

Together They Stand

A vision without action is a daydream, but a vision with action can change the world.

In the realm of trade and business today, India and the EU not only share the same vision of growth but also act closely to enhance the existing trading affairs.

In the post-liberalisation era, the Indo-EU relationship has become an integral part of the global economy and has had a colossal impact on the international business environment.

With BMWs running on Indian roads, Indians feasting on Italian pizzas, and Special Economic Zones (SEZs) in India flooded with European companies, the country is no longer perceived as the land of elephants and magicians.

Nonetheless, the magic is vibrantly alive in the form of the socio-economic and socio-cultural changes that have primarily occurred as a result of easy trading and increased FDI across India's diverse sectors. Europe, likewise, has greatly benefited from this thriving relationship.

A country, which was largely influenced by the European continent in the colonial era, now happens to be the leading business partner of the geography holding manifold future business opportunities.

India-EU: Partners in Business

The EU has emerged as India's largest trading partner – EU's share accounts for 23.7 percent of India's total exports and 16.7 percent of the total Indian imports (in 2004-2005). Correspondingly, India's share of total EU imports and exports is less than 2 percent but has been growing significantly in the recent years.

Approximately 50 percent of the multinational companies operating in India are EU companies. The EU accounts for one of the largest contributions to FDI in India – the total FDI approvals for the EU have been approximately USD 17.1 billion between 1991 and September 2004, accounting for 25.4 percent of the total FDI approvals in India during this period.

Trade of Goods between India and EU (USD billion): 2001-2005



Source: [European Commission](#)

The European Union, with its 461 million citizens, has emerged as one of the largest potential markets for India.

The India Story

India's GDP grew for the January through March 2006 quarter at 9.3 percent, beating market expectations. Full-year GDP growth for the fiscal year 2005/06 has been revised to 8.4 percent from a previous estimate of 8.1 percent.

The investment and offshoring opportunities that India offers in manufacturing, R&D and services, span across a multitude of sectors. Cheap workforce, cheap raw materials, robust infrastructure and strong government support with added tax advantages make India an ideal destination for investment and offshoring.

India is geographically close to new Asian markets and is itself a fast growing one. India also offers round-the-clock (24x7) work opportunities, enabling MNCs to reduce the time-to-market for their products. The easy availability of a vast talent pool that can undoubtedly beat its western counterparts, adds yet another feather to the much adorned Indian value proposition cap. Moving forward, the country boasts of housing the second-largest English-speaking manpower in the world.

India is emerging as a major manufacturing base that is attracting multinational companies in every sector. The Ministry of Commerce, Government of India, has estimated that offshoring operations to India can result in a cost benefit of up to 40-60 percent when compared to offshoring to developed countries.

A. T. Kearney's latest FDI confidence ratings reflect this phenomenon with India moving up to the second place as the most attractive destination for FDI among manufacturing investors.

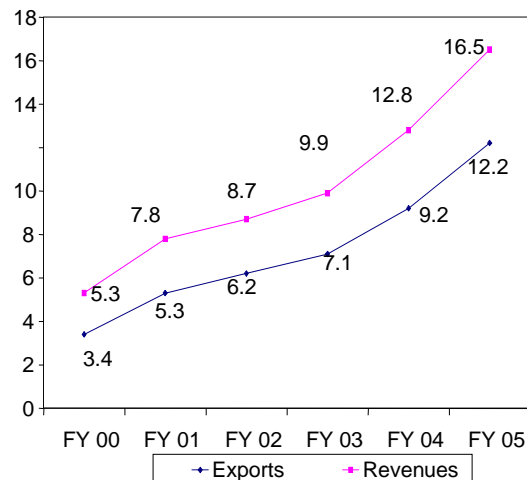
India is also a preferred destination for R&D investment. It is the second-largest talent pool in the world, comprising engineers, scientists and a skilled technical workforce. It also presents significant cost savings and more value on every dollar spent on R&D. The Indian government has been a pioneer in R&D, especially in the social sector. It has been conducting research in agriculture, space, defence, healthcare and alternate energy since the past few decades. Developing as well as developed countries are now benefiting from India's research in the social sector. Industry-led R&D is also witnessing a boom in India.

The services sector accounts for approximately 50 percent of India's GDP and holds immense opportunities for potential investment. Though BPO is a familiar term in India, terms such as KPO (Knowledge Process Outsourcing), EPO (Engineering Process Outsourcing) and LPO (Legal Process Outsourcing) are relatively new to the Indian lexicon.

The Indian IT-ITES (Information Technology Enabled Services) sector revenues are expected to exceed USD 36 billion in 2006, registering a growth rate of approximately 28 percent. Software and software services exports are expected to grow by 32 percent in 2006.

The Indian Information Technology industry is poised to generate revenues worth USD 54 billion by 2008. The fast growth in the Indian IT sector is primarily led by cost arbitrage among developed and developing countries. Besides the cost advantage, India's large pool of skilled manpower offers unmatched advantages to IT companies operating in India.

Indian Software and Services Industry (USD Billion)



Source: www.persistentsys.com

India-EU: The Action is Heating Up

As the world takes cognisance, the phenomenal performance of the Indian economy has taken its business relations with the EU to greater heights.

The majority of overseas acquisitions by Indian companies are in Europe, which comprises approximately 50 percent of the total mergers and acquisitions by Indian companies.

Acquisition Tale of Indian Knights

| AQUIRER | TARGET COMPANY | COUNTRY TARGETED | DEAL VALUE (USD MN) | INDUSTRY |
|---------------------------|---|------------------|---------------------|------------------------|
| Dr. Reddy's Labs | Betapharm | Germany | 570 | Pharmaceutical |
| Suzlon Energy | Hansen Group | Belgium | 565 | Wind Energy |
| Tata Tea | Tetley Tea | United Kingdom | 475 | Consumer Goods |
| Videocon | Thomson SA | France | 290 | Electronics |
| Matrix Laboratories | Docpharma NV | Belgium | 234 | Pharmaceutical |
| Tata Chemicals | Brunner Mond | United Kingdom | 177 | Chemicals |
| Subex Systems | Azure Solution | United Kingdom | 140 | Information Technology |
| Tata Consultancy Services | The life insurance and pensions BPO division of the Pearl Group | United Kingdom | 68 | ITES |
| Bharat Forge | Imatra Kilsta AB | Sweden | 61 | Chemicals |
| Wipro | Newlogic Technologies | Austria | 56.4 | Information Technology |

Riding on the country's new found economic strength; Indian business houses, have of late joined the global acquisition bandwagon. During the first eight months of 2005, Indian companies bought around 62 global businesses for approximately USD 1.7 billion. The list encompasses a range of industries spread across diverse geographies.

Several examples could reinforce the importance of the EU for various Indian companies. The Indian conglomerate, the Tata Group, holds 18 companies in the UK alone whereas the Indian pharma major Ranbaxy's sales from France stood at approximately USD 74 million during 2005. In early 2006, Godrej Consumer Products acquired Keyline Brands of Britain.

Another noticeable trend prevalent among Indian companies is an inclination towards Eastern Europe. These are promising markets with higher growth rates than those of the developed countries in the EU. They also offer an easy access to the Western EU.

Sources: [Business Line](#), www.avesthagen.com, [TATA](#), [Blonnet](#)

Many MNCs have initiated their R&D operations in an array of fields including IT/telecom, pharmaceuticals, biotechnology, chemicals, and consumer goods.

Many EU companies have set up manufacturing bases in India to leverage advantages that India has to offer.

Sweden based conglomerate, ABB, uses its Indian plant for manufacturing circuit breakers. After finding significant value in the venture, the company wants to add more products to the portfolio for its Indian plant. Another similar example is of German giant Siemens, which uses India for manufacturing many of its power transmission and distribution equipment components. The company has benefited by this exercise and has achieved 25-30 percent cost savings as compared to European and US costs. Mobile handset manufacturer Nokia is weighing the option of setting up its manufacturing plant in India.

The 'Royal Technology Mission' : Leveraging the India Advantage

The Royal Technology Mission, a 45-member Swedish delegation led by King Carl XVI Gustaf, visited India in November, 2005. The underlying theme for the visit was to identify the potential in India's business and research fraternity. The delegation also explored opportunities in terms of collaboration with Indian business conglomerates and academic institutions.

The technology-intensive Swedish economy, with its annual R&D expenditure as a percentage of GDP (approximately 4 percent) being the highest in the world, can leverage the advantages offered by India. Mutually beneficial collaborations can help both countries in capitalising on the present set of synergies.

Public private partnerships have seen a rise with both industry and world class academic/research institutions gaining from the process. Further, the traditional knowledge that exists in India and has not yet been tapped for commercial use, can boost R&D in sectors such as medicine. In short, India offers immense opportunities for EU companies that hope to reduce their R&D expenditure and for European governments that are seeking commercially viable technologies via technology transfer.

“India has the potential to become the number one knowledge-producing centre in the world by 2025, going by the way that things are moving.” – R A Mashelkar, Director General of Council of Scientific and Industrial Research (CSIR).

Employment Opportunities – Going Eastwards

By the year 2010, the Indian IT, ITES and BPO sectors will generate a demand for over 1,60,000 foreign language-sensitive work professionals. Leading IT and BPO firms, such as TCS, Infosys and EXL, have already started the trend of recruiting foreign professionals. India is attracting professionals from all over the world, especially continental Europe, who consider such relocations in terms of comfortable lifestyles, exciting compensation packages and multiple growth options.

The total addressable market for language-sensitive work is estimated to be USD 14.4 billion by 2010. While the Indian IT industry would account for nearly 50 percent of this demand, the BPO and KPO sectors are expected to account for the other half.

This surge in demand for language-sensitive work would also have a positive impact on the Indian economy, as it is expected to create a multiplier effect on the job market for Indians. Capturing a larger share of the continental European market will help reduce Indian IT, BPO and ITES companies' over dependence on the US and UK economies.

With its well-developed infrastructure, strong support from public administration, political and economic stability, easy access to potential and key markets and favourable tax structure, the EU also holds manifold investment opportunities for Indian companies. The UK, for instance, allows all R&D expenditure on plants, machineries and buildings to be written off in full in the first year. It has also launched schemes, such as Link, Smart and Eureka, to provide companies with the required assistance to establish themselves. As overseas investors, Indian companies would benefit as well because of opportunities such as skills' transfer and capital creation.

Realising the growing strategic importance of each other, the EU and India are evolving joint initiatives for cooperation in diverse areas such as civil aviation, maritime transport, science and technology, the space industry, and information technology and telecommunications. In terms of social cooperation, the EU and its member states are collectively the biggest bilateral contributors to India's development plans. EU-India cooperation is based on the priority sectors of education, health and family welfare, and poverty alleviation

Creating an Indo-EU Corridor

As popularly perceived, the growth of the Indian economy, especially its services industries, finds its roots in the well-positioned Indian diaspora across the globe, especially in the US. According to a Evalueserve-World Bank Institute study estimate, around 20 million Persons of Indian Origin (PIOs) together earn approximately USD 364 billion per annum. Out of a total of 47,040 hotels in the US, around 17,000 hotels belong to the Indian diaspora. In the field of medical sciences, the number of Indians adds up to about 20 percent of the 'International Medical Graduates' and 6 percent of all the practicing physicians in the US. As evident from the functioning of successful non-profit organisations, such as TiE (The Indus Entrepreneur), AAPI (American Association of Physicians from India), AAHOA (American Asian Hotel Owners Association), and AACSA (American Asian Convenient Stores Association), the Indian diaspora has demonstrated strong networking skills resulting in enhanced trade relations between the two nations, especially in the ITES industry.

Considering the growing number of Indians in Europe and Europeans in India, setting up of an Indo-EU corridor on similar lines, would open up avenues for greater business and strategic interactions between the two economies.

Reviewing Policies in the New Business Scenario

The world's two great economies need to review and revisit some of their policies and norms to reconsider their justifiability in the changing global economic scenario. In the face of globalisation, the EU must remain open and must also ensure that foreign markets are open to its own exports. The high tariff and non-tariff barriers levied against foreign companies pose challenges to European businesses accessing markets abroad. Removing such barriers is even more important in the services sector, which represents a major part of the EU economy but faces higher trade barriers than goods.

EU's long-debated subsidies to its rich farmers have had a detrimental effect on the livelihood of poor farmers in developing countries including India. Agriculture is the lifeline of the Indian economy and establishing a healthy agri-business relationship is a must for a successful Indo-EU relationship. Though Indian import barriers have been substantially reduced in the recent past, they continue to remain high by international standards. India also imposes a number of non-tariff barriers in the form of quantitative restrictions, import licensing, mandatory testing and certifications for a large number of products, as well as complicated and lengthy customs procedures.

Adding Newer Dimensions

May 01, 2004 saw the EU welcoming 10 new member countries into its fold. While it was a glorious moment in EU's history, today, newer relations are being formed between India and the new and bigger EU. The enormous trade and investment potential that exists between India and the new EU member countries, needs to be tapped. Commercial arrangements, such as correspondent banking, export guarantees, insurance, etc., have to be strengthened at all levels. A key challenge from the Indian point of view is the fact that the EU's relatively higher tariff regime and trade defence measures get extended to new member countries. On the other hand, the Indian government needs to address areas of concern such as bureaucratic and judicial delays, strict labour laws and poor reinforcement of intellectual property rights.

A Euro 13.3 million Trade and Investment Development Programme (TIDP) has been initiated in May 2006. The objective of the programme is to assist India enhance its trade and investment performance with the EU.

In the light of the fact that only large EU countries, such as Germany, the UK and Holland, are among the major FDI contributors to India, the TIDP would strive to enhance trade and investment between India other EU members.

For a streamlined and momentous growth, learning from each others' experiences is a must. By building a strong economic and political relationship, both India and the EU are set to send waves in the world politico- economic corridors.

Two territories, so diverse in culture and geographical demographics, are evolving as major superpowers on the world map by learning from each other's experiences and also by working together. The scope of this relationship is not limited only to the trade and business environment but also includes social, cultural and environmental cooperation. The recent global horror, terrorism, that has transmitted fear waves across the world, needs to be tackled together by synchronised and long-term action plans. Indo-EU interactions would provide a platform to the two mighty geographies, to grow mightier and together battle this menace and all other social menaces. And this will not be the end of their journey, this would be the beginning.

For further queries, please contact

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