

# Shaping a new Partnership

India and the UK have shared a special relationship for over two centuries. Those ties have now matured and changed as India has emerged as a major source of investment in the UK, while British companies enter new industries in India.

**R Joshi** profiles the changing equations.



**PRIME MINISTERIAL INITIATIVE TO FORGE A TWENTY-FIRST CENTURY BUSINESS ALLIANCE:** Manmohan Singh calls on Tony Blair



**THE VIGOROUS FACE OF BRITISH ENTERPRISE IN INDIA:** Richard Branson hardsells his airline Virgin Atlantic's inaugural flight to Mumbai

**T**he stereotypes of Indo-British economic ties are fading fast and there is a sense of irony therein. Though blurred images endure on the palimpsest, it is the new ones that are riveting. It is no longer the wealthy Indian maharajah who draws attention; it is the likes of billionaire investor Richard Branson who hires caparisoned elephants to sell an airline, his Virgin Atlantic. It is not only British cars that are imported into India; an Indian car, the Indica, carried the legendary Rover badge. Yes, Rolls-Royce has returned; but the marquee itself is no longer British. Meanwhile, the language the British left behind has proved to be the driver of India's information technology thrust. Ironically, it is this facility with English that has made several UK companies come to India for call-centre operations, among other services.

There are new dynamics at work in Indo-British ties. The change is reflected in the statistics compiled by Britain's agency for inward investments, Think London. Early this year, it created a bit of a stir by releasing a report titled *Indian communities in London* which detailed how Indian busi-

nesses are increasingly targeting Britain as part of an offshore expansion drive. India is now the second largest source of foreign direct investment from Asia into Britain in terms of projects and jobs generated and the number of Indian investors rose by 47 per cent in fiscal 2003-04.

Twenty-eight new companies from India invested in the UK during the year, bringing the total number of Indian companies in the UK to 480. Of these, 338 are from the Information and Communication Technology (ICT) sector. These include flagships for Indian ICT such as Tata Consultancy Services and Wipro.

London, voted as Europe's best city for business for 15 long years, was also the favoured destination of Indian investors. According to the report, over 10,000 Indian-owned businesses employing 49,000 people operate in London. These businesses generate a combined turnover of over \$14.4 billion, representing five per cent of the British capital's economy. This is almost 60 per cent of Indian investments in Europe.

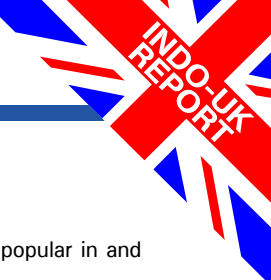
India's corporate foothold on English shores has been in the making for some time. In 2002-03, the dramatic buyout of

the British tea major Tetley by the Indian company Tata Tea for 271 million pounds and the Tata group's arrangement with MG Rover to sell the Tata Indica car became the talk of London's financial circles, which till now identified Indian business acumen with the empires of expat maharajahs like Swraj Paul, the Hinduja and L N Mittal.

Mark Dolan, deputy director of Inward Investment India, says: "Indian investors are choosing Britain and London as a good fit for the Indian entrepreneurial spirit. Britain provides dynamic businesses the ability to grasp new opportunities, technologies and markets through agility and innovation in an open and cost-effective environment."

An indication of the preference for London among Indian investors is that more Indian companies get listed on the London Stock Exchange than on the New York Stock Exchange and Nasdaq combined. These include State Bank of India, Bajaj Auto, Gas Authority of India Limited, Reliance Energy, Raymond, Ashok Leyland, Associated Cement Companies and East India Hotels, among others.

Michael Charlton, CEO of Think London, feels that one reason why Britain has



**SCRIPTING A LIBERAL EMPLOYMENT POLICY IN INSURANCE:** Aviva's CEO Stuart Purdy

become India's gateway to Europe is because of the synergies between the vibrant, fast-growing and services-driven economies of Britain and India. To cite an instance, he points to the acquisition by Satyam Computer Services in April this year of the UK-based specialised business and systems consulting firm, Citisoft, for an upfront payment of \$23.2 million and an additional performance-based payment of up to \$15.5 million, to be paid over a three-year period.

Ram Myanampati, newly designated chairman of Citisoft, elaborates: "The acquisition will enable Satyam to build a unique position in the financial services sector and facilitate it to expand its footprint amongst European asset management companies by utilising the synergies between Satyam's global delivery capabilities and Citisoft's world class industry expertise."

Apart from Satyam, Infosys, Wipro and Mind Tree Technologies are among the companies which have made substantial investments in the UK and created jobs as well. A call centre purchased by HCL Technologies in Northern Ireland in 2001, for instance, has created a thousand jobs in the UK. This came in handy for the Blair government to dilute the backlash against outsourcing and off-shoring that began when a slew of British banks and insurance companies began shifting jobs to India. The

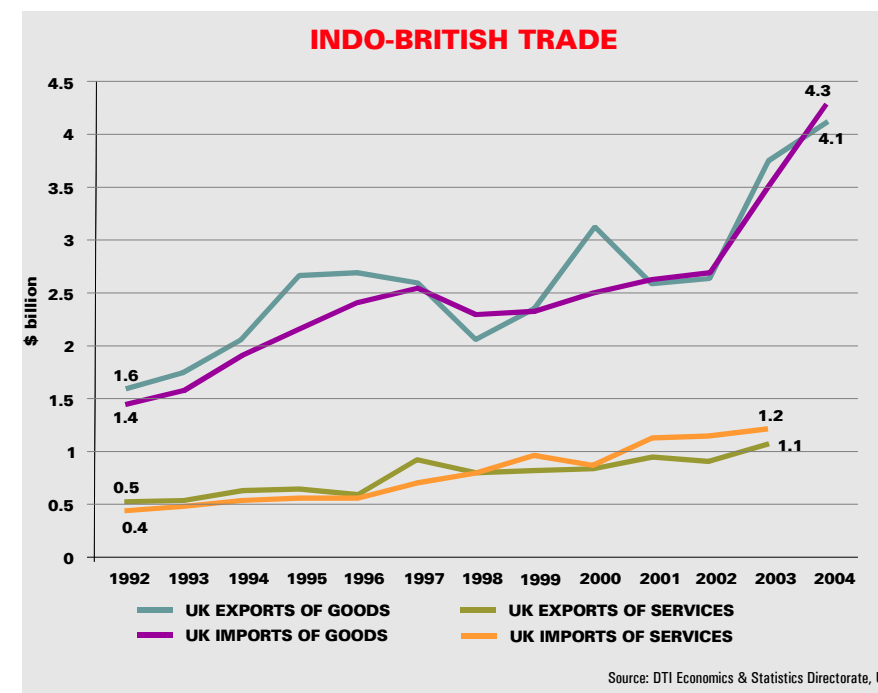
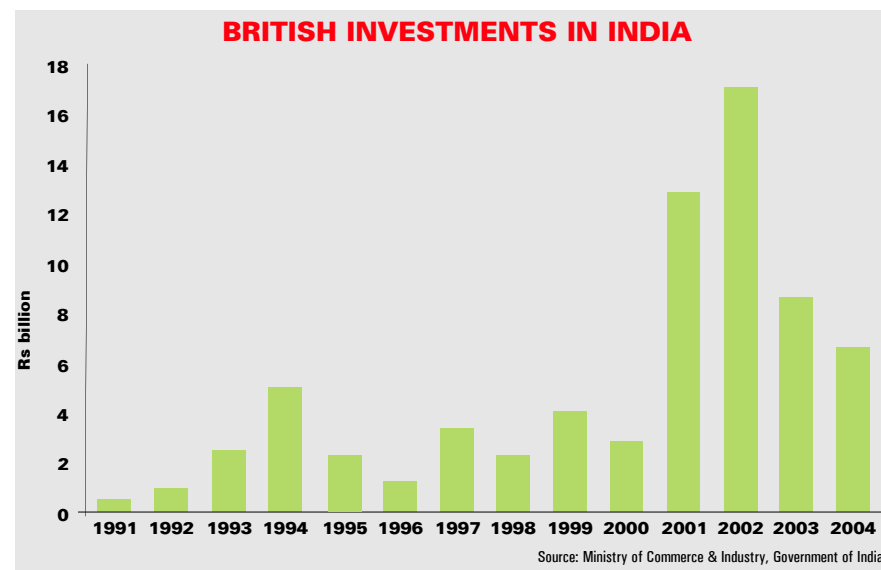
eral trade and investments, adds: "There is a change in the mindset of Indian entrepreneurs. The focus is on market and competition with the best global players. Companies now focus on attracting the best investors and creating wealth." Narayana Murthy's counterpart on the IBP from the British side is beer baron Karan Billimoria, who produces the bestselling Cobra brand in the UK. Last month, Billimoria reaffirmed his faith in India by unveiling plans to launch Cobra beer here.

British diplomats say that Indian industry finds the intellectual capital offered by the UK indispensable in developing its global presence. This explains why there have been major R&D investments by Indian firms in the UK in the ICT and pharmaceutical sectors.

Another pattern that is emerging is of cross-investments in R&D between companies in each of the two countries. Last year, Astra-Zeneca opened a major research centre in Bangalore for a new TB drug. About the same time, the well-known Indian company, Dabur invested in a company in Hampshire to research on a new cancer drug. This points to an increasingly integrated economic relationship and as British expats residing in India don't forget to remind you, one of India's most successful bio-tech IPOs — Biocon — was launched by a businesswoman, Kiran Mazumdar Shaw, whose company had its origins in a joint partnership with a Scottish university. So it is not curry restaurants

former UK secretary of state for trade and industry, Patricia Hewitt, acknowledged this development at a Confederation of Indian Industry (CII) partnership summit in Kolkata: "A job created by a British company in India does not necessarily mean a job lost in the UK."

The sentiment is reciprocal as the MNC is no longer seen as the big, bad predatory wolf by Indian businessmen. N R Narayana Murthy of Infosys, who co-chairs the Indo-British Partnership set up to promote bilat-



alone that are making India popular in and around Ol' Blighty.

On the flip side, major British companies consider it 'business critical' to develop partnerships in India. Though there have been major setbacks in the telecom sector (Vodafone and British Telecom exited India on account of the delayed reforms), partnerships have been doing well elsewhere. The top sectors for UK FDI into India are currently power, hydrocarbons, and the service industries. What is attracting British companies to India are its huge markets and the regularity with which the real GDP growth rate is breaking through the critical 7 to 8 per cent barrier. As British High Commissioner to India Sir Michael Arthur points out: "With India already overtaking Japan to become the third biggest economy in the world in purchasing power parity terms, you don't have to be a genius, or even a Goldman Sachs, to see that India offers significant economic opportunity."

## RESURGENCE OF THE OXBRIDGE CONNECTION



**THE CORRIDORS OF CAMBRIDGE ARE AGAIN POPULAR WITH INDIAN STUDENTS**

THE INDIAN CONNECTION with Britain in education is an old and complex one. While children of wealthy and influential Indians flocked to the UK for higher studies, on their return, many joined the freedom movement. Prominent among them

being Mahatma Gandhi and Jawaharlal Nehru, both educated in Britain.

But while Britain was the preferred education destination in pre-independence times, the United States became the main magnet subsequently. There were nearly

75,000 Indian students in the US compared to just 11,000 in the UK just a year after 9/11. But things are changing. While the US has become more restrictive in allowing foreign students, the UK has begun a concerted effort to draw them.

A study by the British Council estimates there will be nearly 30,000 Indian students in the UK by 2020, making them the third largest body of foreign students, outnumbering students from the US, France and Germany. The number of British students in India is still a minuscule hundred or so. And while Indians of a pre-independence generation went to study law or medicine, today's students largely go in for vocational training.

Every year, teams from British universities tour the major Indian cities, spreading information on what is available there and interacting with prospective students. British universities, faced with government funding cuts, find foreign students to be a ready source of much needed resources, apart from adding to the multicultural flavour of modern-day Britain. They also add to the economy, with estimated off-campus expenses of overseas students being around 1.3 billion pounds.

The UK has the third largest share of new investments approved by the government of India since 1991, well ahead of Germany, Japan and France. British investment in India peaked at \$1.11 billion in 2001 and settled down at \$280 million last year. This is in addition to investment by the UK companies already established in India, which is not included in the investment figures. Since 1991, 2447 new Indo-British ventures were approved and the UK has been the fifth largest investor in India, behind only the offshore tax haven of Mauritius, the US, the Netherlands and Japan.

Indian officials say that while the two-way investments are the real backbone of the partnership, the growing bilateral trade cannot be overlooked. The UK is India's third largest trading partner after the US (11.6 per cent) and China (5 per cent) and accounted for 4.4 per cent of India's total trade in goods during 2003-04. Bilateral trade between India and the UK is expected to grow at 20 per cent in 2004-05 to touch \$12 billion.

UK's exports to India include non-metallic minerals, gold, power generating and telecom equipment, transport equipment and industrial machinery. India's

exports include textiles and readymade garments, gems and jewellery, footwear, metal manufactures, power generating equipment, organic chemicals, vegetables and fruits.

While Indian businessmen prosper in the UK, British businessmen in India are doing equally well. Yes, the 'sterling' tea companies and the plantation companies set up over a century ago, largely in Kolkata, sold out to local businessmen in the sixties and the seventies. But the historic links are vibrant in the fields of banking — British banks have been around in India for over 150 years — and have root-

ed themselves in the adjunct business of insurance. Prudential (UK) has teamed up with ICICI Bank to form ICICI Prudential, the largest private insurance company in India. Of the 15 foreign insurers who have forged ties with Indian companies, ICICI Prudential stands heads and shoulders above the rest. It became the first private insurer last September with more than one million insurance policies on its books. Last year, it clinched about one-third of the new premiums of the private insurers in India. Growth projections are equally robust.

ICICI Prudential Life Insurance has several things going in its favour. Being owned by Prudential (UK), an internationally recognised banker, and ICICI, India's second largest bank, and being in an industry that relies heavily on consumer trust, such brand recognition is a critical asset in expanding operations. The company also has the first mover advantage as it set up shop as soon as the government gave the go ahead in 2000. Financial strength also plays a part and the frequent injections of money by the two partners have given it a total paid up equity base of \$212 million. Industry observers maintain the joint venture is a success story in Indo-British economic integration.

Another British presence in the insurance sector is Royal Sundaram. Then there is Aviva, a tie-up between the British major and the Dabur group, whose CEO Stuart Purdy is also scripting a unique success story in the field of human resources. Purdy finds time to interact socially with each of his senior employees, getting to know each other and their families. The staff knows what the boss is about and what he wants. The mentoring programme may be a part of Aviva's global policies but Purdy insists that at least half of Aviva's policies are home-grown. For instance, he has been lobbying with the Insurance Regulatory Authority of India to allow the company to treat its insurance agents as employees who can get benefits, and not just commissions.

As the Indian polity keeps liberalising foreign investments in the economy, British industry is entering newer businesses. The foray in the power sector is led by ALSTOM Energy, in real estate consultancy by Cushman & Wakefield and Knight Frank, in auctioning by Bowring's Fine Art Auctioneers. The list goes on. The repre-



**ON ROLLS-ROYCE POWER:** The Rolls-Royce Adour engine in service with the Indian Air Force

sentation by British business and industry cuts a wide swathe.

Hydrocarbons is turning out to be a vital sector of cooperation, and British Gas is an aggressive player. The company is involved in a redevelopment programme of the Panna-Mukta-Tapti gas fields, which it jointly owns on the western coast with Reliance Industries and the government-controlled Oil and Natural Gas Corp. The first phase of investment is \$500 million. This could go up to \$900 million. The British energy major has been lobbying for greater clarity on India's gas policies. It has also been eyeing a piece of action on the proposed national gas grid, which requires a multi-million dollar investment. Says Nigel Shaw, CEO of British Gas India: "We need a national gas grid, but there needs to be a regulatory regime in place. The issue is whether it is going to be a state monopoly in the pipeline operation or will there be other players." Early this year, Shaw was elected convenor of the Gas

**On the Web**  
**Confederation of Indian Industry:**  
[www.ciionline.org](http://www.ciionline.org)  
**UK Trade and Investment:**  
[www.invest.uktradeinvest.gov.uk](http://www.invest.uktradeinvest.gov.uk)

Industry Group, which comprises seven energy majors, both Indian and foreign, seeking equal opportunities in one of the fastest growing markets.

Then there is Cairn Energy, which has discovered major oil reserves in the Barmer district of Rajasthan. The Scotland-based company hopes to begin production of 125,000 barrels of oil per day by 2007 and has plans to invest \$1.33 billion to develop the oilfield.

But in spite of the upswing in commercial relations, certain concerns continue to be voiced on both sides. Indian companies, for instance, would like the procedure in the UK for issuing work permits to their technical staff sorted out. British firms would like more clarity on policy issues and the infrastructure to be spruced up.

The Prime Minister's Initiative, signed by Manmohan Singh and Tony Blair on September 2004, promises to set out a more systematic structure to reflect the increasing intensity of Indo-British relations on a wide range of areas. It could be the answer to some of the economic and trade irritants, allowing one of the 21st century's great business partnerships to take shape.

## A 150-YEAR OLD BANKING OUTPOST OF THE EMPIRE



**HSBC'S NIALL BOOKER FINDS GREAT BANKING POTENTIAL IN INDIA**

**BANKING TIES** between India and Britain go back over a hundred and fifty years, to the early days of the Empire. The Hongkong and Shanghai Banking Corporation (popularly referred to as HSBC) had its origins in India as the Mercantile Bank of India, London and China which was founded in Bombay (now Mumbai) in 1853. The Mercantile Bank was taken over by the HSBC group in 1959. HSBC in India retained the Group's pioneering streak by being an active partner in the development of the Indian banking industry — even giving India its first ATM way back in 1987.

"India is a country that holds enormous potential and has been identified as one of four countries that the HSBC Group believes will be significant drivers of growth over the next few years, the others being Brazil, Mexico and China. We have a solid growth strategy in place for India and have only recently infused more capital into our operations here to support our growth plans," said Niall S K Booker, group general manager & CEO, HSBC India.

The Standard Chartered Bank opened its first overseas branch in India, at Calcutta (now Kolkata), on 12 April 1858. In 2002, Standard Chartered acquired the banking operations of ANZ-Grindlays in the Middle East and South Asian regions. Through the acquisition, Standard Chartered inherited Grindlays network of branches, the largest of any foreign bank in India.