolitan cities in India suffer from water scarcity with supply shortfalls ranging from 30-60 percent. Ground water sources are, therefore, being over exploited with a significant decline in water table levels recorded in most places.

The water and wastewater treatment sector accounts for the highest environmental spending at both Government and industry levels. The GOI has initiated a major National River Action Program aimed at establishing a wastewater treatment infrastructure in the municipal sector in 141 towns in the country. GOI spending on such projects is expected to reach USD 488 million during the Five-Year Plan period of 1997-2002. On the domestic front, this spending will drive a large part of the municipal wastewater treatment market. Besides these GOI programs, multilateral assistance for developing basic water resources for some states is being provided. For example, the Andhra Pradesh State Government has received a loan of USD 142 million from the World Bank for irrigation projects. The World Bank has been the principal source of external financial assistance and has provided USD 537 million for urban water supply and sanitation projects in India. The Asian Development Bank (ADB) is also planning to invest USD 2 billion in infrastructure projects in various states over the period of 2001-2002. The ADB is also narrowing its focus to Karnataka, Rajasthan, Kerala, Haryana and Tamil Nadu.

However, the immediate market potential lies in the municipal and industrial wastewater treatment sector, which is currently estimated at USD 1 billion and is expected to grow 14 to 15 percent over the next three years. According to the Central Pollution Control Board, most of this market is either in the municipal sector or is for industrial wastewater and recycling equipment. A large segment of the market lies in 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. The municipal and industrial wastewater treatment market is technology driven.

For U.S. businesses to succeed in India, it is necessary to have broad technical expertise and an all India reach to be able to provide sub-contractors in diverse geographical areas of the country. Indian customers desire to seek a package of solutions rather than an individual piece of equipment or service at affordable cost. The Indian equipment market is well developed and there is a need for advanced treatment technologies for recycling treated effluent. Tertiary treatment 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 import either the design or the core processes. Under such arrangements, Indian companies handle 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)

	1999	2000	(est.) 2001
A. Total Market Size	1035	1180	1345
B. Total Local Production	621	708	807
E. Total Exports	-	-	-
D. Total Imports	414	472	538
E. Imports from the U.S	73	118	135

Note: The above statistics are unofficial estimates.

Sector Rank: 14
Sector Name: Air-conditioning & refrigeration
ITA industry code: ACR

NARRATIVE:

During the last decade, the concept in India of linking air-conditioning and refrigeration (AC&R) to comfort was re-assessed. Industrial growth in India in the last decade produced considerable increases in demand for AC&R. AC&R market growth is attributed to the development of new applications in food processing and preservation, pharmaceuticals, computers and electronics, power generation, space and atomic research, marine air-conditioning and refrigeration, floriculture, horticulture, and acquaculture industries.

The AC&R industry is estimated at approximately USD 878 million. In the AC industry, both the organized and the unorganized sector exist. However, the latter does not exist in the Indian refrigeration industry. Over the last two years, the Indian refrigeration industry has experienced the entry of multinational companies (MNCs) from the U.S., Europe, Japan and Korea, bringing abundant finances and global experience to the India market.

India reflects good market potential for industrial AC&R systems. The window AC segment is growing fastest but has become increasingly competitive and produces low profits. Given increasing industrial applications, demand for packaged AC&R systems is predicted to be the most lucrative area in the future. Air-conditioning for specific industrial purposes is not yet practiced in India, but the concept is gradually taking root. Presently, a few Indian companies are negotiating with clients in the telecommunication sector and research laboratories to install AC&R systems. The future will see greater orientation towards central AC&R systems.

AC&R for cargo transport in trucks and railways has large, future potential in India. There is an urgent need to develop a world-class cold storage and handling infrastructure in India. In spite of being one of the world's leading producers of food, the absence of proper refrigerated storage and organized cold chain distribution facilities leads to large-scale wastage. India's annual loss of perishable products is estimated at more than USD 4 billion. Other future potential areas of growth in the AC&R industry in India are in medicine, freeze drying and industrial refrigeration for food processing. These AC&R products and systems should be designed to use non-CFC refrigerants.

Imports of AC&R systems are also expected to rise due to the Government of India's recent reductions in import tariffs from 60 to 103.58 percent in 1999-2000 to around 50.8 to 67 percent in 2000-01. In addition, removal of licensing requirements is expected to produce an increase in imports of sophisticated and specialized AC&R systems.

The most promising import sub-sectors are provided below:

Sub-sector	2000 (USD Million)
Cold chains and transportation AC&R systems.	Estimate not available.
Central AC systems	120

Data Table: (Estimates in USD millions)

	1999	2000	2001
A. Total Market Size	878	1,010	1,162
B. Total Local Production	829	953	1,096
C. Total Exports	16	19	22
D. Total Imports	65	76	88
E. Imports from the U.S.	15	17	20

Note: The above statistics are unofficial estimates.

Source: Experts opinion from the Indian Society of Heating, Refrigeration & Air-conditioning Engineers (ISHRAE), Center for Monitoring the Indian Economy (CMIE) and Monthly Statistics of the Foreign Trade of India, Ministry of Commerce.

Sector Rank: 15
Sector Name: Agricultural chemicals
ITA industry code: AGC

NARRATIVE:

Agriculture plays a dominant role in the Indian economy and constitutes 29 percent of GDP. India's substantial increase in production and imports of agricultural chemicals during the last decade can be attributed to its increased food grain, sugar, tea, fruits, and vegetables production. India's food grain production exceeded 202 million tons in 1999-2000 and the demand for food grains in India is expected to grow 3.5 percent per year.

India's agricultural chemicals market is estimated at USD 650 million and is expected to grow 10 percent per year. Insecticides account for the largest share of the agricultural chemicals market with a 73 percent share. Herbicides constitute approximately 13 percent of the market and fungicides 11 percent. India has an estimated 30 major pesticide manufacturers and over 600 small players. A few U.S. companies are active in the Indian market.

Agricultural chemicals are allowed to be imported without restrictions, provided the chemical has been registered with the Central Insecticides Board/Department of Plant Protection under the Ministry of Agriculture, Government of India, and is not an item prohibited for import under the Central Insecticides Act of 1968. The total import duty on agricultural chemicals is 67.08 percent. India's imports of agricultural chemicals in 1999 were valued at USD 32 million.

Imports of agricultural chemicals are expected to expand due to adoption of scientific and modern methods of cultivation to meet the growing demand for food. In addition, a new trend in India of close interaction between the corporate sector engaged in agri-business and the farming community will result in increased application of modern foreign farming techniques and technologically superior quality agricultural chemicals. This development should accelerate agricultural growth.

The most promising import sub-sector is provided below:

Sub-sectors	2000 Market Size (USD Million)
Pesticides/Insecticides	415

Data Table: (Estimates in USD millions)

	(est.)		
	1999	2000	2001
A. Total Market Size	586	650	720
B. Total Local Production	713	749	823
C. Total Exports	159	213	234
D. Total Imports	32	114	131

Source: Above statistics are unofficial estimates based on reports from Dow Agro-sciences, Center for Monitoring Indian Economy, Ministry of Agriculture, and the Monthly Foreign Trade Statistics, GOI.

INVESTMENT OPPORTUNITIES

Sector Name: Information Technology Enabled Services
ITA Industry Code: CSF

NARRATIVE:

India is an attractive destination for Information Technology Enabled Services (ITES) ventures. Presently, a wide range of ITES operate in India such as: Call centers, medical transcription centers, back office operations, revenue accounting and processing other ancillary operations, insurance claims, legal databases development, payroll, content development/animation and logistics management.

The factors that attract multinational companies to establish ITES ventures in India, include the large English speaking and computer literate population, relatively low cost of employment, 12-hour time zone difference between India and the U.S., a stable legislative and economic framework, government support for IT ventures, and Indian brand equity. Foreign companies such as Bechtel, GE Capital, British Airways have established ITES projects in India.

In India, Bechtel employs over 500 people and offers engineering design services to its customers worldwide. A subsidiary of GE Capital, established in Gurgaon, Haryana, it undertakes payroll accounting, call center operations, and processes mortgage-based loans and insurance claims. Currently, the subsidiary employs 1,000 persons; the staff I staff is expected to increase to 3,000 by the end of 2000. As a result of its success, GE Capital has established a second ITES center in the HITEC City of Hyderabad. This center will process auto loans and undertake call center activities.

U.S. hospitals, are major beneficiaries of the ITES ventures. A large number of Indian companies prepare medical transcriptions records for U.S. hospitals. This concept is expanding to include legal services, insurance claim settlement, and call center billing.

According to McKinsey & Co., the value of ITES is expected to grow several fold in the next 5 years, providing new business opportunities. Currently, call centers and animation account for 85 percent of the total ITES business.

The Government of India (GOI) and the state governments are focussed on increasing ITES in India. The Department of Telecommunication has constituted a “Telecom Group on IT Enabled Services” to promote ITES ventures. Some of the other initiatives include: establishing a National Taskforce on IT and software development, tax benefits for some ITES companies, and a new GOI policy for call center operators. The new policy initiatives are broad-based and are aimed at liberalizing call center operations in India.

Numerous venture capital companies are providing funds to establish ITES ventures for call centers and back-office operations. The Over the Counter (OTC) exchange of India is taking special steps to nurture and promote companies in the ITES sector. OTC offers a wide portfolio of services from project development, to financing options to ITES ventures in India.

Provided below is a list of ITES and estimated revenue generation in the next ten years. Source: a survey conducted by National Association of Software Services Companies (NASSCOM).

ITEMS	Revenue
Back Office Operations/	

Revenue Accounting/	USD 19,000 million
Data Entry/Data Conversion Remote Maintenance and Support	USD 13,500 million
Medical Transcription and Insurance Claim Processing	USD 11,500 million
Call Centers	USD 6,000 million
Database Services	USD 6,500 million
Content Development	USD 25,000 million

Sector Name: Drugs and Pharmaceuticals
ITA Industry Code: DRG

NARRATIVE:

The value of the drugs and pharmaceutical industry in India is estimated at USD 3.75 billion; it is expected to increase to USD 7 to 9 billion by 2003. The Indian pharmaceutical industry ranks 20th in the world but accounts for less than a 1 percent share in the world market. The industry is comprised of 250 large and medium units and several small-scale units.

Although the Indian capital goods industry for the pharmaceutical sector is well established, a major impediment to globalization of the industry is the fragmented nature of the industry. Approximately two hundred manufacturers receive USD 20 million in sales receipts, while 20 large manufacturers account for over 50 percent of all sales receipts received by the industry.

Most domestic manufacturers that produce capital goods for the drugs and pharmaceutical industry are in the unorganized sector. These firms lack basic testing facilities, they do not fulfill production schedules, nor do they conform to production standards for fabricated items. A predominant adverse feature among the firms is the lack of foreign collaborations that is expected in a specialized industry.

It is estimated, that by the end of 2000, the industry will require additional investment in plant and machinery of USD 4695 million. Of these requirements it is estimated that USD 10 to 15 will imported. The items that are of high interest include:

Fully automatic high speed ampoule or vial processing and packing equipment
Form fill and seal machines for LVP
Automatic capsule filling machines
Automatic rotary tablet compression machine
Lyophilizes
Filter media (membrane, cartridge and HEPA)
Spectrophotometers (UV or VIS and IR)
TLC applicators
Particle counters, and
Precision weighing scales

Sector Name: Insurance
ITA Industry Code: INS

In December 1999, the Insurance Regulatory and Development Authority (IRDA) Act was passed by the Indian Parliament. This ushered in a new era for the Indian insurance industry, ending the government monopoly. The IRDA Act allows the entry of Indian private and foreign companies. Foreign companies can assume equity participation of up to 26 percent in joint ventures with Indian companies.

In April 2000, the Government of India (GOI) notified and constituted the Insurance Regulatory and Development Authority (IRDA). Presently, the IRDA is in the process of finalizing the regulatory framework for the industry. The first private insurance company is expected to be operational by the end of 2000.

Based on the assumption of 7 percent real annual growth in gross domestic product (GDP), the Indian insurance market is expected to increase to USD 25 billion by 2010. Presently, India is ranked 23rd in annual insurance premium collections with a meager 0.34 percent share of the world market. Out of one billion people in India, only 35 million people are covered by insurance.

This industry is characterized by high premiums and low returns. In India, life insurance funds constitute approximately 10 percent of the gross household saving in financial assets. Moreover, India's life insurance premiums as a percentage of GDP is 1.4 percent. India has a large middle-class population of 250-300 million that can afford to purchase life, health, and pension products. The government owned insurance companies have tapped only 22 percent of the insurable population. The large untapped market provides tremendous scope for new companies in this sector.

A number of foreign insurance companies have entered into joint venture agreements with Indian companies. Following is the list joint ventures:

Indian Partner	International Partner
Alpic Finance	Allianz Holding, Germany
Tata	American Int. Group, US
CK Birla Group	Zurich Insurance, Switzerland
ICICI	Prudential, UK
Sundaram Finance	Winterthur Insurance, Switzerland
Hindustan Times	Commercial Union, UK
Ranbaxy	Cigna, US
HDFC	Standard Life, UK
Bombay Dyeing	General Accident, UK
DCM Shriram	Royal Sun Alliance, UK
Dabur Group	Liberty Mutual Fund, US
Kotak Mahindra	Chubb, U.S.* (*Since rescinded)
Godrej	J Rothschild, UK
Sanmar Group	Gio, Australia
Cholamandalam	Guardian Royal Exchange, UK

SK Modi Group	Legal & General, Australia
20th Century Finance	Canada Life
M A Chidambaram	Met Life
Vysya Bank	ING

The Indian insurance market not only has a large untapped potential, but also lacks innovative insurance products. Pure protection products such as term assurance accounts for 20 percent of policies sold in developed countries. In India, the value is less than one percent because policies are inflexible, and returns are low. By March 1998, the Life Insurance Corporation of India collected USD 23 million (Rs. 1 billion) as premium on pension policies. The lack of a comprehensive social security system combined with a willingness to save, infers that there exists a large demand for pension products. Health insurance is another segment with great potential, currently, only 2.5 million persons are covered by a health insurance policy. In India personal insurance, including health, householders, shopkeepers, accident, and professional indemnity coverage, constitutes 12 percent of India's general insurance premiums. Low coverage is largely due to a lack of adequate distribution channels rather than lack of products. New insurers can profitably focus on the retail segment, especially in general insurance.

Note: For a comprehensive look at India's insurance industry see "India's Insurance Industry" an industry sector analysis, published in May 1999 in the National Trade Data Bank (NTDB). The NTDB is available on the U.S. department of Commerce Website http://www.stat-usa.gov.

CHAPTER VI. TRADE REGULATIONS AND STANDARDS

— Bilateral trade
— Tariff and non-tariff barriers
— Quantitative restrictions
— Tariff rates
— Import taxes and other taxes
— Prohibited imports
— U.S.-imposed export controls
— Indian export control
— Import licensing requirements
— Special import/export provision
— Customs regulations and contact information
— Temporary goods entry requirements
— Labeling marking requirements
— Warranty and non-warranty repairs
— Standard
— Free trade zones/warehouses
— Membership in free trade arrangements

BILATERAL TRADE

In 1999, the United States trade deficit with India was USD 5.4 billion or USD 0.7 billion more than that in 1998. U.S. merchandise exports to India were USD 3.7 billion, up USD 150 million from

1998. U.S. imports from India totaled USD 9 billion in 1999, USD 800 million higher than in 1998. 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.

TARIFF AND NON-TARIFF BARRIERS

India still maintains high tariffs and many quantitative restrictions on imports. To meet the WTO norms, the Government of India has been gradually rationalizing tariff rates and removing quantity restrictions. These tariffs and restrictions have constrained U.S. firms from selling in India. General provisions regarding exports and imports are guided by the Export Import (EXIM) Policy of 1997-2002. Revised on April 1, 2000, 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 bilateral trade and investment. With further liberalization, this trade is poised to grow significantly. 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, the customs duties on some of these items such as consumer product imports are still high enough to remain serious impediments to U.S. trade. 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.

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 (QR's) 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.

Pursuant to this, India and the U.S. entered into a bilateral agreement in December 1999 on the phase-out of QRs before April 1, 2001. The Government of India has removed QR's on 714 items on tariff lines in February 2000. As of January 2000, the Government of India maintains QR's on balance of payment grounds on the following: number of items on Restricted list 700, Number of items under the Special Import License list 685 and number of items under the Canalized list 44.

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 four 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 four percent on the landed cost. When an agent or distributor resells imported goods, sales tax is applicable. The Government of India and state governments is working towards rationalizing sales tax regime to remove anomalies.

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 35 percent in the 2000-2001 budget. The annual budget announced in February 2000 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. This surcharge is levied on all commodities except some products such as crude oil and petroleum products. This surcharge will continue until March 31, 2001. The special additional duty (SAD), that was levied in April 1999 will continue at a rate of four 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.

Reduced tariffs have assisted several U.S. export industries. However, further reductions in basic tariff rates and removal of additional duties would benefit a wide range of U.S. exports. For example, imports of consumer products attract the peak customs duty of 35 percent, Countervailing Duty (CVD) of 16 percent. Some items like plastic materials and yarn attract a higher CVD of 32 percent. Despite lower basic tariff, a ten- percent surcharge, CVD and Special Additional Duty (SAD), the effective duty rate goes up to 70-90 percent.

PROHIBITED IMPORTS

There are very few prohibited items in India's import policy. The import of the following items is prohibited: animal tallow, fats and oils, animal rennet, wild animals including their parts and products and ivory.

U.S.- IMPOSED EXPORT CONTROLS

The Bureau of Export Administration (BXA) is the U.S. Department of Commerce agency charged with administering and enforcing the Export Administration Act and Regulations (EAA/EAR). The EAA and EAR control the export and re-export of U.S.-origin goods and technical data for reasons of national security; non-proliferation of chemical/biological weapons, nuclear weapon and ballistic missile technology; antiterrorism; other foreign policy concerns and short supply.

The President's waiver of sanctions against the use of U.S. Export-Import Bank (ExIm), the U.S. Trade and Development Agency (TDA), and the Overseas Private Investment Corporation (OPIC) facilities expired October 21, 1999. On October 27, 1999, the President signed new legislation indefinitely extending the waivers for TDA, ExIm, and OPIC in India. These facilities now continue to be available to support U.S. trade and investments in India. For details, please contact the India sanctions hotline at 202-482-2955 and visits the Website at http://www.mac.doc.gov/sanctions. The U.S. Government has released an “entities list” that restricts 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.

On December 16, 1999, the U.S. Government removed 51 entities from this list originally sanctioned in 1998. For information on the 51 entities removed from the list, please refer to the IMI titled “51 Indian Organizations removed from the U.S. Sanctions List” reported on 12/22/99.

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 at Tel: 202-482-3772.

IMPORT LICENSING REQUIREMENTS

The 1990s have seen a steady liberalization of Indian import regulations. Many quantitative restrictions, licensing and discretionary controls over imports have been replaced through deregulation, procedural simplification and protection through tariffs and exchange rates.

India’s EXIM Policy regulates the import of goods. Indian allows imports under license issued by the Ministry of Commerce. However, a majority of items fall within the scope of the Open General License (OGL). In effect, OGL is a blanket permit to legally registered industrial units to import items falling within its ambit, without restriction.

Imports of goods not covered by OGL are regulated and fall into three categories: banned or prohibited items; restricted items (700), requiring an import license; “canalized” items (44, such as bulk agricultural commodities) importable only by government trading monopolies and subject to Cabinet approval regarding timing and quantity.

The items whose import is restricted include consumer goods, precious, semi-precious and other stones, seeds, plants and animals, safety/security related items, insecticides and pesticides, drugs and pharmaceuticals, chemicals and related items, items manufactured by small companies having plant and machinery valued at no more than US0.7 million. These items can be imported under RIL (Restricted Item License). Prior to obtaining the license, every importer should have a valid IEC number.

Other items including aircraft, ships, natural rubber and certain cinematography feature films can be imported through designated agencies. The items such as including petroleum products, certain fertilizers, cereals, non-edible oils, and spices can also be imported through the designated agencies such as Indian Oil Corporation, the Minerals and Metal Trading Corporation and State Trading Corporations.

The Special Import Licenses (SIL's) have so far been granted to companies with Export Trading House status based on percentage of their freight on board (FOB) export values and they may be bought on the open market and are fully transferable. However, GOI plans to discontinue SIL with effect from March 31, 2001, signaling more free imports in future. Thus, SIL will not be granted in respect of exports made on or after April 01, 2000 and such licenses already issued will be valid up to March 31, 2001. All items, which are under SIL, will now be importable on surrender of SIL equivalent to 5 times of CIF value of imported goods.

Capital goods can be imported with a license under the Export Promotion Capital Goods scheme (EPCG) at reduced rates of duty, subject to the fulfillment of a time-bound export obligation. The Government of India has recently announced that the EPCG scheme is extended to all sectors. It is also applicable to all capital goods without any threshold limits on payment of 5 percent custom duty.

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. Actual user, non-transferable advance license is one such license that will be exempt from payment of all kinds of duties. For those who do not wish to go through the advance-licensing route, post-export duty-free replenishment certificate will be available.

Import of specified capital goods, raw materials, components etc from the United States of America is subject to U.S. Export Control Regulations. U.S. suppliers of such items are required to obtain an export license based on the import certificate furnished by the Indian importer to the U.S. supplier. The following are designated Import Certificate issuing Authorities: The Department of Electronics for import of computer and computer related systems; The Department of Industrial Policy and Promotion for organized sector firms except for import of computers and computer based systems; The Ministry of Defense for defense related items; The Director General of Foreign Trade for small-scale industries not covered above.

The Exim Policy and the Handbook of Procedures has been posted on the Internet and henceforth all public notices issued by the Directorate General of Foreign Trade (DGFT) will be available on the Internet Website: www.nic.in/eximpol.

CUSTOMS REGULATIONS AND CONTACT INFORMATION

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, the custodian of the goods in all Indian airports would auction goods, which remain "uncleared" for more than 30 days. Custodian of goods at Indian airports is the Airports Authority of India. This procedure is a standard practice and is applicable to all carriers and forwarders 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. 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.

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” invoices. 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.

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 sealant. Normally these industrial goods are supplied in small quantities because they are used sparingly or cannot be bulk-packaged.

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.

CUSTOMS CONTACT INFORMATION

Commissioner of Customs
Central Revenue Building
P.O. Box 5400, Queen’s Road
Bangalore, 560 001
Phone: 91-80-2864267
Fax: 91-80-2864170

Commissioner of Customs
Customs House
Calcutta-19
West Bengal
Phone: 91-33-2200588
Fax: 91-33-2204098

Commissioner of Customs
Customs House
33 Rajaji Salai
Chennai, Tamil Nadu
Phone: 91-44-5231207
Fax: 91-44-5220093

Commissioner of Customs
Customs House
Cochin 682009
Phone: 91-484-668069
Fax: 91-484-668468

Commissioner of Customs
New Customs House
Indira Gandhi Airport
New Delhi 110 037
Phone: 91-11-5652970
Fax: 91-11-5452085

Commissioner of Customs & Central Excise
P.O. Box 139
Panaji, Goa
Phone: 91-832-225324
Fax: 91-832-223255

Commissioner of Customs
New Customs House
Ballard Estate
Mumbai 400 038, Maharashtra
Phone: 91-22-2620845; Fax: 91-22-2614957
Commissioner of Customs
New Kandla, 370210, Gujarat
Phone: 91-2836-70634
Fax: 91-2836-70627

Commissioner of Customs
Jawahar Customs House
J.N. Port, Sheva, District: Raigarh
Post Uran, Nhava Sheva, Maharashtra
Phone: 91-22-7242393
Fax: 91-22-7242395

Commissioner of Customs
Sahar Airport (Mumbai)
Maharashtra
Phone: 91-22-8221719

Fax: 91-22-4932562

Commissioner of Customs
New Customs House
Port Area, Vishakapatnam 530035
Andhra Pradesh
Phone: 91-891-562613
Fax: 91-891-562613

TEMPORARY GOODS ENTRY REQUIREMENTS

Potential U.S. investment seeking a home in India is often hampered by the difficulty in determining whether 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 (ITPO)- approved trade events. For these temporary imports American companies have to provide a 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 is 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 and allowed for re-export, on payment of the applicable custom duties, subject to a ceiling of USD 11,628 (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 can import their exhibits duty-free. For further information contact the U.S. & Foreign Commercial Service (US&FCS). 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 the U.S. Embassy to cover administrative costs.

SPECIAL IMPORT/EXPORT REQUIREMENTS AND CERTIFICATIONS

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 deferred 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.

Special licensing procedures apply to exporting 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 US 4.7 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 are located in special zones can avail of duty drawback. These specials zone include- 1) free trade zones, 2) export-processing zones, 3) electronic technology parks and 4) jewelry complexes.

Currently, companies operating in these areas are allowed to import duty-free and are also free from local taxes. 100 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 Entitlement Passbook scheme (DEPC), an advance license for actual users.

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. As the DEPB will be phased out by March 2002, the Government of India is currently examining as to how to streamline the system to introduce a common duty drawback scheme which ensures refund of all taxes and duties on inputs at the time of shipment itself.

Following the successful Chinese model to develop exports, the Government of India plans to establish Special Economic Zones (SEZ's) in different parts of the country. In addition to converting all export processing zones to SEZ's, there are plans to build new ones as well. These areas are export production centers, free from the plethora of rules and regulations governing imports and exports. The firms located in these zones would be able to import goods and raw material duty free and need not pay excise duty (manufacturing duty) as well. 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

Under the 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.

WARRANTY AND NON-WARRANTY REPAIRS

Quick availability of spares and service are 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 shipped abroad for repair or replacement. Shipping parts for repair requires clearance from the Reserve Bank of India (RBI), and then, Customs verification, that these parts were indeed originally imported. Since the parts are usually imported as part of a larger piece of equipment, and 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.

FREE TRADE ZONES/WAREHOUSES

Foreign investment up to 100 percent is permitted in units set up in Export Processing Zones (EPZ's), Software Technology Parks (STP's), Electronic Hardware Technology Parks (EHTP's), and to 100 percent Export Oriented Units (EOU's). New industrial undertakings set up in Free Trade Zones (FTZ's) are entitled, subject to various conditions, exemption from income tax on business income. Income of new industrial undertakings set up in FTZ's and newly established 100 percent EOU's are exempt from income tax for a period of 10 years. This exemption has been restricted to units set up prior to March 31, 2000. Such units are allowed to make a specified percentage of their sales in the domestic tariff area. While it lasts, the tax holiday in FTZ's replaces all other income tax incentives available to industrial undertakings.

Approval for investment in EPZ's and FTZ's can be obtained from The Ministry of Industry and the Development Commissioners of Export Processing Zones and Free Trade Zones. EPZ's are currently set up in seven designated areas in India: Kandla FTZ, Santa Cruz Electronics EPZ, NOIDA EPZ, Cochin EPZ, Falta EPZ, Vishakapatnam EPZ and Chennai EPZ. The EXIM Policy allows conversion of EPZ's to FTZ's 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 interference.

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.

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 to avail tariff preferences. India is a signatory to the Tokyo Round Agreements on Technical Barriers to Trade, Customs Valuation, Anti-Dumping Subsidies and Countervailing Duties.

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 machine imported into India, be certified. The Ministry has indicated that the National Renewable Energy Laboratory will be the 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 ground 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 standards.

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
— Performance requirements/incentives
— Transparency of the regulatory system
— Corruption
— Labor
— Efficiency of capital markets and portfolio investment
— Conversion and transfer policies
— Expropriation and compensation
— Dispute settlement, including enforcement of foreign arbitrage awards
— Political violence
— Bilateral investment agreements
— Capital outflow policy
— Major foreign investors

OPENNESS TO FOREIGN INVESTMENT

Until the 1990s India had a tightly controlled economy that allowed little foreign investments. From July 1991 industrial and investment policies have become progressively simpler, more liberal, and more transparent. Nonetheless, even today, foreign investment remains relatively controlled with equity limits for investors in many sectors and approval required for many types of foreign investment. In some of these sectors limits can be exceeded on a case-by-case basis. Sector details on investment norms follow later.

The current policy has automatic approval for foreign equity investment in many sectors. Investments in some sectors require approval by either the Foreign Investment Promotion Board (FIPB) or the Cabinet Committee on Foreign Investment. These bodies have discretionary powers and the approval process is not always routine or transparent. The rules vary from industry to industry and are frequently changed, usually to become more liberal. In the majority of cases foreign investment does not get national treatment.

Sector-Specific Guidelines for Foreign Direct Investment:

Banking/Finance Companies: 20 percent limit on foreign equity in Indian banks; Non-Resident Indian (NRI) holdings may be up to 40 percent; Multilateral Financial Institutions are allowed to invest up to 40 percent in case of shortfall in FDI by NRIs. Total FDI/NRI/FII holdings can not exceed 40 percent. Foreign banks may open branches in India with RBI approval. There are no automatic approvals.

Non-Banking Financial Companies (Merchant banking, Underwriting, Portfolio Management, Financial Consulting, Stock-Brokerage, Asset Management, Venture Capital, Credit Rating, Housing Finance, Leasing & Finance, Credit Card Business, Foreign Exchange Brokerage, Factoring And Custodial Services, Investment Advisory Services): Foreign Direct Investment is allowed up to 100 percent. Some companies are required to offload 25 percent equity in 3 years through public offer. There are no automatic approvals.

Insurance: 26 percent limit on foreign equity investment. There are no automatic approvals.

Venture Capital: 100 percent FDI allowed in venture capital funds and venture capital companies. They can own up to forty percent of unlisted Indian companies. There are no automatic approvals.

Civil Aviation: Domestic Airlines sector: 40 percent FDI allowed but no direct/indirect equity participation by foreign airlines. 100 percent investment allowed for NRIs/ Overseas Corporate Bodies (OCBs).

Airport Infrastructure: 74 percent FDI. There are no automatic approvals.

Telecommunications:	
Basic and cellular	49 percent
Internet	49 percent
online information retrieval	51 percent
Equipment manufacturing	100 percent

Petroleum:	
Small fields through competitive bidding	100 percent
Unincorporated joint venture	60 percent
Incorporated joint venture	51 percent
Refining with domestic private	49 percent
Refining with public company	26 percent
Petroleum product/pipeline	51 percent
Marketing	74 percent

There are no automatic approvals in any of these categories.

Coal/Lignite: 100 percent FDI allowed in coal processing plant/power projects; 74 percent FDI allowed for exploration/mining for captive consumption. 50 percent FDI allowed under the automatic route.

Atomic energy: Mining and mineral separation, integrated activities and value addition in mining and mineral separation. Up to 74 percent FDI is allowed for integrated projects and beyond 74 percent on case-to-case basis. There are no automatic approvals.

Drugs/Pharmaceuticals: Up to 74 percent for bulk drugs. Automatic approval is granted within the 74 percent limit. Approvals for more than 74 percent are on a case-to-case basis.

Housing/Real Estate: No foreign investment is permitted. NRI/OCBs are allowed to invest up to 100 percent.

Trading: Foreign investment is not allowed in retail business. Automatic route allows up to 51 percent FDI in case of primarily export activities. 100 percent FDI may be approved through the FIPB for some activities.

Defense and strategic industries: No FDI/NRI/OCB investment is permitted.

Agriculture: No FDI/NRI/OCB investment is permitted.

Print Media and Broadcasting: No FDI/NRI/OCB investment is permitted in print media or TV and radio broadcasting other than up-linking, where 20 percent FDI is allowed. There are no specific guidelines available for cable operations. Earlier, case-by-case approvals were given by the FIPB.

Power: 100 percent FDI allowed.

Roads & highways: 100 percent FDI allowed, with automatic approval.

Ports and harbors: Automatic approval up to 74 percent FDI is allowed. 100 percent FDI is allowed for Build-Own-Transfer projects.

Shipping: 74 percent FDI is approved through the automatic route for water transport services.

Railways: FDI not allowed in rail services.

Hotel & tourism, restaurants: 100 percent FDI allowed. Automatic approval for projects with up to 51 percent FDI.

Mining: 74 percent FDI allowed under the automatic route for diamond and precious stone mining; 100 percent FDI allowed under the automatic route for exploration and mining of gold/silver and other minerals, metallurgy and processing.

Postal/courier services: FDI not allowed in domestic services. International express couriers can operate in India.

Pollution Control: 100 percent FDI allowed under the automatic route for equipment manufacture and for consulting/management services.

Advertising and films: 74 percent FDI allowed under the automatic route in advertising; 100 percent FDI allowed under the automatic route in film industry with conditions.

Manufacturing: Up to 51 percent FDI is allowed in manufacturing with automatic approval in textiles, paper, basic chemicals, rubber, plastic, non-metallic mineral products, metal products, ship/boat building, machinery and equipment. Higher levels must be approved by the FIPB. Equity participation is limited to 24 percent in case of foreign investment in small scale industry manufacturing and total capital investment limits of USD 250 imposed on the 600 plus items reserved for the small scale sector. Higher foreign equity participation can be approved if the company undertakes to export 75 percent of production.

Automobiles: FDI up to 51 percent is approved through the automatic route. Joint venture companies seeking to import unassembled kits and automotive components must sign a standardized MOU with the GOI containing several requirements such as 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.

Food Processing: Automatic approval up to 51 percent is allowed. Higher foreign equity must be approved by the FIPB. FDI up to 74 percent through the automatic route is allowed in cold chain facilities.

Professional services: Most consulting/professional services are allowed under the automatic route up to 51 percent FDI. Legal services are not open to foreign investment.

Health and Education Services: FDI up to 51 percent with automatic approval. Higher equity proposals need FIPB approval.

E-Commerce: The Information Technology Bill, 2000 allows 100 percent foreign equity in business-to-business the e-commerce. No FDI allowed in retail e-commerce.

Construction: Construction and maintenance of roads, highways, vehicular bridges, tunnels, ports and harbors is allowed 100 percent FDI under the automatic route, up to a ceiling of Rs.15 billion (USD 345 million). 74 percent FDI through the automatic route is available for construction and maintenance of waterways, rail beds, hydroelectric projects, power plants and industrial plants. FDI is not allowed in housing/office construction.

Guidelines for Foreign Portfolio Investment by Institutional Investors:

A Foreign Institutional Investor (FII) can hold up to 10 percent of paid-up equity capital of any Indian company. The total investment by FIIs cannot exceed 30 percent of its total paid-up capital. The company can increase the limit of 30 percent to 40 percent with the passage of a special resolution.

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Foreign and domestic private entities can establish and own business enterprises, but there are various restrictions which apply to some industry sectors including government monopolies, small-scale sector reservations, and limits on foreign ownership. The lack of bankruptcy laws and the requirement for government permission to close businesses often make it difficult to dispose company assets. The Indian Government's policy does not permit investment in housing/real estate by foreign investors, except for company property used to do business. Non Resident Indians, OCB's, or persons of Indian origin (PIO's) are permitted 100 percent equity investment in real estate.

PROTECTION OF PROPERTY RIGHTS

The legal system puts a number of restrictions on the transfer of land, making the titles sometime unclear, and often making it difficult to buy and sell land. There is no reliable system for recording secured interest in property, making it difficult to use immovable property as collateral or of foreclosing on property to cover secured debts.

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. May 1995 and December

1999 amendments increased protection and introduced stiff mandatory penalties for copyright infringement. Indian copyright law is now on par with the most modern law in the world. India is a party to the Geneva Convention for the Protection of Rights of Producers of Phonograms and the Universal Copyright Convention, and a member of the World Intellectual Property Organization and UNESCO. Trademark protection is good and was raised to international standards with the passage of a new Trademark Bill in December 1999 that codified the use and protection of foreign trademarks, including service marks. Enforcement of intellectual property rights has been weak, but the situation is improving steadily as the courts and police respond to domestic concerns about the high cost of piracy to Indian rights holders.

Indian patent protection is weak. 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 can be patented, 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 Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), India must introduce a comprehensive system of product patents no later than 2005. Patent legislation to meet India’s TRIPs obligations was introduced and passed in March 1999. India has so far failed to meet the January 1, 2000 deadline for a second set of TRIPS obligations including further amendments to its Patents Bill. A joint Parliamentary Committee is reviewing the Patents Amendment Bill, introduced in Parliament in December 1999. Passage of the Bill is expected in late 2000. India has joined the Paris Convention and the Patent Cooperation Treaty in December 1998.

Aside from its immediate obligations, the Indian government intends to use the full 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.

ADEQUACY OF LAWS AND REGULATION 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—at fixed prices through government distribution outlets, at market prices on the open market. Regulation of drug prices has been a concern for U.S. pharmaceutical firms in India, though the number of regulated drugs has been sharply reduced. The Indian government is revising the 1956 Companies Act, which governs competition laws and commercial practices. The Indian Parliament in May 2000 passed the Information Technology Bill, 2000 to provide the legal framework for India’s growing E-Commerce sector. This legislation covers digital signatures, electronic records, service obligations, and penalties for hacking and introducing computer viruses.

FOREIGN TRADE ZONES/FREE PORTS

Export Processing Zones (EPZ's) are designed to provide internationally competitive infrastructure facilities and a duty-free, low-cost environment for exporters. Foreign investors in some industries can operate in EPZ's, Export Oriented Units (EOU's), Special Economic Zones (SEZ's) and software and hardware technology parks. India has eight EPZ's. 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 with government approval. Incentives granted to units set up in the EPZ's are available to EOU's. The export-import policy allows export firms duty-free import of all goods, including capital goods; a five-to-ten-year income tax holiday; 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 of "seconds" on the domestic market against payment of appropriate taxes.

The Government of India requires a minimum value-addition of 20 percent for most products. There is no need to obtain an industrial license to manufacture small-scale industry (SSI) reserved items. EOU/EPZ/SEZ units are obligated to export 66 percent of their production. The new export-import policy announced on April 1, 2000 allows EPZ's, EOU's, SEZ's and Software Technology Parks (STP's) to import or obtain goods from the domestic tariff area for exports. The policy authorizes new SEZ's and the conversion of existing EPZ's to SEZ's. The SEZ's would be regarded as foreign territory for the purpose of duties and taxes to retain their entire foreign exchange earnings as opposed to 70 percent earlier. No sector caps that presently limit FDI in different industries will be applicable to units in SEZ's.

MAJOR TAXATION ISSUES AFFECTING U.S. BUSINESS

A number of recent policy changes have promoted foreign direct investment (FDI). The government has reduced exchange control regulations for companies with significant foreign participation. The 10 percent tax rate on long-term (12 months or more) and the 30 percent tax rate on short-term (less than 12 months) capital gains are the same for both Indian and foreign firms and investors. Dividends and interest income are taxed at a rate of 20 percent. A 5-year tax holiday is available to enterprises developing infrastructure facilities. Global Depository Receipt (GDR) and American Depository Receipt (ADR) guidelines now allow unlisted companies to float Euro issues. End-use restrictions on GDR/ADR proceeds have been removed, except on investment in stock markets and real estate.

The Indian government further liberalized consumer goods imports by removing half of remaining quantitative restrictions. India has used the harmonized system of commodity classification since October 1995. Service exports are treated on par with merchandise exports. The peak basic custom tariff was reduced to 35 percent in the 2000-01 budget. However, a surcharge of 10 percent of basic duty continued across the board on all items. The special additional duty (SAD) imposed in 1998, remains in effect. Budget 2000-01 reduced multiple custom duty rates to six rates.

PERFORMANCE REQUIREMENTS/INCENTIVES

The current investment policy does not require local sourcing. In some consumer goods industries (e.g., automobiles), however, the GOI requires a memorandum of understanding (MOU) with the foreign party to insure net inflow of foreign exchange and foreign equity must cover the foreign exchange requirement for imported capital equipment. 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 other sectors. On June 12, 2000, the GOI waived the dividend balancing condition, which required 22 industries to match export earnings to dividend remittances. Requirements to gradually reduce foreign equity and transfer technology have been dropped for most sectors.

Specific rules apply to all foreign automobile-manufacturing investments in India. Joint venture companies importing unassembled kits and automotive components must sign a standardized MOU with the GOI requiring USD 50 million minimum equity investment in joint ventures with majority foreign ownership; a local content requirement; export obligations; and foreign exchange balancing. This policy may violate India's WTO Trade-Related Investment Measures (TRIMS) Agreement commitments on national treatment and the elimination of quantitative restrictions.

India has a liberal plant location policy. State environmental regulations and local government zoning policies may affect plant location and sometimes are a source of delay. There is no requirement to employ Indian nationals and restrictions on employing foreign technicians and managers have been eliminated; though companies complain that hiring and compensating expatriates is time-consuming and expensive. 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 workers payable to a foreign firm. Employment in excess of 12 months requires clearance by the Ministry of Home Affairs.

The government in May 2000 announced a 10-year tax holiday for knowledge-based industries like pharmaceutical and biotechnology to enhance their research and development activities. Most state governments offer fiscal concessions to attract investment, particularly in infrastructure.

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. Independent regulators have been established in key areas—telecom, electricity, and insurance, but are still developing their working methods. 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 that, 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 such as labor, bankruptcy, and company law that would enhance the efficiency of private investment.

CORRUPTION

Corruption remains one of the largest hurdles that foreign investors face doing business in India. 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.

India has several 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. 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 GOI has not amended its anti-corruption laws since 1988, but has initiated steps to revise the Companies Act of 1956 and has proposed changes in the Prevention of Corruption Act, 1988. The new changes propose to give more powers to vigilance departments in government bodies and to make the Central Vigilance Commission (CVC) a statutory body. The judiciary has taken the lead in combating corruption in India. A number of bureaucrats and politicians have been indicted or convicted under anti-corruption laws; however, no 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 managers and technicians, 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, illiteracy acts as a brake on labor productivity in the workforce as a whole.

India is a member of the International Labor Organization (ILO) and adheres to 37 ILO conventions that protect workers' rights. Industrial relations are governed by the Industrial Disputes Act of 1947. Workers may form or join unions of their choice. The Factories Act regulates working conditions. Other laws regulate employment of women and children and prohibit bonded labor. Although unionized workers number more than seven million, unions represent less than one fourth of the workers in the organized sector, 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 can create problems for domestic and foreign employers. Labor militancy has declined in recent years, however, with worker-days lost to strikes and lockouts declining every year since 1991.

Payment of wages is governed by the Payment of Wages Act, 1936 and the 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 layoff workers or close a businesses employing 100 or more workers. Permission is not easily obtained. Private firms have successfully downsized using voluntary retirement schemes. Concerns about capital displacing labor have led to limits on capital investment in some sectors.

EFFICIENCY OF CAPITAL MARKETS AND PORTFOLIO INVESTMENT

The size and sophistication of India's capital market have increased greatly in recent years, due in large measure to foreign institutional investors (FII's). After registering with the Securities and Exchange Board of India (SEBI) and the RBI, FII's can invest in all securities traded on India's primary and secondary markets and in unlisted domestic debt securities. The FII's can buy, sell, and realize capital gains on their investment. Individual FII's can hold up to 10 percent of an Indian company. Foreign portfolio investments are subject to a cumulative ceiling of 40 percent of the issued share capital of any one company. Disinvestment and repatriation of dividends are permitted after payment of capital gains taxes.

The 6-year old National Stock Exchange of India uses a screen-based trading system. Computers and reliable telecommunications links permit automated buy/sell transactions and nation-wide investor access. Other regional exchanges and the National Over the Counter Exchange of India also have computer-trading systems. Despite improvements, Indian stock exchanges still lack adequate safeguards against manipulation, and suffer from inadequate custodial services and lengthy delays in physical certificate delivery. The SEBI regulates all market intermediaries. Securities can be transferred through electronic book entry. The National Securities Depository Limited (NSDL) commenced operation in October 1996 as part of the National Stock Exchange. The Bombay Stock Exchange (BSE) is setting up a depository system.

Other recent policy changes encourage institutional investment. The list of eligible FIIs has been expanded to include endowment funds, university funds, foundations and charitable trusts. The Securities and Exchange Board of India (SEBI) now allows foreign brokers to operate in India on behalf of registered FIIs. These brokers can open foreign currency or rupee accounts to credit inward remittances, commissions and brokerage fees. The FII's can bypass brokers and deal directly with companies in open offers. Portfolio investments by non-resident Indians (NRIs) and Indian companies abroad, known as overseas corporate bodies (OCBs), in the Indian stock markets are limited to five percent individually, and 10 percent collectively of a company. Non Resident Indians and persons of Indian origin (PIO's) can open non-resident rupee bank accounts in India. In May 2000, the government extended tax exemption to venture capital funds on their distributed and undistributed income.

The current Indian credit policy continues the RBI commitment to maintain stable interest rates. The policy relaxed the required Cash Reserve Ratio (CRR) on an average daily basis from 85 percent to 65 percent. Banks can tap domestic capital markets through a variety of instruments. Indian firms have been floating Euro-issues in overseas markets for five years. Several large firms have entered international markets by issuing Global Depository Receipts (GDRs) and convertible bonds. The FII's are allowed 100 percent forward cover on investments made after March 31, 1999. Banks can fix penalties on premature withdrawal of deposits.

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 the 27 public sector banks were estimated to be 14.3 percent of total loan assets on March 31, 2000, down from 16 percent in 1998-1999. A Board for Financial Supervision has been established to ensure compliance with guidelines on 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. Foreign banks are required to offer 32 percent of their loans to the non-agricultural priority sector.

The upper limit on external commercial borrowing (ECBs) is USD 200 million for 8 years and USD 400 million for 16 years. Companies can pre-pay up to 10 percent of outstanding debt or any debt due in one year or less, giving companies the chance to buy back debt at a discount. The government revised its guidelines on June 14, 2000, permitting foreign currency borrowing exposure of over 50 percent of infrastructure project costs. Foreign borrowing up to USD 50 million is approved automatically, while above USD 50 million requires RBI approval.

The SEBI's takeover regulations seek transparency with a focus on protecting minority shareholders. Highlights of the takeover regulations include (a) disclosure requirements on acquisition of shares exceeding five percent of the voting capital of a company; and (b) in case of acquisition of over 10 percent, the buyer must make a public offer for a minimum of 20 percent from the remaining shareholders at a pre-determined price. The Companies (Amendment) Ordinance of 1999 permits companies to buy back their shares in the market to ward off hostile attacks and make inter-corporate investments. RBI and FIPB clearances are required to acquire 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 required paperwork can be time consuming. Transfers are made in hard currency at market rates. Dividend remittances are not restricted. RBI permission for remittances is not required and authorized exchange dealers can remit dividends. The RBI's approval is required to remit funds from asset liquidation, but foreign companies are able to liquidate assets and repatriate the proceeds without long delays. Foreign partners in Indian companies can sell their shares at a premium to resident investors who plan to take management control of the company. The Foreign Exchange Management Act, 1999 (FEMA) on June 1, 2000, replaced the Foreign Exchange Regulation Act (FERA). FEMA gives full freedom to a person resident in India (who was earlier resident outside India) to hold, own, or transfer foreign securities or immovable property outside India acquired while residing in India.

India allows full convertibility on current account transactions. The Indian rupee is convertible on the capital account for foreign investors. The Indian rupee, floated in March 1993, has depreciated slowly but steadily against the U.S. dollar. In early June 2000, the exchange rate was Rs. 44.75 to one U.S. dollar, compared to Rs. 31.38 in December 1993.

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

Indian companies that enter technology transfer agreements with foreign companies can remit royalty payments, but recurring royalty payments, including patent licensing payments, are normally limited to eight percent of the selling price (net of certain taxes and purchases). Royalties and lump sum payments are taxed at 20 to 30 percent. Foreign banks operating in India can remit profits and surpluses to their headquarters, subject to the banks' compliance with the Banking Regulation Act, 1949. Banks now can 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. The current trend favors government dis-investment of existing publicly owned enterprises. In the past, compensation and due process meeting international standards were observed in all cases.

Dispute settlement, including enforcement of foreign arbitral awards

At present, there are no Indo-American investment disputes over expropriation or nationalization. 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 came 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.

POLITICAL VIOLENCE

There have been few incidents of politically motivated attacks on foreign projects or installations. Where attacks have occurred, state and federal governments have responded swiftly. There are violent separatist movements in Kashmir and some northeastern states. Relations between India and Pakistan are strained. The Indian government has 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 and has signed bilateral investment treaties (BIT) with many 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.

India and the U.S. have a bilateral double taxation avoidance treaty. Until 1999, there were no disputes under the treaty. Last year a number of disputes arose, many focussing on the definition of permanent establishment and the applicability of taxes on royalties. Under the treaty, the competent authorities of the two sides must resolve the disputes. The competent authorities are working to institutionalize a process for resolving disputes under the treaty.

CAPITAL OUTFLOW POLICY

The GOI's policy on direct investment abroad by Indian companies is a mix of incentives and controls. 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; concession on import tariffs on imports of used equipment for re-export by Indian investors; and 50 percent income tax exemption on earnings from project and consulting services. The GOI grants "automatic" approval within 30 days to proposals for external investment in industrial, commercial and service activities below USD 50 million. 50 percent of GDR proceeds of Indian companies can be used to fund overseas investments.

MAJOR FOREIGN INVESTORS

Major U.S. and other foreign investments approved in 1999 include:

Company	Project	Equity in USD million
Daewoo Corporation South Korea	Energy	368
Fiat Auto SPA Italy	Automobiles	342
Hyundai Motor Co. South Korea	Automobiles	330
Powergen PLC U.K.	Energy	255
OSRAM GmbH Germany	Energy	149
Financiere Lafarge France	Construction	138
CIBS Oppenheiner Corpn U.S.A.	Iron Pellets	126
Toyota Motor Corporation Japan	Automobiles	120
Global Employment Solutions U.S.A.	IT Services	98

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

In November 1997, the United States and India signed an Investment Incentive Agreement, which covers Overseas Private Investment Corporation (OPIC) programs. This agreement superseded the previous 1963 bilateral agreement. Since 1963, OPIC has insured over 100 U.S. investment projects in India. India is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

Table A

Investment approvals by major countries (in USD million):

Year	1994	1995	1996	1997	1998	1999	
Total Approvals		4,522	9,700	10,125	14,330	7,800	6,750
Of which:							
U.S.	1,112	2,138	2,817	3,418	902	851	
Mauritius	170	548	654	2,638	802	906	
U.K.	414	523	427	1,140	810	706	
South Korea	34	94	907	494	88	869	
Japan	128	459	417	479	305	367	
Germany	181	406	431	548	203	263	
Australia	124	450	235	116	668	149	
Malaysia	8	414	12	536	429	27	
FDI approvals as percent of GDP	1.6	3.2	3.1	3.7	1.8	1.6	

Table B

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

Year	1994	1995	1996	1997	1998	1999
Total Inflow	946	1,930	2,420	3,050	3,377	4,016
Of which						
Mauritius	29	507	846	900	735	450
U.S.	107	192	255	737	347	431
Japan	87	61	97	164	198	151
U.K.	136	71	54	126	50	94
Germany	42	100	166	151	159	41
FDI inflow as percent of GDP	0.3	0.6	0.7	0.8	0.5	0.9

Source: Secretariat for Industrial Approvals, Ministry of Industry.

Appendix C: Investment statistics

Foreign Direct Investment Statistics

Foreign Direct Investment (FDI) approvals have risen sharply since the introduction of reforms in July 1991. Over USD 6.7 billion in FDI was approved in 1999, down 14 percent from the previous year. The U.S. continues to be a major source of foreign direct investment in India, accounting for 12.6 percent of investments approved Estimated actual inflows of USD 4,016 million in 1999 accounted for about 59 percent of total FDI approvals.

CHAPTER VIII. TRADE AND PROJECT FINANCING

— Description of the banking system
— Foreign exchange controls affecting trade
— General availability of financing
— Availability of GSM credit guarantees
— Availability of loan guarantees, insurance and project financing from U.S. ExIm Bank, OPIC and the IFI's
— Financing and methods of payment to export from India to another market, including U.S. import
— List of U.S. banks
— List of U.S. financial/lending institutions
— List of regional MBD /IFI offices

DESCRIPTION OF THE BANKING SYSTEM

India has an extensive banking network in both the urban and rural areas. Although, the Government of India (GOI) owned public sector banks and financial institutions dominate the financial sector, the GOI allows controlled entry of local private sector and foreign competitors into banking and most other financial services. The government has shown a strong consensus towards major divestment in the banking industry, whereby it will reduce its holdings in the major public sector banks. A major highlight of the 2000-01 budget was to dilute the government's share in nationalized banks to 33 percent.

The Indian banking system is comprised of scheduled commercial banks in the public sector, regional rural banks, special development banks, private sector banks and foreign banks. The sector is dominated by state-owned banks, which account for more than 79 percent of deposits and loans. Private banks handle 13 percent of the market, and foreign banks located in metropolitan areas account for 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 meet the RBI's guideline of 9 percent capital to risk assets ratio. 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 extend credit of up to 40 percent of net bank credit to priority lending sectors at concessional interest rates. The priority sectors are agriculture, exporting ventures and small businesses. Since July 1993, foreign banks have been required to make 32 percent of their loans to the priority sectors. Within the overall threshold of 32 percent, two sub-limits 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 neither required to open branches in rural areas nor to extend loans to the agricultural sector.

The rate of non-performing loans in priority sector lending is about 30 percent higher than in non-priority lending. Gross non-performing assets (NPA's) on Indian banks' non-priority sector lending are more than 10 percent of such lending, which is very high by international standards. These high NPA's suggest that not is there a problem with the priority sector lending concept, but also with the quality of lending in general.

This level of bad debts and NPA's, particularly in public sector banks, continues to cause concern for the GOI and the banking system. The GOI has established Debt Recovery Tribunals (DRT's) to speedily dispose long-pending cases related to debt recovery. The GOI's has propagated strengthening the DRT's and selectively encouraging banks with high NPA's to establish asset reconstruction companies to facilitate debt recovery. A government committee set up to examine the Indian banking sector reforms has recommended that the average level of net NPA's for all banks must be brought down to less than 5 percent by the year 2000, and down to 3 percent by 2002.

Most Indian banks lend approximately 30-40 percent of their funds 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. Since Indian banks lend such a large portion of their funds portfolio to the GOI, they have been criticized for failing to fulfil their key economic role of mobilizing capital and investing in productive assets.

The following is statistical information relating to the Indian banking industry. Figures are in USD billions.

	1997-98	1998-99	1999-2000
Total deposits	144.14	170.87	188.38(P)

Total Investments in securities	52.07	63.19	76.84(P)
Total Credit	77.16	95.11	110.28(P)

Source: The RBI Bulletin, dated May , 2000.
(P): Provisional estimate

Exchange rate used for FY 1999-2000: USD 1 equals Indian Rupees 43.

As of July 2000, there are 45 foreign banks operating 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 July 2000, there were 26 representative offices of foreign banks in India.

The entry of new private sector banks has led to greater competition in the market, with these banks gaining significant market shares. The private banks are highly automated with a well-connected network of branches, ATM's and other delivery interfaces and offer responsive services. They interface with corporate customers through branches, mobile relationship managers, electronic banking and telephone banking, and also ATM's and web banking for retail customers. This competition has spurred nationalized banks to become more customer-oriented and all banks in general to improve their level of service.

The following significant measures have been introduced in the banking sector over the last few years: entry of new private banks (9 in 1994) and foreign banks (21 between 1994 and 1999); easing of restrictions of foreign banks; phase-out of consortium project lending led only by development finance institutions; permission for bank syndications; phase-out of restrictions on clients to switch banking relationships; and elimination of RBI approval for lending to large companies.

FOREIGN EXCHANGE CONTROLS AFFECTING TRADE

The RBI sets India's exchange-control policy and administers foreign exchange regulations in consultation with the GOI. The basis of this policy was laid down in 1973 with the Foreign Exchange Regulation Act (FERA), which was completely replaced by the Foreign Exchange Management Act (FEMA) in December 1999. FEMA will focus on the management of foreign exchange rather than foreign exchange regulations. The Act seeks to promote orderly development and maintenance of the foreign exchange market in India, particularly on current account.

The Act also re-defines the term 'resident Indian'. Under the new definition, any person who has lived in the country for more than 182 days during the previous financial year is considered to be a resident, but persons who have traveled to and from India for the purpose of vacation, business or employment are excluded from this definition.

Foreign companies operating in India fall under the purview of FEMA. 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 importing 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. The physical import of goods should normally be completed within three months of advance payment to the foreign exporter.

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 workdays and required RBI approval. 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.

In January 2000, general permission was granted to Indian companies for issuing American Depository Receipts and Global Depository Receipts without any value limits. Indian companies are increasingly accessing overseas markets to raise finances through these instruments.

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.

Venture capital financing has been very active in select sectors of late and this currently is having a substantial impact on mobilization of finances for nascent, high growth sectors such as information technology and biotechnology.

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 Borrowings (ECB's), issued by the Ministry of Finance. ECB's up to UDS 5 million with a minimum simple maturity of 3 years can be used for meeting rupee expenditures. Other ECB's 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, respectively. 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 foreign collaborators, to be adjusted against the company's share capital for meeting pre-operative expenses in India.

Import financing procedures adhere to western business practices. The safest method of receiving payments for a U.S export is through an irrevocable L/C. The L/C should be payable in favor of the supplier against presentation of shipping documents through the importer's bank. Importers open letters of credit valid for three to six months depending upon the terms of the agreement. The GOI does not allow advance payment for goods to be imported. Banks in India require the importer to deposit funds prior to issuance of a L/C. Typically L/C's are opened for a period of time to cover production and shipping, and they are normally paid within seven working days of the receipt of goods. There are several lines of credit available to U.S companies.

AVAILABILITY OF GSM CREDIT GUARANTEES

The Commodity Credit Corporation (CCC), U.S. Department of Agriculture, administers export credit guarantee programs for commercial financing of U.S agricultural exports. The programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees.

Two programs underwrite the credit extended by U.S. private sector banks and, less commonly, by the U.S. exporter, to approved foreign banks using dollar denominated, irrevocable letters of credit to pay for food and agricultural products sold to foreign buyers. The Export Credit Guarantees Program (GSM-102) covers credit terms of up to three years. The Intermediate Export Credit Guarantee Program (GSM-103) covers longer credit terms of up to ten years.

Under these programs, the CCC does not provide financing but guarantees payments due from foreign banks. Typically, 98 percent of principal and a portion of interest at an adjustable rate are covered. Since payment is guaranteed, U.S. financial institutions can offer competitive credit terms to foreign banks, usually with interest rates linked to the London Inter-Bank Offered Rate (LIBOR). Any follow-on credit arrangements between the foreign bank and the importer are negotiated separately.

Under the GSM-102 and GSM-103 programs, CCC will consider only foreign financial institutions which are capable of effecting payment in one of the two following ways:

An irrevocable foreign bank letter of credit, issued in favor of the exporter, specifically states the deferred payment terms under which the foreign bank is obligated to make payments in U.S. dollars as such payments become due. Alternatively, such a letter of credit is supported by a related obligation specifically stating the deferred payment terms under which the foreign bank is obligated to make payments to the exporter, or the exporters assignee, in U.S. dollars as such payments become due.

In 1996, the U.S Department of Agriculture authorized USD 20 million in credit for sales, which has been extended to fiscal year 2000. However, the money allotted under these programs has not been utilized.

Availability of loan guarantees, insurance and project financing from U.S. ExIm Bank, OPIC and the International Financial Institutions (IFI’s)

THE EXPORT-IMPORT BANK OF THE UNITED STATES (EXIM BANK)

ExIm Bank 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 more than USD 300 billion in exports of U.S. goods and services worldwide.

ExIm Chairman James Harmon visited India in 2000 to seek new opportunities for ExIm financing.

He noted that the bank's outstanding loans in India are only USD 1.8 billion, compared with USD 6 billion in China and USD 4 billion in Indonesia. To better serve the Indian market, Harmon announced up to USD 1 billion of support for rupee loans aimed at small and medium-sized Indian companies. He signed a memorandum of understanding with India's Power Finance Corporation for up to USD 500 million in ExIm support for transactions involving U.S. exports of energy-related technologies.

ExIm Bank will finance the export of all types of goods and services, including commodities, as long as they are not military-related, with certain exceptions. To qualify for ExIm support, the product or service must have at least 50 percent U.S. content. ExIm 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:

Working Capital Guarantees 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 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.

Export Credit Insurance 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 durable 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'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:

The Small Business Policy 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.

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

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

The Financial Institution Buyer Policy 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.

The Lease Insurance Policy 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.

Guarantees of Commercial Loans 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'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's Direct Loans provide buyers with competitive, fixed-rate financing for their purchases from the U.S. ExIm'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 for its programs are based on the risk assessment of the foreign buyer or guarantor, the buyer's country, and term of the credit. The fees are very competitive with those charged by 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'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 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 will provide guarantees to cover only political risk and will finance up to 85 percent of the export value. ExIm 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.

THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

OPIC's mission is to mobilize and facilitate the participation of U.S. private capital and skills in economic and social development. Since 1971, OPIC has been the key U.S. Government agency to encourage American private business investment in developing countries, newly emerging democracies, and free market economies. OPIC assists American investors through four principal activities designed to promote overseas investment and reduce the associated risks:

- financing of businesses through loans and loan guarantees;
- supporting private investment funds which provide equity for U.S. companies investing in projects overseas;
- insuring investments against a broad range of political risks; and
- engaging in outreach activities designed to inform the American business community of investment opportunities overseas.

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.

Medium-to-long-term financing for sound overseas investment projects is 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's 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. OPIC also supports a family of privately managed, direct-investment funds in various regions and business sectors.

In fiscal 1999, OPIC executed contracts in insurance, finance and investment funds in India. It insured contracts with Nations Bank for Enron's Dabhol power plant with a maximum exposure of USD 31.8 million. OPIC made an equity investment of USD 1.3 million in Premier Medical Corporation, a small business that will manufacture and market rapid medical diagnostic tests. Also in 1999, OPIC committed USD 61.2 million to two projects - Dabhol Power II project expansion (USD 60 million) and Premier Medical Corporation (USD 1.2 million).

The OPIC investment funds program has supported five privately managed investment funds that can invest in India. In 1999 the funds program invested an aggregate USD 57.5 million in 8 businesses in India, bringing the funds program's total investments in India to an aggregate USD 157 million in thirty-three businesses.

Of the five OPIC-supported investment funds that can invest in India, three are specific to India or the Indian subcontinent: the USD 55 million Draper International India Fund, the USD 140 million Indian Private Investment Fund, and the USD 150 million Asia Development Partners fund.

U.S. TRADE AND DEVELOPMENT AGENCY (TDA)

TDA assists in the creation of jobs for Americans by helping U.S. companies pursue overseas business opportunities. Through the funding of feasibility studies, orientation visits, specialized training grants, business workshops, and various forms of technical assistance, TDA enables American businesses to compete for infrastructure and industrial projects in middle-income and developing countries.

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 (MDB's): 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 of these are known as "Evergreen Funds". TDA maintains a minimum balance that is readily available to fund project opportunities for firms or to help U.S. businesses take advantage of time-sensitive projects.

ASIAN DEVELOPMENT BANK (ADB)

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 co-financing arrangements, including the bank's credit enhancement instruments such as guarantees and complementary financing schemes. India is one of the three largest borrowers from the ADB.

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.

THE WORLD BANK

India is 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.

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. It 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 guarantees cover the following risks: currency transfer, expropriation, war and civil disturbance and breach of contract by a host government.

THE OFFICE OF MULTILATERAL DEVELOPMENT BANK OPERATIONS (MDBO)

MDBO operating within the International Trade Administration of the U.S. Department of Commerce. It 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 U.S. 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.

FINANCING AND METHODS OF PAYMENT TO EXPORT FROM INDIA TO ANOTHER MARKET, INCLUDING U.S. IMPORTS

The 1990’s have seen a steady liberalization of Indian import and export regulations. Many quantitative restrictions, licensing, and discretionary controls over imports and exports have been replaced through deregulation, tariff review and simplification of procedures.

The Government announced a new export-import policy in April 1997 and subsequently revised it in 1998. Among the significant changes in the policy are the discontinuation of the Value Based Advance Licensing Program (VABAL) and the introduction of new scheme known as the Duty Entitlement Pass Book Program (DEPB). This enables exporters to import duty-free inputs required for export production. In addition 340 items, mainly consumer goods, previously classified as restricted imports may now be imported freely.

The office of the Director General of Foreign Trade (DGFT) regulates the export of commodities. The DGFT office, under the Exim Policy, may prohibit the export of certain commodities. The Exim Policy subjects export of certain other commodities to licensing, prescribed minimum export prices and methods by which payment for exports of some commodities will have to be received.

Export finance in India is reasonably liberal. Like commercial banks, financial institutions require basic procedural formalities to be completed to enable them to provide the required finance to exporters.

Payment for exports can be received though authorized dealers. The authorized dealer handles documents: (a) in cases where the exporter has received the export proceeds directly from the overseas buyer in the form of a bank draft, pay order, bankers check, and foreign currency traveler's checks without any monetary limit, and (b) in cases where the exporter has received export proceeds, from goods sold to overseas buyers in the Indian currency, from the credit card servicing banks either by way of reimbursement against charge slips signed by the overseas buyer or as instantaneous credit to the exporters bank account in India.

Payment by Documentary Credit: Export orders or contracts stipulate that the buyer should open a letter of credit in favor of the exporter. A letter of credit is an authority for payment for the exporter. The exporter presents relevant documents against the letter of credit and receives payment. This is one of the most secure methods of payment and also the most widely followed in international marketing.

Advance Payment: The buyer can also pay the exporter when the order is placed. In this case the payment is made before the contractual obligations of supplying the goods. The remittance is normally made by a demand draft.

Cash Against Document (CAD): In this case the goods are shipped and the relevant documents are forwarded to the buyer through a bank in India and surrendered to the buyer by a bank in his country on payment to the exporter. However, the exporter runs the risk of the buyer not accepting the documents.

Documents on Acceptance: As in the CAD method of payment, negotiable documents are sent through a bank to the buyer. These documents are signed by the buyer accepting liability to pay as per the terms specified and takes custody of the goods. In this payment method the exporter runs a high risk of not being paid, and therefore, is only used with buyers who are credit worthy. In both of the above cases it is essential for the exporter to arrange export credit insurance.

Export Credit and Guarantee Corporation (ECGC): Consignment Basis: The exporter either has an establishment, or appoints a reliable agent to hold the consignment stocks on his behalf sells them and repatriates the payment to the exporter in India. In such a case it is imperative to enter into a legal contract and receive RBI approval.

The payment for the goods exported must be received by the exporter on the due date of payment or within six months from the date of shipment, whichever is earlier. For exports made to an Indian-owned warehouse abroad, established by the RBI, a maximum period of 15 months is allowed for the realization of export proceeds.

Short-term Finance: Once goods are exported as per the terms of the contract, the exporter negotiates relevant documents through a bank in order to receive payment. If the payment terms are by a confirmed, irrevocable documentary credit and if all conditions in the letter of credit are adhered to, the exporter receives full value of the good exported. In cases where the payment terms are other than a L/C, such as cash against documents (CAD) or document against acceptance (DA), the exporter will be paid only after the payment is received from the buyer. The exporter may offer payment facilities of 30, 60 or 90 days from the date of the bill to the foreign buyer. Payment in this case will be received only after the due dates of the bills. In such a case an Issuance Bill is drawn, which is a payment draft for a specified date later than the date of presentation. Credit is extended to the exporter against the bill of exchange drawn by him on the foreign buyer by discounting the bill or by giving an advance against the bill.

As a measure of export promotion and assistance to export, post shipment finance is possible. A loan or credit is provided by a commercial bank to an exporter for the period between the date of actual shipment and the date of receiving payment.

Medium and Long Term Financing: Credits offered for a period of six months to five years are generally classified as medium-term credits, and those beyond five years, as long-term credits. Exporters often have to offer long-term payments to the foreign buyers, called Deferred Payments.

Deferred Payment Terms: Indian exchange control regulations stipulate that payment for export in India should be received in India within six months from the date of export. Under a typical deferred payment contract an exporter agrees to dispatch the goods to the buyer on (a) payment of an initial sum of 20 percent of the contract value, (b) the balance amount of the contract value to be paid over a period of five years in equal amounts or semi-annual installments, and (c) the interest charges at a fixed rate to be paid on the same installment basis reducing balances.

When an exporter enters into a deferred payment contract, it imposes a financial burden on the exporter. Therefore the RBI has authorized commercial banks to extend “Term Export Credit” to the exporter. This credit is either given directly by a commercial bank or in collaboration with the Export-Import Bank of India.

Many U.S companies prefer working with U.S banks operating in India.

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Chase Manhattan Bank
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Fax: 91-22-653-5859

American Express	4 branches, *114 ATM's
Citibank	7 branches, 60 ATM's
Bank of America	4 branches, 9 ATM's
Chase Manhattan	1 branch

*Note: 4 ATM centers in each Metros, 19 ATMs in arrangement with IDBI for bank account holders and 91 ATM's in arrangement with HDFC for credit card holders.

LIST OF U.S. FINANCIAL/LENDING INSTITUTIONS

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CHAPTER IX. BUSINESS TRAVEL

— Business customs
— Travel advisory and visas
— Holidays
— Business infrastructure
— Temporary entry of goods

BUSINESS CUSTOMS

India is five and one-half hours ahead of Greenwich Mean Time (GMT). It has not adopted summer time (daylight saving time) and uses standard time countrywide throughout the year.

Time difference between India and the United States

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 nine hours thirty minutes ahead of Washington, D.C., during daylight savings time and 10 hours 30 minutes ahead of Washington, D.C., during standard time. Due to the uncomfortable time difference, many business executives find communication via e-mail, automatic fax machines or the Internet a practical and convenient alternative to real time voice communications.

The standard six-day working week is Monday through Friday, 9:30 a.m. to 5:30 p.m., with a half-day on Saturday. However, the trend in the corporate sector is to work a five-day week. Central Government offices are closed on Saturdays. Banking hours are between 10:00 a.m. and 2:00 p.m. on weekdays and 10:00 a.m. to 12:00 noon on Saturdays. In Mumbai, however, banks are open weekdays from 11:00 a.m. to 3:00 p.m. and on Satudays from 11:00 a.m. to 1:00 p.m. In major metropolitan cities, several foreign and Indian-owned banks are beginning to provide 24-hour banking services. Stock exchange trading hours in Mumbai are 12:00 noon to 2:00 p.m., Monday to Friday.

India is a secular, democratic nation without a state religion. The Indian Constitution protects the freedom of religion, although 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. reader's 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 are 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 specifically targeted foreigners, 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 and Doda district of the state of Jammu and Kashmir. American and other western tourists were taken hostage (and at least one murdered) in Kashmir by terrorists in 1995. In 1999 the terrorist organization Harakat-ul-Mujahideen issued a ban on Americans, including tourists, visiting Kashmir. Within the state, the Leh district of the Ladakh region has been largely unaffected by terrorist violence. Srinagar, the Kashmir valley and Doda district of Jammu remain very dangerous places where terrorist activities and violent civil disturbances continue. An American tourist was fatally shot in Srinagar in 1994; in October 1999 a French tourist was shot and wounded in Srinagar; and in May 2000 a Czech tourist also was shot and wounded in Srinagar. Srinagar also has been the site of a number of car bombings, market bombings, and landmine deaths to date in 2000. In May 2000 a minister for the state of Jammu and Kashmir was killed in a landmine explosion south of Srinagar. Also in May 2000 rocket-propelled grenades were fired at a government building in Srinagar, killing a government employee and wounding others. 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 contact information 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 into 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, parts Nagaland, Arunachal Pradesh, Sikkim, parts of Kulu district and Spiti District of Himachal Pradesh, parts 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 website 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 website 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.

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 website 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 website address, and to add sections on Aviation Oversight.

HOLIDAYS

List of official holidays for year 2000

United States Mission in India

DATE	DAY	HOLIDAY	TYPE
31 Dec-99	Friday	New Year's Day	American
17 Jan-00	Monday	Martin Luther King's Birthday	American
26 Jan-00	Wednesday	Republic Day	Indian
21 Feb-00	Monday	President's Day	American
17 Mar-00	Friday	Id-ul-Zuha/Bakrid	Indian
20 Mar-00	Monday	Holi	Indian
21 Apr-00	Friday	Good Friday	Indian
29 May-00	Monday	Memorial Day	American
04 Jul-00	Tuesday	Independence Day	American
15 Aug-00	Tuesday	Independence Day	Indian
23 Aug 00	Wednesday	Janmashtami	Indian
04 Sep-00	Monday	Labor Day	American
02 Oct-00	Monday	Mahatama Gandhi's Birthday	Indian
09 Oct-00	Monday	Columbus Day	American
26 Oct-00	Thursday	Diwali	Indian
27 Oct-00	Friday	Govardhan Puja	Indian

10 Nov-00	Friday	Veteran’s Day	American
23 Nov-00	Thursday	Thanksgiving Day	American
25 Dec-00	Monday	Christmas Day	American

BUSINESS INFRASTRUCTURE

Transportation

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

The Indian Railways is the virtual lifeline of the country, catering to both freight and passenger traffic on a gigantic scale, covering 62,915 kilometers (38,752 miles). It is Asia’s largest, and the world’s fourth-largest railway system under a single management.

The central government is responsible for the upkeep and development of an elaborate national highway system and state governments maintain state highways, district roads and rural roads. Road transport in the country is fairly well developed, with nearly 60 state surface-mass-transportation systems deploying a fleet of about 100,000 vehicles. Freight traffic on the roads is also fairly high. The private sector almost entirely prefers using roads to using the railways.

India has a fairly well developed maritime transportation industry, with the sixteenth-largest fleet in the world. The growth of coastal shipping was, in the past, hindered by poor port or landing infrastructure. However, with the advent of economic liberalization, the industry is now growing and the government is ambitiously developing coastal shipping. India has 11 major ports on its east and west coasts, including the technically up-to-date ports in Chennai and Mumbai. India has 22 intermediate ports and 139 minor ports. The major ports in Mumbai, Chennai, and Calcutta are strategically located near the major east-west shipping lanes.

The Country’s official international Air carrier is Air India. India’s major domestic airline, Indian Airlines, also operates on certain international routes. As a consequence of the open sky policy introduced under economic liberalization, several private airlines operate on certain major trunk routes. India has bilateral air-service agreements with nearly 60 countries and about 42 foreign airlines operate nearly 260 services to and from India.

Communications

Telephone, telex, facsimile and electronic mail (Internet) services are available in India. The Indian telecommunications sector is equipped to handle approximately 27 million lines. The telecommunications network is growing at an annual rate of 20 percent.

India has more post offices than any country in the world. The country is divided into 19 postal circles under the Postal Services Board and is supported by a network of more than 152,792 post offices with over 136,000 of the offices in rural areas. India is a member of Universal Postal Union (UPU), the Asian Postal Union (APPU), and the Conference of Commonwealth Postal Administration (CCPA). An International Speed Post Service operated by public-sector postal authorities connects 39 countries. Major international courier companies are also well represented in India.

Housing

Houses and apartments are available in the major metropolitan areas and in large and medium-size towns. Housing costs tend to be higher in areas closer to central business districts and lower in the suburbs. Apartments and houses are usually available for rent for maximum renewable periods of 11 months. Deposits equivalent to 10 or 15 times the monthly rent are generally required.

The annual cost of residential property in the major cities ranges from USD 140 up to USD 9,300 per square meter in areas close to central business districts. Exclusive residential areas command premiums that may be larger. In the suburbs, annual rates vary from USD 232 per square meter to USD 2,325 per square meter.

Leisure and Tourism

Recreational leisure facilities in urban areas are generally restricted to exclusive clubs. Most of the major cities boast a handful of these clubs. Beach resorts and hill stations are available for leisure activities within reasonable proximity of major cities. Major cities also have golf courses, tennis courts, and cricket pitches.

Additional leisure facilities include several wildlife and game sanctuaries, winter sports facilities in the northern region, and water sports facilities in beach towns. The States of Goa, Kerala, Maharashtra, Orissa, Tamil Nadu have attractive beaches, that are popular destinations for visiting foreign tourists.

Several of world’s largest hotel and motel chains have a presence in India, as do certain leading time-share resort groups.

Medical Services

India has a fairly widespread and reasonably well-developed network of medical facilities, but services are hampered by a shortage of doctors, midwives, nurses, and laboratory technicians, especially at primary health centers functioning in rural areas. Government statistics (1999) show that the number of registered doctors per 100,000 persons is approximately 50, and that there are more than 15,000 hospitals and 28,000 dispensaries. According to estimates, India has approximately 22,000 primary health centers and 2,600 community health centers. Private enterprises and trusts operate a well-developed infrastructure of hospitals and polyclinics in major metropolitan areas and in small and medium-size towns. These facilities are equipped with modern equipment and know-how.

Food

Special care should be taken while eating food in India. It is safe to consume 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 skin and are peeled. Raw vegetables and salads should be avoided, because 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 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, 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.

Language

The official language of the Indian Union is Hindi. It is also the language spoken by the largest number of people in India. However, 18 other major languages and 700 dialects are spoken. English has become a sort of "lingua franca" and is the accepted language for business and government.

TEMPORARY ENTRY OF GOODS

Laptop computers can be hand-carried into India. However, visitors should ensure that on arrival, these are endorsed by customs authorities in their passports on arrival in India, along with their serial number. This 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.

CHAPTER X. ECONOMIC & TRADE STATISTICS

Appendix A. Domestic economy (USD billion, except where noted)

	1997/98 (Est)	1998/99 (Est)	1999/00 (Est)
Nominal GDP	420.0	432.0	447.0
GDP growth rate (percent)	5.0	6.8	5.8
GDP per capita (USD)	412.0	426.0	440.0
Government spending as a percentage of GDP	15.3	15.8	15.8
Inflation (percent)	4.4	5.9	3.3
Unemployment (percent)	22.5	22.5	22.5
Foreign exchange reserves	26.0	29.5	35.1
Average rupee exchange rate for USD	37.1	42.1	43.3
Debt service ratio (percent)	19.5	19.0	18.0
U.S. economic assistance (USD million)	185.0	142.9	140.8
U.S. military assistance (USD million)	0.40	0.24	0.45

Source: Government of India Ministries and Indian Research Institutes

Appendix B. Trade (USD million)

U.S. India Trade	April 1 - March 31 for each fiscal year below			
	1997-98	1998-99	1999-2000	2000-2001 (e)
Total Indian Exports	35049	33210	37644	41298
Total Indian Imports	41535	42379	47270	52156
Exports to U.S.	6809	7198	8544	8890
Import from U.S.	3721	3639	3633	3900

(e) estimated

Source: Monthly review of the Indian economy, Center for Monitoring the Indian economy

CHAPTER XI. U.S. AND COUNTRY CONTACTS

U.S. CONTACTS

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INDIA SANCTIONS HOTLINE

Tel (202)482-2955

INDIA SANCTIONS WEBSITE

http://www.mac.doc.gov/India

Bureau of Export Administration
Exporter Counseling Division
Tel (202) 482-4811

IMPORTANT WEB SITES OF U.S. ORGANIZATIONS

U.S. Department of Commerce	www.mac.doc.gov
Bureau of Export Administration (BXA), U.S. Department of Commerce	www.bxa.doc.gov
Department of Treasury	www.ustreas.gov
State Department	www.state.gov
Export-Import Bank of the United States	www.exim.gov
Overseas Private Investment Corporation (OPIC)	www.opic.gov
United States Agency for International Development	www.info.usaid.gov
U.S. Trade & Development Agency	www.tda.gov
The U.S. Commercial Service	www.usatrade.gov

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CHAPTER XII. MARKET RESEARCH

INDUSTRY SECTOR ANALYSIS (FY’00)

- Tourism
- Lubricants
- Cardiac care medical equipment
- Power transmission and distribution
- Architecture equipment and services
- Mineral extraction & processing equip.
- Automotive parts
- Biotechnology
- Airport & ground support equipment
- Medical - imaging equipment
- Internet equipment & service
- Agricultural chemical
- Industrial process control
- Port equipment
- Computer software consultancy
- Diesel generating sets
- Refrigeration & airconditioning equipment
- Broadcasting
- Pollution control equipment for tanneries
- Eco-labeling for hotel industry
- Vehicular emissions control
- Water and waste water treatment
- Environmental opportunities in thermal power plants
- Environment technologies market plan for India
- Pollution control equipment for chemical and petrochemical industry

INTERNATIONAL MARKET INSIGHT (FY’00)

Banking & Insurance

- An update on the Indian insurance sector
- Insurance reforms
- New norms for the entry of Indian banks into insurance sector
- Reactions to the insurance bill
- The Indian insurance sector
- Banking sector reforms
- Bombay banking merger could signal trend towards financial industry consolidation
- Debt on net
- External commercial borrowings liberalized
- ICICI becomes the first Indian company to list on the New York Stock Exchange
- IFC plans for India
- New guidelines for non-banking finance companies
- Venture capital funds

- Venture capital sources in India

Chambers of Commerce
- American Business Council
- Confederation of Indian Industry
- PHD Chamber of Commerce and Industry (PHDCCI)
- Federation of Indian Women Entrepreneurs (FIWE)

Energy
- Bio-energy potential in the distillery sector
- Clean power for N.E. India
- CMS closes the financials for Neyveli Power Project
- Conference on energy - South Asia
- Energy conservation bill in India
- Energy efficiency for electricity
- Hydel power projects accorded high priority
- Management consultants help reform Indian power sector
- Next millennium business opportunity - renewable energy
- Opportunities for American companies in oil clean up operations
- Punjab Govt. to support private power
- Status of power sector reforms by state
- USD 2 billion gas project in India
- USIBC - Recommendation of the working group on power and fuel supply
- Wind energy generation in India
- Wind power in India
- Cogeneration in India
- Co-generation of electricity in sugar mills
- Maharashtra Electricity Regulatory Commission
- Status report on Ennore LNG Project

Environment
- Air pollution control measures in Andhra Pradesh
- Bio-medical waste management in Andhra Pradesh
- Bio-medical waste management in Kerala
- Environmental audit may be made mandatory for the Indian corporate sector
- Hazardous waste management in Orissa
- Improving Chennai’s waterways
- Industrial discharge into river Yamuna banned
- International workshop on control of arsenic contamination in ground water
- Invitation for prequalification management contract for water supply distribution system
- Karnataka conference on Bio-medical Waste Management
- Municipal solid waste treatment and disposal
- NTPC to create special purpose vehicle for environment care
- Poor management of effluent treatment plants
- Privatization of urban environmental infrastructure projects
- Privatizing urban water supply and sanitation in India
- Recycled plastic bags for food processing banned

- Regulation of India’s pollution control norms
- Request for expression of interest for operation and maintenance of water supply systems, Mumbai
- Top level changes in Tamil Nadu Govt.’s environmental administration
- Vehicular air pollution control in India
- Automatic foreign direct investment and privatization soon for water supply and sanitation projects
- Business opportunities in the water sector in India
- Government of India moots 11 slabs of fees for polluting units
- Steps taken by Government of India to promote biomethanation technology in India

High Flyer

- India High Flyer - Aditya Birla Group
- India High Flyer - Arvind Mills Limited
- India High Flyer - Ashima Group
- India High Flyer - Bajaj Group
- India High Flyer - Ballarpur Industries Limited
- India High Flyer - Bharti Enterprises
- India High Flyer - Cadila Healthcare, the Zydous group
- India High Flyer - Dabur India
- India High Flyer - Essar Shipping Limited
- India High Flyer - Godrej
- India High Flyer - Jindal Vijaynagar Steel Limited
- India High Flyer - Kirloskar Group
- India High Flyer - Max India
- India High Flyer - Rajshri Group
- India high flyer - Tata group
- Indian High Flyer - Vardhman group
- India young business achiever - Manoj Tirodkar
- Quality assuarance - Birla style

Industries

- Bar coding equipment market in India
- Demand on rise for recycled paper
- Duty on textile equipment to be reduced
- Entertainment buzz
- Entertainment industry prospects
- Franchising scenario in India
- Hotel industry scenario
- Indian diapers market
- Indian pharmaceutical market
- Modernization fund for Indian tanneries
- Opening up of FM radio in India
- Organic farming in south India
- Pharmaceutical industry scenario
- Restructuring the auto component industry
- Status of the Indian chemical industry

- The Indian demand for gold
- The Indian vaccine market
- USIBC - Recommendation of the working group on trade in services
- USIBC recommendation of the working group on broadcasting and entertainment

Investment
- 100 percent FDI to be allowed in the Indian food processing sector
- American business experiences of investing in India
- Automatic foreign direct investment and privatization soon for water supply and sanitation projects
- Government to allow 100 percent FDI in refining; to divest in government oil companies
- Foreign investor interest in Indian businesses
- Incentive package for investment in pharma research
- India eases investment approvals
- Indian President outlines economic reforms
- Investment opportunities in Assam
- Investment opportunities in Indian coal industry
- Investors workshop in Calcutta
- Maharashtra's finances and investment climate
- Melting pot 2000
- Participant's reaction to U.S. - India investment summit
- Private equity in water transport sector
- Thirty-crore sector studies pave the way for investments
- U.S. - India investment summit
- USIBC - Recommendation of the working group on trade and investment
- Consultancy services invited to create science city in Gujarat
- Focus on northeast India - Arunachal Pradesh
- Facilitation services kiosks in Madhya Pradesh
- Forecast of Indian economy by NCAER
- Guide to understanding Indian purchasing power
- India's stock markets usher in year 2000 with a bang
- Indian Budget 2000
- India's fiscal deficit
- Forecast of Indian economy by NCAER
- Indian Budget 2000
- Survey of the Indian Economy
- World Bank loan for Karnataka

Miscellaneous
- BIC - A plethora of opportunities
- BIC - A plethora of opportunities
- Business Information Center - A plethora of opportunities
- Enterprise Resource Planning
- Gujarat hit by water scarcity
- Hub for high-end research and development activity
- Labor amendments
- Merger & acquisition

- Mineral separation project in Kerala
- Minister for Law, Justice & Company Affairs - Ram Jethmalani
- Minister for Textiles - Kashi Ram Rana
- New Indian Government
- New Maharashtra government

Oil & Gas
- Haldia petrochemicals complex lights up
- Mitsubishi PTA plant opens in Haldia
- PET containers - growing demand in India
- Report on Indian oil industry revamp to be finalized soon
- Petrol pumps in India to sell only unleaded petrol from Feb 1, 2000

Policy Watch
- EXIM Policy 2000 - Quantitative restrictions removed on import of 714 consumer items
- EXIM Policy 2000-01
- Film import policy in India
- Implications of MOU to be signed by public sector undertakings for revival packages
- Infrastructure projects - issues of escalating costs and time overruns
- Quantitative restrictions to be imposed on imports into India

Telecom and Information Technology
- AT&T/Birla to merge cellphone business with TATA
- Business opportunities in IT Park in Chennai
- E-commerce in India
- Growing mobile subscriber base
- Indian Cyber law approved by the Cabinet
- Indian LAN equipment market insights
- Information technology park in Chennai
- Information technology parks in Tamil Nadu
- Information technology plans for Punjab
- IT firms keen on establishing operations at Technopark
- Lap top market in India set to boom
- Long distance telephony is calling
- Opening up of India’s domestic long distance telephony on Jan 1, 2000: Telecom regulator submits its report
- Portal mania is gripping Indian internet firms
- Reduction of import tariffs will boost Indian computer and infotech industry
- Telecom in India : Govt. strengthens regulator
- Telecom in India: Govt. seeks to reassure lenders, strengthen regulators
- The cellular awakening
- USIBC - Recommendation of the working group on IT/telecommunications
- Y2K readiness continues to improve in key Indian sectors
- Portal mania is gripping Indian internet firms
- USD 18 billion software and services opportunity

Transportation

- Funds for India’s highways
- Infrastructure projects - issues of escalating costs and time overruns
- Major infrastructure projects - opportunities in roads/highway development in India
- Major infrastructure projects - opportunities in water transport/catamaran services in Western India
- Minister for Railways - Mamata Banerjee
- Minister for Surface Transport - Nitish Kumar
- Opportunities for private participation in road development projects
- Opportunities in road projects in Andhra Pradesh
- Opportunities in the Indian road sector
- Tourism infrastructure
- Air-India to cut 7,000 jobs in three years
- Alang - the world’s largest ship recycling yard
- Center for perishable cargo
- Civil aviation in India: not ready for take-off
- Cold chain facility in India
- Indian civil aviation sector nears full Y2K readiness
- Multiple plants to avoid high freight
- Operational facilities in New Delhi
- Proposed national expressway routes
- Trading facilities at small and medium ports of Gujarat

Trade Events
- Agricorp India 2000
- Agrifare 2000 - an international convention and exhibition on agro and food processing
- Broadcast India 2000
- Calcutta Infotech Fair 2000
- Chemtech WorldExpo 2000
- CII Energy Summit 2000, Nov 29-Dec 2, 2000
- End-of-show report, Pollution Prevention & Control Catalog Show, Calcutta
- Index India - 2000
- India Amusement Expo
- India Chem 2000
- India Chem 2000 - opportunities in the Indian chemical machinery industry
- Indian Institute of Materials Management - Scale 2000 - Supply chain and logistics exposition
- Infrastructure 2000 catalog show Himalayan Expo, Kathmandu, Nepal, Apr. 12-16, 2000
- International Dairy and Food Tech. Expo 2000
- Power Tech India 2000
- Smart Card Expo’ 2000
- Sugar Tech 2000
- Tooltech 99
- Trade opportunity - Calcutta Port Trust
- Wire and Cable Expo 2001
- India ITME 2000
- Outbound travel mart

U.S. Agencies

- 51 Indian Organizations removed from the U.S. sanctions list
- OPIC in India
- Trade & Development Agency in India
- U.S. ExIm Bank in India
- U.S. ExIm Bank loans to India
- U.S. sanctions on India eased

CHAPTER XIII. TRADE EVENT SCHEDULE

FY-00/01 CALENDAR OF EVENTS

DATES	CITIES	EVENT
2000		
August		
12-20	New Delhi	Book Publishing Catalog Show (RC)
TBD	Chennai	(with Public Affairs office)
TBD	Calcutta	
TBD	Mumbai	
13-16	Chicago, IL	IBP delegation to Int'l Hardware Week and National Hardware Show (New Delhi and Mumbai)
21-31	U.S. cities	TDA Telecom OV
September		
TBD	U.S. cities	TDA Oil & Gas OV
16-19	New Delhi	WTC Cleveland Trade Mission
19-21	Hyderabad	(TENTATIVE) (Possible CTM)
21-23	Mumbai	
TBD	U.S. cites	TDA Railways OV
18-20	New Delhi	Water Asia 2000 (CTF/BIO)
20-23	Mumbai	SmartCards Expo 2000 (CTF/BIO)
26-29	New Delhi	3rd Minerals, Metals & Metallurgy 2000 (CTF/BIO)

27-29	New Delhi	Enviro International 2000 (Organized by Tafcon Group, FCS participation to be determined)
27-29	New Delhi	U.S. Pavilion at India Internet World 2000 (CTF/BIO)
28-Oct/2	Mumbai	Index 2000 Trade Show
October		
3-6	New Delhi	U.S. Pavilion at International Dairy & Food Technology Expo 2000 (CTF/BIO)
3-6	Orlando, FL	IBP delegation to Medtrade (Mumbai and New Delhi)
6-8	New Delhi	U.S. Pavilion at India Chem 2000 (TFO/USIBC) (U.S. is Partner Country)
8-12	Washington, D.C.	US-AEP Annual Meeting
10-11	New Delhi	CII's 2nd Environment Summit (Sponsored by USAID) (Possible RC)
12-15	Ahmedabad	AgriFare 2000 Trade Show
14-18	Anaheim,CA	IBP delegation to WEFTEC 2000 (New Delhi)
19-22	New Delhi	CII's 4th International Railway Equipment Exhibition (IREE) (FCS participation to be determined)
29 TBD TBD	New Delhi Bangalore Mumbai	"Memphis in May" Trade Mission (BFS/GKS)
November		
1-5	Bangalore	U.S. Pavilion at IT.COM 2000 (TFO)
7-12	Mumbai	Chemtech World Expo 2000
10-17	New Delhi	Iowa Trade Mission to India

TBD	Other stops	(TENTATIVE) (Possible CTM)
13-17	Las Vegas, NV	IBP delegation to Comdex Fall (Mumbai)
14-16	Orlando, FL	IBP delegation to Power-Gen (Mumbai)
15-18	Atlanta, GA	IBP delegation to IAAPA 2000 Annual Convention & Show (Amusement) (New Delhi and Mumbai)
25-28 29-30 Dec 1-2 Dec 4-5	New Delhi Chennai Mumbai Calcutta	President's International Clean Energy Initiative Trade Mission to India
29-Dec1	Chennai	CII's Energy Summit 2000 (FCS participation to be determined)
December		
1-5	Chandigarh	CII's Agrotech 2000 (FCS participation to be determined)
2001		
January		
29-Feb 2	New Delhi Mumbai Hyderabad or Bangalore	IT/Telecom/E-Commerce Trade Mission (TM)
February		
3-6 7-8 9-10	New Delhi Chennai Mumbai Calcutta	Medical Devices Trade Mission (TM) (Optional GKS)
8-11	New Delhi	CII's IT Asia 2000 (FCS participation to be determined)
15-19	New Delhi	CII's India Expo 2001 (formerly IETF) (Possible Partner Country status or U.S. Pavilion in concurrent

		show Cleantech Environment 2001)
March		
14-16	New Delhi	Convergence India 2001 (including Communications India; Broadcast,Cable & Satellite India; and IT) (CTF/BIO)
TBD	New Delhi	RepFind India 2000