INDIA: A LAND OF OPPORTUNITY FOR CANADIAN COMPANIES

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Canada

EDC
TAKE ON THE WORLD

CONTENTS

ASSESSING GROWTH OPPORTUNITIES IN INDIA

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In April 2023, India became the most populous nation on earth. Not only that, two-thirds of the country's population is now under 35, a source of labour that will guarantee the country's growth for at least two decades. And with 15 million of these people entering the workforce every year, the annual demand for new jobs is enormous. This is why the Indian government is focused on encouraging foreign investment: The country needs to draw companies that'll invest and manufacture in India.

These developments are enormously significant for the world at large and for Canada's trade and investment prospects in the Indo-Pacific region. India has the fifth-largest economy in the world and will likely reach third-largest by the end of the decade. Its gross domestic product (GDP) is already US$3.5 trillion, its middle class is forecast to hit 386 million by 2030, and its infrastructure alone needs investments of US$1.4 trillion. The country is changing very quickly and visibly: The face of the urban and rural landscape is changing. Everywhere you look there's a crane, or a new highway is being paved, or a new bridge is going up.

Geopolitics is another big factor in India's current situation. China is suffering from a falling growth rate, while India's economy could be expanding by 7% and 8% yearly for the next decade, if not longer. India has other selling points compared with its giant competitor: It's a stable democracy, English is the common business language, and government policies focus on investor attraction and business promotion. India, consequently, may be poised to assume the dominant position that China enjoyed before the pandemic.

That said, India is unlikely to resurrect China's signature calling card of low-cost labour. India will have more than enough workers for the next 20 years, but this doesn't mean the country will be a cheap place to make things. That's not the goal of either Indian businesses or the Indian government.

Instead, they want to make the country into a global hub for vital sectors such as advanced manufacturing, clean energy and transportation, and the digital economy.

That ambition already shows. India, for example, is one of the world's most sophisticated financial technology markets—you can pay for anything with just a phone. You can buy a coconut from a street-corner vendor and pay straight into his bank account by way of his smartphone. Anyone with such a device can link to any tool that promotes their financial inclusion in the wider Indian society. This digitization allows much of the population to be connected to the system in a way that wasn't possible a few years ago.

So, what does all this mean for Canadian businesses?

By conservative estimates, there are roughly 400 Canadian companies of all sizes operating in India. In addition, big Canadian financial entities have already invested about $30 billion in the country. On the export side, we've done well in one respect: in 2022, we had a record level of exports to India. However, even that amount only represents 0.7% of India's total imports. So, from India's trade perspective, we're just a statistical footnote—albeit a footnote with plenty of headroom to get bigger.

Consequently, the India-Canada trade relationship is important mostly for long-term growth. Most of our trade is with the United States, of course, but depending so much on a single market is always a risk, and operating in India can be an excellent means of diversification. Even if you're not yet ready to export to India, it might be a very good idea to understand how the country could have a place in your growth strategy, and what that place could be.

Export Development Canada (EDC) is here to help, and we hope this guide offers answers, solutions and the knowledge you need to succeed.

1. INDIA AND ITS MARKETPLACES

India is a republic, with 28 states and eight union territories, and a political structure based on the British parliamentary system. Like Canada, it has three main government branches: An executive branch, a Parliament consisting of an upper and lower house, and an independent judiciary. Unlike Canada, it has dozens of national and state parties. The two major political players are the Bhartiya Janata Party (BJP), currently in a strong majority, and the Indian National Congress Party (INC), which leads the opposition. Indian governments have been stable, although they frequently need to form coalitions to stay in power.

1.1 Market characteristics

When considering India as a business destination, both exporters and investors should keep in mind that there's no single "Indian market." Instead, India contains many different marketplaces, each distinguished by factors such as religion, geography, ethnic group, income bracket, social status, occupation and political persuasion. As a result, the business and investment environments of one state or region can be very different from those of another—a situation that highlights the need for careful market research.

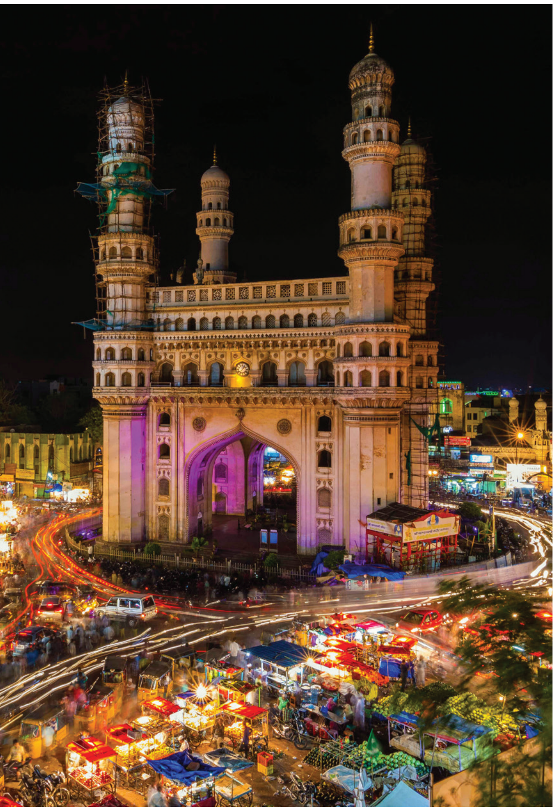
India's markets are also highly competitive and price-sensitive, and local companies tend to be well-managed, aggressive and very capable of competing with international firms. In addition, Indian business connections are built on personal relationships in ways that are often unfamiliar to Canadians. Establishing such relationships is vitally important if you're going to succeed in India. Check out this EDC **etiquette guide** for doing business in India.

1.2 The financial system

India's financial system consists of public, private and foreign banks, together with the various types of financial institutions that are common elsewhere in the world. The system is well-regulated, with standards of disclosure and accounting that meet international best practices. **The Reserve Bank of India** (RBI) is the central bank and supervises all banking activities in the country, including foreign exchange regulations.

The Indian unit of currency is the rupee (INR). Indian publications sometimes state large sums in crore, an amount equal to 10 million rupees; a sale worth "Rs 5.5 crore" amounts to 55 million rupees. In mid-2023, one Canadian dollar was worth about 62 rupees.

1. INDIA AND ITS MARKETPLACES



1.3 Economic trends and prospects

According to the Indian government's **Economic Survey 2022-2023**, India has fully recovered from the damage inflicted by the COVID-19 pandemic. However, it has also had to cope with the inflationary pressures caused by the outbreak of the Russian war in Ukraine and interest rate hikes precipitated by the U.S. Federal Reserve.

These pressures eased in late 2022, when commodity prices fell, and the measures taken by the RBI and the government shrank retail inflation to within the RBI target range. Private consumption has since rebounded, which in turn has driven an increase in production activity across most sectors. It's now projected that India should achieve a growth rate of 6.5% in 2023 and 2024, before jumping to 7% to 7.5% in subsequent years. As for the 2023–2024 period, the most recent **Union Budget** (which lays out the country's economic, social and financial development blueprints) was released in February 2023. Its highlights are a good indication of the government's direction, and for 2023-2024 include:

Infrastructure

Numerous critical transport infrastructure projects (roads and rail) for last-and-first-mile connectivity will be started for sectors such as ports, coal and steel.

Urban development

An Urban Infrastructure Development Fund will be established to encourage urban planning reforms such as transit-oriented development.

Agriculture

Various funds and measures will be set up to encourage agri-startups in rural areas, create decentralized storage facilities for farmers to store their produce and to encourage balanced use of chemical fertilizers and alternative fertilizers.

Energy and environment

A program will be established to encourage environmentally sustainable actions by companies, individuals, and local bodies. Funding will be available for the creation of battery energy storage systems with 4,000-megawatt (MWh) capacity.

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Research and development

Three R&D centres for artificial intelligence (AI) will be established, 100 labs will be set up in engineering institutions for developing 5G applications, and research and innovation in pharmaceuticals will be promoted through centres of excellence.

Health

New nursing colleges will be co-located with all existing 157 medical colleges. An initiative to eliminate sickle cell anaemia by 2047 will be launched in affected tribal areas.

1.4 Make in India

The federal "**Make in India**" initiative, began in 2014, is intended to expand India's infrastructure and industrial capacity on an enormous scale, with the goal of transforming the country into a global design and manufacturing hub. In pursuit of this, the government is building 11 industrial corridors across the country to provide developed land and infrastructure for new manufacturing cities, logistic centres and residential townships. These corridors will include:

- High-speed rail and road networks
- Ports with advanced cargo handling equipment
- Modern airports
- Special economic regions and industrial areas
- Logistic parks and transhipment hubs
- Knowledge parks to support industrial needs
- Complementary infrastructure such as townships and real estate

A major example is the Delhi-Mumbai Industrial Corridor, a mega-infrastructure project with a price tag of US$90 billion. With an overall length of 1,483 kilometres, it runs between the political capital, Delhi, and the financial capital, Mumbai.

The projects of the "Make in India" initiative should provide a wide range of opportunities for Canadian exporters and investors. They cover every sector imaginable, and in some of these—such as agri-food, automotive, advanced manufacturing, cleantech and digital infrastructure—Canada has some exceptional strengths in both products and expertise.

2. THE CANADA-INDIA RELATIONSHIP

To most Canadians, including Canadian businesspeople, India is a distant and unfamiliar place. This has produced something of a disconnect between the two countries, neither of which knows much about the business potential of the other.

Economic, business and cultural links

India was Canada's ninth-largest export market in 2022 and in that year, according to Canadian government statistics, we shipped goods worth $5.4 billion to the country. For comparison, the export figure in 2018 was C$4.4 billion. This represents an increase of 23% over that period—a significant expansion by any measure.

Bilateral trade is equally robust. A joint ministerial **statement** issued in early 2023 noted that Canada-India bilateral trade in goods reached nearly C$12 billion in 2022, a 57% increase over the previous year. In the same year, bilateral trade in services rose to C$8.9 billion.

Canada also has a substantial number of organizations that foster business and cultural ties between the two countries, including the:

- **Canada India Foundation**;
- **Indo-Canadian Chamber of Commerce**; and
- **Canada-India Business Council**.

Canada's Indo-Pacific strategy

The strategic, economic and political importance of this region and Canada's engagement with it can hardly be overstated. Its scale is immense:

- It encompasses 40 economies, more than four billion people and US$47.19 trillion in economic activity.
- Three of the world's largest economies—China, India and Japan—are in this part of the world.
- It's the world's fastest-growing region, making up more than one-third of all global economic activity, and by 2030 will be home to two-thirds of the global middle class.

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- By 2040, the region will account for more than half of the global economy, or more than twice the share of the United States.
- It's home to six of Canada's Top 13 trading partners.

Given the region's importance, Canada has established five priorities to shape our strategy there:

- Promote peace, resilience and security.
- Expand trade, investment and supply chain resilience.
- Invest in and connect people.
- Build a sustainable and green future.
- Make Canada an active and engaged partner in the region.

You can find out more about Canada's strategy in the region at **Global Affairs Canada**. For information specific to doing business in India, you can also refer to the Trade Commissioner Service's (TCS) **Canadian SME Gateway to India**.

To reflect the Government of Canada's commitment to the region, EDC has also developed a range of market intelligence tools and resources for Canadian exporters and investors. You can learn more about them **here**.

Trade agreements

Negotiations for a major free trade agreement between Canada and India are currently paused at this time.

2.1 Market challenges for Canadian exporters and investors

Like any market, India presents challenges for both exporters and investors. While top leadership has made significant progress in improving the overall business environment, corruption, bribery and corporate fraud can pose serious risks.

It's important to remember, as within any market, there are environmental, social and governance (ESG) challenges and opportunities associated with business activities. EDC encourages all Canadian companies to follow the Government of Canada's approach to responsible business conduct abroad. It incorporates the prevention, mitigation, and management of risks to the environment, people, and society into businesses' core activities. If you have any questions about responsible business conduct and what it means for doing business in India, please contact EDC. You can learn more about EDC's approach for ESG **here**.

2. THE CANADA-INDIA RELATIONSHIP

Other challenges include:

Competition

You'll be up against deeply entrenched competition from both local and overseas businesses. Indian companies and consumers are extremely price sensitive. Consequently, your profit margins may be paper thin, even if you reduce costs by setting up operations in India. You have to make sure that you can sell your products at a price that Indian consumers or businesses are willing to pay.

Unpredictable and opaque regulatory regimes

Regulatory and tariff regimes can change arbitrarily and with little notice, depending on shifts in government policy. Rules and procedures may lack transparency, so that navigating customs clearances, permits and visas presents a series of obstacles.

Absence of a Canadian industrial ecosystem

There's as yet no Canadian industrial ecosystem within the Indian economy that will pull related Canadian businesses into the country. The Japanese and Koreans, in contrast, have been immensely successful in building an ecosystem of interconnected players, especially in India's automotive and industrial engineering sectors.

Undeveloped infrastructure

The country's inadequately developed infrastructure can present other challenges. India is urbanizing rapidly and is straining to create and upgrade the roads, railroads, ports, airports, power grids and telecommunications systems that can sustain a modern economy. If you're going to operate in India, you'll need to adjust to these realities.

A different business culture

Indians place great importance on personal relationships, and this extends to business dealings in a way that isn't common in Canada. Establishing a personal side to your business relationship is part of building mutual trust, and without that trust it will be much harder to negotiate and close a sale. Without a knowledgeable guide, a Canadian company new to the Indian market may struggle to make the inroads it hoped for. This is why local partners can be so important, especially at the market entry stage. For more information, refer to **Doing business in India: 14 etiquette tips** on EDC's website.

2. THE CANADA-INDIA RELATIONSHIP

Travel advisory for India

For the latest updates from the Canadian government, visit:
[Travel advice and advisories for India]

2.2 The three P's of doing business in India

There are three essentials for working in India: Presence, price and patience.

Presence

A business presence in India is essential, although it needn't be anything elaborate. You can rent office space in a building in a suitable location, for example, and hire well-vetted staff as needed. Or you can team up with two or three other suitable Canadian firms and establish an office hub together. The important thing is for potential customers to know that there's a local face to your business, someone they can meet with to discuss problems or opportunities in person.

Price

Canadian products are widely recognized in India as being of very high quality. However, this high quality can mean that the price isn't in line with what the Indian customer is prepared to pay. And because this is India, they can usually find cheaper substitutes elsewhere. This isn't a problem, of course, if you have a unique product for which there really is no substitute, at any price. If you don't, the alternative may be to do your manufacturing in India, at a lower cost, so you can adjustyour pricing to the market.

Remember that while you may have to sell at much lower margins than in Canada, you have access to a far, far larger market. You may be able to sell with a wafter-thin profit and still do very well by sheer volume of sales. Your pricing strategy needs to reflect these facts.

Patience

In Canada, we typically keep our business activities and personal lives separate. In India, it's common for them to blend together. Your potential business partners will want to get to know you, even become friends with you, before any business gets conducted at all.

This process will take time, but Indian business people see it as essential because it helps build trust on both sides (and, incidentally, reduces the likelihood of expensive disputes down the road). Both parties will need to invest time and effort in ensuring that the partners are right for each other, that the parties' interests are aligned, and that the business judgment of both parties can be trusted.

The importance of being patient throughout this process can hardly be stressed enough, since it may take two to three years before you actually see a signed business contract. But once you have that first contract, the ones that follow will come much more easily.

The path to a contract may not necessarily be as straightforward or as predictable in India as it is in Canada. So don't be surprised at encountering obstacles—in fact, you should expect them and have plans to deal with them. Your potential Indian customer will want to see if you'll stay the course when you hit a roadblock, or if you'll turn around and go home. If you're flexible and resilient, they'll be much more likely to work with you.

2.3 Meeting challenges by working with Indian partners

Working with Indian partners can often help Canadian companies deal with the challenges presented by the country's markets. Such partners can:

- Identify and hire local talent as a "front-end" for business development and for interacting with local business and government entities.
- Help you navigate the culture and develop strategies that'll work in India, to reduce the time needed to establish yourself in the market.
- Help you establish a business presence or local ties that'll convince potential customers that you're in the market to stay.

You may also consider partnering with strong, credit-worthy corporate groups (some of whom are EDC customers) to gain from their expertise as you enter the Indian market.

There are some emerging sectors where you may not need an in-market presence to succeed. In areas such as artificial intelligence (AI) and advanced manufacturing, for example, the product is often delivered remotely, and technology and price are the only product differentiators—the rest of the playing field is level for everyone. When that's the case, you may be able to compete on equal terms in the Indian market without seeking an Indian partner.

3. PRIORITY SECTORS FOR CANADIAN EXPORTERS AND INVESTORS

3.1 Advanced manufacturing

India's manufacturing industry has traditionally been oriented toward domestic production and consumption. It has also suffered from somewhat underdeveloped supply chains and infrastructure and has relied for its competitive edge on low-cost labour rather than on expensive technologies. This is now changing rapidly as Indian companies shift toward automated and technology-driven manufacturing. Key areas of development include:

Advanced materials

These substances, including composites, ceramics and high-performance alloys, are essential for the development of advanced technologies in sectors, like renewable energy, medical devices, transportation, construction, aerospace and defence. It's estimated that India's advanced-materials market will reach US$10 billion by 2028.

Robotics and automation

According to a **2023 report** from the International Federation of Robotics, India's 2021 sales of industrial robots hit 4,945 units for that year, an increase of 54% over 2020. India is now in 10th position worldwide for annual installations of these machines. The automotive industry is the biggest customer, followed by the metals, rubber/plastics and electrical/electronics sectors, in that order.

Robotics are a vital component of automation, as are technologies such as AI, big data, machine learning and advanced control systems. All these tools and systems are central to the development of smart factories, where the factory's complete logistics chain and its management are integrated via the internet. India's industrial automation market is expected to grow vigorously from now until 2028, achieving a value of up to US$25 billion and a compound annual growth rate (CAGR) of more than 10% during that timespan.

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Semiconductors

India's semiconductor industry is poised for rapid growth as these devices proliferate in the manufacture of consumer electronics, automobiles, industrial robots, the aerospace and defence industries and a host of other applications.

This shift was precipitated in India by the chip shortage over the past few years, which severely disrupted the country's production of consumer electronics, computers and automobiles. This shortfall, and the lack of a domestic semiconductor manufacturing sector, has encouraged India to start designing and producing its own devices and, not incidentally, to position the country as a major semiconductor hub. The government has already announced a US$10 billion program to make this a reality, and it's forecast that the value of India's semiconductor market may reach US$55 billion by 2026.

3.2 The digital economy

The term "digital economy" covers a spectrum of digital technologies, products and services that include hardware, software, publishing, telecom systems and support and specialized services. In India, these are rapidly being integrated into a broad range of sectors to form the core of the country's digital economy.

The growth of this economy has been extraordinarily fast and shows no sign of slowing down. Supporting its prodigious expansion is India's huge telecommunications sector, whose 1.2 billion subscribers make it the second-largest in the world, behind only China. India's companies, as a result, are rapidly increasing their investments in the emerging technologies of the digital economy, from process automation to machine learning to virtual reality.

This change shows in the numbers: According to a June 2023 **report** from Google, Temasek and Bain, "A continued shift in consumer behaviour and evolution of the business ecosystem will underpin the growth of India's internet economy, from approximately $175 billion of consumption in 2022 to ~$1 trillion by 2030."

3. PRIORITY SECTORS FOR CANADIAN EXPORTERS AND INVESTORS

From the viewpoint of Canadian investors and exporters, here are some key areas to investigate:

Electronics system design and manufacturing (ESDM)

India intends to reach US$300 billion worth of ESDM manufacturing and exports by 2025-2026 and the government is investing heavily in this subsector. It includes electronic hardware related to information technology, office automation, telecom, consumer electronics, aviation, aerospace, defence, solar photovoltaic, nano electronics, medical electronics, product and chip design, and embedded systems.

E-commerce

India's e-commerce market is projected to grow at 18% annually through 2025. The country's large consumer base, together with its diverse demographics and inexpensive digital services, makes it a good place to set up an e-commerce enterprise. For investors on the support side of e-commerce, there may be customers for business process management systems, knowledge services and analytics.

Cybersecurity

India's IT industry is very active in this field, and information security and risk management spending are increasing with the growth of the digital economy. Major drivers of this growth include banking, health care, insurance, and critical information infrastructure such as defense and telecommunications.

Digital finance and financial technology

India's financial technologies market is expanding rapidly, with digital payments driving most of the sector's growth; according to **Invest India**, this market is expected to grow to $150 billion by 2025. Some key investment areas are digital lending, financial research and management, insurance technology, the cashless economy and blockchain technologies.

For more, read this EDC article on **Doing business in India: Tips on importing and exporting**.

3. PRIORITY SECTORS FOR CANADIAN EXPORTERS AND INVESTORS

3.3 Automotive

In January 2023, India's automotive market became the third-largest in the world. Leading global names such as Maruti Suzuki, Hyundai, Tata Motors, Mahindra & Mahindra, Kia, Toyota, Honda, Renault, Skoda and MG Motor India operate manufacturing facilities in India, both for the domestic market and for exports to Europe and North America.

Industry growth

With growth driven by an expanding middle class, a youthful population and India's large pool of skilled workers, the sector is expected to reach a value of US$54.8 billion by 2027. Beyond that, the industry's leaders believe it can become the world's largest automotive market by 2028. This goal may be a fully realistic one, given that only 8.5% of Indian households owned a passenger vehicle in 2021. With that amount of headroom, there's enormous potential for higher sales within the country.

The industry, which sold 4.25 million new units in 2022, spans several subsectors. On the passenger side, these include the two-wheeler segment—by far the biggest-selling—plus the three-wheeler and four-wheeled automobile segments. As for the commercial and heavy vehicles sector, India is the largest tractor producer, second-largest bus manufacturer, and third-largest heavy truck manufacturer in the world.

From April 2022 to March 2023, much of the industry's performance rested on the two- and three-wheeler segment, which together accounted for 77.1% of units sold. Passenger vehicles were second at 18.4%, with commercial vehicles at 4.5%. The country is also becoming a global hub for the auto components industry, which exports more than 25% of its output every year. The components subsector is expected to become the world's third-largest by 2025, with a value of US$30 billion by 2026.

Electric vehicles

In India, as in many other countries, the focus on automotive manufacturing is now shifting to the production of electric vehicles (EVs). The Indian government's goal is to have 30% of all new vehicle sales in the country be electric by 2030, concentrated mainly in the two- and three-wheeler segments.

3. PRIORITY SECTORS FOR CANADIAN EXPORTERS AND INVESTORS

By 2025, the Indian EV market will likely be worth about US$7 billion, and a report by the India Energy Storage Alliance estimated that the EV market in India is likely to increase at a compound annual growth rate (CAGR) of 36% until 2026. In addition, the EV battery market is expected to expand at a CAGR of 30% during the same period. The EV supporting infrastructure, such as the network of charging stations, will also need to be designed and built, along with the software systems required to make it work.

Foreign direct investment (FDI)

On the investment side, FDI into India's automotive and auto parts sector is now permitted at a level of 100%. Products manufactured in India by foreign investors can consequently be sold through wholesale and/or retail channels, including through e-commerce, without government approval. This means that Canadian automotive and auto parts companies, together with our EV and EV infrastructure firms, may find good opportunities across the industry.

3.4 Clean technology

India's rapid economic growth has come with major costs to its environment and to the health of its population. This has created a demand for clean technologies and solutions in areas such as renewable energy, water and wastewater management, and solid and hazardous waste management.

In 2020, an **International Trade Administration Environmental Technologies** report estimated the Indian environmental technologies market to be in excess of US$23 billion. In the same report, India ranked as the sixth-largest such market in the world, with subsector rankings of second for water/wastewater management, ninth for air pollution control, and eighth for the solid waste and recycling segments. In 2021, India's total imports of environmental technology equipment stood at US$1.197 billion.

The major opportunity areas within the sector include:

Renewable energy: Solar, wind and hydrogen

India's government has set ambitious renewable energy goals and is establishing mechanisms to bring these goals within reach. At present, it has target of 500 gigawatt (GW) of installed renewable energy by 2030, made up of 280 GW of solar power, 140 GW of wind power and the balance from other sources such as hydrogen.

3. PRIORITY SECTORS FOR CANADIAN EXPORTERS AND INVESTORS

India is positioning itself as a manufacturing destination for solar photovoltaic cells (a non-mechanical device that converts sunlight into electricity) and is vigorously supporting domestic production of solar equipment to reduce dependence on foreign imports. The country is also becoming a hub for manufacturing wind-energy equipment and can domestically produce all the major components needed to construct wind turbines—one of only five countries in the world that can do this.

In 2022, India also established the Green Hydrogen Mission. This is intended to establish the country as a global leader in hydrogen-energy technologies and the production of green hydrogen. The program envisions the development of an annual production capacity of at least five million metric tonnes by 2030, which should provide India with an additional renewable energy capacity of about 125 GW per annum.

Water and wastewater

Lack of clean water is one of the country's worst environmental problems. More problematic still, water demand is projected to be twice production capacity by 2030. Demand for advanced treatment technologies and new water and wastewater infrastructure is consequently growing. Opportunities include technologies for water conservation and purification, wastewater treatment, water recycling and desalination.

Industrial air pollution

Half of India's electricity is supplied by coal-fired power plants. Tight standards have been introduced to curb their emissions such as particulate matter, sulfur compounds and nitrogen oxides. Technologies to manage these emissions are in demand.

Solid waste

Dealing with municipal solid waste is an acute concern, especially since much of it's simply dumped on the outskirts of urban areas. There's, consequently, a demand for technologies and services for waste collection, transportation, treatment and disposal. The government has also provided funding for waste-to-energy projects and other solid-waste solutions.

Hazardous waste

Hazardous waste management is another growth subsector. India needs facilities, equipment and knowledge for storing, transporting and disposing of these substances, as well as resources for monitoring them and for environmental project management.

3. PRIORITY SECTORS FOR CANADIAN EXPORTERS AND INVESTORS

3.5 Agriculture and agri-food

More than half of India's labour force works in the agricultural sector or in sectors related to it, such as forestry and fisheries. It's a major producer of commodities such as rice, wheat, cotton, sugar and dairy. Canada's primary export to India is pulses, mainly lentils, with about three-quarters of the country's supply coming from Canadian farms.

Domestically, India's retail food market is estimated to be in the region of US$570 billion annually. Most of the retail outlets continue to be at the traditional neighbourhood store level, although there are now about 8,000 modern supermarkets in the country and the number continues to rise.

India provides a number of opportunity areas for Canadian exporters and investors, in both food products themselves and in sectors related to agricultural production:

Consumer food products and packaged foods

This includes categories such as cooking ingredients, snacks, baked goods, breakfast cereals and processed foods (fruit, vegetables, meat and seafoods). For Canadian producers, selling these products via e-commerce may be an effective approach, given the rising consumer demand for value, variety and convenience. In fact, the Trade Commissioner Service has launched a Canada store on the Amazon India platform—an e-commerce page profiling Canadian agri-food products available in the Indian market.

Supply chain infrastructure technologies

India's agricultural sector is slowly moving from basic commodity farming toward horticulture, poultry, dairy and fisheries production. The growth of this sector, however, depends on improving the country's inadequate preservation, storage and distribution infrastructure. This urgently needs investment in areas such as cold chains, abattoirs and food transport systems. In addition, as the demand for packaged and processed food rises, so will the industry's need for production and packaging technology.

4. ESTABLISHING YOUR PRESENCE IN INDIA

The most common ways of entering the Indian market include establishing an office of some type, setting up a wholly owned Indian subsidiary or a joint venture with an Indian company, or forming a limited liability partnership. To avoid legal, tax and accounting pitfalls, always use professional assistance when establishing your Indian presence.

The major kinds of presence are:

4.1 Wholly owned affiliates

You can establish a wholly-owned Indian affiliate by incorporating a company under the provisions of the *Companies Act*. For more information, refer to the Ministry of Corporate Affairs, especially the procedure for registering a new company. The chief advantage of an affiliate is that it's treated as an Indian company and can be the most effective way of doing business in India.

4.2 Joint ventures

India promotes joint ventures between Indian and foreign firms because they encourage capital investments, imports of capital goods and transfer of technology. If you choose the wrong partner for your joint venture, though, it can be a very expensive mistake, so be sure that all parties know in advance what will be expected of them. Needless to say, you should carry out very careful due diligence into a prospective partner's experience, business record, creditworthiness, financial stability, CSR record and management quality.

4.3 Limited liability partnerships (LLPs)

LLPs enjoy the benefits of a limited liability company while providing their members with the flexibility of a partnership agreement. An LLP must have at least two partners who are individuals, and one partner must be an Indian resident.

4.4 Offices

If you don't want one of the above kinds of presence, an office in India may be enough to serve your needs. RBI approval and registration are generally required for establishing an office, but your Indian legal counsel will help you with these requirements.

4. ESTABLISHING YOUR PRESENCE IN INDIA

There are three main types of offices:

Liaison or representative offices

These are restricted to collecting market information and providing information to prospective Indian customers. They can't carry out any commercial activities nor earn income in India.

Branch offices

These may perform activities such as importing and exporting goods, acting as your company's buying and selling agent, promoting technical and financial collaborations between Indian and foreign companies, providing IT services and software development services and providing technical support for products supplied by your Canadian company. Branch profits can be remitted outside India, subject to taxes and RBI guidelines.

Project offices

If your company is planning to conduct work in India, it can set up a project office. The office can only undertake activities related to the project.

4.5 Agents and distributors

An agent is an individual or firm you employ, usually on commission, to sell your product or service. A distributor, in contrast, buys your product from you and then sells it on to the end users. Either type of representative can provide you with a presence in India.

A good representative will be familiar with local Indian conditions and can help you find customers, arrange distribution channels, handle documentation, clear your goods through customs and provide after-sales service. If your sale involves complex contracts, a representative is almost a necessity.

Finding the right representative will take some effort. Contacts at trade fairs are one avenue, and you should also check with sources such as the Canadian Trade Commissioner Service, your sector's trade associations and the various Indo-Canadian business associations referred to in Chapter 9.

As always, due diligence is vital and should include detailed checks into the potential representative's finances, reputation and creditworthiness. If your products are highly technical, you should also ensure that the representative has the expertise and facilities necessary to market and support them.

5. INVESTING IN INDIA

Enormous changes have taken place in India's investment environment during the past few years. Investment procedures are becoming simpler, foreign companies can now invest in most sectors and investment ceilings have been increased across the board. Other factors encouraging FDI include India's fast-growing domestic and financial markets, its large population of English speakers and its political stability. In FY 2021-2022, in fact, India absorbed its highest level of inward FDI in its history—US$83.6 billion. This was an increase of US$1.6 billion over the previous fiscal year.

One of your first stops when planning an Indian investment should be the "Invest India" portal. This is the face of the government's National Investment Promotion and Facilitation Agency and can provide you with a wealth of information in one convenient place.

Always be aware, however, that investing in India is a complex undertaking, so you should always use professional assistance to avoid legal, tax and accounting pitfalls.

5.1 Investment procedures

There are two basic procedures governing FDI in India. One is the automatic approval route, under which the investment doesn't require prior approval by the government. The second is the government approval route, where the individual ministries and government bodies for the particular sectors must approve the investment before it can go through.

There are four categories of investment, depending on the approval route and the percentage of FDI permitted in the sector, as well as a number of prohibited sectors:

Category 1

Covers sectors such as agriculture, mining and pharmaceuticals and allows 100% FDI via automatic approval.

Category 2

This also allows 100% FDI via government approval. It covers a smaller number of sectors than the first category, such as e-commerce trading of food products that are manufactured and/or produced in India.

Category 3

Allows up to 100% FDI allowed through a combination of automatic and government approval. For example, in the telecom services sector, up to 49% of the investment can be automatically approved, but any amount above that must have government approval.

Category 4

This is an assortment of sectors where a percentage of the investments can be approved either by the automatic or the government route. A maximum of 75% of an investment in an insurance company may be automatically approved, for example, while a maximum of 49% of an investment in terrestrial FM radio broadcasting can use the government route.

Prohibited sectors

In a few industries, FDI is completely prohibited. These include gambling, betting and lottery enterprises; atomic energy; and most railway operations.

You can refer to Invest India's **Investor's Guide** for more information.

5.2 Special economic zones

Special economic zones (SEZs) are duty-free geographical regions that offer incentives to companies that are resident in them. Essentially, they're considered foreign territory for the purposes of trade activities carried out in them. India has many SEZs scattered all over the country. The incentives they offer to Canadian companies wanting to set up in India include the following:

- Duty-free import and domestic procurement of goods for the development, operation, and maintenance of your company's SEZ unit
- 100% income tax exemption on export income for SEZ units for the first five years and 50% for the five years thereafter
- Exemption from customs and excise duties for development of SEZs for authorized operations
- Exemption from the goods and service tax (GST) and levies imposed by state government.
- Exemption from alternative minimum tax (MAT)
- Single-window clearances for all state and federal government approvals
- Presence of customs officer in the SEZs to facilitate and expedite the trade processes

The SEZ scheme, with its simplified export arrangements and lucrative tax packages, can provide an attractive environment for Canadian exporters and investors.

5. INVESTING IN INDIA

5.3 Gujarat International Finance Tec-City

The Gujarat International Finance Tec-City (GIFT) is an especially spectacular development of the basic SEZ, if only for its scope and ambition. Still under construction, when completed it'll be India's first global financial and IT services hub. Conceived and designed as a smart city, GIFT will include both a multi-services SEZ for international companies and a domestic tariff area for domestic companies.

5.4 Taxes

Tax regimes tend to be works in progress, so be sure to consult legal and accounting professionals before you make assumptions about how Indian taxes will affect you. For more detail, refer to the **Income Tax Department** of the Ministry of Finance. For information on the current Indian budget, refer to the **Union Budget** website.

If you've incorporated an Indian affiliate, it'll be taxed as a resident Indian company and will pay corporate taxes on the income it receives from all sources worldwide. If your business presence is a non-resident one, it'll be taxed as a foreign company, but only on the income it earns in India. India's fiscal and corporate tax year begins on April 1 and runs to March 31.

Corporate taxes

Both resident and non-resident corporations must file a yearly return of income (ROI). The filing deadline for most companies is Oct. 31. Late filing or delay in payment will result in penalties. Note that tax liability needs to be estimated and paid in advance on a quarterly basis. Tax rates for 2022-2023 are as follows:

- For resident companies with a 2020-2021 turnover of less than Indian rupees (INR) INR4 billion, the rate is 25%. If 2020-2021 turnover was greater than INR4 billion, or the company is an LLP, the rate is 30%. Lower rates apply in some special cases but there are also various surcharges plus a health and education tax of 4%.
- For foreign companies, the basic tax rate is 40% plus surcharges depending on annual turnover. The health and education tax of 4% is also applied.

5. INVESTING IN INDIA

Note that Canada and India have signed a taxation treaty, so that Canadian companies doing business in India won't have to pay taxes in both countries. This removes any threat of double taxation.

Indirect taxes

Like Canada, India levies GST at the federal and state levels. Unlike Canada, the rate varies according to the goods. Electricity, for example, is exempt, while automobiles are subject to a 28% tax.

The states are also allowed to levy value-added tax on select goods. Other indirect taxes include customs duties, stamp duties and property taxes.

5.5 Exchange controls and repatriation of funds

India's foreign exchange regulations are set by the *Foreign Exchange Management Act* (FEMA). This is regulated by the Reserve Bank of India (RBI), which is responsible for all key approvals.

Liberalization of the regulations over the past several years have been in line with the government's policy of facilitating the flow of funds to and from India. Only in a few cases are approvals now required for foreign exchange transactions and remittances.

Foreign capital invested in India can usually be repatriated along with capital appreciation, if any, after payment of taxes. Repatriation can normally be completed within a week.

6. THE LEGAL ENVIRONMENT

Canada and India's legal systems are in some ways similar. But there are also considerable differences, and Canadian companies operating in India will need to use local expertise if they want to avoid difficulties.

6.1 Contracts, due diligence and business disputes

All contracts must be very carefully written and thoroughly reviewed by legal counsel familiar with Indian business and financial practices, but your best defence against contract issues is due diligence. Before negotiating any contract, especially with a new customer, always check (at the least):

- the company's creditworthiness
- its financial record
- the quality of its management
- its business history
- its reputation in the Indian and international marketplace

Despite your best efforts, you may get into a business dispute with your Indian customer. If you do, try your best to avoid litigation—it'll be expensive and slow at the best. Arbitration is almost always preferable, so your contracts should always include an arbitration clause that specifies how and where this will be carried out.

6.2 Protecting intellectual property

India's intellectual property (IP) laws are relatively strong, but enforcement can be weak. IP theft is common, so always protect yourself as thoroughly as you can. If you license your IP to an Indian client, for example, be very precise about what the licensee can and can't do with it. Being vague about this can lead to problems and possibly serious loss.

Note that **IP protections** registered in Canada, such as patents, trademarks, designs and copyrights, don't extend to India. To secure your IP in the latter country and avoid disputes over its use, you must register and enforce these rights under Indian law. Always do this with the help of Indian legal counsel specializing in IP protection.

6.3 Ensuring payment

For exporters, the best way to ensure payment by an Indian customer is to use a letter of credit (LC) and to stipulate this method of payment in the sales contract. LCs are very common in international trade because they use banks to receive and check shipping documents and to guarantee payment, and this provides a high degree of security for both buyer and seller.

LCs can be confirmed or unconfirmed. For example, a Canadian bank can confirm an LC issued by a foreign bank, which guarantees that the Canadian bank will pay you even if the foreign bank doesn't. This kind of LC is obviously much better for you than the unconfirmed kind.

LCs can also be irrevocable. This means they can't be cancelled or amended without your approval. The most secure form of LC is one that's both confirmed and irrevocable.

An additional way to make sure you get paid is to use some form of trade credit insurance. For more information on this, refer to Chapter 8.

7. IMPORT REGULATIONS AND COMPLIANCE

Your Indian customers are the importers of your goods and consequently should be responsible for complying with all Indian import regulations. You should never take this upon yourself—if you do, you'll have to resolve any problems that the Indian customs authorities have with the shipment. It's much better to have the sales contract stipulate that your responsibility ends when the goods reach your customer's port of entry. And never agree to move the goods within India itself, as this can become a logistical nightmare.

If you're using a fully owned Indian affiliate to bring goods into the country, the affiliate will be the importer and will be responsible for complying with all import regulations. Don't try to do this yourself—it's much better to use a licensed customs broker to handle your affiliate's imports, as mistakes can be expensive.

The **Directorate General of Valuation** provides detailed information about Indian customs and **customs clearance**.

7.1 Tariffs and duties

India levies the following import tariffs:

Basic customs duty

This duty is imposed on the value of the goods at a specific rate.

Countervailing duty (CVD)

The CVD is used to protect Indian industries from unfair foreign competition. It's imposed by the government when a foreign country is paying a subsidy to a company, so the company can lower the costs of goods it's exporting to India. The amount of duty is equal to the subsidy paid to the company.

Additional customs duty or special CVD

This provides a level-playing field for Indian companies by imposing a special countervailing duty on imported goods. It equalizes the costs of imports with the costs of domestically manufactured products by compensating for local taxes such as VAT and service taxes.

Safeguard duty

Safeguard duties are imposed to safeguard the interests of India's domestic industries. It's calculated on the basis of losses suffered by these industries.

7. IMPORT REGULATIONS AND COMPLIANCE

Anti-dumping duty

If a foreign manufacturer exports goods to India at very low prices, compared to prices for those goods in its own domestic market, it may damage the local Indian economy. This activity is called dumping. To discourage it, the Indian government may impose a duty on imported goods that are being sold at less than their normal value. Under World Trade Organization (WTO) rules, however, anti-dumping actions may be taken only when there's an Indian industry producing "like articles."

National calamity contingent duty

This duty is levied on goods, such as tobacco, that are harmful to health. Different rates are applied for different reasons.

Education cess

A cess is a tax that is usually levied to support socially important services. The education cess is calculated as a percentage of the aggregate customs duties of customs.

Protective duties

Protective customs duties may be imposed under the Tariff Commissions Act to defend the interests of Indian industry.

7.2 Import documentation

The basic import document is the bill of entry. This is generated automatically when the importer furnishes the import declaration through the Electronic Data Interchange system.

The basic documents required for all imported goods are:

- the bill of entry
- a bill of lading or airway bill
- a commercial invoice/packing list

And, depending on the goods being imported, these documents may also be required:

- a certificate of origin
- an inspection certificate
- an insurance certificate
- an import licence
- a letter of credit
- a completed GATT declaration form
- a Registration Cum Membership Certificate (RCMC)

7.3 Labelling, standards certification and licensing

Your goods will avoid problems with Indian customs if they're properly labelled, meet relevant standards and, if required, have the applicable import licences.

Labelling

Indian customs strictly enforces all labelling requirements, and goods that don't comply can't enter the country. The best way to ensure that the labels on your products are correct is to ask your customer what is required. To protect yourself contractually, you can also get sample labels approved as part of the sales contract.

If you're an agri-food exporter, your products must be labelled according to the regulations set by the Food Safety and Standards Authority of India (**FSSAI**). This body is responsible for establishing standards for food products and for regulating their manufacturing, processing, distribution and sale.

Standards certification

Standards certification ensures that imported goods meet a country's health, safety and quality standards. In India, numerous products (such as food additives and electrical appliances) must be certified by the Bureau of Indian Standards (**BIS**) before they can enter the country. If you're the manufacturer of such goods and you're exporting them from Canada to India, obtaining certification from the BIS is your responsibility, not the importer's.

Licensing

Most imports can enter India without a licence. There are some exceptions, which fall into three classes: Prohibited items, restricted items requiring an import licence, and "canalized" items that only a state-owned enterprise can import. The importer is responsible for obtaining any required licences.

Doing business in India: Tips for importing and exporting

8. SOLUTIONS FROM EDC

The EDC team has been in India for the past 17 years and has offices in Delhi and Mumbai. We provide a first entry point for companies that aren't yet exporting to India, but want to learn whether this market is for them.

For small- or mid-size companies that are ready to make the leap into India, we can help with **knowledge** resources and the best ways to get **financial** support, which include the following:

8.1 Managing risks

EDC Credit Insurance

With **EDC Credit Insurance**, 90% of your insured losses are covered against the risk of non-payment caused by a variety of events, including customer bankruptcy or non-payment, contract cancellation, issues with currency conversion or transfer, and more. Depending on your needs, you can choose from:

- **EDC Select Credit Insurance**: If a customer doesn't pay, EDC will cover 90% of your insured losses. It's short-term coverage for just when you need it.
- **Portfolio Credit Insurance**: Protect your profits with Portfolio Credit Insurance and get covered for 90% of your insured losses if a customer doesn't pay. This is an ongoing type of coverage for active exporters.
- **Performance Security Insurance**: EDC will cover 95% of your insured losses if a customer wrongfully calls a letter of guarantee or if a call is triggered by your inability to meet your obligations due to specific political risks.

8.2 Securing financing

Buyer Financing

EDC can help you gain a competitive edge by providing **buyer financing** to your international customers and taking on the risk of non-payment for you.

If you have an Indian affiliate that requires financing for capital goods purchases, or if an Indian customer needs cash to buy your products, EDC may be able to help by providing direct financing. Alternatively, EDC may be able to guarantee a loan to your Indian buyer or affiliate through its partnerships with local financial institutions.

8. SOLUTIONS FROM EDC

Direct Lending

EDC can offer direct financing to your company or your foreign affiliate through a secured loan. These loans can be made directly to your Canadian company in support of its international investment, or to your foreign affiliate, secured by the foreign assets.

You can get financing for a range of loans, including bilateral loans, club deals, or syndicated loans. Various lending structures are possible, with pricing based on the level of risk and the market involved.

For more information visit - **https://www.edc.ca/en/solutions/financing/direct-lending.html**

Structured and Project Finance

Structured and Project Finance is designed for limited-recourse financing of long-term, capital-intensive projects. EDC acts as a partner with international project sponsors to advise, arrange and underwrite the necessary financing.

Structured and Project Finance support is for you if:

- Your project generates revenues of more than $50 million.
- You have export activities outside Canada.
- You need structured financing in order to execute a large-scale global project.
- The project is in the extractive, power, utilities, infrastructure or industrial sector.
- Your project clearly demonstrates economic benefits to Canada.

8.3 Growing working capital

Export Guarantee Program

EDC's **Export Guarantee Program** can help your bank provide you with additional access to financing. We share the risk with your bank by providing a guarantee on the money you borrow, encouraging them to increase your access to working capital.

Account Performance Security Guarantee

EDC can issue letters of guarantee (**Account Performance Security Guarantee**) without requiring you to put up cash or credit to your bank as collateral. EDC will provide a 100% guarantee to your bank for any bonds it posts on your behalf.

8. SOLUTIONS FROM EDC

Foreign Exchange Facility Guarantee

You can protect your margins with the **Foreign Exchange Facility Guarantee**, so you can avoid posting collateral as payment assurance for your foreign exchange contract provider. This allows you to keep your cash available for doing business.

Surety Bonds

EDC's **surety bonds** can encourage your surety company to provide you with the bonding capacity you need to grow your business. We can reinsure them against losses if a customer demands payment against your bond.

Foreign Direct Investment Inbound

International companies that wish to develop Canadian greenfield or brownfield investments, with or without capital expenditures, should contact our federal partners, including the Trade Commissioner Service (TCS). Invest in Canada and other relevant provincial partners. They may help the company unlock potential investment opportunities and facilitate their international expansion.

Greenfield and brownfield investments are separate types of foreign direct investment. With greenfield investing, a company builds its own, brand-new facilities from the ground up. Brownfield investment happens when a company purchases or leases an existing facility.

Based on the benefits that such an investment would bring to Canada, EDC can support up to the full capital costs, the cost of Canadian supply or the purchase price of a company's investment in Canada. We can offer competitive rates to borrowers based on credit quality, general market conditions, and the length of repayment terms being considered. We typically partner with other financial institutions when providing this type of financing. To find out more information, please contact EDC's regional offices in India.

Global corporate partnership program

When a company is developing cutting-edge Canadian capabilities, EDC can assist the partnering firm through our export solutions. This offers the company access to diversified and competitive financing. Examples include collaboration on efforts to close the gender gap in tech, working with EDC's Inclusive Trade group to support Indigenous trade and expanding a company's supply chain.

9. KEY RESOURCES FOR DOING BUSINESS IN INDIA

Export Development Canada

Got questions about taking your business international? Our expert advisors **Export Help Hub** can help. EDC's **Business Connections Program** promotes Canadian capabilities to international buyers and introduces them to Canadian companies that can add value to their supply chains.

Head Office

Export Development Canada
150 Slater St.
Ottawa, ON, K1A 1K3
1-800-229-0575

Canadian Trade Commissioner Service

The Canadian Trade Commissioner Service (**TCS**) has offices across Canada and in 161 locations around the world, including several **in India**. These offices can provide Canadian exporters and investors with India-specific market intelligence, qualified contacts, partnership opportunities and practical advice that can help them achieve their goals in the country.

Government of India

- **High Commission of India in Ottawa**
- **Directorate General of Commercial Intelligence and Statistics**
- **Directorate General of Foreign Trade**
- **Ministry of Commerce and Industry**
- **Integrated Government Online Directory**

Indo-Canadian business associations

- **Canada-India Business Council**
- **Indo-Canadian Business Chamber**
- **Indo-Canada Chamber of Commerce**

ABOUT THIS GUIDE

This report is written by Dennis Jones, an international trade writer, and reviewed by EDC's chief representative in India, **Ladislau Papara**. The report was copy edited by Karen Turner and Janet Wilson. The French report was copy edited by Rose-Anne McSween.

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ABOUT EXPORT DEVELOPMENT CANADA

Who are we?

Export Development Canada (EDC) is a financial Crown corporation dedicated to helping Canadian businesses make an impact at home and abroad. EDC has the financial products and knowledge Canadian companies need to confidently enter new markets, reduce financial risk and grow their business as they go from local to global. Together, EDC and Canadian companies are building a more prosperous, stronger and sustainable economy for all Canadians.

For more information and to learn how we can help your company, call us at **1-800-229-0575** or visit **www.edc.ca**.

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