

# INDIA OPENS ITS DOORS

The Indian government's policy of an open business environment for foreign enterprises is inviting, says Benjamin Yap, group director for South Asia at International Enterprise (IE) Singapore



**ON YOUR FEET**

*In an operating environment as dynamic as India, nimble business strategies help Singapore companies stay relevant*

## Why should Singapore firms set up operations here?

India has a rapidly growing and young population with an increasing appetite for imported goods and services. Rising income will lift its 291 million population out of poverty and create a 583 million strong middle class in India. India is set to become world's fifth largest consumer market by 2025. Many global brands such as Nokia, Volkswagen, Unilever and GlaxoSmithKline have also started manufacturing in India, to cater to the large market. Singapore companies should not ignore such opportunities to ride on India's growth.

At the same time, the country is a peaceful democracy with a strong government that has been pursuing openness. Since taking office, the new government has garnered positive sentiment about development in India, with several countries increasing their pursuit of partnership opportunities in India. For example, Singapore has extended its expertise in urban planning, in line with the new government's Smart City vision.

To date, India has consistently experienced positive gross domestic product (GDP) growth throughout the economic crises that other nations went through over the past few years. A recent report from the Organisation for Economic Cooperation & Development forecasts that India's economy will grow by more than 5.9 per cent in 2014. This has been widely attributed to India's strong consumer market.

India is witnessing increased economic liberalisation today, a process that was started in 1991, with its Look East policy. It marked the next phase of India's economic development where the focus shifted towards private sector-driven growth. Since then, policies to reduce trade tariffs and ease foreign direct investment (FDI) approvals have led to a more liberalised business environment. This change has been gradually transforming India from an agriculture-based economy to one supported by the services sector, which now makes up about half of the country's GDP.

The central government has taken steps to open India's doors to international players by making the

business environment friendlier to FDI. In its Budget 2014, the central government proposed to allow increase in FDI in insurance and defence sectors. While democratic debate may, at times, appear to slow down the decision-making process, India's government continues to pursue an open business environment for foreign enterprises while balancing the need for inclusive growth. To cite a recent example, it has allowed 100 per cent foreign ownership in single brand retail activities since 2012. Generally, foreign investment will receive automatic approval, subject to guidelines issued by the Reserve Bank of India (RBI).

## What sort of investments is India hoping to attract, and are there any laws in place that are friendly to such investments? Any business opportunities for Singapore companies in India?

India welcomes foreign investments in most sectors. This ranges from automotives, electronic manufacturing, biotechnology, chemicals, food processing,



◀ **BUILDING UP**  
Singapore has extended its expertise in urban planning, in line with the new government's Smart City



◀ **HOMOGENOUS MARKET**  
India is made up of more than 30 states and territories. Visiting the different states of India is like visiting different European countries

telecommunications and tourism hospitality.

Foreigners can invest directly in India either on their own or as a joint venture, with a few exceptions regarding investment limits and sectors. With the exception of a small list of sectors, government approval is generally not required for foreign investments in most sectors. If an investment does not qualify for automatic approval, companies can go to the Foreign Investment Promotion Board (FIPB) of India, the government body that provides a single window clearance for proposals. Investment opportunities are vast, spanning various industries and sectors. Indian capital markets are also open to foreign institutional investors (FIIs), and Indian companies are allowed to raise funds from international capital markets.

IE sees business opportunities in India for Singapore companies grouped into three broad categories: infrastructure and urban solutions, manufacturing and consumer.

First, with the Indian government's emphasis on infrastructure development and heavy private sector involvement in major infrastructure nodes, Singapore companies can explore opportunities in the design, development and operation of infrastructure facilities. This includes the logistics infrastructure such as ports, airports and metros, as well as integrated townships and residential or commercial projects. There is also traction for our companies to offer technological expertise in specific areas such as water treatment, renewable energy and logistics.

Secondly, we can explore opportunities to be part of the thriving manufacturing sector. India's national manufacturing policy will see the manufacturing sector's share of GDP rise from 16 per cent currently, to 25 per cent by 2022. There are immense opportunities for Singapore companies to be suppliers of components and industrial machinery to the burgeoning manufacturing industry in India, particularly in the consumer electronics and automotive sectors.

Lastly, we can also look at the rising consumer sector to identify opportunities for Singapore companies to participate in the growth of this market, forecasted to reach US\$950 billion by 2018. With India's upper middle class estimated to grow from 44 million in 2005 to 129 million by 2025, increasing disposable income and spending power will provide the critical mass for organised retail to take off. The emergence and rapid growth of e-commerce as a retail channel also further strengthens the consumer growth story, as consumers across India have access to a wide array of products. Areas that Singapore companies may consider are in food manufacturing and services, fashion and retail, furniture, health care and education.

**What is the process of setting up operations here, and what are the basic costs involved?**

Foreign companies starting out in India can consider setting up a corporate or non-corporate entity in India. For non-corporate entities, some possibilities are to set up a liaison office to undertake promotional and marketing activities on behalf of the parent company; a branch office to conduct business operations such as import and export of goods, as well as the provision of services or technical support; or a project office to fulfil project execution if engaged by an Indian company.

For corporate entities, setting up a wholly owned subsidiary is one possibility for foreign companies. This would provide maximum flexibility to conduct business in India, raise funds and repatriate dividends. Alternatively, companies could also set up a joint venture with an Indian partner, or enter as a FII. Some of these entry options will be subject to approval of the RBI.

Basic costs can vary widely depending upon the type of business and locality. India's tax regime can complicate operations, and companies may at times discover only later that they are liable for taxes previously not known of. It is important that

businesses engage tax consultants with a thorough understanding of the market.

Other costs that many businesses often neglect are the delays experienced during setting up. Many companies entering India tend to underestimate the time that it takes to get their operations off the ground. While it is important to plan, be prepared to be flexible and take a long-term view.

As the registration process may be complex, Singapore companies may wish to consider engaging a tax consultant or multiplier to assist them with local compliance.

**Does Singapore have a tax treaty with the country?**

Singapore entered the India-Singapore Comprehensive Economic Cooperation Agreement (CECA) with India in June 2005. This landmark agreement is India's first CECA, and Singapore's first comprehensive bilateral economic agreement with a South Asia economy.

Singapore also became part of a wider agreement between Asean and India under the Asean-India Free Trade Agreement signed in 2009, which comes into full effect in 2014/2015. Singapore companies with manufacturing facilities in Asean can potentially look forward to zero or lowered import duties for export into India.

Among other concessions under the above agreements, Singapore-based exporters enjoy tariff elimination or reduction in 75 per cent of Singapore's domestic exports. The key sectors that enjoy tariff concession include electronics, instrumentation, pharmaceuticals and plastics.

**What are the laws in place to protect foreign investments and the repatriation of profits?**

There are no typical restrictions on repatriation of profits. What is central to repatriation of profits is that foreign companies must show clearly that requisite taxes have been withheld prior to



repatriation. India has a well established judicial system which is generally accepted as fair without bias against foreign entities. However, companies should note that the judicial process can be very lengthy due to the backlog of cases. Fundamentally, foreign companies operating in India should always err on the side of caution when it comes to compliance with local laws and regulations.

**What other regulations and laws do Singapore firms need to be mindful of, or are useful for foreign firms to know?**

It is important that Singapore firms employ the services of reputable legal and tax consultants when entering India. Any firm navigating the numerous

regulations and laws in India on their own may find themselves in a bind later on.

Equally important is the ability to adopt a flexible business model that facilitates alternate revenue streams and contingency plans. In an operating environment as dynamic as India, nimble business strategies help Singapore companies stay relevant.

**Are there any social and cultural norms that firms need to be aware of when doing business in the country?**

Indian entrepreneurs, managers, academics, bureaucrats and politicians are as varied as they come, with interests ranging from classical music to contemporary art and philosophy to social activism.

It is common to engage in stimulating debates over these topics in business meetings.

Indians also love their cricket; and while a minority appear nonchalant about the game, cricket often finds its way into both formal and informal conversations.

When meeting over a meal, it is common courtesy to determine beforehand if the other party is a vegetarian or non-vegetarian. In the case of meeting a vegetarian, one might wish to further ask which type of vegetarian as some vegetarians observe a strict Jain diet.

Do not assume that India is one homogenous market. It is made up of more than 30 states and territories, and divided along diverse linguistic and cultural lines, and a common corporate refrain is that visiting the different states in India is like visiting the different countries in Europe. There are cultural differences between the top tier cities such as Mumbai, Delhi and Bangalore. Rural India still accounts for almost 70 per cent of India's population, despite the urban population contributing almost two-thirds of market growth.

**Any advice and tips you would like to give to companies that are looking to do business in India?**

Developing a strong network of expert consultants to tap into is important when looking to invest into India. Some of the regulatory challenges faced by companies in India include land acquisition, as well as reported bureaucracy. In spite of this, many foreign companies have been successful. One way to navigate these challenges is to partner strong local companies and engage experienced multipliers and agents. This not only shortens the learning curve, but also gives companies access to a network of valuable local connections.

Operationally, companies would also need to localise their management practices, and understand how to address labour and productivity issues. In India, skilled labour and managers are in high demand. Having a trusted local multiplier or agent familiar with local labour conditions is a highly valuable asset as they can help a company screen, recruit and manage manpower resources.

These challenges underscore the need for Singapore companies entering the market to invest sufficient time and resources to understand the varying local conditions across India.

A robust entry strategy balances both "hard" and "soft" elements - the "hard" side being a good business plan and targeted products and services; the "soft" being having an open mind and the readiness to adapt to the local business environment by cultivating personal and business relationships, understanding local communication styles, and being creative when managing resources and manpower.

Over and above that, Singapore companies should take a longer-term view when looking at returns from this market. Setting up in India may appear daunting at first but keeping an open mind and being adaptable will, over time, reap a healthy harvest for businesses in the market. ■