

Much more than merely dollars

Commercial ties between India and the United States have witnessed many peaks and troughs, over the decades. Now there is a growing maturity, and a sense of pragmatism, on both sides.

Parthasarathi Swami surveys the emerging landscape.

Thirty years ago, India did not exist on the average American's radar screen. Sure, they knew about the country -- a distant land of snake charmers and naked fakirs. But the only time one came across it in the media was in TV ads that exhorted: "Don't waste

food. There are millions starving in India." The country was regarded as a basket case. Some economists even said that the starving millions should be left to starve; the international community should concentrate its aid efforts in places more salvageable.

Today, India is very much top of mind. Some of it may be for the wrong reasons; the outsourcing controversy has been the subject of much media hype. "It's not true, but every US programmer seems to feel that his own job is threatened," says US-based CEO of Hexaware, Rusi Briji.



SHIFTING GEARS TO QUADRUPLE AMERICAN INVESTMENTS IN INDIA: US Ambassador David Mulford with General Motors India's President Aditya Vij at a rally celebrating the return of the Chevrolet badge to India

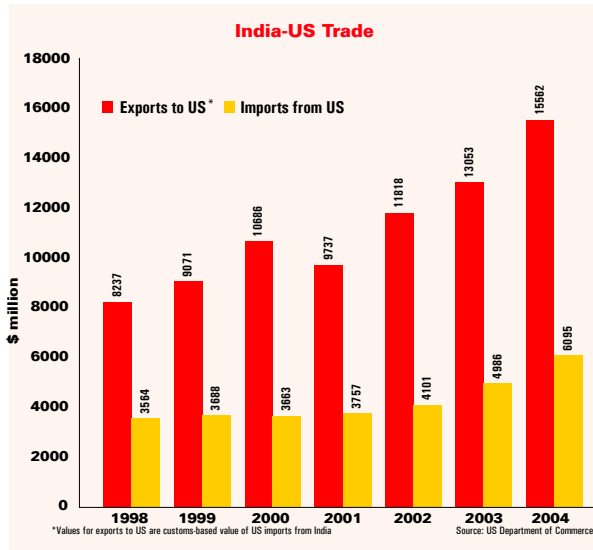


AN ADAPTIVE STRATEGY: McDonald's in India is the only country in the world in which the fast food-chain does not serve beef

China is already supping at the high table with the world powers. India is going to get there soon, invited or not. According to a now famous report by Goldman Sachs, the BRIC countries (Brazil, Russia, India and China) will overtake the G6 in dollar terms in less than 40 years. "India's economy could be larger than all but the US and China in 30 years," says the report. Of the four countries considered, India has the highest growth potential.

Follow up to the Goldman Sachs' report – titled BRIC II – says that these economies currently account for just 3.5 per cent of the global capital markets. By 2020, they could account for anything between 10 and 17 per cent. India has the oldest and the most bustling stockmarket of all these countries. The foreign institutional investor (FII) inflows, which are largely confined to the equities market, is a drop in the ocean of the \$4 trillion market capitalisation these markets are expected to collectively reach.

Consider another metric. India's huge population was considered an albatross



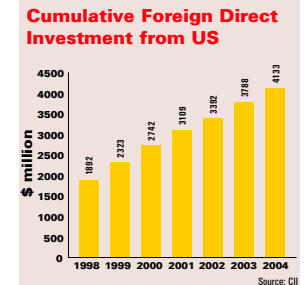
PLACING IT WITHIN AN ARM'S LENGTH OF DESIRE: The softdrink major Coca-cola is the largest US investor in India

around its neck. But, while the world is graying, India is getting younger. The country will add 335 million workers in the next 30 years, more than the total working populations of the European Union and the US combined. The solution to the coming scarcity, suggests global human resources consulting firm Watson Wyatt in a joint report with the World Economic Forum, is "to boost immigration to, and the outflow of investment capital from, ageing societies".

If you want something that's less crystal-ball gazing, here's a media audit last year by R&PMC:Edelman. (R&PMC is an Indian reputation management company, while Edelman is the world's largest independent public relations firm.) According to the survey, while China currently enjoys four times India's 'share of voice' in the US media, the latter is perceived as having stronger prospects in a five-year-plus time-frame.

Barring the people who want to create a rumpus about business process outsourcing (BPO), offshoring and job losses, the men and women who matter in the US are

all gung-ho about commercial ties with India. Even as some US states were enacting laws to prevent government contracts from going to India – which resulted in a piquant situation as the US companies that won the bids in turn subcontracted them to Indian outfits– Corporate America was giving it the thumbs up. According to a PricewaterhouseCoopers Global Top Decision-makers study, the large majority of MNC chief executives are all for BPO. It increases efficiency and productivity, they say. It reduces costs. The bottomline is

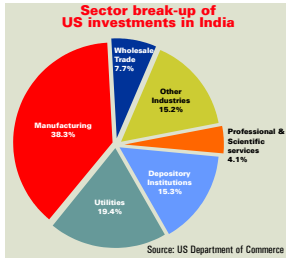


that if you don't do it while your competitors do, they'll have your business for lunch.

It's not just keeping up with the Joneses. A study by the McKinsey Global Institute shows that offshoring creates wealth for the US as well as for India. For every dollar of corporate spending outsourced to India, the US economy captures more than three-quarters of the benefit and gains as much as \$1.14 in return. Far from being a zero-sum game, offshoring creates mutual economic benefits.

The view from America then is that, once you cut the cackle, Indo-US commercial ties are headed for the stratosphere. In India, there is a Left fringe that is yet to outgrow the Cold War days when every American was a running dog of capitalism. But otherwise, there is support across the board.

"Indo-US commercial ties are getting stronger with every passing year," says Tata Consultancy Services CEO and managing director S. Ramadorai. "As India has liberalised, the scope of partnership with the US in the commercial and business arena has only increased and existing rela-



tionships have become deeper. Going forward, Indo-US relationships will continue to expand into a true global partnership." TCS is India's largest company in the software and services sector and gets 60 per cent of its revenues from the US market. "The US is likely to remain our single largest market for the foreseeable future," adds Ramadorai.

TCS is a homegrown company. Microsoft is not. But Ravi Venkatesan, chairman of Microsoft India, speaks in the

same voice. "Indo-US ties have strengthened post-liberalisation with companies like IBM and Coke moving back into India and Microsoft setting up office in the early nineties," he says. "The 1998 Pokhran episode (the five nuclear tests in the Rajasthan desert) again restricted Indo-US trade and commerce with a large number of Indian companies being assigned to the US Department of Commerce Entity List and Indian companies being wary of relying on US suppliers. This severely impacted the areas of hitech trade and e-commerce. Now with the hitech trade dialogue having started again, commerce and trade will see an upswing, especially in areas of high speed computing and other IT areas which were considered sensitive."

Problem areas will remain, of course. Doyen of Indian business, Rahul Bajaj, says the key ones are intellectual property rights and US agricultural subsidies. But that too will get sorted out. "Indo-US ties are not rooted just in commerce but in the shared ideals of democracy and human progress. They are deepened and sustained by the two-million-strong Indo-American commu-

nity," says he. "The past 15 years have seen a significant improvement in Indo-US commercial ties. Merchandise trade has tripled. Trade in services is set to match trade in goods. US companies are practically the largest source of foreign direct investment into India. But we have barely scratched the surface."

Very true. India is still not among the top 25 US trade partners. Foreign institutional investments in debt and equities (FII) inflows have crossed the \$3 billion mark in the first two months of 2005. This comes on the heels of \$8.5 billion in 2004 and \$6.4 billion in 2003. That's big money by Indian standards. But a couple of months into 2005, tiny Taiwan has attracted \$4.2 billion. "We have to see things from the proper perspective," says Nandan Chakraborty, head of research at Enam Securities.

When it comes to foreign direct investment (FDI), or investment in industry, the numbers are improving. But there is still a long way to go. According to a recently published International Monetary Fund

The two-way traffic in takeovers

GLOBALISATION is never a one-way street. Just as US companies are arriving in droves in India, Indian majors are also taking their first tentative steps abroad. Earlier, it was largely restricted to setting up a low-cost front office - a marketing outfit. Now, manufacturing facilities are also on the menu.

The US market is both the easiest and the toughest. As the Chinese have demonstrated, prices matter; the country's cheap exports have captured large swathes of US sectors such as textiles and consumer goods. But setting up base in the country or establishing an Indian brand in the US is a different kettle of fish altogether.

A paucity of foreign exchange all these years was a major handicap. It didn't help too that the international markets were not particularly enthused by Indian paper - the prime currency for takeovers. How things have changed. The country's foreign currency reserves are now touching \$140 billion. And Indian companies

quoted on the New York Stock Exchange or Nasdaq are commanding a premium over the price on the Bombay Stock Exchange.

But the US market is no cakewalk. Many Indian companies with global ambitions are therefore taking their first takeover steps in easier territory. To cite just a few examples, Infosys took over Expert Information Systems of Australia, Essel Packaging snapped up Propak of Switzerland to become the world's largest producer of laminated tubes, and the State Bank of India has acquired the Indian Ocean International Bank in Mauritius and is eyeing other buyouts in Asia and Africa.

"The State Bank of India has mostly been an inward looking organisation," says chairman A.K. Purwar. "Locally, we have grown from 400 branches in 1955 to almost 14,000 branches in 2005. Globally, we have hardly grown - we have 54 offices spread over 38 countries. As the largest bank in the country,

it is befitting for us to have some global ambitions and a global presence. We are new to this area; we have never acquired banks overseas. So, to begin with, we would like to acquire some small banks; gain some experience; and even burn our fingers, if need be."

If SBI is seeing the writing on the wall today, others recognised it much earlier. Tata Group chief Ratan Tata told a magazine in 2000: "We have not focused adequately on growing overseas. Part of [the reason] was due to foreign exchange restrictions. Now that these restrictions have been eased extensively, we should be looking at growing overseas in a serious manner. By growing overseas, I don't mean just exporting our products but looking at acquisitions, alliances and things of this nature."

All that has begun happening. Indian industry has already acquired its passport, permission from the Indian government, and visa, the US welcome. It is now deciding on the best flight to catch.



A LARGE POPULATION HAS TRANSLATED INTO AN ALLURING MARKET: Companies cannot merely transplant products and systems

report, FDI inflows into India have risen since the nineties, but remain low compared to other emerging markets. While much else needs to be done, the IMF gives four recommendations: decrease the marginal corporate tax rate to that of China (this would increase FDI by one percentage point of GDP), increase trade openness to China's level (0.6 points), improve regulatory quality to the level of Thailand (1 point), halve the number of days to start a business (0.7 points) and halve the years to resolve insolvency (1.4 points). For the record, FDI inflows into India were \$3.5 billion in calendar 2004 against China's \$61 billion.

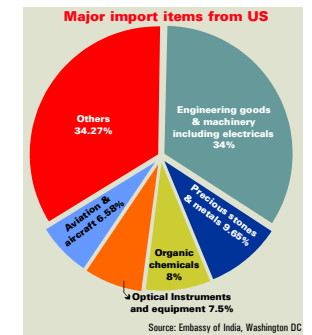
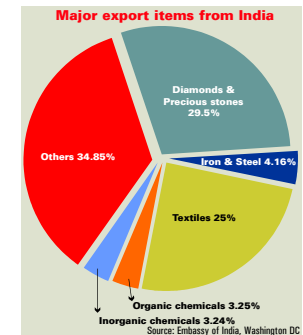
US companies too need to realise some ground realities. "Companies attracted to the country's potential must do more than merely transplant products and systems that have succeeded elsewhere," says a McKinsey report. The successes like McDonald's have been adaptive; India is the only country in the world where the fast-food chain doesn't have beef on the menu.

On the other side are the Kelloggs and the Nikes. The first assumed it could change food habits overnight. (Though why it did so is a surprise, considering that it took 13 years to establish itself in Mexico.)

Nike thought Indians would swoon over its Michael Jordan ads, when rival Reebok opted for established cricketers. "But on the whole, US companies in India have had a good ride if you overlook the ones that fell flat because of their own mistaken assumptions," says Chakraborty of Enam.

The early birds had more than their fair share of hurdles. Pepsi spent more time battling bureaucracy than its rivals in the marketplace. The DuPont project nearly didn't take off. But perseverance paid off. Pepsi revolutionised tomato farming in the Punjab in the mid-nineties and is now doing the same for citrus plantation in the coun-

US Ambassador to India David Mulford says that FDI from US companies in India has been small until now - an aggregate of \$45 billion. At a meet the press programme in Thiruvananthapuram, he said that the Indian government wanted this quadrupled. Not impossible. According to Mulford, there are already 1,400 US companies registered in India. But more sectors - retail, for instance - need to be opened up to FDI. And issues such as Dabhol (an Enron power plant that has been lying inactive for years because of disagreement over pricing) have to be resolved. "You need to raise the confidence level of US companies," says an analyst.



try. DuPont is planning to make India the knowledge hub for the Asia-Pacific region. And IBM, which walked out of the country in the seventies because the government insisted that it find local equity partners, is constantly emphasising its commitment to India. "India matters a lot these days," says

Nicholas Negroponte, chairman and founder of the MIT Media Lab.

Actually, Negroponte has reason to be uncharitable. His Media Lab venture with the Indian government was abruptly terminated. But he's optimistic instead.

Different industry sectors have different hurdles. But they can all be looked upon as either threat or opportunity. Take the pharma sector, expected to be impacted by changes in the Indian Patents Act. But Habil Khorakiwala, chairman of pharma major Wockhardt, looks at another side of the picture. "India has over 60 pharmaceutical manufacturing plants that are approved by the US FDA -- the largest number outside the US," he says. "India accounts for the largest number of DMF (drug master files -- for active pharmaceutical ingredients) and ANDA (abbreviated new drug applications -- for formulations) filed with the US FDA. In a few years from now, you will see the full impact of India's growing competitiveness in the US market." It's a view echoed by many others in India.

In the US, the fakir-in-loincloth image has given way to Asok -- the Dilbert comic strip character whose brain works so fast that he can heat a cup of tea by holding it to his forehead. He's a product of one of the Indian Institutes of Technology (IITs). Asok is also socially dumb and victimised by his management and other

Back in the USA

Essel Propak America is expanding its plant at Danville (Virginia). It had decided to start operations there in July 2002.

Videsh Sanchar Nigam Ltd., a Tata Group company, has bought Tyco Global Network for \$130 million.

Reliance Infocomm has acquired Flag International, a major international telecom network, for \$211 million.

NIIT has acquired Osprey Systems Inc and Clicktolearn in the US for \$6 million.

Ranbaxy Laboratories bought Ohm Laboratories in the US and is planning to bid for the branded pharmaceuticals business of the US-based Andrx Corporation.

Mahindra Group has picked up a majority stake in California-based technology consulting and services firm Bristlecone.

Wipro has acquired US-based consulting company Nerve Wire for \$18.7 million.

Source: India Now compilation

The big boys in BPO

MNCs WITH CAPTIVE UNITS IN THE ITeS-BPO INDUSTRY

Banking, Financial Services and Insurance

Fidelity, JP Morgan, Bank of America, American Express, HSBC, Standard Chartered Bank, ABN AMRO, Goldman Sachs, Prudential, Morgan Stanley, Deutsche Bank, Lloyds TSB, Capital One, Axa, Winterthur, Lehman Brothers.

Professional Services

McKinsey & Co, Deloitte Consulting, Accenture, Bain & Co, Ernst & Young, Reuters, Frost & Sullivan.

Technology and Telecom

Hewlett-Packard, IBM, DELL, Dell, Samsung, Honeywell.

Automotive and Heavy Machinery

General Motors, Hyundai, Ford, DaimlerChrysler, Caterpillar, Bechtel.

Pharmaceuticals/Biotechnology And Healthcare

Vision HealthSource (Perot Systems), Eli Lilly, AstraZeneca, Pfizer.

Others

AOL, Tesco.

The above list is not exhaustive and is indicative of the key companies sourcing non-IT functions from their captive units located in India.

Source: Nasscom

Top US investors in India

Company	Industry	Investments approved *
Coca-Cola	Food Products	694.10
Mission Energy	Power	358.49
Fluor Daniel Inc.	Power	317.65
CMS Generation	Power	301.72
Ford Motor Company	Passenger Cars	275.00
Hughes Electronics	Cellular Mobile / Basic Telephone Service	254.77
Public Power International	Power	207.42
Soros Fund Management	Power	195.15
Panda Energy	Power	165.88

* \$ million

Source: Embassy of India, Washington DC

employees. But he has come a long way. "IT and IIT have changed the image of India," says Pavan Nigam, a Silicon Valley serial entrepreneur and a product of IIT Kanpur.

In India too, attitudes have changed. In a recent 21-nation BBC poll, India was the only country (apart from the Philippines and Poland) to view Bush's re-election positively. Some 62 per cent gave him the thumbs up, against a rejection by 75 per cent in France and 77 per cent in Germany. Bush is likely to come to India on a state visit; the groundwork has already been done by his Secretary of State Condoleezza Rice. She is perceived as a friend of India, as is Bush.

On the Indian side, the greying old men of the ruling Congress Party, who were once US-baiters, one and all, seem to have shed some of their suspicions. The Left, which backs the government at the Centre, may make their customary noises. But in the state of West Bengal, which they have ruled for nearly three decades, they are rolling out the red carpet for US investors. Sums up Rahul Bajaj: "I think a momentum has been created for larger Indo-US commercial ties which can only grow." 