

# US-India Corridor: Driving further growth



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# Foreword

The United States-India trade and investment corridor is anticipated to grow at an accelerated pace as the two countries' trading relationship continues to evolve. Both countries, to date, have shared common interests in pursuing innovation and technological advancement and have furthered ties in collaborations and exchanges across various sectors. Innovation and technological advancement will play a role in shaping the future of trade relations between both nations.

Despite modest historical bilateral trade volumes, the US-India relationship is poised to move towards deeper and more impressive linkages in capital, talent and tech. The US emerged as India's biggest trade partner last year. Accordingly, there are several opportunities waiting to be explored in the ever-evolving global marketplace. The US influence in India is a strong competitive advantage helping companies to efficiently develop best in class globally scalable products, combined with a surge in the number of Global Capability Centres (GCCs), moving from the US to India

For US corporates and investors, finding and securing growth and new opportunities is becoming increasingly competitive as other economies accelerate and strengthen their own capacities, capabilities and connections. As a result, we envisage a potential surge in the number of global corporates from the US looking to take advantage of India's broad population and growing consumer market. This changing landscape could prompt US private and public sector businesses and agencies to monitor new avenues and partnerships in trade and investments around the world.

Investing across borders requires a strategic financial partner as navigating international trade can be complex. With a global network and a deep understanding of both US and Indian markets, HSBC is well positioned to facilitate growth. Our strength lies in providing tailored financial solutions to businesses of all sizes looking to expand their operations.

Our core team has extensive experience and a deep understanding of the complexities involved in cross-border trade. We offer a comprehensive suite of financial solutions tailored to meet the unique needs of businesses operating in this corridor.

In this report, we investigate the current state of trade and investment as well as the growth opportunities between the United States and India. While the new US administration will be taking office in January 2025, with potential directional shifts, we hope this report is a useful guide for corporate and investors considering the opportunities across this corridor.

# Executive summary

Trade and investment between India and the United States has been strong under the current US administration but there is room for growth and more scope for cooperation between the two countries. In trade and investment, the US and India are close partners on key metrics:

- ◆ The US is India's third biggest investor. The US accounted for 9% of all foreign direct investment (FDI) equity inflows into India in 2023, making it the third largest foreign investor in the country with \$4.99 billion.<sup>1</sup>
- ◆ The US is India's top overseas FDI destination. India invested \$737 million in the US in FY23.<sup>2</sup>
- ◆ Since the early 2020s, both sides have increased trade and cooperation. In FY23, bilateral trade between India and the US was \$128.78 billion, up from \$119.48 billion in FY22.<sup>3</sup>

For US corporates and investors, India's growth trajectory – the International Monetary Fund (IMF) revised India's GDP forecast for 2024 upwards to 7% and it expects a growth of 6.5% in 2025 – continues to offer trade and investment opportunities. In the longer term for US corporates and investors, India is on track to grow from being the fifth largest economy today to the third largest by 2030 and its GDP per capita is set to increase from \$2,300 to \$5,000 by then as well.<sup>4</sup>

Data from the International Trade Centre (ITC) shows a \$30 billion unrealised export potential for US to India, with key sectors being jewellery & precious metal articles, motor vehicles & parts, machinery and electricity, pharmaceutical components, and chemicals.

This report also highlights the key Tier 1 and Tier 2 cities in India that US corporates and investors could consider for growth opportunities in key sectors such as semiconductors and electronics, EVs & batteries, pharmaceuticals, and biotechnology.

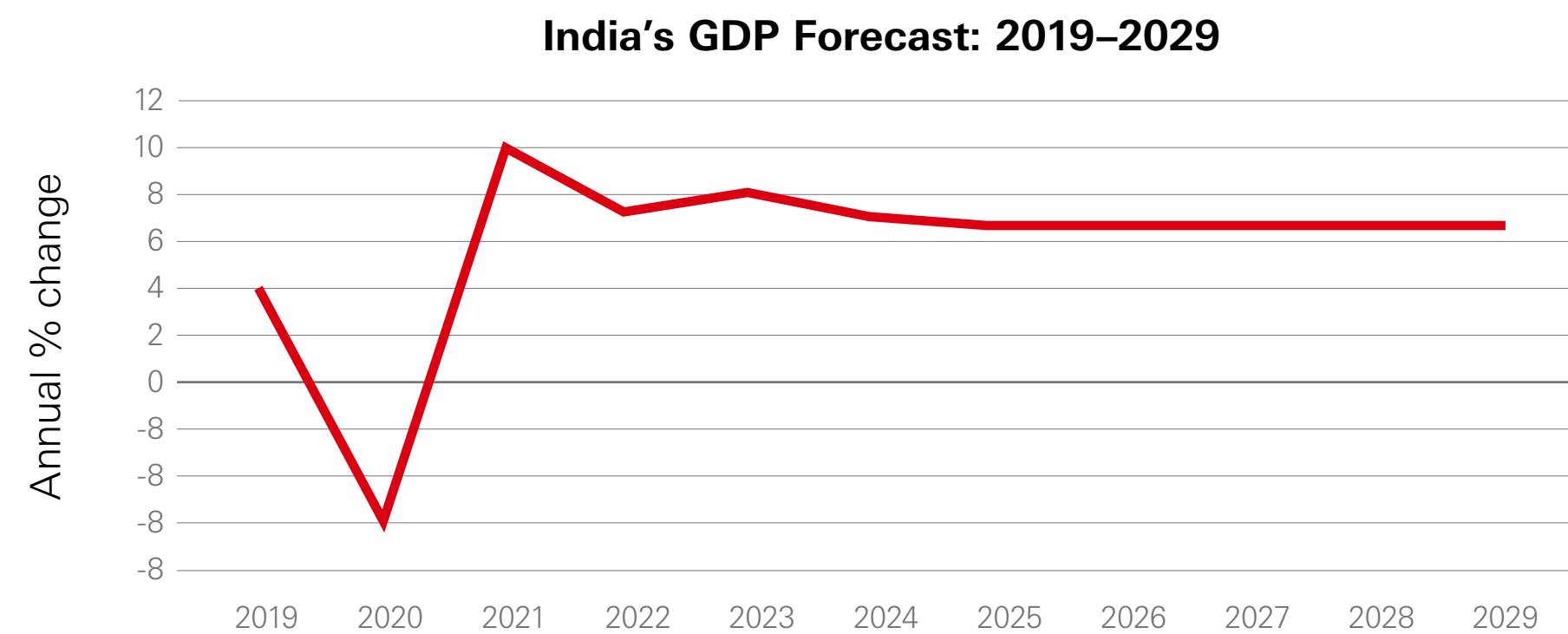
For Indian corporates and investors, ITC data shows an estimated \$55 billion unrealised export opportunity to the US, with key sectors being chemicals, machinery and electricity, precious metals, plastics & rubber, optical products, as well as watches & medical instruments. Indian companies can also find opportunities to collaborate, research and invest in sectors designated as high priority by the US government: Semiconductors & electronics, EVs & batteries, clean power, clean energy manufacturing & infrastructure, heavy industry, and biomanufacturing.

This report also breaks down these key sectors in the states where they are or would be most lucrative for investments. Despite various challenges in recent years, the US economy has remained relatively resilient and the IMF forecasts the US economy to grow by 2.6% in 2024 and 1.9% in 2025, which could encourage corporates and investors to continue doing business with the US.

Overall, the statistics demonstrate potential for further cooperation between the US and India across important sectors such as energy transition, advanced technology, healthcare, human talent and the digital economy. Whilst there is no free trade agreement (FTA) in place, the US and India have previously signed several agreements to boost cooperation in areas including defence technology innovation, climate and clean energy. The two countries also share strong cultural ties that are flourishing and deepening further, thanks to the influential Indian American community and Indian diaspora.

# Summary infographics

## 1. India's GDP to 2029 is forecast to grow impressively



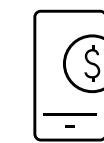
Source: IMF WEO Database, April 2024

## 3. \$55 billion unrealised export potential for Indian corporates into US

**\$55 billion**

Source: ITC Export Potential Map (as of November 2024)<sup>5</sup>

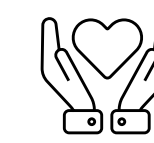
## 2. India's digital economy is growing



### Fintech:

**34% CAGR 2022-2025 for digital payments**

- ◆ Opportunity size (GMV) by 2025: \$46B-\$50B



### Healthcare:

**41% CAGR 2022-2025**

- ◆ Opportunity size (GMV) by 2025: \$4B-\$5B

## 4. Several key sector opportunities for US corporates to explore in India

Key sector opportunities in India:	
◆ Digital economy	◆ Heavy industry
◆ Semiconductors and electronics	◆ Biomanufacturing
◆ EVs & batteries	◆ Clean energy manufacturing & infrastructure
◆ Clean power	

# What are the main Tier 1 and Tier 2 cities in India?

This report highlights eight Tier 1 cities, as well as examples of key Tier 2 cities in India.

**Tier 1 cities** are urban centres with sizeable populations (5 million+) that are key contributors to India’s economy. The seven states where these Tier 1 cities are based contributed 53% of India’s GDP in 2020–21.<sup>6</sup> These states, with their Tier 1 cities in parentheses, are:

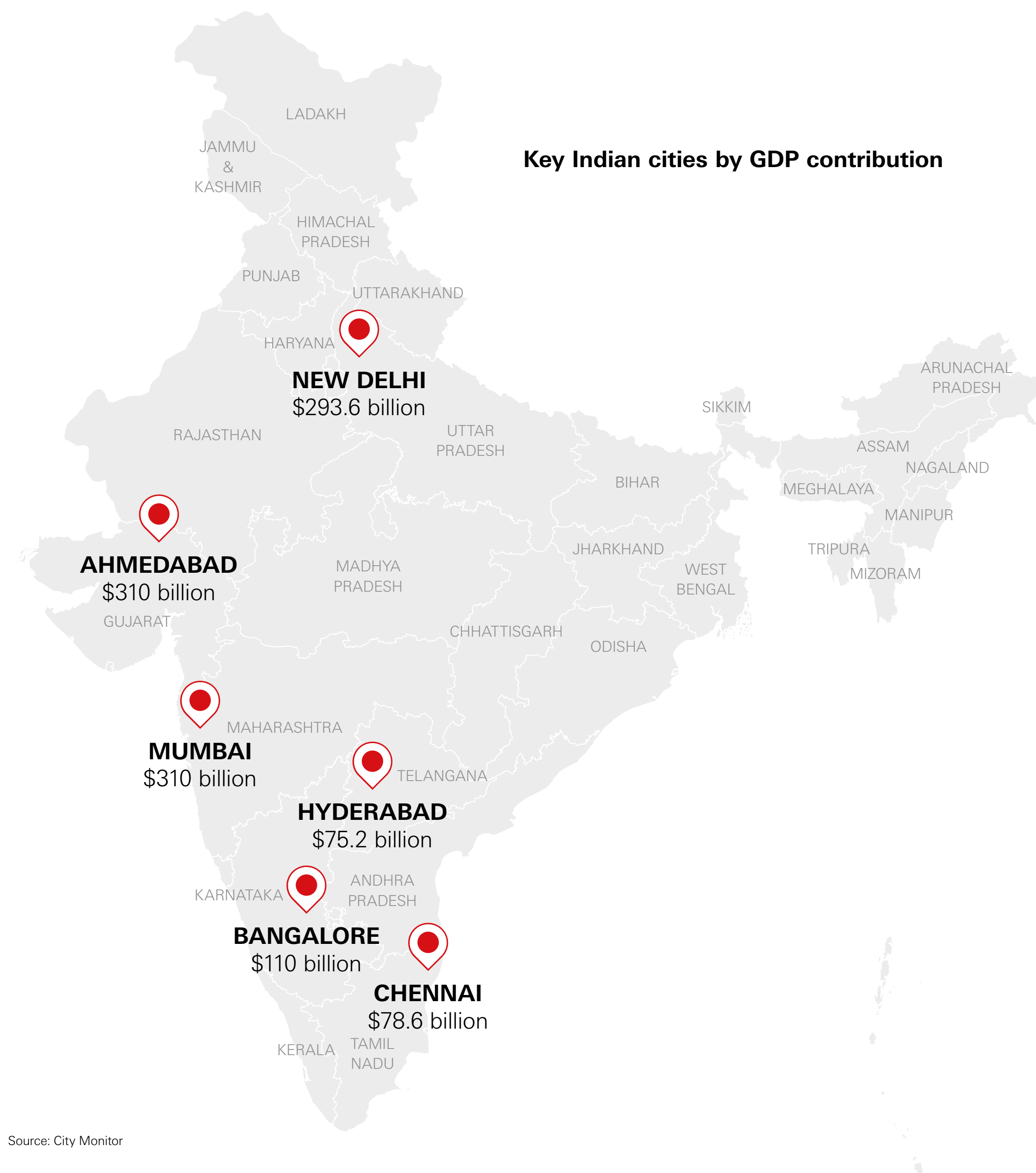
States with their Tier 1 cities	
♦ New Delhi (Delhi)	♦ Tamil Nadu (Chennai)
♦ Gujarat (Ahmedabad)	♦ Telangana (Hyderabad)
♦ Karnataka (Bangalore)	♦ West Bengal (Kolkata).
♦ Maharashtra (contains both Mumbai and Pune)	

There are eight Tier 1 cities in India currently according to India’s 7th Pay Commission’s classification.

**Tier 2 cities** also have considerable populations (0.5 million – 5 million) and contribute notably to India’s economy. This report covers some key examples of Tier 2 cities, such as Chandigarh, Coimbatore, Kochi, Jaipur, Nagpur, Mysuru, Trivandrum, and Visakhapatnam. While they are possibly not as well-known as Tier 1 cities, Tier 2 cities are fast growing in importance to the national economy.

There are currently 79 Tier 2 cities in India according to India’s 7th Pay Commission’s classification.

(Officially, Tier 1 and Tier 2 cities are referred to as X and Y cities by India’s 7th Pay Commission).



Source: City Monitor

# What are the key states economically for the US?

The United States of America (US) consists of 50 states, with Washington D.C. a separate federal district under the authority of Congress. Additionally, Puerto Rico is a self-governing commonwealth of the US, and there are several US dependent areas globally, such as American Samoa and Guam.<sup>7</sup>

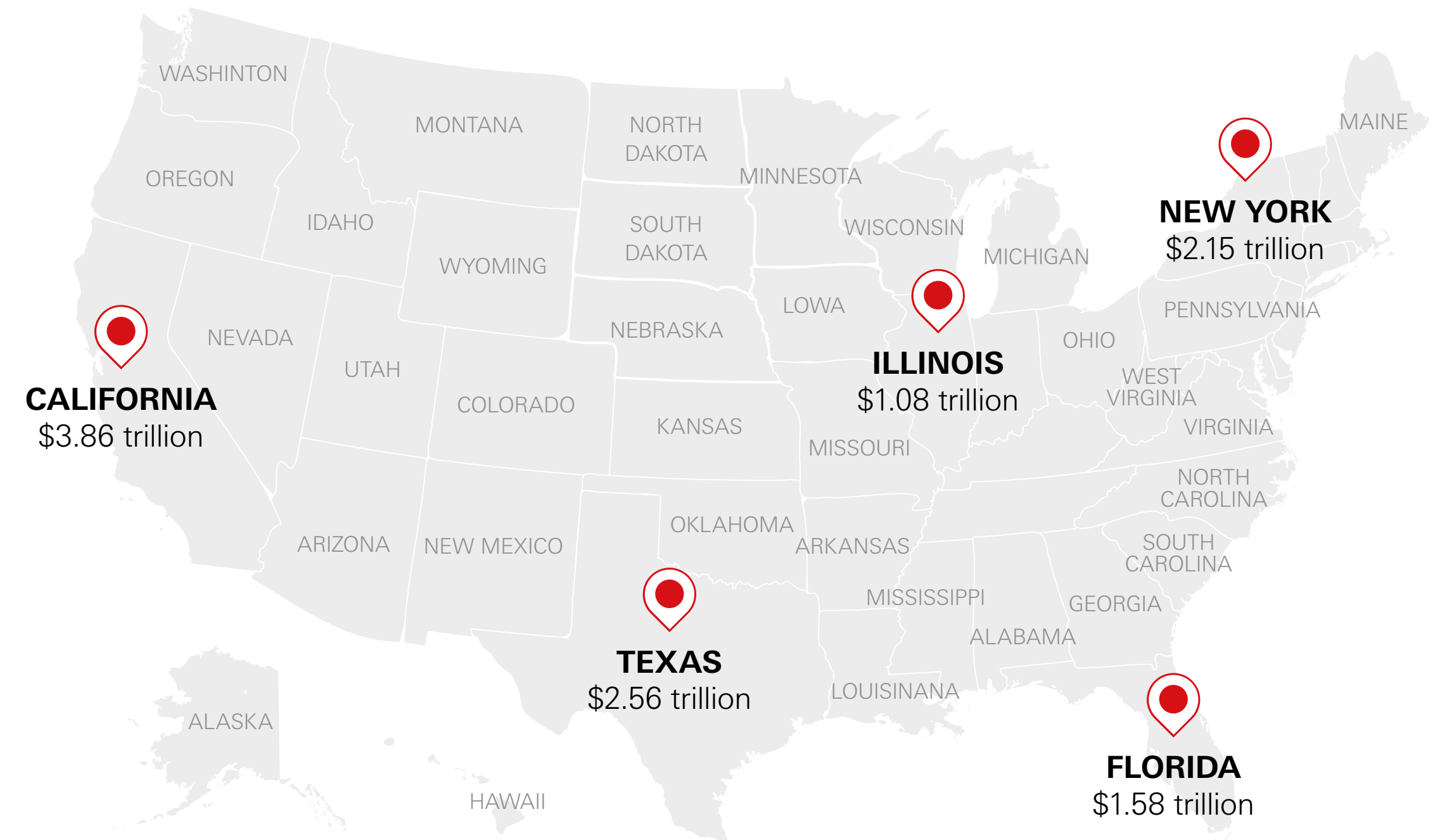
In 2023, the largest five states by GDP contribution accounted for 41% (\$11.2 trillion) of the US' entire GDP: California (\$3.86 trillion), Texas (\$2.56 trillion), New York (\$2.15 trillion), Florida (\$1.58 trillion) and Illinois (\$1.08 trillion).<sup>8</sup> HSBC has been in the US since 1865, and is present in major American cities including New York, Los Angeles, Chicago, Atlanta, Houston, Seattle, Miami, San Francisco, and Washington DC.

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“In 2023, the largest five states by GDP contribution accounted for 41% (\$11.2 trillion) of the US' entire GDP.”

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Key US states by GDP contribution



Source: World Investment Report 2024

## Section 1

The corridor is growing,  
driven by strong mutual  
interest





# Global macroeconomic context

## Current outlook

The global economy is stabilising but remains in a 'Sticky Spot', according to the International Monetary Fund's (IMF) World Economic Outlook July 2024 edition<sup>9</sup>. The IMF cites factors including persistent inflation, escalated trade tension and policy uncertainty holding the global economy at bay.<sup>10</sup> Nevertheless, the IMF projects global economic growth will remain stable in 2024 at 3.2% and 3.3% in 2025 in line with its previous forecast in April 2024.<sup>11</sup>

International trade is recovering, and increased by 1% in the first quarter of 2024 compared to the three months before it. Within this growth picture, services trade rose 1.5% compared to the fourth quarter of 2023, according to the latest UN Trade and Development's (UNCTAD) Global Trade Update.<sup>12</sup> UNCTAD said that the rebound in global trade was largely thanks to increased exports from China, India and the US.<sup>13</sup> Whilst trade expanded across several sectors, green energy and artificial intelligence (AI)-related products recorded significant increases. Riding this momentum, UNCTAD projects global trade to grow around 2% in the first half of 2024.<sup>14</sup>

India's economy is set to perform well this year. In fact, the IMF revised its forecast upwards to 7.0%, in 2024. The IMF said that the revision highlighted the better than forecasted growth in 2023 and improved prospects for private consumption, particularly in rural areas.<sup>15</sup> It further expects the Indian economy to grow by 6.5% in 2025, reinforcing a positive trajectory. Despite challenges of inflation and monetary policy, the US is projected to grow 2.6% in 2024 and 1.9% in 2025.<sup>16</sup>

## GDP Growth Forecasts: India and US



Source: IMF WEO Database, April 2024

# Global macroeconomic context (cont.)

## FDI inflows

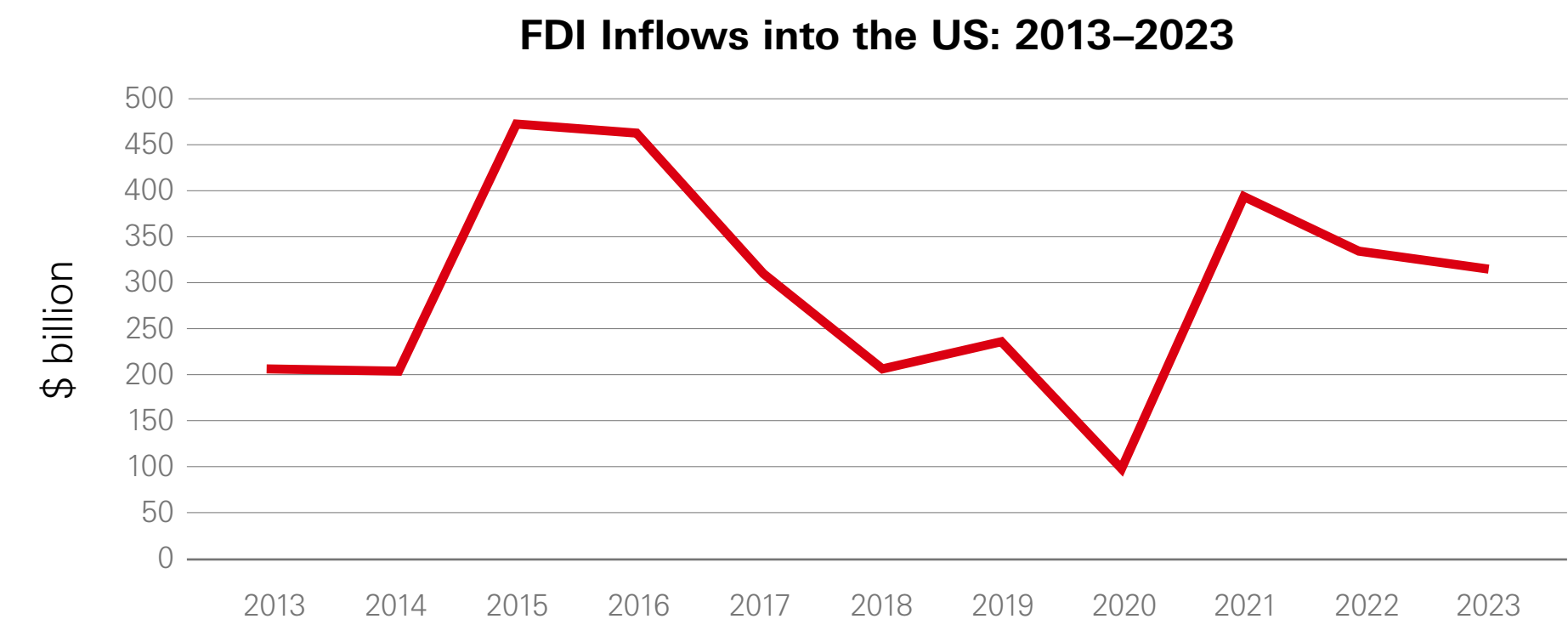
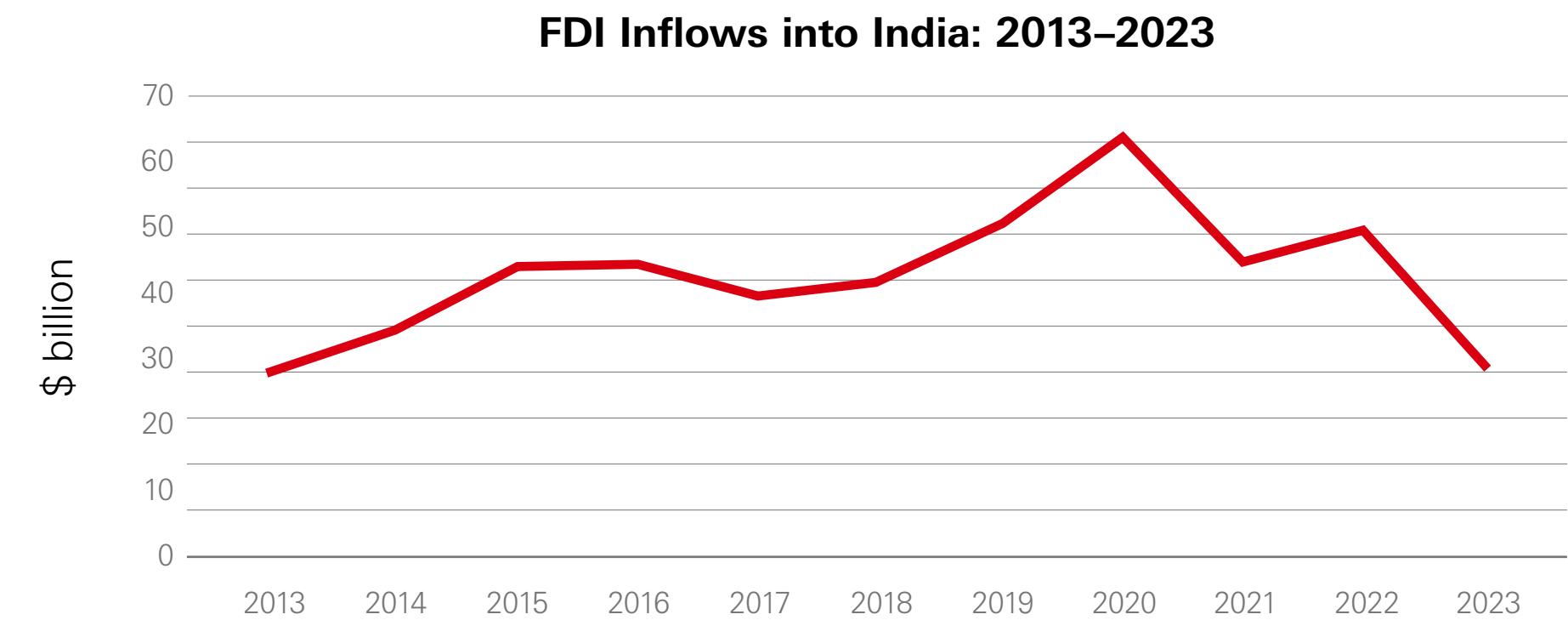
Whilst global economic activity rebounded to some extent, trade and foreign direct investment (FDI) flows faced challenges. Global FDI inflows declined by 2% to \$1.3 trillion in 2023, according to the World Investment Report 2024.<sup>17</sup> A fall in mergers and acquisitions (M&A) activity, tighter financing conditions as well as increased geopolitical tensions and economic slowdown dampened investment activity and sentiment.<sup>18</sup> The outlook for 2024 continues to be challenging, with weaker growth prospects and ongoing trade and geopolitical tensions.<sup>19</sup>

The US was the largest FDI recipient in the world in 2023, receiving around \$311 billion, which is equivalent to almost a quarter of the global total.<sup>20</sup> Four countries accounted for half of total FDI into the US in 2023:<sup>21</sup> The Netherlands was the top investing nation followed by Japan, Canada and the UK.<sup>22</sup> FDI into the US was heavily concentrated in the manufacturing sector, attracting around 41.2% of all inflows.<sup>23</sup> There were also sizable investments in finance and insurance, and wholesale trade.<sup>24</sup>

Meanwhile, Indian FDI inflows reached \$28.1 billion in 2023.<sup>25</sup> Mauritius, Singapore, USA, Netherlands and Japan were the top five countries for FDI equity inflows into India.<sup>26</sup> The top sectors receiving highest FDI inflows were services, testing and analysis, computer software & hardware, trading, telecommunications and automobiles.<sup>27</sup>

Trade and investment between India and the US are strong – the US is India’s third biggest investor with \$4.99 billion in 2023-2024 (April-March) and India’s top overseas FDI destination with \$737 million between April and June 2024.<sup>28</sup> This signals room for growth and more scope for cooperation, trade and investment between the two countries.<sup>29</sup>

## FDI Inflows: India and US



Source: World Investment Report 2024

# Strong cultural ties between the US and India are deepening further, boosted by strong mutual interests

## Indian Americans play an important role in US society

Despite its modest size, the Indian American community is well established and emerging as a significant contributor to cultural, social and economic activities in the US. Between the period of 2010 and 2020, the Indian American population became the US' largest Asian population group, increasing over 50% to 4.4 million people.<sup>30</sup> According to a study by Boston Consulting Group (BCG) and Indiaspora, a US-based non-profit platform, 16 Fortune 500 companies including Microsoft and Alphabet are led by Indian Americans.<sup>31</sup> The study also highlighted that Indian Americans are major tax contributors, paying 6% of all US taxes.<sup>32</sup>

In addition to large businesses, around 8% of high-technology US firms and 15% of Silicon Valley start-ups have Indian American founders. 11% of founders of Top 50 AI start-ups in the US are first generation immigrants from India.<sup>33</sup> To highlight their importance in tech innovation, between 1975 and 2019, the share of US patents with Indian origin innovators jumped from around 2% to 10%.<sup>34</sup> Furthermore, Indian Americans are also entrepreneurial and are business owners of small and medium enterprises. In the tourism and hospitality sector, it is estimated that they own around 60% of all US hotels.<sup>35</sup> Furthermore, the fields of education, research and knowledge are areas dominated by the Indian American community. 40% of Indians in the US hold a master's/doctorate/professional degree – five times above the national average.<sup>36</sup> Around 22,000 faculty members at US colleges and universities are of Indian origin.<sup>37</sup>



# Strong cultural ties between the US and India (cont.)

## **At the same time, the US is also important for India — it is India's largest trading partner and third largest source of FDI for India**

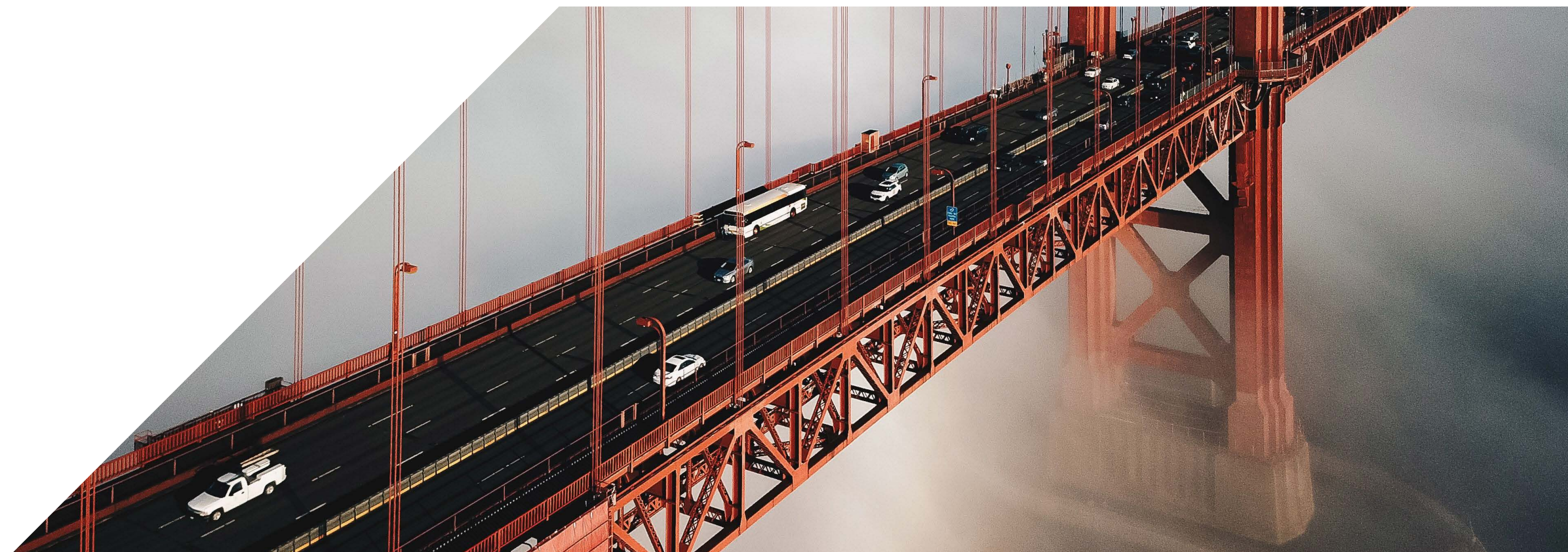
Historically, India has not been a significant target market for US companies and investors but the US has recently become an important player in India's economy, with increasing trade flows. The US accounted for 9% of all FDI equity inflows into India in 2023, making it the third largest foreign investor in the country.<sup>38</sup> Moving forward, the South Asian nation has distinct characteristics that could change things.

Firstly, since 2021 the US surpassed China to become India's largest trading partner.<sup>39</sup> Secondly, in April 2023 India overtook China as the most populous nation in the world.<sup>40</sup> This has significant implications: India has a youthful population with a median age of 28.4 years and people of work age will reach 68.9% of the total population by 2030, making it the world's largest labour force.<sup>41</sup> Thirdly, India is set to become the world's third largest economy by FY28<sup>42</sup> and its stock market is set to reach a market cap of \$10 trillion by 2030 from \$4.6 trillion in January 2024.<sup>43</sup> This offers significant trade and investment opportunities for American companies in areas like consumer goods, automobiles as well as e-commerce and finance.

Additionally, the US and India are cooperating in several areas including investment, defence and security, education, science and technology, pharmaceuticals and biotechnology, civil nuclear energy, environment, clean energy, space technology and applications, health, and research & development. For example, in June 2023, both countries established the Indo-U.S. Quantum Coordination Mechanism.<sup>44</sup> The mechanism seeks to facilitate collaboration in several areas including industry, academia and government, and progress toward a comprehensive Quantum Information Science and Technology agreement.

We are witnessing a deepening relationship and evolution in US-India linkages: Since the early 2020s, both sides have increased trade and cooperation. In FY23, India had a trade surplus of \$28.30 billion with the US.<sup>45</sup> In FY23, Indian exports to the US stood at \$78.54 billion, while American exports to India stood at \$50.24 billion.

Despite modest historical bilateral trade volumes, the US-India relationship is poised to move towards deeper and more impressive linkages in capital, talent and tech. Closer tech linkages include Google's investments in India, that have established data centres and made equity investments into Indian tech companies. Another US tech company in India is Microsoft, which is focusing on areas including cloud computing, AI and cybersecurity.



## Outlook

Trade linkages have been increasing between the US and India, despite the lack of an overall free trade agreement between them; now is the time for US and Indian corporates to make inroads

The US became India's largest trading partner in 2021, exporting around \$50.24 billion<sup>46</sup> in FY23. Major imports from the US include petroleum, pearls, precious and semi-precious stones, coal and coke.

Conversely, India is the US' ninth largest trading partner with exports totalling \$78.54 billion in FY23.<sup>47</sup> As a result, India recorded a trade surplus with the US of \$28.3 billion in FY23. India's main exports to the US include gems and jewellery, pharmaceutical products, light crude oil and petroleum, electrical as well as electronics goods, and engineering products.<sup>48</sup>



# Outlook (cont.)

## Trade agreements

The US and India do not have a formal free trade agreement (FTA), and unpredictable/non-transparent regulations and tariffs can pose key challenges for US exporters in India. Despite this, however, there have been some improvements to the bilateral trading environment in recent years, with the current administration.

Following Prime Minister Narendra Modi's visit to the US in June 2023, both India and the US agreed to settle longstanding trade disputes at the World Trade Organisation (WTO), as well as improve market access, related to products.<sup>49</sup> In September 2023, both sides resolved the last dispute regarding US agricultural exports to India. As part of the resolution, India agreed to reduce tariffs on specific American products, including frozen turkey, frozen duck, as well as fresh blueberries and cranberries in a variety of formats.<sup>50</sup>

Despite having no FTA in place, both sides are keen to strengthen their partnership in several areas including in defence and technology cooperation. For example, both sides are advancing the creation of investment platforms to lower the cost of capital and speed up deployment of greenfield renewable energy, battery storage and emerging green technology projects in India.<sup>51</sup>

In January 2024, the US and India agreed to strengthen trade ties and work to deepen cooperation in areas such as critical minerals, supply chains, and trade in high-tech products under the India-US Trade Policy Forum.<sup>52 53</sup> Under the current US administration, both sides reiterated their commitment to address bilateral trade concerns including agricultural and non-agricultural goods, intellectual property and services.

## Long-term outlook

Under the current US administration, both sides have been seeking to boost trade and cooperation in key areas like education and defence, with cultural, social and economic relations flourishing. Despite the upcoming change in administration, the growing economic importance of both countries would seem unlikely to undergo significant change and anticipated growth in bilateral trade and effort to increase India's trade conduciveness, could indicate a positive long-term outlook for the US-India Corridor:

- ♦ **Growing economic importance of both countries:** The US is forecast to remain as one of the world's largest economies by 2030. It also has a strong business and robust legal environment. All of these make the US an attractive destination for Indian companies to do business. Similarly, India is set to become the world's third largest economy by 2030 – home to the world's largest population (with a growing middle class) and labour force.
- ♦ **Anticipated growth in bilateral trade:** Through cooperation and agreements in sectors like technology and education, US-India bilateral trade is anticipated to grow in the coming years. Under the current administration, both sides have pledged to increase bilateral trade with each other to \$500 billion by 2030, up from the current \$128 billion in 2022–23. India is also working to improve its business environment as well as its trade conduciveness: for instance, India launched a National Logistics Policy (NLP) in 2022 and a Foreign Trade Policy (FTP) in 2023 to enhance its export volumes.<sup>54</sup>

## Section 2

How can Indian corporates succeed in the US market?



## Overview and trends

Building on the sector opportunities presented by the US as a major global economy and India's key trading partner, as well as Indian American community's strengths

### **The US is a major player in the global economy with several attractive features for foreign investors**

The US has several characteristics that make it an attractive destination, including its position as the largest advanced economy consumer market in the world, the ease of doing business in the country, a wide talent pool and diverse workforce, a range of natural resources as well as the availability of a wide range of funding sources.<sup>55</sup>





# Overview and trends (cont.)

The US economy is forecast to be worth \$28 trillion in 2030, making it the world's second largest economy.<sup>56</sup> At the same time, India is forecast to be the world's third largest economy by 2030. Both sides are looking to increase bilateral trade to \$500 billion.<sup>57</sup> Factors including a large consumer market, a stable business environment and access to financial resources make the US a key market of interest for Indian and other foreign investors:

- ♦ **Large consumer market:** The US population was estimated at around 330 million in 2023. The population is expected to increase by 79 million people by 2060, crossing the 400-million threshold in 2058.<sup>58</sup> This long-term continued population growth makes the US different to other G7 members or developed countries whose populations are expected to increase only marginally or contract in the coming decades. The US also remains an affluent country with GDP per capita at \$81,695<sup>59</sup>, maintaining its status as a key consumer market for Indian goods and services.
- ♦ **Business environment:** The US remains an attractive place for business, trade and investment for Indian corporates. It retains a robust legal and regulatory environment that makes it easy to open and operate a business. The US also has a transparent and predictable legal system, for example, in recent years, it has sought to enhance the safeguarding of intellectual property rights.
- ♦ **Talent:** The country has a diverse, highly skilled and educated workforce that provides top talent for companies in several industries including tech, pharmaceuticals and engineering. It has a developed education ecosystem with world-class universities and educational institutions. Seven US universities hold positions in the top ten World University Rankings 2024.<sup>60</sup> This infrastructure provides Indian multinational firms access to talent and facilities to conduct and invest in research in emerging sectors and technologies. Indian companies invested nearly \$1 billion in US innovation initiatives, according to the Confederation of Indian Industry report released in May 2023.<sup>61</sup>

Within the US, HSBC offers Innovation Banking, a specialised division providing financial services to high-growth technology companies. The division offers products and services to start-ups and scale including debt and equity financing, working capital solutions and advisory services.

- ♦ **Natural resources:** As the third largest country by geographic region, the US is resource-rich with minerals including coal, copper, lead, molybdenum, phosphates, rare earth elements, uranium, bauxite, gold, iron, mercury, nickel, potash, silver, tungsten, zinc, petroleum, natural gas, timber, arable land.<sup>62</sup> The US hosts the world's largest coal reserves with 491 billion short tons accounting for 27% of the world's total.<sup>63</sup> It also has diverse climates and landscapes offering opportunities to international companies in the renewable energy sector, from wind to biodiesel.<sup>64</sup>
- ♦ **Financial resources:** The US has the largest, most developed, liquid, flexible and efficient financial market in the world.<sup>65</sup> It is home to global financial institutions including major banks, asset managers, insurance firms, venture capital and private equity funds. The vast availability of lenders, intermediaries and investors makes the US an attractive destination for Indian companies looking for financing, investment or listing via initial public offering (IPO). In the US, HSBC offers products and solutions including wealth and personal banking, commercial banking, private banking, global banking and securities services. For example, HSBC Asset Management offers US-focused funds including the HSBC Radiant U.S. Smaller Companies Fund, HSBC U.S. Government Money Market Fund and the HSBC U.S. Treasury Money Market Fund.<sup>66</sup>
- ♦ **Leveraging continued positive influence:** The continued growth and influence of the Indian American community is important in encouraging further trade and investment opportunities. They can continue to act as a conduit for enhancing US-India trade linkages via improved ties and exchanges in capital, education, talent development and tech.

# Overview and trends (cont.)

- ♦ **Education and training:** In 2023, India surpassed China to become the largest source of international graduate students in the US for the first time since 2009/10.<sup>67</sup> Both sides can leverage their relations in the education space by increasing training and research. The US is a favoured destination for higher education among Indian students, particularly at the master's level. Indian students constitute more than 25% of the over one million foreign students studying in the US.<sup>68</sup> Indian universities and colleges can continue to collaborate with US educational institutions in further research and deepen knowledge to prompt more trade and investment. For example, the University of Buffalo signed a five-year partnership with six Indian Institutes of Technology (IITs) in May 2022.<sup>69</sup> Under their agreement, both sides are cooperating in areas including nanomaterials and nanotechnology, biotechnology, advanced sensors, photonics and cyber-physical systems including artificial intelligence.<sup>70</sup>
- ♦ **Indian American business community:** The Indian diaspora is also a major driving force in the US business scene. 16 CEOs, or approximately 3%, of Fortune 500 companies are of Indian origin.<sup>71</sup> These Indian-led companies generate around 5% (or \$978 million) of total Fortune 500 revenue.<sup>72</sup> Similarly, in the start-up space, Indian-origin Americans co-founded 72 out of 648 US unicorns operating in 2024.<sup>73</sup> Therefore, the Indian American community can leverage cultural ties for and facilitate opportunities for Indian entrepreneurs as well as encourage a new generation of entrepreneurs to enter the workforce or create new start-ups in the US.
- ♦ **Tech:** The US tech ecosystem remains the largest and most developed in the world. Indian tech firms like Tata Consulting Service, Infosys and Wipro have established themselves to become major tech players in the US. They employ hundreds of thousands of people and contribute strongly to the US economy. As India's own tech ecosystem continues to develop, it is estimated to rank third globally (after the US and UK) in terms of number of leading tech start-ups in 2023.<sup>74</sup>

“India's tech-focused sectors – “new India” – could push up growth to 6.5% per year and more than double the economy's size over the coming decade.<sup>75</sup>”

HSBC Global Research



# Overview and trends (cont.)

## **There are some challenges Indian corporates should consider when looking at the US market**

Despite growing trade and significant opportunities, there are some challenges for Indian corporates to consider.

- ♦ **Regulatory environment:** The US' regulatory environment can be complex for Indian (and other foreign firms) to navigate. Rules and regulations in areas like tax, product safety and environmental standards can vary at local, state and federal level. In 2023, the US ranked 21 out of 38 countries for tax competitiveness. The US has over 13,000 tax jurisdictions and rates can vary.<sup>76</sup> Some states adopt the Streamlined Sales and Use Tax Agreement, a cooperative effort to simplify and uniform state and local tax, whereas other states have a different tax regime.<sup>77</sup> Depending on the industry, states can have their own specific regulations. For example, imported plant and animal products are subject to federal regulations and states like Florida, California and Arizona regulate the movement of specific agricultural products across state lines to limit the introduction or spread of pests and plant diseases.<sup>78</sup>
- ♦ **Cost:** The cost of doing business in the US can be expensive when compared to other developed markets. Costs including taxes, operational, and transportation costs can be high. A Manufacturing Institute and KPMG study found that manufacturers in the US face higher primary costs relative to other countries, particularly in labour costs.<sup>79</sup> In addition, individual, corporate tax and other taxes (including indirect taxes), foreign-owned companies can face tax either operating as a branch or subsidiary.<sup>80</sup> Depending on the business structure, this can either lead to increased legal costs, or become more prone to lawsuits and claims in the US.<sup>81</sup>

- ♦ **Talent:** Retaining talent, especially in specialised or higher-level positions can be challenging for foreign firms in the US. The flexibility and changes (like remote-working) in the labour market or higher salaries at US firms, can make it difficult for Indian firms to attract skilled talent. This can also lead to a shortage of skilled labour in sectors like tech. The US Bureau of Labour Statistics notes that overall employment of software developers, quality assurance analysts, and testers is projected to grow 17% from 2023 to 2033, faster than the average for all occupations.<sup>82</sup> The Bureau notes that many of the job openings are expected to result from the need to replace workers who transfer to different occupations or exit the labour force, such as to retire.<sup>83</sup>

## **Overall potential for further cooperation across various sectors is encouraging**

The US and India could cooperate in several important fields including energy transition, defence cooperation, advanced technology, healthcare, human talent and the digital economy.

The US and India have signed several agreements to boost cooperation in areas that benefit each other. For example, in June 2023, the US and India established the US-India Defence Acceleration Ecosystem (INDUS-X) to facilitate joint defence technology innovation, and co-production of advanced defence technology.<sup>84</sup> This involved several stakeholders including a network of universities, incubators, corporates, think tanks and private investment stakeholders.<sup>85</sup>

Similarly, both sides signed a bilateral space situational awareness arrangement to support greater information sharing and cooperation in space in 2022.<sup>86</sup> Both countries also launched the US-India Climate and Clean Energy Agenda 2030 Partnership, a high-level partnership that seeks cooperation on strong actions in the current decade to meet the goals of the 2015 Paris Agreement.<sup>87</sup>

# Overview and trends (cont.)

## Recent examples of Indian investments in the US

### Top ODI destination

The US was India's top overseas direct investment (ODI) destination with \$737 million for FY25 (April–June 2024), according to India's Department of Economic Affairs.<sup>88</sup>

### \$40 billion in investments

Over 160 Indian companies operating in all 50 states (including Puerto Rico and the District of Columbia) generated \$40 billion in investments and created or saved around 425,000 jobs in the US in 2023, according to a May 2023 report by the Confederation of Indian Industry (CII).<sup>89</sup> Furthermore, in an encouraging sign, 85% of companies surveyed by the CII plan to hire additional local employees in the next five years, with 83% planning future US investments.<sup>90</sup>

### Top 10 US states for Indian FDI

The top US states that received the most FDI from Indian companies were Texas (\$9.8 billion), Georgia (\$7.5 billion), New Jersey (\$4.2 billion), New York (\$2.1 billion), Massachusetts (\$1.4 billion), Kentucky (\$908 million), California (\$776 million), Maryland (\$720 million), Florida (\$711 million) and Indiana (\$582 million).<sup>91</sup>

### Digital economy

The digital economy accounted for 10% of US GDP, or \$2.6 trillion, in 2022.<sup>92</sup> The sector created 8.9 million jobs in 2022.<sup>93</sup> Tata Consultancy Services, India's largest IT company, has been active for the past 40 years in the US and has partnered with more than a third of Fortune 500 companies.<sup>94</sup> Wipro, a leading Indian IT company, has over 40 facilities across 23 US states. This includes Wipro's four large-scale delivery centres in Dallas, Tampa, Indianapolis and Atlanta, along with an innovation centre in Silicon Valley.<sup>95</sup>

### Pharmaceutical

Outside of the US, India has the highest number of pharmaceutical manufacturing facilities that comply with the US Food and Drug Administration (USFDA).<sup>96</sup> India also has 500 Active Pharmaceutical Ingredient (API) producers that make for around 8% of the worldwide API market.<sup>97</sup> Indian pharma firms provided 47% of generic prescriptions and 15% of all biosimilar prescriptions in the US in 2022.<sup>98</sup> Medicines from Indian firms saved the US health system around \$219 billion in 2022 and \$1.3 trillion between 2013 and 2022.<sup>99</sup> Indian pharmaceutical companies active in the US include Jubilant Life Sciences, which has a presence in more than 100 countries and is involved in sales and distribution of advance intermediates, fine chemicals and APIs in the US.<sup>100</sup>

### Automotive

The US automotive ecosystem contributes around \$1 trillion into the economy and accounts for nearly 5% of GDP.<sup>101</sup> The sector employs 9.7 million people, or around 5% of private sector employment.<sup>102</sup> This provides ample opportunities for Indian auto-manufacturers and other companies to tap the US market. Mahindra & Mahindra, an Indian car manufacturing company, entered the US market in 1994, offering a sales and service network throughout the US.<sup>103</sup>

# Overall opportunity and key sector opportunities

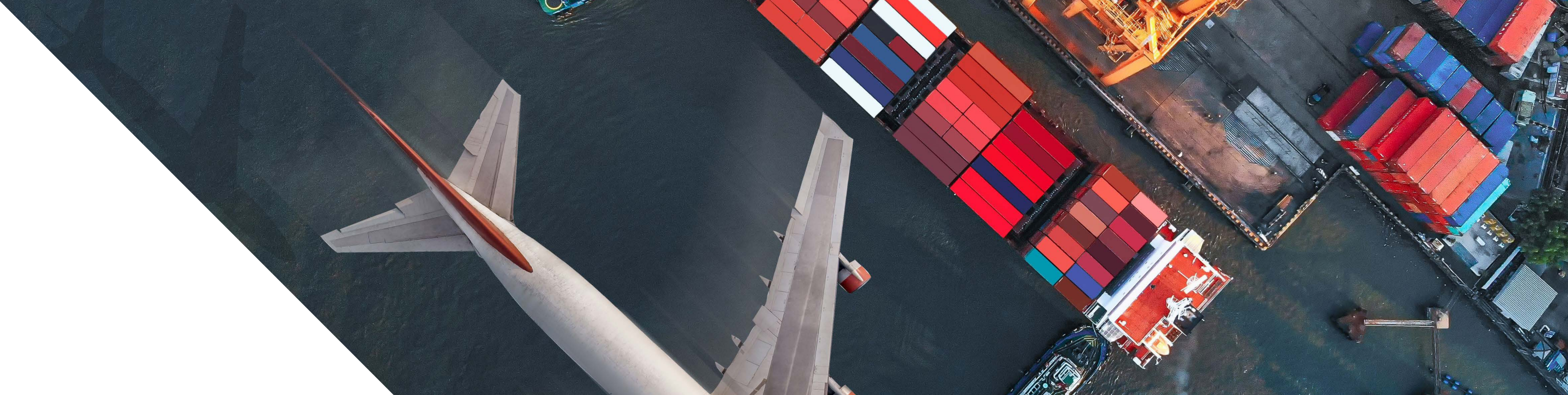
## \$55 billion unrealised export potential for Indian corporates into the US

ITC data suggest that the US shows the largest absolute difference between potential and actual exports in value terms, leaving room to realise additional exports worth \$55 billion.<sup>104</sup> Although the US is India's largest trade partner, there is scope for further opportunities for Indian corporates to export to the US market. Key export sectors include chemicals, machinery and electricity, precious metals, plastics & rubber, and optical products, watches, and medical instruments.

**\$55 billion**

**Unrealised export potential of India to US**

Source: ITC Export Potential Map (as of November 2024)<sup>105</sup>



**Key sector opportunities, by export gaps**

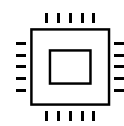
		Into the US	
		Top sub-sectors:	Export gap (\$ billion):
<b>From India</b>	Jewellery & precious metal articles		8.5
	Motor vehicles & parts		4.5
	Machinery, electricity		4.3
	Pharmaceutical components		3.4
	Chemicals		3.2

Source: ITC Export Potential Map (as of November 2024)<sup>106</sup>

# Other key sector opportunities US economy

## High-priority sectors in US economy

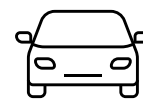
Beyond key sectors like pharmaceuticals and IT where India dominates, the US will look to attract private investments in several high-priority sectors in the coming years and decades. As of July 2024, the current US administration has announced \$877 billion in private sector investments in designated high-priority sectors by the US government. Indian companies can find opportunities to collaborate, research and invest. HSBC offers a wide range of products and solutions to assist Indian corporates and investors realise these opportunities in the American economy.



### Semiconductors and electronics

The value of the US semiconductor industry is estimated to range from \$223 billion to over \$260 billion by 2030.<sup>107</sup> India and the US are cooperating in the semiconductor sector via research and expertise. In May 2023, both sides signed a Memorandum of Understanding (MoU) to establish a semiconductor supply chain as well as promote innovation, and explore investment opportunities in the semiconductor ecosystem.<sup>108</sup>

US states like California, Texas, Oregon and Arizona are leading the way in semiconductor projects.<sup>109</sup> Texas and Arizona account for more than half of all dollars in projects announced and 35% of expected jobs to be created because of ease of doing business and availability of land.<sup>110</sup> Furthermore, Indian companies can offer their technical expertise, talent as well as investment into R&D in semiconductors and electronics.



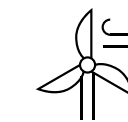
### EVs and batteries

The current US government has pledged that 50% of all new vehicle sales must be electric by 2030.<sup>111</sup> 84% of announced investments in the EV & batteries sector are concentrated in 10 states.<sup>112</sup>

Georgia leads the way in both EV investments (\$31.2 billion) and jobs (38,700), followed by Michigan, North Carolina and Illinois.<sup>113</sup>

The US could leverage India battery manufacturers and other companies in the supply chain to enter the US EV market, which creates opportunities for local suppliers and communities.

For example, in October 2023, Epsilon Advanced Materials (EAM), an India-based battery materials company, announced plans to build a \$650 million graphite anode manufacturing facility in North Carolina.<sup>114</sup> The 1.5 million square-foot facility is expected to create approximately 500 new jobs and begin manufacturing in 2026, reaching full capacity by 2031.<sup>115</sup>



### Clean power

The US' current clean power strategy encompasses areas including renewable energy, clean energy development, grid-scale energy development and electric vehicle sales. Specific reforms like the Inflation Reduction Act (IRA) aims to direct \$400 billion of federal funds to clean energy projects, and prompt more investments.<sup>116</sup>

California is leading the way in renewable energy adoption as well as investments in solar, wind and other clean energy technologies. Other states offering significant opportunities in the clean power space include Texas, New York and Vermont.

# Other key sector opportunities (cont.)



## Clean energy manufacturing and infrastructure

Similar to clean technology, key reforms like the Bipartisan Infrastructure Law (BIL) directs federal funding to clean energy manufacturing and infrastructure projects.<sup>117</sup>

US states leading the way in clean energy include Texas, California and Ohio. These states offer incentives to investors to invest in clean energy manufacturing and infrastructure assets.

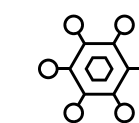


## Heavy industry

Although manufacturing only represents around 10% of GDP, it employs more than 13 million people and makes up 53% of all private sector R&D in the US.<sup>118</sup>

Key states leading the way in heavy industry are Michigan, Ohio and Pennsylvania.

In addition to investment and trade, Indian companies can offer skilled Indian workers needed in heavy industries as well as training of existing and incoming American workers.



## Biomanufacturing

India and the US are cooperating closely in critical and emerging technology, including biomanufacturing under the U.S.-India initiative on Critical and Emerging Technology (iCET).<sup>119</sup>

The US has been working to make its biomanufacturing sector more attractive for Indian and other foreign firms. For example, BioMade is a public-private partnership initiative to focus on technological innovation, supply chain and development of the workforce.<sup>120</sup>

Key US biomanufacturing hubs include Boston, San Francisco and North Carolina.

## Section 3

How can US corporates  
make inroads into  
the Indian market?





## Overview and trends

# Rise of India is creating opportunities, though some challenges remain

### **India's rise is creating opportunities**

India's economy is on track to grow from being the fifth largest economy today to the third largest in the world by 2030, and also poised to become a middle-income country as its per capita income is forecast to increase from \$2,300 to \$5,000.<sup>121</sup> By consumer market size, India is projected to be the third largest consumer market globally behind the US and China by 2027.<sup>122</sup> According to HSBC Global Private Banking and Wealth, it is estimated that the number of High Net Worth Individuals (HNWIs) in India is set to increase from around 800,000 in 2022 to over 1.66 million people by 2027.<sup>123</sup> HSBC India is able to offer products and solutions including transaction banking, debt syndication & securitisation, custodial services, equity & capital markets and foreign exchange & treasury solutions.

India's financial sector is also on the rise. The country's stock market is set to reach a market cap of \$10 trillion by 2030 from \$4.6 trillion in January 2024. In September 2023, Indian government bonds were included in major emerging market indices including the EMBI and GBI-EM and CEMBI series.<sup>124</sup> This is expected to bring inflows of around \$20-22 billion.<sup>125</sup> HSBC Asset Management in India manages over \$11 billion across Indian asset classes. In terms of strategies, it operates the HSBC GIF Indian Equity Fund and HSBC GIF India Fixed Income Fund.



# Overview and trends (cont.)

As well as being the world's most populous nation, around 60% of India's GDP comes from domestic consumption.<sup>126</sup> Accordingly, there are several opportunities for American companies in sectors like consumer discretionary and durable products.<sup>127</sup> As Indians become more affluent, they will require more access to credit and finance. This is set to present opportunities for international banks like HSBC and other finance companies to offer more sophisticated financial products. HSBC has 170 years of experience in India, and operates 26 branches in 14 cities, with 18,300+ branch locations including partner banks.

## **Sizeable retail consumer population**

India is now the most populous nation in the world, which presents significant consumer market opportunities for US companies in sectors like F&B, electronics, automotives as well as pharmaceutical and medical products to name a few. Furthermore, India's growing upper and middle classes also provide ample opportunities for American financial institutions to offer banking products and investment services. India also has a high internet penetration rate with over 954 million users (as of September 2023) and this is set to reach 1 billion by 2025.<sup>128</sup> Accordingly, this offers opportunities for American e-commerce platforms as well as for other associated firms like payment providers and advertising companies. India's e-commerce industry is estimated to reach \$350 billion by 2030, growing from \$74.8 billion in 2022.<sup>129</sup> Within the e-commerce segment, areas like online grocery market is set to reach \$26.93 billion in 2027.<sup>130</sup>

## **India's big leap in services**

Given the benefits of scale, skills and cost competitiveness, India's services exports will likely only grow from here, particularly when global growth bottoms out, and structural tailwinds overpower cyclical headwinds. And this is not where it ends. We have found interesting evidence of MNCs increasing their footprint in India. Those which started off with producing services, are increasing the range of services produced. According to HSBC Global Research, some are even crossing over into manufacturing, e.g. Novartis, Diebold Nixdorf, Royal Philips, Boeing and Airbus.



# Overview and trends (cont.)

## **Skilled talent pool**

India has a young working population with a median age of 28.4 years.<sup>131</sup> Around 67% of the total population is aged 15-64 which makes it younger than developed regions like the US or Europe. The country's share of its working age population to total population will reach 68.9% by 2030 and its dependency ratio is projected to reach 31.2%.<sup>132</sup> Tied to this, India has a large graduate pool in science, technology, engineering and mathematics (STEM) background who are English-speaking. This gives the country a distinct advantage over other countries.<sup>133</sup> As a result, India workers excel in key sectors like IT and business processing outsourcing (BPO).<sup>134</sup> India can also offer workers in labour intensive industries as well as in services like trade, transport, tourism and e-commerce.

## **Cost effective operations**

India can offer cost advantages for multinational companies. The availability of skilled workers and connectivity linkages in Tier 2 and Tier 3 Indian cities to larger metropolitan cities enable firms in services and manufacturing industries to base themselves in cost-effective destinations.<sup>135</sup> Indian authorities have improved and eased cost of business. Among these measures include digitising business incorporation procedure, dealing with permits, insolvency resolution and trade infrastructure.<sup>136</sup> India has also signed Double Tax Avoidance Agreements (DTAAs) to eliminate double taxation for multinational firms. At present, India has 94 comprehensive DTAAs and eight limited DTAAs.<sup>137</sup>

## **Innovation and entrepreneurship**

India's venture capital ecosystem has experienced significant growth and development over the past decade. Thanks to factors like improved internet connectivity, government initiatives (such as Startup India and Atal Innovation Mission) as well as the establishment of hubs and accelerators, the number of start-ups in India has proliferated to 1,12,718 DPIIT-recognized start-ups across 763 districts of the country (as of 03rd October 2023).<sup>138</sup> From 2015-2022 the Indian ecosystem witnessed 15x increase in total funding of start-ups, 9x increase in the number of investors and 7x increase in the number of incubators. There are several start-ups in sectors like retail, fintech, logistics, food, agritech health-tech and edtech. There are 114 unicorn start-ups in India with a total valuation of more than \$350 billion, as of March 2024.<sup>139</sup>

## **Some challenges that US corporates need to consider**

Indeed, India offers significant trade and investment opportunities, but US companies and investors should consider several factors before entering the country.

India's regulatory environment can be challenging to navigate with varying interpretations across different states. Some of the legal challenges facing US firms include the Foreign Exchange Management Act (FEMA) and guidelines issued by the Reserve Bank of India (RBI).<sup>140</sup> These dictate the approval processes and restrictions on the inflow and use of foreign capital. This can add extra cost with regards to compliance and more time may have to be expended for the required documentation.

# Overview and trends (cont.)



India's tax system can be complex, which can make it difficult for foreign companies. Taxes are levied by the central government and different state authorities. The central government levies direct taxes such as Corporate Income Tax and Capital Gains Tax.<sup>141</sup> At the state level, taxes can extend to areas like profession and real estate taxes.<sup>142</sup> Whilst the Indian government has introduced measures like Double Taxation Avoidance Agreements with nations (including the US) to mitigate the challenges, US companies would still require legal expertise, which adds more cost and time.<sup>143</sup>

Aside from legal and tax considerations, power supply infrastructure (such as in rural areas), transportation networks and the quality of seaport and airport facilities can vary from state to state. This can increase distribution and delivery costs for the end customer.<sup>144</sup>

The Indian government's preferential economic policies in specific sectors can also make it challenging for US companies to compete on a level footing. For example, "Self-reliant India" is a policy that promotes Indian goods in the global supply chain markets and enable India to achieve self-reliance in specific sectors.<sup>145</sup> As part of this policy, India restricts market access in the form of tariffs and taxes, localisation requirements, price controls, and import restrictions.<sup>146</sup>

Nevertheless, given the size of India's economy, growing wealth of its large consumer market as well as specific sector opportunities and collaborations in R&D, US companies can seek to enter and operate within India.

# Overview and trends (cont.)

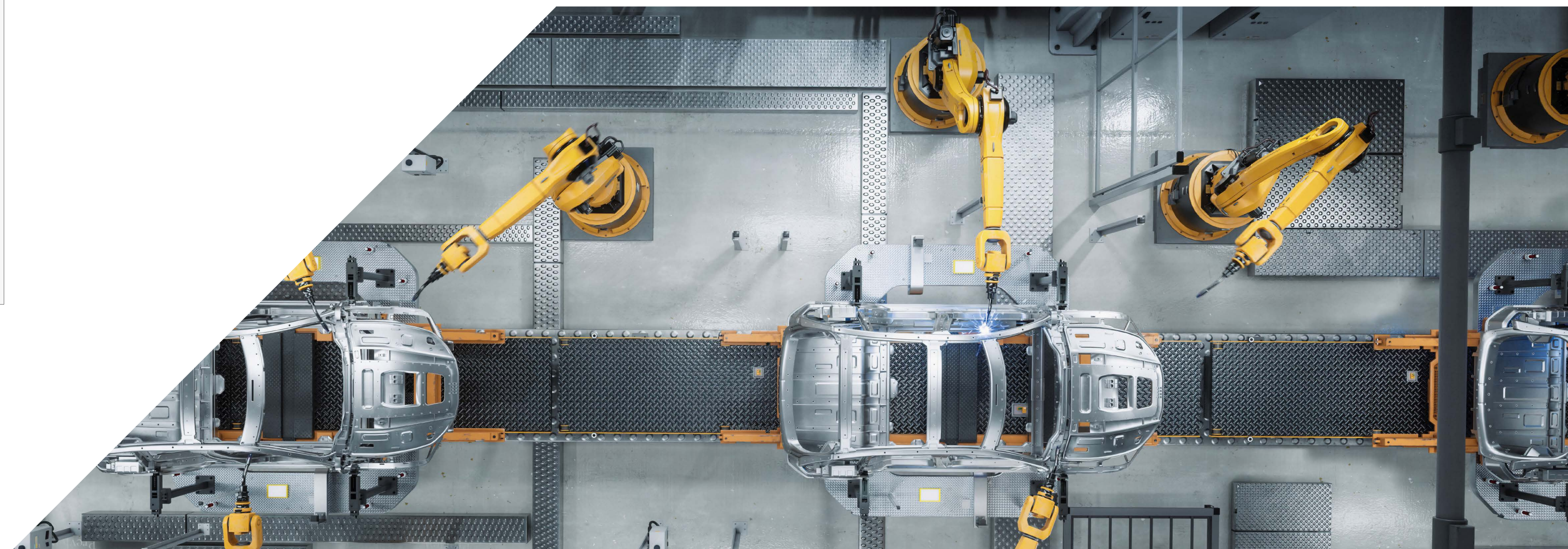
India is also seeing a big increase in FDI investment intentions into futuristic and tech-focused sectors. Indeed, this FDI is an important part of its growth story, as noted in a recent HSBC Global Research article.<sup>147</sup>

## Recent examples of Indian investments in the US

- ♦ The US accounted for 9% of all FDI equity inflows into India in FY23–24, making it the third largest foreign investor after Mauritius and Singapore.<sup>148</sup> For the last 24 years, the US' total FDI investments into India (from April 2000 to March 2024) was recorded at \$65.19 billion.<sup>149</sup> US direct investments in India were led by professional, scientific, and technical services, manufacturing, and information services, according to most recent data in 2022 from the US government.<sup>150</sup>
- ♦ **Tech:** Google has made significant investments in India's technology ecosystem. The company employs over 6,500 people and has a presence in Delhi, Hyderabad, Mumbai and Bangalore.<sup>151</sup> The company has invested in different areas of India's tech ecosystem including digital payments, IT infrastructure as well as AI and machine learning and start-ups. It has also invested in Indian IT companies. For example, in 2020, it bought a 7.73% stake in Jio Platforms, a subsidiary of Reliance Industries, to expand internet connectivity and digital services in India.<sup>152</sup> Other prominent US tech companies investing in India include Microsoft. Microsoft entered India in 1990 and employs over 20,000 people.<sup>153</sup> It is engaged in sales and marketing, research and development and customer services and support services across 10 Indian cities – Ahmedabad, Bengaluru, Chennai, Gurugram, New Delhi, Noida, Hyderabad, Kolkata, Mumbai and Pune.<sup>154</sup>

## Recent examples of Indian investments in the US

- ♦ **Finance and banking:** To cater to the financial needs of India's growing middle class and affluent segments as well as corporate financing needs, major international and American banks are active in India.
- ♦ **Pharmaceutical:** India's domestic pharmaceutical market is estimated to reach \$130 billion by the end of 2030.<sup>155</sup> Several US pharmaceutical companies are active in India. For example, Johnson & Johnson entered India in 1947 and today employs 3,500 people and is involved in three business segments: Consumer Healthcare, Medical Devices and Pharmaceuticals.<sup>156</sup>



# Overall opportunity and key sector opportunities

## \$30 billion unrealised export potential for US corporates into India

ITC data suggest that there is a difference of \$30 billion between potential and actual US exports to India.<sup>157</sup> Whilst India is the US' ninth largest trading partner, it has historically had a trade surplus with the US.<sup>158</sup>

As a result, US companies can export more to India to reduce their deficit. Key sub-sectors to tap include jewellery & precious metals, motor vehicles & parts, machinery and electricity, pharmaceutical components, and chemicals.<sup>159</sup>

**\$30 billion**

**Unrealised export potential of US to India**

Source: ITC Export Potential Map (as of November 2024)<sup>160</sup>



### Key sector opportunities, by export gaps

	Into India	
	Top sub-sectors:	Export gap (\$ billion):
<b>From US</b>	Chemicals	4.1
	Machinery, electricity	3.4
	Precious metals	2.9
	Plastics & rubber	2.5
	Optical products, watches & medical instruments	1.8

Source: ITC Export Potential Map (as of November 2024)<sup>161</sup>

# Overall opportunity and key sector opportunities (cont.)

## India VC scene

Despite a global downturn in VC deal-making and flows, India maintained its status as the second largest destination for VC and growth funding in the Asia-Pacific region, according to a study by Bain & Company,<sup>162</sup> Fundraising slowed to \$4 billion in 2023 compared to a previous record-setting of \$8 billion in 2022.<sup>163</sup> Whilst 90% of early-stage funding in 2023 was conducted by domestic VC firms, major US VC firms with a presence in India are Sequoia Capital, Accel Partners, and Nexus Venture Partners. Notwithstanding the current downturn and uncertainty, India's start-up ecosystem has a positive outlook with strong macroeconomic fundamentals, solid growth prospects, strong deal-flow as well as a supportive regulatory and legal regime in place. For example, in 2024, Indian authorities removed its Angel Tax, (which previously levied tax on start-up investors) in to boost the country's VC ecosystem.<sup>164</sup> At the same time, the rise of thematic funds in areas like sustainability, gaming and SaaS are likely to see growth in the coming years, according to Bain & Company.<sup>165</sup>

## India PE scene

Despite current subdued activity, there are significant PE opportunities in sectors like IT and IT enabled services, healthcare, consumer technology, as well as more traditional industries like infrastructure, renewables and manufacturing, according to a study by Bain & Company.<sup>166</sup> Bain & Company note that global funds have played a significant role in driving PE investments in India with their share increasing from 50% in 2023 to 75% in 1H24.<sup>167</sup> The top global PE funds invested \$10 billion in India during 1H24, already surpassing \$8 billion deployed in 2023, primarily driven by a renewed interest in IT/IT enabled services (ITeS), according to Bain & Company.<sup>168</sup>

## India's digital economy

India's digital ecosystem offers opportunities for US technology companies and investors including in the software as a service (SaaS), fintech (especially digital payments, lending, investments and insurtech), e-commerce (both B2B and B2C), edtech and health-tech.<sup>169</sup> HSBC India can support the country's tech ecosystem. For example, HSBC is a founding member and part of the board of National Payments Corporation of India. It is also part of various regulatory committees in key market infrastructure like National Securities Depository Limited (NSDL), the Clearing Corporation of India Limited (CCIL) and TransUnion (CIBIL) which are responsible for driving innovative and digital changes in the payment and settlement landscape.

HSBC India also offers initiative solutions to service clients in the digital economy. HSBC was the first bank in India to offer Trade Credit Insurance (TCI) – a backed Receivable Finance and First in India and the world to execute a fully digitised corporate to corporate trade transaction on the Blockchain.

The digital economy contributes around 11% of the country's GDP, but Indian authorities are hoping to increase this to more than 20% of GDP (or \$1 trillion) by 2026.<sup>170</sup> Taking a closer look, a 2023 report from Bain & Company, along with Google and Temasek, analysed some of the latest sector trends for India's digital economy.<sup>171</sup>

# Overall opportunity and key sector opportunities (cont.)



## India's digital economy

Leading sectors	Nascent sectors
<b>B2C e-commerce:</b> Big-ticket items, groceries	<b>Online food delivery</b>
<b>Fintech:</b> Digital payments, lending, investments	<b>Edtech</b>
<b>Software as a service (SaaS)</b>	<b>Healthtech</b>

Source: Bain & Company, Google, Temasek<sup>172</sup>

## India's digital economy's growth – key figures for leading sectors



### B2C e-commerce:

**26% CAGR 2022-2025**

- ◆ Opportunity size (GMV) by 2025: \$120B-\$130B



### Fintech:

**34% CAGR 2022-2025 for digital payments**

- ◆ Opportunity size (GMV) by 2025: \$46B-\$50B



### Software as a service (SaaS):

**25% CAGR 2022-2025**

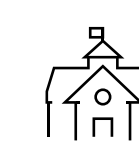
- ◆ Opportunity size (GMV) by 2025: \$25B-\$30B



### Online food delivery:

**22% CAGR 2022-2025**

- ◆ Opportunity size (GMV) by 2025: \$14B-\$17B



### Edtech:

**26% CAGR 2022-2025**

- ◆ Opportunity size (GMV) by 2025: \$7B-\$8B



### Healthcare:

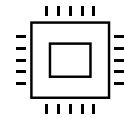
**41% CAGR 2022-2025**

- ◆ Opportunity size (GMV) by 2025: \$4B-\$5B



# Other key sector opportunities

## Indian economy



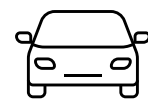
### Semiconductors and electronics

India's semiconductor industry has an annual growth rate of 8.68% and is estimated to reach \$8.32 billion in 2024.<sup>173</sup>

The South Asian nation has emerged as a key player in the global semiconductor supply chain as companies seek to diversify away from China, South Korea and Taiwan.<sup>174</sup> Indian authorities aim to increase the size of its semiconductor market to \$110 billion and account for 10% of the global semiconductor industry by 2030.<sup>175</sup> Initiatives to propel the industry, like the National Electronics Policy or the \$10 billion Production Linked Incentive (PLI) scheme for semiconductor manufacturing, support the country's ambitions of becoming a hub.<sup>176</sup>

The government's 2024 Budget pledged more investment in the country's semiconductor ecosystem. This includes the creation of a \$12 billion innovation corpus to prompt R&D.<sup>177</sup>

Similarly, India's electronics manufacturing industry is also a strategic sector. India's electronic manufacturing industry is projected to reach \$520 billion by 2025.<sup>178</sup> India expects to increase its exports of electronic goods to \$120 billion by 2025–26, from a base of \$ 15 billion in 2021–22.<sup>179</sup> The country is also a major consumer of electronics. It is on course to be the fifth largest consumer of electronic products globally by 2025.<sup>180</sup>



### EVs and batteries

India's EV sector is nascent but it is set for rapid growth in the coming years because of factors including the population's increasing affluence and government initiatives. India's EV market is set to grow from \$3.21 billion in 2022 to \$114 billion in 2029.<sup>181</sup>

EVs accounted for only 5% of all vehicle sales between October 2022 and September 2023.<sup>182</sup> This could reach 40% by 2030, thanks to a strong adoption of two-wheeler and three-wheeler vehicles.<sup>183</sup> The government is also pursuing incentives like the Faster Adoption and Manufacturing of Electric (FAME) Vehicles, which offers fiscal incentives to EV buyers.<sup>184</sup>

On the production side, India's EV battery market is forecast to increase from \$16.8 billion in 2023 to \$27.7 billion in 2028. Several Indian automotive companies have pledged to increase their production and sales of EVs as well as develop national infrastructure. Hyundai Motor India is expanding its EV charging network with 11 stations in cities across the country including in Mumbai, Pune, Ahmedabad and Hyderabad.<sup>185</sup> Other examples include Maharashtra that is targeting 10% share of EVs in all new vehicle registrations by the end of 2025.<sup>186</sup>



# Other key sector opportunities (cont.)

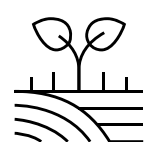


## Pharmaceuticals

India's pharmaceutical industry is estimated to reach \$65 billion in 2024, \$130 billion by the end of 2030, and \$450 billion by 2047.<sup>187</sup> India accounts for 20% of the global pharma supply chain and around 60% of worldwide demand for vaccines.

The country has more than 3,000 pharma companies with a strong network of over 10,500 manufacturing facilities as well as a highly skilled domestic resource pool.<sup>188</sup>

India has the highest number of pharmaceutical manufacturing facilities that comply with the US Food and Drug Administration (USFDA) outside of the US. It also has 500 Active Pharmaceutical Ingredient (API) producers that make up for around 8% of the worldwide API market.<sup>189</sup>



## Biotechnology

Biotechnology (biopharmaceuticals, bioservices, bioagriculture, bioindustrial and bioIT) is becoming an important part of India's economy. India's biotechnology industry is estimated to be worth \$130 billion in 2024, and is ranked amongst the top 12 global biotech destinations and third in Asia.<sup>190</sup>

The National Biotechnology Development Strategy (2021–2025), seeks to address and identify opportunities in biomanufacturing, capacity-building, clinical trials, drug discovery, regulation and policies creating global supply chains.<sup>191</sup> Under the strategy, it hopes to make India among the top five countries recognised as a global bio-manufacturing hub by 2025.<sup>192</sup>

India is also home to burgeoning biotech start-ups developing new innovations. In 2021, 1,128 new biotech start-ups were registered, the highest since 2015.<sup>193</sup> Indian biotech start-ups are leading the way in identifying potential treatments for diseases like cancer, arthritis and cardiovascular diseases.<sup>194</sup>

The nation is also developing relations with different players to enhance its biotechnology industry. For example, in August 2023, India's Department of Biotechnology (DBT) and the United States-National Science Foundation (US-NSF) agreed to develop bilateral cooperation.<sup>195</sup>



# India's economic geography

Key Tier 1 cities and states are driving India's growth but Tier 2 cities could be considered as well by US corporates

## **Tier 1 cities are key contributors to India's economic activity and growth**

India's Tier 1 cities are key economic contributors and offer significant opportunities for US and international companies.

The top 10 fastest-growing cities globally from 2019–2035 are expected to be Indian, with year-on-year annual growth rates of between 8% and 9% over that period for these 10 cities, according to Oxford Economics and highlighted by The World Economic Forum.<sup>196</sup>

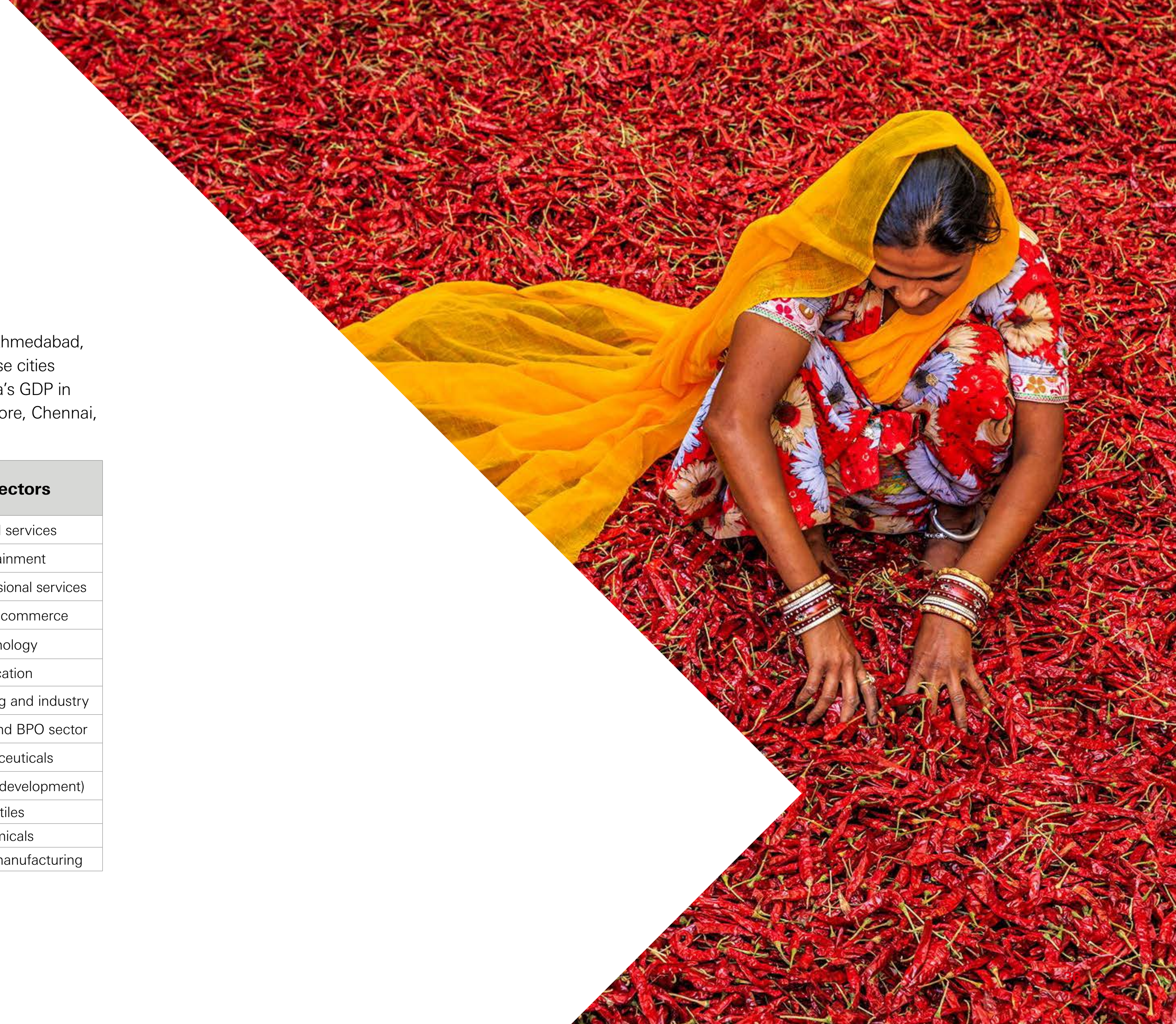


# India's economic geography (cont.)

There are eight Indian Tier 1 cities (5 million population or more), namely Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata, Mumbai, and Pune.<sup>197</sup> These cities are key drivers of national: six of these eight cities contributed 28% of India's GDP in 2022.<sup>198</sup> These cities are highlighted below – Mumbai, New Delhi, Bangalore, Chennai, Hyderabad and Ahmedabad:

City	Description	GDP contribution to India (\$ billion)	Key sectors
<b>Mumbai</b>	The financial capital	310	Financial services
			Entertainment
<b>New Delhi</b>	The political capital	293.6	IT and professional services
			Trade and commerce
<b>Bangalore</b>	India's tech hub	110	Technology
			Education
<b>Chennai</b>	India's manufacturing hub	78.6	Manufacturing and industry
			Growing IT and BPO sector
<b>Hyderabad</b>	A pharmaceutical and IT hub	75.2	Pharmaceuticals
			IT (Software development)
<b>Ahmedabad</b>	A commercial hub	68	Textiles
			Chemicals
			Machinery manufacturing

Sources: City Monitor<sup>199</sup>



# India's economic geography (cont.)

## **The rise and attractiveness of Tier 2 cities**

These cities are increasingly becoming attractive to US companies, both in terms of activity, production and human talent. These can either be part of an alternative for new companies looking to enter India or expand their existing operations across the country.

India's 79 Tier 2 cities are also fast growing. Indian Tier 2 cities are understood to be cities with populations of between 50,000 and 100,000.<sup>200</sup> Examples of Tier 2 cities include Chandigarh, Coimbatore, Kochi, Trivandrum, Mysuru, Visakhapatnam, Nagpur and Jaipur.

Although Tier 2 cities have been viewed as residential or industrial centres, thanks to the growth of micro, small and medium size enterprises (MSMEs), since 2020 these cities have been driven by an influx of local and foreign companies.<sup>201</sup> Tier 2 cities are also becoming hubs of innovation. An Economic Survey 2023–24 commissioned by India's Ministry of Finance found that more than 45% of recognised start-ups originated from Tier 2/3 cities.<sup>202</sup>

Tier 2 cities like Jaipur have a diversified economy with tourism, textiles, food and beverages, mining, automobiles and manufacturing.<sup>203</sup> The city is home to Mahindra World City, a multi-industry special economic zone (SEZ), which hosts 130 domestic and global companies and offers a range of benefits like tax incentives and simplified regulations.<sup>204</sup>

Tier 2 cities offer several advantages that make them attractive when compared to Tier 1 cities. These advantages can include lower operational costs than Tier 1 cities, as well as clusters and niches for specific industrial activities (like IT) and access to a growing talent pool.

According to a KPMG report, although Tier 1 cities offer roles for specialist skillsets, Tier 2 and other satellite cities are increasingly becoming centres for new talent.<sup>205</sup> It also highlighted that 54% of employees surveyed expressed their intention to hire candidates from Tier 2 cities.<sup>206</sup>

Furthermore, universities in Tier 2 cities have ties with US universities and training institutes. For example, Amrita School of Biotechnology at Amrita Vishwa Vidyapeetham, in Coimbatore in Tamil Nadu, offers a dual degree programme with the University of Arizona.<sup>207</sup> This enables US companies and organisations to source cheaper and plentiful talent (as well as R&D) outside more expensive metropolitan Tier 1 cities.

# Conclusion

The US-India Corridor presents a significant and wide range of opportunities for both investors and corporates.

There are growth opportunities for both countries in established sectors, defence cooperation, advanced technology, healthcare, human talent and the digital economy.

As Indian corporates and investors continue to develop their own technology, manufacturing capabilities and capacities, there are other sectors in the US that they can cooperate with, either through partnerships and collaborations as well as direct investments. These include sectors that are designated as high priority by the current US government: semiconductors & electronics, electric vehicles & batteries, clean power, clean energy manufacturing & infrastructure, heavy industry, and biomanufacturing. Indian corporates and investors would need to navigate the different systems and requirements of each of the 50 states of the US in order to find their own 'sweet spots' for trade and investment.

For US corporates and investors, understanding India's expansive physical landscape can help them narrow down their investment opportunities. As this report has shown, there are competitive and diversified opportunities in India's Tier 1 and Tier 2 cities that contribute to a sizable proportion of its gross value added especially in services, industry, and manufacturing.

For both nations, leveraging their strong cultural ties, as represented by the influential Indian American business community, could help them clinch new growth opportunities more quickly.

HSBC is well-positioned to support businesses aiming to capitalise on the evolving opportunities across this corridor. We can help you to leverage our global connections, local expertise, and comprehensive suite of financial products and solutions to enable you to navigate the dynamic landscape and maximise growth potential.



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