

b) Branch Plants

Setting up a branch plant without a local partner can be a perilous pursuit in India. A keen understanding of the local regulations, laws, market and cultural differences is required. Very few international companies enter the market this way. Even the multinationals such as GlaxoWellcome and Ciba-Geigy do not own 100% of their Indian operations. Years of local experience and a loosening of foreign ownership restrictions are leading some multinationals such as Pfizer to consider 100% subsidiaries, however approval by the Foreign Investment Promotion Board (FIPB) is by no means assured. Bristol-Myers was recently refused permission to set up a 100% foreign-owned subsidiary. It was reported in the Indian press that the reasoning behind the refusal was that Bristol-Myers did not spell out plans to invest in manufacturing.

An Indian subsidiary could allow Canadian companies to enter both the Indian market and export from India to other markets, especially the affluent Persian Gulf states with whom India has a strong trade relationship. If the Indian manufacturing facility is located in one of India's Special Export Zones, components may be imported from Canada duty-free, formulated, and then re-exported. A minimum of 20% of the exported product value must be added in India.

In such a scenario no Indian income taxes would be charged on profits from the exports.

c) Joint Ventures

A joint venture with a local firm is a good way to ease in to the Indian market. A local partner is likely to be familiar with the often complex rules and regulations in the industry. They would likely have a better knowledge of profitable market niches and strategies as well.

Many indigenous manufacturers are eager to set up joint ventures with foreign companies to benefit from investment capital and technology. With the coming of product patents, many may wish to invest in R&D.

Finding the right partner is vital. Indian trade consulates or the Indian Investment Centre in Delhi (see Appendix A for address), can put Canadian companies in contact with Indian firms seeking partners. Two potential partnerships are included in Appendix B of this document. Canadian missions in India and the Department of Foreign Affairs and International Trade can also provide advice and assistance in finding a partner.

A face-to-face meeting with a prospective partner is necessary, even in the age of fibre-optics. It is advisable to get to know a potential partner's existing facilities and business practices in person. If they do business in a way that is compatible with Canadian standards and practices, prospects for a reasonably low-friction partnership are good.