

India and EU

Exploring new horizons

The European Union (EU) is India's largest trading partner. It is way on top in several other areas. But both sides will have to work hard to keep it that way. A Team **India Now** report with inputs from eValueserve.



JORMA OLLILA, chairman of the Nokia board of directors, is probably Finland's best known business face. Ollila was in India early this year to inaugurate the mobile phone giant's manufacturing unit at Sriperumbudur, in the southern state of Tamil Nadu. "Setting up this manufacturing facility in India reiterates our long-term commitment to the Indian market," he said at the inauguration function.

Six months earlier Ollila had met Prime Minister Manmohan Singh in New Delhi. The two spoke of ringing in the future action. Nokia is the sixth most valuable brand in the world, as rated by Interbrand and BusinessWeek. India will be the second largest market for cellphones by 2010. Neither can ignore the other.

Singh is likely to meet Ollila again when he travels to Helsinki, the capital of Finland, for the Seventh EU-India Summit in October. And it is not Ollila alone who will be queuing up for an audience. Many in Europe were late in getting on to the China bus. They don't want to be similarly tardy in participating in the India story.

"India and Europe have been trading for over 500 years," says Lord Diljit Rana, founder of the Brussels-based Indo-EU Chamber of Commerce. "If people are focused on doing business, there is tremendous opportunity."

But history alone cannot guarantee success in a fast-changing world. The EU is today India's largest trading partner. It will take a lot of work on both sides to keep it

that way.

One danger is that the EU may be upstaged by countries such as China. "Today, though India's trade growth has accelerated to an impressive 24 per cent, India's trade with EU has grown at a relatively slower 20 per cent," says Yes Bank managing director and CEO Rana Kapoor. But you can look at these numbers the way you want to - a half-filled glass or a half-empty one. Kapoor is on the side of the optimists. "Clearly, I see far greater potential for higher, accelerated growth," he says. "There is considerable scope to further enhance trade relations as India ranks 14th as EU's overseas trading partner for exports, and 13th for imports into the EU."

Veena Jha, coordinator of the UNCTAD India Programme also prefers to see the positives. "The value of India's total trade with EU has approximately doubled in the past five years," she says.

If you take a closer look at the break-up of the numbers, you will find that tradition still dominates. The biggest export destinations are the United Kingdom (5.08 per cent of total Indian exports in 2005-06), Germany (3.32 per cent), Belgium (2.86 per cent) and Italy (2.25 per cent). The leading EU countries India imports from are from Belgium (4.35 per cent), Germany (4.03 per cent) and the UK (2.25 per cent). India's trade with Belgium figures high on the list mainly because of the diamond business; Antwerp is the diamond capital of the world and Surat, in western India, is where much of the polishing and processing action is.



FINDING NEW MARKETS: Helsinki is hosting the Seventh EU-India Summit

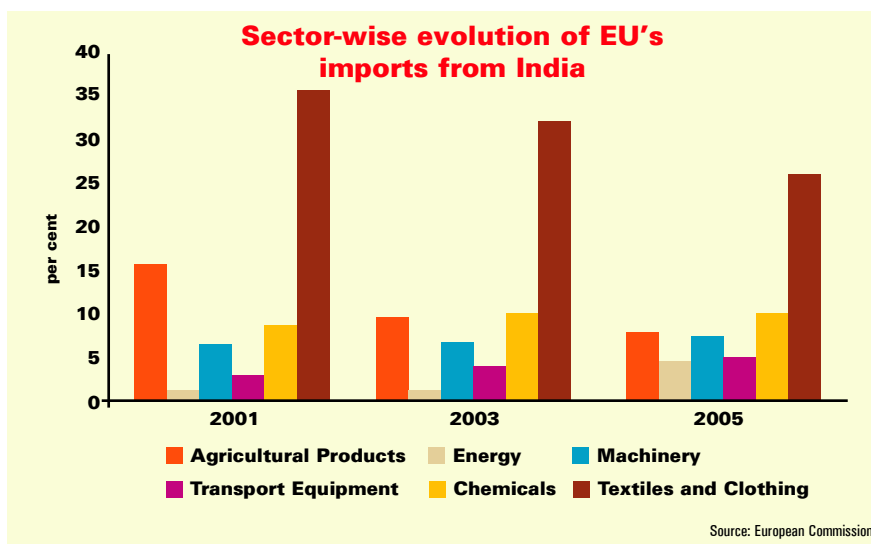
In terms of the actual items exported textiles & clothing, chemicals and machinery lead the way. In the import basket, machinery and chemicals dominate.

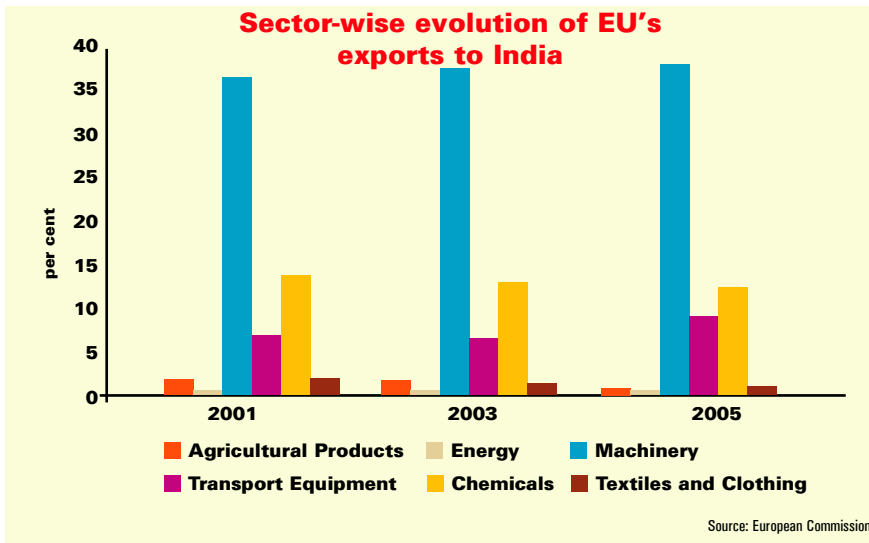
"The bulk of our trade continues to be in the traditional product categories, and there has been little change in the composition of this basket," Union Minister for Commerce and Industry Kamal Nath told the Sixth India-EU Summit in New Delhi in September 2005. "There are unexplored possibilities for diversification in our trade which are not being exploited adequately."

Kamal Nath and team have been actively working on ways to effect this diversification. But it is not something you can achieve overnight. What this particular Summit in Finland should help do, however, is find new markets. While the larger countries of the EU have been the focus of attention so far, there is a lot of business potential in the smaller countries. "We have sought the low hanging fruit so far," says an Indian diplomat. "It is time to look beyond the familiar."

It's not just trade. There is possibly a bigger story in investment flows. Indian companies have been going to Europe with their shopping lists. Europe's largest corporates have, of course, been here for a long time now, some for decades. But they are stepping on the gas as the Indian market explodes.

"The resurgent industrial growth, buoyant exports and an increasingly investor-friendly environment with rising consumer confidence are some of the remarkable features of the Indian economy today," says Kapoor of Yes Bank. "Our huge and rapidly growing middle class has made India one of the most attractive emerging markets in the world. We could provide lucrative investment opportunities in infrastructure sectors as well as India's now well-recognised sunrise sectors like biotech, pharma, automobiles, agribusiness, media & enter-





tainment, and non-conventional energy. We have an SEZ (special economic zone) Act in place to further facilitate such investment opportunities." Adds Roney Simon, President of the Indo-European Association for Fashion & Design: "Everyone needs to recognise that the market of the future is where the consumer is." The consumers of the future are clearly in India and China.

Finland's Nokia is but one example of the new invasion. Besides, the \$150 million it has put into the Sriperumbudur unit is just the aperitif. It is planning a high-end Base Station Controller manufacturing unit close by. India will also be used as a manufacturing hub for the rest of Asia.

Nokia is top of mind because mobile phones have dialled the right number. But there are several other Finnish companies here too. There are some 25 joint ventures (JVs) and double that number of companies with representative offices or agents. Among the better known names are elevator and escalator major Kone and diesel generator manufacturer Wartsila.

It's action time everywhere. The big boys - the UK, Germany, France and Italy - are all over the place. But even minnow Malta, with a population of around 400,000, has been looking eastward. Maltese container terminal operator Hili Company had submitted an expression of interest (EoI) to set up a container terminal at Vizhinjam, in the southern state of Kerala.

Of course, some of the biggest companies in India have an EU parentage. One

can't credit the EU for that. Some of these companies set up shop several decades ago. "EU companies comprise 50 per cent of all MNCs in India," says a study by the Boston Consulting Group (BCG) and the Confederation of India Industry (CII).

The study lists some of the success stories. Among the names, many practically household words, are Cadbury, Hindustan Lever, GlaxoSmithKline, ABB, ABN AMRO, Ericsson, Piaggio, Renault, Perfetti... the roll call goes on, and is increasing every day. There are challenges for these companies, says the study. But the India story is very real. And it is enormous.

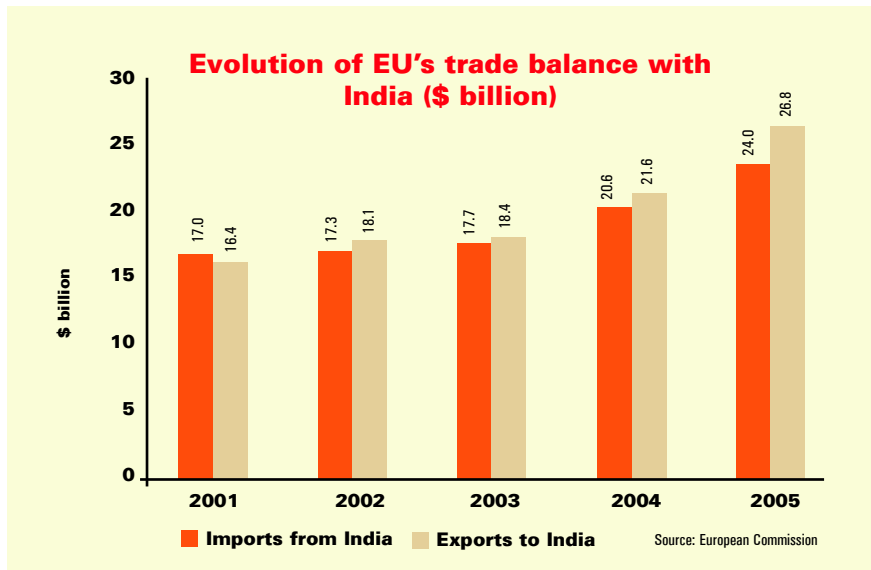
You don't have to tell the Hindustan Levers of the world about that. The Unilever subsidiary took root in India as Hindustan Vanaspati Manufacturing Company way back in 1931. Sunlight soap bars were imported from England much earlier -- in 1888. Among other European multinationals still surviving as subsidiaries are Siemens (established in 1923) and Philips (1930). Says Peter Gartenberg, executive vice-president of Siemens AG: "We have been manufacturing in India for the past 50 years, and we have been using India much more as an export platform lately. Very few know of the power of India as a manufacturing base."

While there are many participating in this new discovery of India, there is probably much more excitement in the other direction. Indian companies are discovering the EU countries. Indian CEOs always knew them as export markets. Their better

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halves knew them as markets for the latest brands and fashions. Today, the shopping bags of these executives returning from trips abroad contain not products but the companies that make them.

Riding on the country's newfound economic strength, Indian business houses have joined the global acquisition bandwagon. During the first eight months of

2006, Indian companies bought more than 60 global businesses. The bill: approximately \$1.7 billion.

Out of India's 264 outbound M&A transactions between January 2004 and August 2006, with a deal value of \$10.5 billion, Europe accounts for the highest share with 41 per cent by deal volume and 39 per cent by deal value. In deal value,

Europe has stayed ahead of North America, after overtaking it in 2005, and has an overall lead of 15 per cent.

It's not just in England and France. Says Lord Rana of the Indo-EU Chamber: "Ireland is at the periphery of Europe. Yet there are 3,000 people employed by Indian-owned businesses. In three years, investment has increased from \$2 million to \$40 million."

Last year, the Videocon group acquired Thomson SA's global colour picture tube manufacturing business. The tab for that was \$500 million, including the amount lined up for quality upgradation and expansion. The Indian consumer durables major Videocon had earlier acquired Thomson's Italian picture tube factory. Thomson of France is a world leader in digital video technologies.

"This is the tip of the iceberg," Videocon chief Venugopal Dhoot told us at the time of the acquisition. "Wait for some time and you will see the face of India's real multinational." It is happening. Other takeovers have followed, though not necessarily in the EU.

In February this year pharma company Dr Reddy's snapped up German generic drug maker Betapharm from private equity



DISCOVERY OF INDIA: Prime Minister Manmohan Singh with European leaders at the Sixth India-EU Business Summit held in Delhi last year

Companies from the European Union comprise 50 per cent of all Multi-National Corporations in India.

firm 3i for \$572 million. In March, Suzlon Energy bought Hansen Transmissions International of Belgium for \$565 in an all-cash transaction. "The acquisition of Hansen gives us technological leadership and will make Suzlon a leading integrated wind turbine manufacturer in the world," says Suzlon chairman Tulsi R. Tanti.

The information technology (IT) sector has been in the thick of things too, though deal sizes have been slightly smaller. Tata Consultancy Services (TCS), India's largest software and services company, has acquired the business process outsourcing (BPO) operations of UK insurer, the Pearl Group. This will now be part of a new TCS subsidiary based in Britain. The deal size is difficult to quantify as it also involves an \$850 million outsourcing contract over a 12-year period. TCS will have a 75 per cent stake in the subsidiary.

TCS has company. Wipro, the No 2 IT outfit in India, has acquired NewLogic Technologies of Austria for \$56 million.

The acquisitions are in some cases reinforcing a base built up through greenfield ventures or exports. The Tata Group, for example, has 18 companies in the UK alone. Pharma major Ranbaxy's sales from France stood at approximately \$74 million during 2005. Ranbaxy is present in 21 of the 25 EU countries and has acquired four EU companies in the first eight months of 2006.

Infosys, one of the most successful Indian IT companies, is another example; it has recently added another onshore development centre in the UK. This is besides its other already operational centres in the UK and Germany. The company is also expanding its nearshore centre in the

Czech Republic, which already handles clients across 16 countries. According to company sources, its growth rate in Europe is 60-65 per cent while Infosys as a whole has posted a growth of 30-35 per cent. This demonstrates the strategic importance of the EU market.

A noticeable and interesting trend 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 latter.

"Indian companies now have the money and the ambition," says the CEO of a new Indian multinational. "Don't quote me on this as I don't want people laughing at me today. But in a couple of decades Indian and Chinese companies will be dominating the Fortune 500."

Fortune - and Fortune 500 - favours the brave. But that's tomorrow's story. When the Prime Minister goes to Helsinki, there are other issues on the agenda. Perhaps foremost amongst them is the progress of the joint action plan adopted at the New Delhi Summit. This is a very elaborate document, covering the entire gamut of relationships. After the September 2005 meeting, Prime Minister Singh described the document as "the roadmap for the future, which provides the necessary framework for our fast-evolving relations". When he meets his Finnish counterpart Matti Vanhanen (Finland holds the rotating presidency of the EU until the end of this year) in October, they will talk on the need for midcourse corrections, if any.

The Delhi Summit had set up a high-level group to look at a Comprehensive Economic Cooperation Agreement, covering trade in goods, services and investments. This panel is expected to make its report at Helsinki. This could be the precursor of a free trade pact with the EU. Union Minister for Commerce and Industry Kamal Nath says he is open to the idea. "India's trade engagement globally is increasing," he adds. "All measures to further enlarge it will be examined."

The overall joint action plan is due for a comprehensive review in 2008. So Helsinki will look only at certain aspects. There will be a political component to the Summit too. But business comes first. Literally. The Helsinki Business Summit, in which top businessmen from India will participate, is

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CREDIBLE INDIA: Union Minister for Commerce and Industry Kamal Nath with Mr. Alan Johnson and Mr. Peter Mandelson at the Sixth India-EU Business Summit held at Delhi

scheduled to be held before the political Summit.

Also top of mind will be technology. Among the issues on the front-burner is cooperation in the EU's satellite navigation system Galileo and in co-sponsored research projects in areas such as genomics, nanotechnology and high-energy physics.

"The EU needs to invest in India in cutting-edge technology," says Simon of the Indo-European Association for Fashion & Design. "What you see today are base-level industries." Here too, the transfers can be two-way. "The EU and India can work together in terms of India's expertise in IT and communication technologies," says Gartenberg of Siemens.

Goran Nilsson Axberg, deputy director of the Stockholm Environment Institute, is looking at another area. "There are a range of environment technologies available that are valid to India," he says. "We have a lot to offer in forestry, community development, and environment and in water supply, treatment and transport."

The numbers show that the process has begun. Some 7,792 Foreign Technology Collaborations (FTCs) were approved for the period August 1991 to June 2006.

Among the issues on the front-burner is cooperation in the EU's satellite navigation system Galileo and in co-sponsored research projects.

Yes, the US leads with 1,704 approvals. But Germany ranks second with 1,099. The UK follows with 849.


Beyond these statistics, some action has already been flagged off. A new pharma research programme is to commence from 1 January 2007. Grants from the \$7.65-billion European Commission Fund are conditional on projects having both Indian and EU collaborators. In aviation, an Indo-EU Summit is slated for November this year. Aviation is one of the fastest

growing sectors in India and there is huge scope for collaboration with Europe.

Actually, wherever you look, there is course for growth. Rana Kapoor of Yes Bank talks about his own bailiwick. "With India and the EU's strong and growing presence in international financial discussions, there is significant scope for developing an indepth policy dialogue on global financial and monetary issues," he says. "This could be facilitated with exchange of information on financial services regulatory policies, banking systems, and accounting standards."

In this area and anywhere else, India is not about to play stepsister to China in its relations with the EU. The key difference, Minister Kamal Nath points out, is in implementation of laws. "China has a very good intellectual property law, but in China you can buy a counterfeit Rolex watch, in India you cannot," he says. "It is because the way we go about it. And that is the message we want to give."

The Indian tourism ministry is hard-selling Incredible India. What Kamal Nath is offering is Credible India, an India that works, for the EU or any other partner.

The road from Helsinki will be paved with tangible achievements. 

“The country has moved up the value chain of global perceptions”

Minister for Commerce and Industry Kamal Nath, is an aggressive negotiator, not willing to give an inch where India's position is threatened. Here are his views on various issues

What is on the agenda at the forthcoming India-EU Summit, and what is the present state of Indo-EU relations?

Summit level interactions between the India and EU have been held since 2000 and the last Summit was held in New Delhi in September 2005, when both sides adopted the India-EU strategic partnership Joint Action Plan.

The India-EU Summit will look at the present state of relationship in a comprehensive manner. More specifically, it would consider the report on the implementation of the Joint Action Plan. It would also consider the report of the High level Trade Group (HLTG). This HLTG was established by the India-EU summit 2005, with a mandate to explore ways and means to deepen and widen the bilateral trade and investment relationship. The HLTG has met 5 times and its report on a broad based trade and investment agreement would be considered by the Summit.

Although both sides remain committed to multilateral engagement at the WTO, there is recognition that deepening of the bilateral economic engagement would be complementary to the successful conclusion of the DDA negotiations.

Do you see a shift in global perception about India?

India has very strong economic fundamentals. The country has moved up the

value chain of global perceptions. FDI inflows in the 1st quarter this year have increased by 47 per cent over the same period last year, while GDP growth has averaged 8 per cent over the past three years. On the trade front, exports have grown at an average of 25 per cent per annum over the past three years and imports too have risen commensurately. If trade of both goods and services is combined, India's economic engagement with the world this year will exceed \$450 billion.

What are the areas that you seek cooperation with the EU members?

The India-EU Strategic Partnership Joint Action Plan contains an impressive list of the areas of cooperation between the two sides. These can broadly be categorised into economic policy and developmental activities. They cover joint research projects, dialogue on industrial policy, intellectual property rights, finance and monetary affairs, environment, climate change, energy, and employment and social policy etc. We are also working on a horizontal Air Services Agreement and a Maritime Transport Agreement. Development cooperation would cover mainly rural health and primary education, both of which are national priorities for the Government. To bring together people and cultures, we are looking at increased education and academic exchanges and cultural cooperation.

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I am an optimist and I do hope that something substantial will be put on the table soon by developed countries.

How do you view the stance of western nations on farm subsidies and the Doha round?

For billions of people, agriculture provides subsistence and livelihood. Their operations are not comparable to those of agri-business in western nations. India is willing to negotiate commerce but not livelihood. From India's perspective free trade must be fair trade and should be based on a level playing field, not one that is as structurally flawed as the global agriculture market because of huge amounts of subsidies and high levels of protection provided to their agricultural sector by some developed countries. Subsidised trade flows displace millions of people from agriculture.

Protection for self-designated 'special' products is already included in the Hong Kong Ministerial Declaration. India is not willing to renegotiate provisions that are already set in the Declaration or Framework Agreement.

I am, of course, an optimist and I do hope that something substantial and new will be put on the table soon by the major developed countries so that we can all move ahead on this Round. But I am also very clear that we will not agree to any outcome of the Development Round that does not deliver on the development imperatives of developing countries.

What are the new areas for Indo-EU cooperation?

India is emerging as a major player in the knowledge industry. This is an area where we have tremendous strength. The new areas of cooperation would centre around this strength. We are also looking at increased cooperation in the infrastructure sector, considering the huge opportu-



nity in this sector in India.

The EU is India's largest trading partner. But trade is not growing at the same pace as India's trade with China. At this rate China may replace the EU as India's main trading partner. What is being done to address this?

We have a clear roadmap of how the India-EU bilateral trade and investment agenda can be strengthened to consolidate bilateral economic co-operation. The current European trade and investment focus is mainly centred on India and China, although China's trade and investment profile in the EU is six times bigger than India's. But India has managed to boost its economic and development profile at a much lower cost than China. India is rated as a potential market with huge trading and investment possibilities.

Yes it is true that the India story has been led by the services sector. But that is because we have a skilled workforce to leverage our advantages. We have been consciously building institutions to hone such skills. But it is premature to write off India as a manufacturing hub. We have great skills in manufacturing, which is why many companies are setting up manufacturing bases in India. There is an investment and trade metamorphosis which is taking place in the world. The markets are shifting East. And within the East, qualita-

tive changes are taking place akin to what happened 50 years ago when the industrial shift took place from Japan to Korea. Now the industrial platform is once again shifting, this time to India and China. It is wrong to believe that India is the backoffice to the world and China the factory. India will not only be the knowledge hub, but also the manufacturing hub. Once that is realised, it is India — not China — that will take centre-stage.

What measures are being taken to encourage Indian investments in the EU (particularly in countries other than the UK) and EU investments in India?

Both sides are committed to increase the two-way flow of investment. Investments are primarily driven by business-to-business engagement. The world over Governments essentially facilitate this engagement. And, that is precisely what we are doing. There have been increased exchanges at the business-to-business level. Business delegations from both sides have been visiting each others' countries and keenly exploring possibilities of investment. At the Government-level, Ministers have been visiting India with such business delegations and I have led similar delegations to EU countries. The creation of an India-EU CEOs Roundtable would further facilitate increased engagement at the business-to-business level. 🌍